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(International Trade Law & Policy)

Dissertation

**An examination of the quality of infrastructure provided in South Africa's Industrial
Development Zones**

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ABSTRACT

A number of developing countries, particularly those in Asia, have been successful in using Special Economic Zones (SEZ) to attract Foreign Direct Investment (FDI) in export oriented manufacturing. The zones attract FDI by offering infrastructure and a hassle free business environment for investors. Most African countries that have introduced SEZs within their territories have failed to replicate the success enjoyed by a number of Asian countries.

In 2000, South Africa introduced Industrial Development Zones (IDZs), another form of SEZs. The Department of Trade and Industry (DTI) defines IDZs as purpose-built industrial estates that leverage FDI in value-added and export-oriented manufacturing and services. Like other African countries, South Africa's IDZs have failed to live up to expectations. The South African zones continue to rely on Government for their current and capital expenditure.

In 2006, the Government initiated a review of the IDZ Programme. The review mainly attributed the failure of the IDZ Programme to poor governance and made little reference to the infrastructure provided by the zones. In an effort to get a more comprehensive picture of the IDZs, this study investigates the quality of infrastructure within the zones.

The major findings of this study have indicated that power and electricity remain a major concern in both the Coega Industrial Development Zone (CIDZ) and the East London Industrial Development Zone (ELIDZ) to zone authorities and enterprises. The two zones cannot accommodate electricity intensive operations and have resorted to focusing on enterprises that consume less electricity. It was also established that the communication infrastructure such as the cellular phone signal and internet connectivity are also a major concern within both the CIDZ and ELIDZ. This study also found that the ELIDZ does not have a deep water port to handle bulk cargo ships and that both the ELIDZ and the CIDZ do not have an efficient transportation network linking IDZ enterprises to the rest of the economy.

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GLOSSARY OF TERMS

TERM	DESCRIPTION
ADB	African Development Bank
CCA	Customs Controlled Area
CDE	Centre for Development and Enterprise
CIDZ	Coega Industrial Development Zone
DTI	The Department of Trade and Industry
ELIDZ	East London Industrial Development Zone
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTZ	Free Trade Zones
GATT	General Agreement on Trade and Tariffs
IDZ	Industrial Development Zones
IFTZ	Industrial Free Trade Zone
ILO	International Labor Organisation
KITA	Korea International Trade Association
NAACAM	National Association of Automotive Component and Allied Manufacturers
RIDZ	Richards bay Industrial Development Zone
SDZ	Sector Development Zones
SEZ	Special Economic Zones
TEO	The Enterprise Organisation
VAT	Value Added Tax
WTO	World Trade Organisation

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

A number of developing countries, particularly those situated in Asia, designated certain areas within their territories as economic zones to attract Foreign Direct Investment (FDI) and to create employment (Rondinelli, 1987). The concept of designating certain areas as economic zones within a country for purpose of attracting investment in export oriented manufacturing by providing the necessary infrastructure and efficient business environment is a global phenomenon (Watson, 2001). The zones are mainly developed to attract FDI, to enhance industry competitiveness, to diversify exports and to create jobs (FIAS, 2008). According to the Foreign Investment Advisory Service (FIAS) report of 2008, economic zones are operationalized differently across the world and the most common types include Free Trade Zones (FTZ), Export Processing Zones (EPZs) and Free ports.

In this paper, the generic term Special Economic Zone (SEZ) is used to refer to all the forms and types of economic zones situated world-wide. Farole (2011) defines SEZs as demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. The business environment in SEZs is intended to be "more liberal from a policy perspective and more effective from an administrative perspective" (Farole, 2011 p, 23). SEZs typically provide firms with fiscal incentives and a business environment that is free from the usual red tape prevalent in the rest of the economy (Farole, 2011).

However, as stated by Watson (2001), SEZs have been used internationally with varying degrees of success. Some countries have been more successful than others in using zones to attract FDI (Farole, 2011). The majority of African countries have not been successful in replicating the success experienced by a number of Asian countries. One of the reasons identified for this was that the African countries lack the necessary infrastructure to attract investors to the zones (Watson, 2001). The most successful zones in China do not only enjoy an efficient regulatory and administrative system but are also located in areas where infrastructure such as water, electricity, telephone and roads is very good (Zeng, 2012). The lack of adequate infrastructure in many African countries is part of the reasons why SEZ outcomes have been so disappointing (CDE, 2011).

South Africa introduced Industrial Development Zones (IDZ) in 2000, another form of SEZs. The Department of Trade and Industry (DTI) defines IDZs as "*purpose-built industrial estates that leverage domestic investments and Foreign Direct Investment (FDI) in value-added and export-oriented manufacturing and services*" (DTI, 2013, p 4). The main objectives of IDZs are to attract FDI, to increase the competitiveness of firms, and to promote linkages between domestic and international firms (DTI, 2008). To achieve these objectives, the IDZs aim to provide investors with a hassle-free business environment and world class infrastructure (DTI, 2008). There are three IDZs operational in South Africa namely the Coega Industrial Development Zone (CIDZ) located in Port Elizabeth,

the East London Industrial Development Zone (ELIDZ) located in East London and the Richards Bay Industrial Development Zone (RBIDZ) located in Richards Bay.

A review of the IDZ programme, which began in 2007 concluded that the IDZ programme was not meeting its objectives of attracting FDI in export oriented manufacturing industries because it excluded regions that were not linked to ports, it lacked strategic planning and its governance was poor (CDE,2012). The DTI conceded that in comparison to similar zones in Asia, the IDZ programme performed far below expectations (DTI, 2012). The DTI identified administrative and policy issues as the main reasons for the poor performance of the South African zones (DTI, 2012).

In an effort to address the challenges identified in the IDZ programme, the DTI established the Special Economic Zones (SEZ) programme in 2012. According to the DTI, the SEZ programme will encompass other forms of economic zones such as FTZs, EPZ and Free Ports. The IDZs now exist under the broader umbrella of the SEZ programme. According to the DTI, the challenges faced by the IDZs can be addressed by improving governance within the zones, enhancing policy coordination amongst responsible Government departments, providing the required finance and improving the design of the programme (DTI, 2012).

Unlike in the case of Asian countries where tariffs were effectively used as trade policy instruments to promote export oriented manufacturing industries, South Africa has limited policy space as a result of the downward pressure on tariffs which is by and large a consequence of being a member of the World Trade Organization (WTO) and a signatory to the General Agreement on Tariffs and Trade (GATT). Upon acceding to WTO in 1994, South Africa reduced its maximum tariffs that can be applied against other WTO members particularly those that are applicable to intermediate products used in the production process. The IDZ programme was implemented during a time when the entire tariff structure had already undergone substantial restructuring. Moreover, the Customs and Excise Act contains a number of rebates that exempt manufacturers from paying Value Added Tax (VAT) and customs duties on imported products used as inputs in their manufacturing processes. Such exemptions are applicable to the rest of the economy and are very similar to the tariff dispensation offered by IDZs to investors.

One example is rebate item 470.03 which makes provision for the duty-free importation of intermediate products used by downstream producers to manufacture goods for export markets. Other third and fifth Schedule rebate items contained in the Customs and Excise Act permit exporters to claim customs duties and VAT for exported products. The IDZ programme is modelled on the very similar concept where VAT and customs duties are zero rated for imported products that are used as inputs to the manufacturing process of products destined for export markets. Therefore, it is difficult for South Africa to use incentives that are based on tariff rebate schemes to differentiate the IDZ programme from other industrial estates because such concessions are available to all manufacturers in South Africa regardless of their location. In addition, such rebate schemes are more effective if the applicable customs duties are relatively high. South Africa's low bound rates mean that the

relevance of using customs duty rebates as trade policy instruments is declining. From the foregoing example, it is clear that South Africa's policy space is limited in terms of using a favourable tax structure to attract export oriented investors to the zones. The limited policy space with regards to the tax structure places the focus on the regulatory environment and the infrastructure offered by the zones.

Even though all the South African IDZs aim to attract FDI by providing world class infrastructure, the focus of the DTI review of the IDZ programme was mainly on policy and administrative issues and little or no reference was made to the infrastructure provided by the IDZs. This study will endeavour to address this lacuna by investigating the quality of the infrastructure within the zones. The intention of the study is to identify infrastructure related areas that could still be improved in order for the zones to achieve their stated objectives. The study also reviews the relevant literature pertaining to the role played by infrastructure within the successful zones worldwide, with particular focus on Asian countries.

1.2 RESEARCH QUESTION

This study investigates the quality of infrastructure in the IDZs by asking whether zone operators and firms that have invested in the IDZs are satisfied with the standard of infrastructure available within these zones. The South African IDZs were established to compensate for infrastructure deficiencies in the economy and to offer a more investment friendly environment (CDE, 2012). As stated previously, the DTI attributes the failure of the IDZ programme to governance related issues. Given that the South African zones also aim to provide investors with world class infrastructure, it is important to investigate the quality of infrastructure in the respective zones. The infrastructure related insights will add value to the findings of the review of the IDZ programme and assist policy makers in their efforts to improve the performance of the IDZs.

For the purposes of this study, infrastructure refers to services and facilities that are provided by IDZs for the improvement of the competitiveness of enterprises. These are grouped as follows; water and sewage infrastructure, land and buildings, power and electricity, communication infrastructure, ports and transport infrastructure. These enterprises are the entities located within the IDZs. The study focuses on the CIDZ and ELIDZ because they accommodate a wide range of industries that require a wide range of facilities and services. Unlike the CIDZ and the ELIDZ, the RBIDZ accommodates only one firm, an Aluminium smelter. The focus on a wide range of services and facilities provides the researcher with a number of insights to analyse. Moreover, both the CIDZ and the ELIDZ have been operational for over 10 years which has made it possible to obtain insights that are based on past experiences of the IDZ enterprises and IDZ authorities subject to this study.

1.3 RATIONALE AND OBJECTIVES

Government provides services and facilities such as land and buildings, water and sewage, power and electricity, communication infrastructure, ports and transport to IDZs for purposes of improving the competitiveness of firms within the zones. South Africa's IDZs have failed to live up to expectations. The DTI attributes the poor performance of the IDZ programme to poor governance with little or no reference to the infrastructure provided by the IDZs. This is surprising because according to the available literature, infrastructure plays a significant role in the success of the SEZs. The aim of this study is to investigate the quality of the infrastructure provided by the zones to resident firms. The findings of this study will add to the existing body of knowledge and provide policy makers with insights on what the specific challenges are with regard to infrastructure within the IDZs.

The study investigates whether firms that have invested in the CIDZ and the ELIDZ are satisfied with the standard of infrastructure available within these zones. The intention of the study is to identify infrastructure related areas that could still be improved in order for the zones to achieve their stated objectives. In addition, through an extensive literature review, the study aims to provide insights on the infrastructure offered by the world's best performing zones. The insights gathered in the study will provide the DTI with additional information on what could be improved in the zones.

CHAPTER 2: RESEARCH METHODOLOGY

2.1 RESEARCH APPROACH

The study uses a case study approach to investigate whether firms that have invested in the CIDZ and the ELIDZ are satisfied with the standard of infrastructure available within these zones. The study focuses on the CIDZ and the ELIDZ because among others, these two IDZs are the biggest in terms of size and current investment. The study does not aim to establish a causal link between the failure of the IDZ programme and the infrastructure provided by the IDZs. However, the aim is to gather infrastructure related insights that will contribute to a more comprehensive understanding of the areas that need to be improved in the IDZ programme.

The insights gathered during the study are based on primary and secondary data. The primary data was gathered through a questionnaire that was sent to enterprises that are operational within the IDZs. Conversational interviews were used when gathering insights from the IDZ authorities because unlike the IDZ enterprises, the IDZ authorities were able to convene meetings that included the relevant people required to respond to the questions. In the case of the IDZ enterprises, organising meetings that included all the responsible people proved to be a challenge hence the use of questionnaires. The questionnaires made it possible for the enterprises to involve relevant individuals across different units or departments within the firms when responding to the questions.

The conversational interviews gave IDZ authorities an opportunity to respond to some of the issues raised by IDZ enterprises regarding the infrastructure. The conversational interviews also provided the researcher with an opportunity to ask follow-up questions for clarification. The study also relies on official Government documents and an extensive review of the relevant literature on SEZs worldwide. For the purposes of this study, IDZ enterprises are the entities that are operational within the zones. The IDZ authorities are the individuals responsible for the administration of the IDZs.

2.2 DATA COLLECTION

According to Zeng (2012), the most successful zones in China do not only enjoy an efficient regulatory and administrative system but also have good infrastructure such as roads, water, electricity, sewage, gas, and ports. Aggarwal (2005) also says the basic elements that are critical for any export activity include the availability of infrastructure such as transport systems, water, and electricity and communication facilities. Therefore, for the purposes of this study, the facilities and services offered by the zones were grouped as follows; land and buildings, water and sewage, power and electricity, communication infrastructure, ports and transport infrastructure. Limiting the study to these types of infrastructure assisted in asking questions that were applicable to the objectives of this study. A narrow definition of infrastructure avoided having responses that

are mostly related to policy and administration. The interview questions were structured into specific categories.

The first set of questions required the respondents to give feedback on each of the categories that constitute infrastructure for the purposes of this study. This was done to avoid asking questions that could lead respondents to respond in a particular way. It allowed the respondents to give both positive and negative feedback. The questions with regard to water and sewage; power and electricity; were centred on the availability and efficiency of the facilities and services that are provided by the IDZs. The questions with regard to transport infrastructure and ports focussed on port efficiency and linkages to major markets. The questions with regard to land and buildings focused on the availability of the land and buildings including pricing and affordability. The questions with regard to communication infrastructure were centred on the availability of the communication facilities and services including the charges associated with communication services.

When doing the interviews with the IDZ authorities, a challenge emerged in that there was a tendency by the respondents to try and defend the IDZ programme. The IDZ authorities for the most part provided positive feedback regarding the available infrastructure within the zones. As a result instead of asking the IDZ authorities to provide infrastructure related feedback, the second set of questions were rephrased to focus on what in the view of IDZ authorities could be improved with regard to the facilities and services in the zones. Rephrasing the questions helped in gathering not only positive insights but also the challenges faced by the IDZ authorities and the IDZ enterprises. This approach also allowed the participants to elaborate on some of the identified categories. Respondents, who had been very brief when initially asked to give general feedback on each category, now provided more comprehensive responses. The inputs from IDZ authorities revealed some of the main challenges that hinder the competitiveness of IDZ enterprises.

A number of documents from the DTI written about the IDZ programme were analysed to get an understanding of what Government is doing to assist the IDZ authorities in providing infrastructure to investors. These documents mainly contained information regarding Government incentives and expenditure on infrastructure related projects in the IDZs. An analysis of Government documents contributed to the rigour of the results because it added insights to the information obtained from IDZ authorities and the enterprises located in the IDZs. Triangulation through obtaining information from three sources with different perspectives of the issues related to infrastructure was essential in getting a more balanced picture of the IDZs and it enhanced the credibility of the data (Baxter & Jack 2008).

The contact details of enterprises within the CIDZ were provided by zone authorities and the contact details of manufacturers in the ELIDZ were provided by the National Association of Automotive Component and Allied Manufacturers (NAACAM), an organisation that represents automotive manufacturers in South Africa. Over 80% of manufacturers in the ELIDZ manufacture automotive components. The main aim of the questionnaires was to obtain feedback from all the IDZ enterprises with regard to the quality of the facilities and services offered by

IDZs. However, not all the IDZ enterprises responded to the questionnaire. In the CIDZ, nine out of the 23 enterprises onsite provided detailed insights to the questions. The rest of the enterprises in the zone were reluctant to participate in the survey. In some instances the questionnaires were returned with "no comment" answers to some of the categories that define infrastructure for the purposes of the study. In the ELIDZ, where there are 21 enterprises, only eight enterprises who are all members of NAACAM, responded to the questions raised.

2.3 LIMITATIONS OF THE STUDY

This study relies on the views of the IDZ enterprises and authorities to investigate the quality of the infrastructure in the zones. The study does not provide a benchmark on what would be an acceptable level of quality for the required infrastructure. A more comprehensive analysis of the infrastructure would involve the collection of raw data over a period of time and then benchmark the results against some of the most successful zones in the world. For example, it would be helpful to know how frequently electricity shut downs occur within the zones and how this compares with other zones around the world. Such an approach will require more time and resources but would provide the researcher with factual conclusions about the quality of infrastructure within the zones. However, the insights gathered during this study will go a long way towards shedding light on what challenges are faced by the IDZ enterprises with regard to the quality of the infrastructure in the IDZs.

The conclusion that the programme has failed to meet its objectives is based on its continual reliance on Government funding. The DTI also conceded that the programme has performed far below expectations. This research does not consider further dynamic gains like technology transfer and backward linkages to the domestic economy which may have been achieved by the IDZ programme. Such dynamic gains are difficult to quantify and will require extra resources and time. The research is limited to investigating the quality of infrastructure within the zones by gathering infrastructure related insights from zone enterprises and zone authorities. There is little emphasis on other factors such as labour, political climate, exchange rate volatility, and distance from markets which are very important conditions for the success of SEZs globally. Investigating these conditions will need more time and resources.

CHAPTER 3: LITERATURE REVIEW

3.1 DEFINING SEZs

SEZs are delimited spaces within a territory of a country where the regulatory environment or business rules differs from those applicable in the rest of the country (FIAS, 2008). The businesses operating in these demarcated geographic spaces enjoy liberal rules in terms of investment conditions, international trade and taxation (FIAS, 2008).

The definition of SEZs varies across countries and institutions and continues to evolve as new zones are developed and older types are phased out or adapted (Farole, 2011). A definition of SEZs must be comprehensive enough to encompass the multitude of SEZs but must also be precise enough to exclude areas that do not have the essential character or structural features of these economic zones (Farole, 2011). According to Farole (2011), SEZs are defined by a specific regulatory regime which may be contained in one or several laws and such a regulatory regime usually require a dedicated administrative structure. The SEZs are usually provided with physical infrastructure to support the activities of resident firms and this infrastructure usually includes real estate, roads, electricity, water, telecommunications and transport to connect SEZs to markets (Farole, 2011).

The structural features or characteristics of SEZs such as their governance, infrastructure and their location may not all be present in a particular type or form of zone but most SEZs usually enjoy a comparatively efficient regulatory regime (Farole 2011). Hakimian (2011) says most SEZs are used to transform the economies of host countries by becoming part of a country's strategy to attract FDI, increase exports of manufactured products, create jobs, and to experiment with policies that are aimed at liberalising the economies of host countries. According to Farole (2011) SEZs are established to transform the economies of their host countries in a way that is faster or more effective than would be the case without them.

According to the United Nations (2005) the different terms used to describe the zones reflect the variety of activities associated with the zones. The FIAS report of 2008 defines some of the most common SEZs as follows:

Free Trade Zones (FTZs) are developed to support trade related activities and they are mostly found at ports of entry around the world. FTZs are small fenced in, duty free areas that offer services like warehousing, storage, transshipment, distribution facilities for trade and re-export operations.

Export Processing Zones (EPZs) promote industrialisation and exports of manufactured or processed products. Traditionally, EPZs exclusively focused on offering special incentives and facilities to export oriented enterprises. However the EPZ concept has evolved and some modern EPZs are open to all industries regardless of the market destination of their final products. These modern EPZs or hybrid EPZs will typically still have areas that are only reserved for export oriented operations within the zone.

Free ports are the largest in size and they accommodate a wide range of activities like retail sales and tourism. These types of zones permit people to reside onsite and they provide a much broader set of incentives and benefits to resident firms.

Enterprise zones are mostly found in developed countries and they are meant to revitalize distressed areas. These kinds of zones mostly offer investors tax incentives and financial grants.

Single factory EPZs are zones that offer incentives to individual firms regardless of location. The firms or enterprises do not have to locate in a designated area in order to receive incentives.

3.2 THE HISTORY AND EVOLUTION OF SEZs

The concept of using SEZs as economic and industrial policy instruments can be traced to Europe (Rondinelli, 1987). Ireland's Shannon Free Trade Zone (FTZ), established in the 1950s provided a template for similar modern zone developments worldwide (Farole, 2011). Unlike earlier forms of zones that operated along international trade routes, the Shannon FTZ had differentiated customs procedures, investment incentives, dedicated administrative framework, infrastructure and transport services (Farole, 2011). The development of Mexico's Maquiladoras programme in 1964, with its huge regional development inclination was a key moment in the history of SEZs (Farole, 2011). The programme's overarching objective was to create employment in the main border cities of Mexico (Farole, 2011).

As stated by Rondinelli (1987), Asian planners later established SEZs with the belief that the zones would serve as catalysts for economic growth and job creation. The success of SEZs in Hong Kong and Singapore inspired other Asian countries like Taiwan, South Korea, India, Malaysia, the Philippines, Indonesia, Sri Lanka and China to establish zones in the 1960s and 1970s (Rondinelli, 1987). In Latin America, Colombia and the Dominican Republic were early adopters of the concept, establishing their SEZs in 1964 and 1965 respectively (Farole, 2011). Sub-Saharan African countries also established SEZs, with Mauritius and Liberia both establishing their first zones in the early 1970s (Farole, 2011). By the mid-1980s, zones had been established in all regions around the world (Farole, 2011).

The increase in the number of SEZs worldwide is as a result of countries using the concept to address the numerous production failures and bottle necks that characterise most of their economies (Aggarwal, 2005). There is no country in the world that has used SEZs more than China which currently hosts over 200 SEZs (Farole, 2011). The economic rise of China is partly attributed to the concept of designating certain areas for specific economic activities (Zhihua, 2012). China successfully used SEZs to restructure its economy from being a closed economy that mainly advocated import substitution policies to export led economic strategies (Farole, 2011). China also used SEZs to test the impact of moving from a closed economy to an open economy and to minimise the adjustment costs associated with opening up its economy to international trade (Schweinberger, 2003).

In 1975, there were only about 79 SEZs in 25 countries worldwide (FIAS, 2008). According to the International Labour Organisation (ILO), in 1986, there were 176 zones in 47 countries (Boyenge, 2007). By 2006, 130 countries operated 3500 EPZs, employing 66 million people and the expansion was led by China where over 40 million people are employed by SEZs (Milberg & Amengual, 2008). There are over 2300 in about 119 developing and transition economies with most of the zones found in Asia where China alone accounts for about 19% of the zones (FIAS, 2008). There are approximately 114 zones in Sub-Saharan Africa which represents about 4% of the total number of zones globally (FIAS, 2008). However, the FIAS data shows that half of the zones in Africa are in Kenya where a number of single factory units are licensed as EPZs and therefore, the total number of zones in Sub Saharan Africa might be much lower than the 114 reflected in the FIAS data (Farole, 2012).

Traditionally, SEZ's have been developed and administered by the public sector; however during the 1980s and the 1990s there was an increase in the participation of the private sector in zone development around the world (FIAS, 2008). Budgetary constraints on the part of Governments and the opportunity for private operators to generate profits from the zones are the main reasons for the increase in the involvement of the private sector in the development and administration of SEZs (FIAS, 2008). International experience suggests that the privately owned and operated zones generally perform better than the public sector zones (FIAS, 2008). In the United Arab Emirates and outside East Asia the majority of Government developed and run zones have been consistently less effective than privately owned zones (FIAS, 2008).

According to FIAS (2008), the development of these next generation zones with purpose built facilities has in many cases yielded better results in terms of policy outcomes when compared to the traditional public SEZs. In countries such as the Dominican Republic, private sector zones accommodate industries that manufacture high value added products and the zones are able to charge premium rates (FIAS, 2008). While a number of countries in Asia, Central America and the Caribbean basin have successfully used SEZs to transform their economies, attempts to replicate the success in a number of African countries, with the exception of Mauritius, have been less successful (Watson, 2001).

3.3 THE PERFORMANCE OF SEZs

The economic benefits derived from SEZs include both static and dynamic benefits (FIAS, 2008). The static benefits include export growth, export diversification, foreign exchange earnings, FDI, Government revenues, employment and income (FIAS, 2008). The dynamic economic benefits include indirect employment, skills upgrading, technology transfer and regional development among others (FIAS, 2008). In most developing and emerging economies, SEZs play a huge role in attracting investments and growing exports; however their impact in creating employment is relatively less significant (Farole 2011).

For large economies, SEZs account for a relatively small share of inward investment but for small economies the FDI attracted by SEZs may be very significant (Farole, 2011). For instance, during the 1980s the share of FDI flows going to the Philippines' SEZs accounted for one quarter of the country's total FDI (Farole, 2011). The share of FDI in SEZs in the Philippines grew from 30% in 1997 to 81% by the year 2000 (UNCTAD, 2003). China experienced the same trend, where the current share of FDI flows going to the country's SEZs is estimated to be approximately 80% (FIAS, 2008). The share of FDI flows to Mexico's Maquiladora operations was 6% in 1994; by 2002 the share of FDI to the zones grew to 23% (Sadni-Jallab and Blanco de Armas, 2002). In Bangladesh, the zones account for over a third of the FDI inflows to the country (FIAS, 2008).

In terms of export growth, the available data shows that SEZs play a much stronger role in a number of countries globally (Farole, 2011). According to the FIAS (2008), about US\$850 billion in goods and services is exported by SEZs in developing and emerging economies on an annual basis. As cited by Farole (2011), the 2005 data contained in the FIAS report of 2008, shows that SEZs accounted for most of the exports from a number of developing countries in Latin America, Middle East and Africa. The 2005 FIAS data shows that the share of SEZs exports in Latin American countries such as Nicaragua and the Dominican Republic was approximately 80% in 2005, and a similar trend was observed in South and East Asia where countries like Bangladesh and the Philippines' share of SEZs exports was also close to 80% (FIAS, 2008). In Africa, products manufactured in SEZs dominated the exports of Madagascar and Morocco reaching 80% and 61%, respectively (FIAS, 2008).

The impact of SEZs on employment is moderate when compared to the impact the zones have on export growth (Farole, 2011). According to the FIAS (2008), the relative impact of SEZs to export growth in developing countries is much greater than its impact on direct employment. However, the economic rise of China where SEZs employ over 40 million employees has helped lift over 600 million people out of poverty and the country's phenomenal and unprecedented economic growth experienced in the past three decades is partly attributed to the numerous SEZs that were established as part of economic reforms (Zeng, 2012). Milberg and Amengual (2008) estimate that even outside China, employment doubled in SEZs between 2002 and 2006, from 13 to 26 million. The ILO data shows that in 2006, SEZs employed approximately 1 million people in Africa (Boyenge, 2007).

Unlike the static economic benefits, the dynamic benefits are hard to measure but certain assessments show that skills upgrading and technological transfer has been lower than expected in some SEZs (FIAS, 2008). For instance, the share of skilled labour in Mexico's Maquiladora operations increased slightly from 6.6% to 7.2% between 1988 and 1998 (FIAS, 2008). In addition, the higher levels of imported content in products exported from Mexico's zones may also suggest that technology transfer is low (FIAS, 2008).

However, in East Asia, SEZs have contributed positively to industrial upgrading and technology transfer, especially in the Republic of Korea and in Taiwan (FIAS, 2008). The industrial upgrading of the electronics sector

in Malaysia and the Philippines, linked to newly established SEZs has been significant (Lall, 2000). In the Philippines, authorities have also observed a significant rise in skills levels which has led to a shift from simple production operations to more complex and skill intensive research and design activities in the zones (FIAS, 2008). India's software technology parks contributed immensely to the upgrading and expansion of information and communication technology activities in the country which now include software development, content development and multimedia operations (FIAS, 2008).

Critics of SEZs highlight the problems associated with high construction costs and maintenance costs of the zones to the host countries (Rondinelli, 1987). The critics of the zones also emphasise the negative social and environments impacts of SEZs and largely dismiss the economic benefits derived from the zones (FIAS, 2008). The zones have high construction and maintenance costs; employ unskilled labour, generate little domestic value added and most of the zones attract low cost assembly-type operations like electronics, leather and garment production (McIntyre, Narula, & Trevino, 1996). McIntyre et al (1996) says that in certain instances the value of the investment secured by the zones is less than the money invested by the host countries, a number of zones globally are not generating sufficient income to cover operating costs, and technological transfer is very limited because most of the investors centralise research and development in their home countries, limiting the potential for backward linkages to the host economy. With regard to employment, the costs of creating jobs in the zones are very high and policy makers don't entirely grasp the opportunity costs of what the employees would have earned if they were employed in another location (McIntyre et al. 1996).

3.4 THE IMPORTANCE OF INFRASTRUCTURE IN SEZs

SEZs in most developing countries have both a policy and infrastructure rationale (FIAS, 2008). The zones are developed as part of the overall economic strategy of a country with the aim of enhancing the competitiveness of industries (FIAS, 2008). According to the FIAS report, providing the required facilities and services to firms is one of the most important driving forces behind zone development in infrastructure poor countries. In a study comparing the performance of zones in India, Sri Lanka and Bangladesh, Aggarwal (2005) found that incentives, infrastructure and good governance were the main drivers for the success of the zones. According to Aggarwal (2005), adequate infrastructure especially transport, water electricity and communication facilities is one of the basic elements critical for any export activity. The performance of the zones in attracting investment and promoting export competitiveness is directly related to the location of the zones, infrastructure facilities, quality of governance and the incentive package (Aggarwal, 2005).

As cited by Makabenta (2002), a study done by Tokunaga and Ishii (1994), found that the location decision of Japanese electronics firms were mostly influenced by transport and other infrastructure variables. Sufficient and ready infrastructure reduces trade costs and enhances the market potential of products manufactured within

the SEZs (Makebenta, 2002). International experience suggests that zones that are located in remote areas without the necessary social and economic infrastructure tend to perform below expectation (Aggarwal (2005). Modern SEZ programmes have developed measures to ensure that new zone projects are located close to existing infrastructure (FIAS, 2008). The privately operated SEZs are more successful because they offer better facilities and amenities such as fully serviced sites with purpose built facilities aimed at enhancing the competitiveness of enterprises in the zones (FIAS, 2008).

A number of Governments developed zones in remote areas with the intention to develop such areas and the zones failed because such location decisions were motivated by political rather than economic reasons (FIAS, 2008). The Bataan EPZ in the Philippines launched in 1972 has become a text-book case study of these problematic early SEZs (CDE, 2011). The Philippine Government had hoped that a combination of expensive, publicly financed infrastructure and the availability of cheap labour would attract investors and transform the Bataan region into a hub of export activity (CDE, 2011). In contrast, the Philippines only started to attract major FDI after launching SEZs in urban industrial centres with access to better infrastructure and relatively skilled workers (CDE, 2011). The low wage levels in poor regions signals less competitive industrial conditions and a poor quality of life which inhibit investments such that firms would rather locate in areas with skilled labour and access to good infrastructure (Makabenta, 2002). The Dominican Republic established 22 public zones outside the capital city of Santo Domingo to encourage regional development but currently, 31 private sector zones are concentrated around areas with critical port infrastructure (FIAS, 2008). There are 194 companies in public zones whilst the privately operated zones have attracted approximately 326 companies (FIAS, 2008).

When developing zones, the Chinese Government did not only put in place an efficient regulatory regime but also good infrastructure such as roads, telephone, electricity, gas, sewerage, water and ports (Zeng, 2012). China's SEZs are mostly located close to major cities with access to infrastructure such as ports and railways providing links to international markets (Zeng, 2012). The SEZs in the Pearl River Delta region close to Hong Kong and the Min Delta region close to Taiwan enjoy location advantages because they are linked to the international markets and they have access to major infrastructure such as ports and railways (Zeng, 2012). The hundreds of SEZs in China compete among themselves and each SEZ uses the quality of its infrastructure and its services to distinguish itself from other zones (Zeng, 2012). With regard to land, the Chinese Government provided standard land usage fees within the SEZs and provided finance for infrastructure and by 1987, all the SEZs located along the coast within China were allowing foreign investors to lease land from the Government (Zeng, 2012).

Suzhou Industrial Park in China, a joint venture between China and Singapore is one of China's most successful SEZs (Farole (2011). The Industrial Park is landlocked and therefore the most important areas where the Government provided support in developing the Industrial Park have been in the area of trade facilitation, transport and logistics. According to Farole (2011) the Chinese Government has contributed immensely to the success of the Industrial Park by continuously upgrading services such as port handling. In Vietnam, the lack of partnerships between the private sector and Government negatively affected the provision of external

infrastructure such as access roads to the zones and the land in the zones sat vacant because authorities failed to provide transport and other infrastructure connections to the zones (FIAS, 2008). As a result, private developers did not only finance the onsite infrastructure but also developed external infrastructure like roads, which has proved essential for the efficient functioning of the zones (FIAS, 2008). In the Dominican Republic, the development of new zones placed significant demands on public infrastructure and outpaced the ability of the Government to provide the necessary infrastructure (FIAS, 2008)

Farole (2011) uses the example of Honduras to underscore the importance of infrastructure. Initially the SEZs in Honduras enjoyed a competitive advantage in the low cost of labour but with the emergence of competition from Asia, Honduras began to lose its competitive advantage which forced authorities to build competitive advantages in other areas including investing in improving the country's main port (Farole, 2011). The Honduran Government initially aimed to use SEZs as an instrument to develop certain specific regions but such a policy failed because manufacturers preferred locating in San Pedro Sula, a region located near a port which is an entry and exit point for goods travelling by sea (Farole, 2011). Honduras has made huge investments in integrating the zone with the wider trade infrastructure such as connecting roads in order to speed up delivery times (Farole, 2011).

In India, the private sector was enticed into developing SEZs and providing world class industrial and commercial infrastructure with offers of cheap land (Levien, 2011). Mahindra, an SEZ developer in India offers infrastructure such as roads, water, power, electricity, and data connectivity which enables investors to quickly move in to the zones with plenty of land to expand (Levien, 2011). Further, the Indian Government offers certain tax exemptions to investors for land bought in SEZs which translate to discounts, making the prices of land within the zones much lower than in or around the major cities (Levien, 2011).

North Korea's Kaesong SEZ has not been successful in attracting FDI because of poor quality infrastructure such as electricity, water supply, wastewater treatment system and telecommunications (Lim, 2011). In fact, 92% of investors surveyed said the quality of infrastructure in the Kaesong SEZ was a challenge to their businesses in the country (Haggard and Noland 2009). Another survey, conducted by the Korea International Trade Association (KITA), found that one of the factors contributing to difficulties in investing in the Kaesong SEZ was the poor quality of infrastructure (Lim, 2011). The under-developed infrastructure in Kaesong discourages investors seeking low-cost manufacturing sites (Lim, 2011).

Farole (2011) says the quality of infrastructure is a critical gap in many African zones; developing infrastructure inside the zones and integrating it with the domestic market must be a priority for African countries. The failure of most African zones can be attributed to the lack of critical infrastructure like roads, ports and reliable electricity (Farole, 2011). For example, firms located in Ghana's Tema zone and the Calabar zone in Nigeria rely on generators because of reported frequent power cuts (Farole, 2011). According to Watson (2001) most

African countries' electricity supplies are unreliable, erratic and unpredictable, the water supply is also deficient and telecommunications are still very expensive.

A number of non-African SEZs provide firms with an option to purchase electricity directly from the national grid at wholesale prices and such concessions on utilities are not common in African zones despite the huge problems with unreliable electricity (Farole, 2011). In addition, SEZs in African countries such as Ghana, Senegal and Tanzania are not in a good position because they are single factory units as opposed to being enclaves, which limits the ability of the host Governments to extend quality infrastructure to all the individual firms (Farole, 2011).

The challenge for developing countries is that using incentives to attract investors is becoming very difficult because the traditional sources of competitiveness like fiscal incentives are now standardized across all countries (FIAS, 2008). Incentives alone do not play a huge role in the success of zones and most Africa countries use incentives to attract investments instead of addressing the issue of competitiveness (Farole, 2011). According to FIAS (2008), the use of generous incentive packages to offset other disadvantages such as insufficient infrastructure is ineffective in terms of the performance of the SEZs due to the commonality of investment incentives across competing countries. Farole (2011) also found that even other traditional sources of competitiveness in SEZs like low wages are becoming less effective in determining the success of the SEZs. This according to Farole (2011) may partly be because such policies are used as alternatives to the hard policy choices that lead to investment and productivity.

3.5 SOUTH AFRICA'S IDZ PROGRAMME

South Africa's IDZ programme, introduced in 2000, aims to promote the competitiveness of domestic industries through attracting FDI in export-oriented manufacturing and processing industries; and to support the export of value added products (DTI, 2008). According to the DTI the key objectives and rationale behind the programme is to position domestic industries to meet the challenges of globalisation, to attract advanced production methods, to develop linkages between domestic and international producers (DTI, 2008).

As envisaged by the DTI, a typical IDZ has a Customs Controlled Area (CCA) with a dedicated customs administrative system, providing firms with support on tax related matters and an area reserved for industrial activities within the zone including a world class infrastructure, and linkages to international ports of entry (DTI, 2008). The close proximity to international ports leads to the reduction of logistics costs for products that are destined for foreign markets and thereby improves the international competitiveness of the enterprises producing these products (DTI, SEZ policy, 2012).

The CIDZ, ELIDZ and the RBIZ are the three IDZs that are operational in South Africa (DTI, 2012). The CIDZ provides tailor-made infrastructure to manufacturers of value added exports (CIDZ website, overview, 2014) and

covers approximately 12000 hectares of land that can be used for various industries ranging from services, factories and warehouses (CIDZ website, overview, 2014). The zone has a CCA reserved for export oriented manufacturers and logistics infrastructure like roads, rail, sea freight, telecommunications and links to an airport (CIDZ website, home page, 2014). The zone is strategically placed to service world markets including the African continent and is linked to a deep-water port which can handle containerised, bulk and break-bulk cargo (CIDZ website, overview, 2014).

The ELIDZ also emphasises infrastructure as its main draw card to investors (ELIDZ website, specialised infrastructure, 2014). The ELIDZ aims to offer world class infrastructure which includes quality buildings, roads, reliable water, electricity and security (ELIDZ website, specialised infrastructure, 2014). Similar to the CIDZ, the ELIDZ prides itself on offering purpose built facilities for manufacturers (ELIDZ website, specialised infrastructure, 2014). The CIDZ also partners with investors from construction, planning, and design to the administration of projects (ELIDZ website, tailored solutions, 2014).

According to the DTI, Government invested a total of approximately R6 billion between 2002 and 2013 in the IDZ programme (DTI, 2013). The programme has in turn attracted investments totalling approximately R2.8 billion in the same period and there are about 5169 people currently employed in the zones (DTI, 2013). After over 10 years of existence, all the IDZs still continue to rely on Government to provide the necessary funding required for their capital and current expenditures (DTI, 2012). Most of the companies located in the IDZs moved from other locations within South Africa to the zones (CDE, 2012).

During 2007, the DTI initiated a review of the IDZ programme where it conceded that the performance of IDZs was far below expectations and when compared with other programmes in Asian countries the outcomes of the IDZ programme are fundamentally modest (DTI, 2012). Following the review of the IDZ programme, the DTI now believes that a clearer policy and administrative framework will address the challenges of the IDZ programme (DTI, 2012). Moreover, according to the DTI, the IDZ programme failed to meet its objectives because it excluded regions that were not linked to ports, it lacks strategic planning and its governance is poor (CDE, 2012).

In an attempt to address the challenges identified in the IDZ programme, the DTI introduced the SEZ programme with a regulatory regime aimed at improving the policy and administrative framework for IDZs and other forms of SEZs like EPZs, free ports and FTAs which may be designated as SEZs under the all-encompassing SEZ programme (DTI, 2013). In spite of the unsatisfactory performance of the IDZ programme, the Government still believes that the much broader SEZ programme is a critical instrument for attracting FDI and establishing a strong industrial base which will lead to employment creation (DTI, 2013). The DTI's optimism about SEZs is supported by Farole (2011), who observed that the long term support and Government commitment plays a significant role in the success of SEZs. Farole (2011) says most SEZs globally, experienced moderate growth in the first five to 10 years of existence. The rapid growth of SEZs in most Asian countries only occurred after the

10 year period; and the success of SEZs largely depends on the policies that were adopted in the next phase of their development (Farole (2011)).

A study of the IDZ programme commissioned by the Centre for Development and Enterprise (CDE) in 2012, found that the lack of incentives, shortage of skills and inadequate legislative framework are the main reasons the IDZ programme has not been successful (CDE, 2012). According to the CDE report of 2012, it is impossible to argue that South Africa's IDZs are SEZs because they do not offer a regulatory regime that is significantly more liberal than that provided outside the zones. Similar to the DTI's IDZ review, the findings of the CDE study are mainly in relation to governance challenges, incentives and labour issues. However, the CDE report does mention that in other parts of the world where SEZs enjoyed considerable success, Governments made substantial investments to infrastructure (CDE, 2012). Both the findings of the DTI review and the CDE study make little or no reference to the quality of the current infrastructure offered by the IDZs to resident firms.

The review of the IDZ programme provided very useful insights with regard to the policy and administrative challenges that need to be addressed to enable the IDZs and other similar economic zones that fall under the broader SEZ programme, to meet their objectives. However, given that among others, the aim of the IDZ programme is to provide a world class infrastructure to investors, insights regarding the quality of facilities and services provided by the IDZs will assist policy makers in the next phase of developing the IDZs and other forms of SEZs in the country.

3.6 INDUSTRIAL POLICY

There is no generally accepted definition of industrial policy because it includes almost all state policies that are aimed at enhancing economic growth (Lee, Clacher & Keasey, 2012). Altenburg (2011) states that the broad nature of industrial policy makes it very difficult to define it precisely. Altman and Mayor (2003), narrows industrial policy interventions to two categories: namely; supply side measures and demand side measures. Supply side measures refer to policies that are aimed at enhancing the competitiveness of domestic firms by promoting competition, skills and technological advancements in an economy (Altman and Mayor, 2003). Trade policy can also form part of the supply side measures because tariff liberalisation reduces the costs of imported inputs for domestic producers thereby increasing their price competitiveness (Altman and Mayor 2003). Demand side measures include pursuing access to foreign markets and using policies such as import substitution to increase demand for locally produced goods (Altman and Mayor, 2003).

Most countries in Africa introduced import substitution policies after their independence, a form of industrial policy that promotes the production of goods that were previously imported in order to boost domestic production (UNIDO and UNCTAD, 2011). To implement these policies, Governments provided substantial support as well as trade protection to the identified firms and industries (UNIDO and UNCTAD, 2011).

A number of external factors such as structural adjustment programmes in the 1980s (UNIDO and UNCTAD, 2011) and accession to the WTO (Altman and Mayor, 2003) have had a profound influence to the industrial structures of a number of countries. Structural adjustment programmes were introduced in a number of developing countries that were faced with a balance of payment crisis (UNIDO and UNCTAD, 2011). The structural adjustment programmes were a pre-condition for accessing funding from the International Monetary Fund (IMF) and the IMF believed that Africa's comparative advantage was in agriculture not industry (UNIDO and UNCTAD, 2011).

Among others, these structural adjustment programmes included trade liberalisation and reducing the role of Governments in the economy (UNIDO and UNCTAD). According to UNIDO and UNCTAD (2011), by the 1990s a number of African countries had accumulated huge foreign debt. During these period, foreign donors required poor countries to invest more on health and education, which again resulted in a shift of resources from industrialisation initiatives to social services (UNIDO and UNCTAD, 2011). Moreover, accession to the WTO meant that member states had to abandon export subsidies, a prohibited trade policy instrument under the WTO, and open their markets to foreign suppliers by lowering tariff ceilings and removing a number of trade restrictions (Altman and Mayor, 2003).

A number of developing countries continue to use industrial policy as an instrument to diversify their economies, boost domestic production, increase economic growth and create employment opportunities (UNIDO and UNCTAD, 2011). South Africa through its National Industrial Policy Framework adopted in 2007 aims to diversify its export basket and promote labour absorbing sectors (UNIDO and UNCTAD, 2011). SEZs are an integral part of Government's initiatives aimed at industrialising the domestic economy s (DTI, 2012).

Proponents of industrial policy believe that the policy space for Government intervention is created by distortions in a market economy which may be a result of external factors and therefore Government intervention is necessary in order to address these market failures (Pack and Saggi, 2006). Industrial policy is important in supporting investments or activities that do not pay off immediately to investors but are crucial in the future (Altenburg, 2011). Government support is also necessary in instances where a number of investments that contribute to structural changes have to be made simultaneously (Altenburg, 2011).

In some instances, Government involvement may facilitate collective action among the private firms (Altenburg, 2011). Further, Lee et al. (2012) states that industrial policy aims to provide a regulatory framework for industries; to foster improvements in technology through education as well as promoting competition; and to redistribute resources in favour of certain industries. According to Altenburg (2011), firms cannot be competitive on their own and hence the need for the state to intervene and create the necessary conditions for success, such as providing services that private players are less keen to provide.

On the other hand, opponents of industrial policy believe that Government intervention is detrimental to the efficiency of markets and it tends to attract all types of rent seeking firms that are only interested in the incentives or the support provided by the State (Pack and Saggi, 2006). Further, critics of industrial policy argue that Government is not well placed to identify market failures or to anticipate future trends in the economy (Altenburg, 2011). Government selective interventions that are biased in favour of certain industries tend to alter or distort the price mechanism, a main indicator in a market economy (Altenburg, 2011).

Altenburg (2011) acknowledges that the driver of structural change is the private sector; however, Government intervention is important in setting a policy framework that allows competition, innovation, technological change and to correct market failures. According to Pack and Saggi (2006), the debates on industrial policy will continue because there is no way of knowing how the economy would have performed in the absence of Government intervention. Altenburg (2011) believes that there is a strong theoretical case for industrial policy but the debates or questions will continue to be around the levels of such interventions including the controversy around the selective nature of the interventions, which result in distortions in the price structure of market economies.

CHAPTER 4 – RESULTS OF THE STUDY

This study investigates the quality of the infrastructure in South Africa's IDZs by asking zone operators and firms that have invested in the IDZs to provide feedback with regard to the standard of infrastructure available in these zones. The results of this study were reliant on the honesty of the participants in responding to the questions. What became clear during the interviews was that the IDZ operators are used to making presentations that are aimed at attracting investors to the IDZs. Such presentations are structured in such a way that they only focus on the advantages of being in the IDZs. Moreover, these presentations are used by the IDZ authorities to secure funding from the DTI. Therefore, in order to attract investors and secure funding from the DTI, IDZ authorities have to present a positive picture of the IDZ programme. The positive feedback about the zones from the IDZ authorities reflects their function of attracting investors to the IDZs. The IDZ authorities were not at ease when discussing negative feedback about the zones but became at ease when providing insights or challenges with regard to the enabling infrastructure outside the IDZs, particularly insights related to the infrastructure that falls under the scope of the surrounding municipalities. For instance a number of insights related to the enabling infrastructure like ports, transport and sewage are from the IDZ authorities. In fact, the conclusion that the IDZ programme has failed to achieve its objectives was not easily accepted by some of the officials interviewed in the IDZs. The picture that is painted by the IDZ operators to investors and Government about the zones is very positive. According to the IDZ authorities, the programme has done very well in attracting investors to the zones. However, the IDZ authorities admitted that in order to be sustainable, they had to expand their focus and venture into offering professional services to companies. For instance, to generate income and thrive towards being sustainable, the IDZs offer services like project management, training solutions, and travelling services among others.

The results of this study are arranged according to the identified categories of infrastructure investigated for the purposes of the study. Respondents were asked to give feedback on relevant facilities and services under these categories. The feedback received was both positive and negative.

4.1 LAND AND BUILDINGS

The officials from the CIDZ are content with the availability of land. In fact, authorities in the CIDZ explained that the IDZ is currently using only 16% of the 12000 hectares of land allocated to the IDZ by Government. Currently, none of the zones fully utilize the land that was designated as IDZs. The nine enterprises in the CIDZ that responded to the questionnaire also confirmed that unused land is abundant in the CIDZ. In fact, one manufacturer located in the CIDZ said the major draw card for investors in the IDZ is the availability of land. However, one enterprise raised concerns about what they perceive as unnecessary delays associated with acquiring land and buildings at the CIDZ. According to the CIDZ authorities, the zone relies on the DTI for funding

new land developments and expansions. The process of approving a project can take up to 12 months. However, once approved it is relatively easy to secure the necessary funding. The CIDZ authorities explained that the DTI makes provision for funding IDZs on an annual basis. The IDZs have to compete for the allocated funding by presenting their project plans to the DTI where funding is then approved on a case by case basis and in line with the Department's strategic objectives.

The CIDZ authorities said the current ad hoc approach by the DTI to funding infrastructure programmes in the IDZ makes it difficult for IDZ authorities to plan ahead. CIDZ authorities also stated that the process of procuring service providers for developing land and buildings is governed by laborious legislation that is applicable to the rest of the country. The CIDZ authorities explained that the requirement to comply with legislation such as the Public Finance Management Act (PFMA) delays the process of providing land and buildings to investors. According to the CIDZ authorities, even service providers must comply with national legislation when providing services. The CIDZ officials believe that such tedious and elaborate processes are to blame for the delays associated with providing investors with the required land and buildings. One manufacturer in the CIDZ said the land is available but finance is always a major problem to investors.

CIDZ authorities prefer building the infrastructure for new investors. However, investors have an option of acquiring land through a lease arrangement which usually ranges between 10 and 15 years. As stated by CIDZ authorities, the costs of land and buildings are market related but in some instances the IDZ provides land and buildings to investors at discounted rates. The CIDZ authorities explained that the discounts associated with lease agreements and rentals are tied to certain conditions. For instance, to qualify for discounted rates on leased land or rentals of buildings, investors must make an undertaking to train employees. The CIDZ authorities maintain a database for job seekers which investors are required to use when recruiting new employees. It is the responsibility of the qualifying investor to train the employees recruited from the database provided by the CIDZ authorities.

Like the CIDZ, the ELIDZ authorities said the current practice is to lease the land and buildings to investors. As mentioned by the ELIDZ authorities, in some instances, part of the incentives for investors includes offering land and buildings at discounted rates. Further the ELIDZ authorities stated that in some instances enterprises in the IDZ rent buildings at prices that are far below the rates offered on the market. The ELIDZ authorities believe that some manufacturers in the IDZ pay rentals that are less than half of market related prices in the neighbouring town of East London. The ELIDZ authorities said the IDZ provides buildings that are equipped with the necessary tooling to automotive component manufacturers located within the zone. The zone authorities explained that the building and tooling infrastructure provided to the automotive component manufactures came at a huge cost to the ELIDZ. The authorities believe that the automotive component manufacturers located in the ELIDZ enjoy access to buildings that are equipped with the latest tooling equipment used to manufacture automotive components. As explained by the ELIDZ authorities, providing fully equipped buildings was aimed at attracting

automotive component manufacturers to the ELIDZ. Previously, the ELIDZ failed to attract a significant number of investors. The ELIDZ authorities believe that most of the automotive component manufacturers moved from previous premises outside the zone to take advantage of the state of the art infrastructure provided by the ELIDZ. The ELIDZ authorities said building the Mercedes supplier centre inside the IDZ was important in ensuring that Mercedes produced its next generation of cars in East London. The ELIDZ authorities made an example of a company that is currently renting a building for R30 per square metre. According to the ELIDZ, the market related prices are around R180 per square metre.

Interestingly, with regard to land and buildings infrastructure, the responses of the enterprises in the ELIDZ were very different from what the ELIDZ authorities provided. All the enterprises surveyed said that the ELIDZ authorities had deviated from the original rental agreements which offered discounted rates to the enterprises. According to the automotive component manufacturers in the ELIDZ, the current rates and terms of the agreements are no longer competitive or attractive as per the initial agreements signed with the IDZ authorities. The automotive component manufactures located in the ELIDZ said the costs of maintaining the infrastructure is the responsibility of the enterprises in the zone. The enterprises stated that there is a need for the ELIDZ to find and implement a solution to the massive rental increases faced by tenants in the zone and the IDZ authorities should implement cost saving initiatives and maximise the use of Government concessions and grants in order to continue providing their tenants with more competitive rates. The automotive component manufacturers believe that the structure of the rental and maintenance agreements, particularly the costs involved are not in line with what is offered in the market. The rent is expensive and the costs of maintaining the buildings are the responsibility of resident firms.

Further, the manufacturers of automotive components in the ELIDZ said they face challenges of flooding as a result of leaking roofs and faulty geysers which still remains the biggest problem in the newly built automotive manufacturing centre. According to the automotive component manufacturers, the ELIDZ authorities also restrict improvements to the existing building infrastructure. The authorities in the ELIDZ acknowledged the challenges of leaking roofs and faulty geysers but they do not view the leaks as a serious problem. In fact, when interviewed, the ELIDZ authorities said the leaking of the roofs is part of the “snag” list which according to them is a common phenomenon in newly built structures.

According to Government officials, the DTI supports new industrial projects and upgrades of existing investments in the IDZs through a tax allowance incentive. The aim of the incentives is to support investment in manufacturing assets that will improve the productivity of manufacturers in the IDZ. For example, if an enterprise invests over R200 million in machinery land and buildings inside the IDZs, the total value of the investment is credited to the enterprise’s tax account at the South African Revenue Services (SARS). This means that the company will use the funds in its account to meet its tax obligations. However, projects associated with producing tobacco, alcohol, bio-fuels, arms and ammunition are excluded from the incentive scheme. The

incentive scheme is administered by SARS. As stated by the DTI, small to medium size enterprises find it difficult to access the incentive scheme because their value of investment is usually far below the required minimum threshold. It is mostly large capital intensive investors that are able to meet the minimum requirements of the incentive scheme. It is also difficult for labour intensive industries to meet the minimum requirements necessary to access the investment incentive because the value of their investments is usually less than the R200 million minimum thresholds.

The responses from all the participants clearly show that the IDZs are in a position to provide the land and buildings required to investors. It is clear that both the CIDZ and the ELIDZ have abundant land to offer to investors. The enterprises inside the zones agree with IDZ authorities that land is available but they raised concerns regarding the costs associated with acquiring land and buildings.

The other challenge that was raised by enterprises and also confirmed by the IDZ authorities is the laborious processes that have to be followed when acquiring land and buildings. Both the CIDZ and the ELIDZ authorities also confirmed the delays associated with acquiring land. In fact, the ELIDZ authorities also raised concerns about the drawn out processes that have to be followed even when the IDZ operator or enterprise upgrades the existing infrastructure. The IDZ authorities believe such challenges are beyond the powers of the IDZs because zones are not exempted from the legislative framework that is applicable to the rest of the economy. With regard to the costs associated with rentals and the leasing of the land, the ELIDZ provided concrete examples of instances where they offered huge discounts on rental and lease agreements concluded with resident investors. The enterprises in the zones complained that the IDZ authorities were deviating from the original rental agreements but they did not provide any examples of the exorbitant rentals that they raised in the questionnaire. The leaking roofs that result in flooding were only raised by manufacturers in the Mercedes manufacturing centre located within the ELIDZ. As stated by the ELIDZ authorities, new buildings were prone to minor structural defects but such challenges are temporary in nature. The challenge is that the enterprises believe that it is the responsibility of the ELIDZ to sort out any structural defects of the new buildings no matter how minor they are. This approach has the potential to delay the process of fixing some of the structural defects like roof leaks. Lastly, the focus of the Government incentive scheme is on capital-intensive projects, which may discourage medium sized firms from locating in the zones

4.2 POWER AND ELECTRICITY

The feedback from enterprises in the CIDZ with regard to electricity was generally negative. Respondents complained about insufficient electricity supply and frequent power interruptions. In the CIDZ, four out of the nine enterprises that took part in the study said the electricity supply is inconsistent and the enterprises in the zone experience frequent power outages. Feedback provided by respondents of the survey indicated that the power supply at the CIDZ is not sufficient to meet current and future demands within the zone, that the

country's public electricity utility, Eskom, needs to increase its electricity production in order to meet current and future demand and that the IDZ should investigate and make use of alternative sources of power like solar and natural gas.

Additionally in the CIDZ, five out of the nine enterprises that responded to the questionnaire raised concerns about the electricity tariffs in the zone. One enterprise from the CIDZ said with regard to electricity their experience with the CIDZ had been disappointing. The enterprise explained that when the land and building contract was negotiated the company believed that the infrastructure associated with electricity will be provided by the CIDZ as part of the land lease agreement. The manufacturer only learnt during the development phase of the project that investors are liable for the distribution charges associated with the electricity infrastructure and that this is payable directly to the local municipality. According to this particular enterprise, the overall charges amounted to millions of Rands and locating in the IDZ did not yield any benefits to the firm. The manufacturer believes that the costs associated with putting up the electricity infrastructure to their premises were equivalent to the costs incurred by other investors that are located in less developed areas outside the CIDZ and the costs of electricity in the CIDZ are too high for businesses to operate efficiently. According to another manufacturer located in the CIDZ, the costs of buying electricity from the local municipality are 40% higher than the actual Eskom tariffs. Therefore, according to the manufacturer, electricity intensive industries within the CIDZ cannot operate efficiently.

In the ELIDZ, the enterprises that manufacture automotive components said the electricity supply is fairly stable within the zone. However, the manufacturers said they do experience outages during production times. The manufacturers of automotive components in the ELIDZ believe that the power supply is the responsibility of Eskom not the ELIDZ authorities. According to the automotive manufacturers there is a need for Eskom to ensure that electricity supply is optimal and reliable. However, the automotive manufacturers conceded that the power supply in the zone was better when compared with other industrial parks in East London.

When interviewed both the CIDZ and ELIDZ authorities confirmed that their current electricity usage is very close to the maximum amount that the power grid in the zones can allow. However, the IDZ authorities said they can apply to the municipality for more electricity but it is a lengthy process which can take up to 12 months for applications to be approved. In addition, the CIDZ and the ELIDZ authorities said electricity is one of the major factors in determining what kind of investments are allowed to locate in the zones. Both the CIDZ and ELIDZ are mostly looking for what they term as "clean industries", which refers to industries that are not electricity intensive. The CIDZ and the ELIDZ authorities believe that such limitations are justified because they are in line with the IDZs environmental obligations.

Contrary to the insights gathered from the IDZ enterprises who said they experience electricity outages even during production times, both the CIDZ and ELIDZ authorities said electricity shortages only affected the zones in 2009, as a result of the countrywide load shedding policy applied by Eskom during that period. According to the

CIDZ and the ELIDZ, having their own power sub-stations has significantly improved the supply of electricity. The CIDZ and the ELIDZ authorities believe that in comparison to the neighbouring towns, the zones are more efficient in terms of electricity supply.

However, the CIDZ authorities gave examples of potential investment that was lost as a result of Eskom's inability to supply the required electricity. According to the CIDZ authorities, in 2008, a Canadian Aluminium producer known as Alcan suspended its smelter project in Coega. The reason for the suspension of the investment deal was as a result of Eskom's failure to supply the required electricity to the company. The CIDZ authorities explained that the investment from Alcan was one of the biggest investments ever attracted to the CIDZ. The Alcan smelter was an electricity intensive operation that required high power supply and the project had the potential of employing a substantial number of people.

In addition, the CIDZ authorities said part of the reason why plans to establish a prawn-farming facility by a company known as Sea Ark Africa did not materialise was that the Mandela Bay Municipality did not have the capacity to provide the amount of electricity required to operate the prawn farm. Like the Alcan investment, the prawn farm operation had the potential to create a substantial number of jobs within the CIDZ.

From the insights gathered, it is clear that both the CIDZ and the ELIDZ are facing serious challenges with regard to electricity. Four out of the nine enterprises interviewed in the CIDZ raised doubts about the capacity of the IDZs to provide electricity. The enterprises that responded to the questionnaire said the power supply inside the CIDZ is unstable. Over and above the frequent power interruptions, five of the enterprises raised concerns about the escalating costs of electricity in the zones. According to one manufacturer, the municipality buys the electricity from Eskom and adds its own charges to the final tariffs.

In the ELIDZ, the automotive manufacturers said the electricity supply is better than the supply in areas outside the zone. However, the manufacturers in the ELIDZ said the IDZ experiences power interruptions even during productions times. The IDZ authorities at the CIDZ and the ELIDZ also confirmed that the IDZs do not have the capacity to supply electricity intensive operations with the required electricity.

The CIDZ provided evidence of investors that were rejected because of Eskom's inability to provide the required consistent electricity. In addition, as a result of electricity concerns both the CIDZ and the ELIDZ have resorted to discouraging electricity intensive operations from locating in the IDZs. Both the ELIDZ and the CIDZ are operating close to full capacity in terms of electricity supply. Even though the municipality is in a position to provide additional electricity to the zones, the application process may delay potential investments

4.3 WATER AND SEWAGE

The CIDZ authorities said the current practice in all the IDZs is to develop water and sewage infrastructure after securing investment. For instance, the CIDZ has approximately 1200 hectares of land but the sewage infrastructure only covers 16% of the land. According to the CIDZ, the unutilised portion of the land can only be developed if there are additional investors that are interested in setting up a manufacturing plant within the IDZ. In the CIDZ, four out of the nine enterprises that took part in the study raised concerns about the quality of the drinking water in the IDZ. Two respondents in the CIDZ said water flowed at a very low pressure within the IDZ. The concern about the drinking water in the CIDZ is also about the chemical composition of the water. Two enterprises in the CIDZ said certain areas within the zone do not have a waterborne sewage system. There is a section inside the CIDZ, known as zone seven, which still does not have a waterborne sewage. The CIDZ operates a conservancy tank which is not ideal for the enterprises inside the zone

One manufacturer in the CIDZ said there are no problems to date with the water and sewage inside the zone but there are no advantages of being in the zone over other established industrial areas. One respondent, a manufacturer in the CIDZ said the municipal water supply is average but with very low pressure at times. However, the manufacturer said this is not a problem for his operation because his company purifies water as a by-product in its manufacturing process.

The authorities in the CIDZ are more concerned about the “crumbling water and sewage infrastructure” in the nearby town of Port Elizabeth. The view of the CIDZ authorities is that the water and sewage infrastructure in Port Elizabeth is not coping with the rapid urbanisation associated with the town. According to the IDZ authorities, the success of the IDZ is dependent on the quality of the infrastructure in the nearby town and therefore there is an urgent need to upgrade the crumbling infrastructure in Port Elizabeth. According to IDZ authorities, investors are more concerned with the services provided by the municipalities in the neighbouring towns. The CIDZ authorities believe that frequent negative reports about the water and sewage infrastructure in the nearby town of Port Elizabeth erode investor confidence in the entire municipality including the CIDZ which is also a part of the larger Nelson Mandela Bay Municipality. According to the CIDZ authorities, many investors prefer investing in areas that are closer to Durban rather than Port Elizabeth because the former offers better facilities and services. The CIDZ authorities said the zone has lost a number of potential investors who opted to invest in areas close to the Durban metropolitan. The CIDZ authorities believe that investment decisions regarding a firm’s location are influenced by the availability of facilities and services and investors prefer to be close to a much bigger metropolitan which not only offers them land and buildings but also residential areas with better facilities and services.

In the ELIDZ, automotive component manufacturers raised concerns about the low water pressure, leaking building roofs and flooding in certain areas of production within the zone. The automotive manufacturers in the ELIDZ were critical of the low water pressure in the IDZ and the inconsistent water supply. According to the

manufacturers, the low water pressure makes it difficult for manufacturers that require water at a high pressure in their manufacturing processes. The manufacturers said there is a need for the ELIDZ to implement a solution to the problems associated with the water pressure in the zone. The insights about the water and sewage in both the CIDZ and the ELIDZ highlight very serious challenges within the zones. In the CIDZ a substantial number of the enterprises that took part in the study said the quality of drinking water in the IDZ is very poor. Even though water is not an input in the production processes of some manufacturers in the IDZs, drinking water is an essential resource to investors in the IDZ. In both the CIDZ and the ELIDZ, the manufacturers that use water in their production processes complained about the water pressure in the zone. In the CIDZ, a couple of enterprises raised concerns about the lack of a waterborne sewage in a section within the IDZ. The IDZ authorities did not dispute the foregoing challenges raised by the enterprises in both the IDZs. However, the IDZ authorities believe that some of these issues are the responsibility of the municipality. In addition the view of the CIDZ authorities is that the lack of good infrastructure in the surrounding towns is more of a concern than the challenges mentioned by the resident enterprises. From the insights gathered, it is clear that firms that have invested in the IDZs are not satisfied with the standard of the water and sewage infrastructure available in these zones

4.4 COMMUNICATION INFRASTRUCTURE

Five out of the nine IDZ enterprises surveyed in the CIDZ indicated that the cell phone signal inside the CIDZ is weak. Three enterprises indicated that there was no advantage to being inside the CIDZ in terms of the communication infrastructure such as internet connection and telephone services. According to one enterprise, the cell phone signal is unstable and it is often very weak, affecting daily operations. One manufacturer at the CIDZ said there is a need to install more towers or signal enhancement devices in the CIDZ. Further, a manufacturer in the CIDZ complained about slow internet services inside the zone. According to another manufacturer in the CIDZ, the authorities made an undertaking that they would provide better broadband capacity in the zones but this has not happened. The enterprises surveyed in the ELIDZ said telecommunication services did not meet the needs of the enterprise within the zone. The manufacturers said there is a need for Telkom, South Africa's partially state-owned telecommunications provider, to improve the quality of its services and ensure optimal supply and consistency.

The authorities at the CIDZ said that the inability of network providers to provide enterprises in the zone with basic services like a reliable communication services increases operational costs for the enterprises. Both the CIDZ and ELIDZ authorities said the communication infrastructure is much better when compared to areas outside the IDZ.

Government officials at the DTI said the challenge with the communication infrastructure is that it falls outside the scope of the IDZ authorities and Government. The municipality is obliged to provide other facilities and services like water and electricity infrastructure up to the boundaries of the IDZs. Thereafter, the Government

or IDZ operators are tasked with funding the distribution of the infrastructure within the zone. Officials said the communication infrastructure is mostly provided by private entities. The IDZ operators or Government cannot install towers within the IDZs to enhance the cell phone signal. This is the responsibility of the telecommunication service providers.

The insights gathered with regard to the communication infrastructure clearly show that the IDZ authorities benchmark their offerings against what is available in the surrounding towns. The IDZ authorities believe that in comparison to the surrounding towns, the communication infrastructure in the IDZs is much better. On the other hand, the manufacturers in the zones compete with manufacturers that are located in relatively more advanced metropolitans. The manufacturers in the bigger metropolitans have access to better communication infrastructure and this makes it difficult for enterprises located in the IDZs to compete on an equal footing with these enterprises that enjoy advantageous conditions. A substantial number of manufacturers located in the CIDZ said the cell phone signal and internet services are poor, particularly when compared with services in the bigger metropolitans.

4.5 TRANSPORT INFRASTRUCTURE AND PORTS

In the CIDZ, five out of the nine enterprises surveyed complained about the transport infrastructure. One manufacturer located in the CIDZ said the minibuses that transport people inside the zone are not properly managed which makes them very unreliable. Another manufacturer in the CIDZ also raised concerns about poor maintenance of roads near construction sites within the zone. According to this manufacturer, the poor condition of the road is a safety hazard for resident firms.

The authorities at the CIDZ said there are serious challenges with the modes of transport connecting the zones to major markets within South Africa. The railway system still uses coal powered trains which are very slow making it difficult to meet customer demands. According to the CIDZ authorities, it takes an average of 24 hours to move products by rail from the CIDZ to Johannesburg which is one of the major markets for manufacturers in the IDZ. This makes it very difficult to compete with companies that are located in the bigger metropolitans. The CIDZ authorities said the other option is road transport which is not only slow but very expensive because of fuel and insurance charges associated with transporting goods by road.

With regard to the port of Ngqura, linked to the CIDZ, two enterprises complained about the handling capacity of the port. One of the manufacturers indicated that any port without the required container handling capacity that can cope with increases in vessel and cargo traffic cannot become world class. Two manufactures said the technology used in the port is old. According to one manufacturer, the hardware in the port needs to be complemented by the appropriate software and qualified workers with the necessary expertise. One manufacturer in the CIDZ complained about the high costs of utilities at the port.

The enterprises surveyed from the ELIDZ said the roads inside the IDZ are well maintained but there are challenges with regard to transport to and from the IDZ. The manufacturers from the ELIDZ added that the service and repair of cars and trucks is usually undertaken in the main roadway which poses a risk to workers in the zone. The ELIDZ authorities said the major problem is the enabling infrastructure like an efficient transport network that connects the ELIDZ to major markets. The ELIDZ authorities said the roads inside the IDZs are well maintained but the problem is the time delays associated with transporting the final products to Johannesburg, Cape Town and Durban because the transport system that connects the IDZs to these major markets is not efficient.

The transport related challenges facing the ELIDZ are worse because according to the ELIDZ authorities, there is no rail transport infrastructure connecting East London to the bigger cities with larger markets. The ELIDZ authorities believe that East London is far from economic activity because it is only connected to the major metropolitans by road, making it difficult for manufacturers in the IDZ to competitively produce products for consumers in the bigger metropolitans. Unlike the CIDZ, the ELIDZ does not have a port that is close and dedicated to the zone, enterprises use a port located in East London which caters for all business activities in the town. The ELIDZ authorities explained that the port in East London is very shallow and therefore it is not built to handle large vessels. This is because the port was built in an area that has a bed rock and deepening it would require huge capital investments. As stated by the ELIDZ authorities, the Government, when approached, could not provide the necessary funds required to develop the port. Attempts to move the port to the ELIDZ also failed because according to the ELIDZ authorities, port authorities believe that the costs associated with establishing a new port far outweighs any potential benefits.

According to automotive component manufacturers, the port has the capacity to handle their import and export requirements. . The component manufacturers rarely use the port for their own imports or exports. Mercedes is the main user of the port in East London. Therefore, according to the automotive manufacturers surveyed, it would be very difficult to justify the costs associated with developing a world class port that has the capacity to handle bigger vessels.

The ELIDZ authorities said they rely on the port linked to the CIDZ to attract investors that require access to a deep water port with the required capacity to handle larger vessels. The enterprises interested in locating in the ELIDZ can use the road connecting Port Elizabeth and East London to transport goods to the ELIDZ. The ELIDZ authorities said such an arrangement means that products have to be transported by road from Port Elizabeth to East London, a distance of just over 300 kilometres. From the insights gathered it is evident that the firms that have invested in the IDZs are not satisfied with the standard of the transport infrastructure connecting the zone to major markets. The ELIDZ may find it very difficult to attract investors that may require a deep water port. Most of the enterprises located in the ELIDZ and the CIDZ supply their final products to the domestic market which is a challenge because the IDZs are far from major markets and the transport network system to the bigger metropolitans is not efficient.

4.6 A COMPARATIVE ANALYSES OF CIDZ AND THE ELIDZ

In terms of the infrastructure categories, enterprises raised similar challenges in both IDZs. The electricity intensive firms complained about the escalating electricity tariffs and the capacity of the IDZs in meeting increasing electricity demand. Firms that use water in their production processes raised challenges with regard to the water pressure. It is evident from the results that the importance of a particular service to the production process of firms influences the response of participants. Firms that use a lot of water in their production processes provided more inputs on water related challenges whilst electricity intensive firms were more concerned about the capacity and efficiency of the IDZs in providing electricity.

Table 1, showing a summary of the feedback from the COEGA IDZ an ELIDZ

FACILITIES AND SERVICES	COEGA IDZ	ELIDZ
Water and sewage	Poor quality of drinking water in the IDZ, low water pressure and lack of a waterborne sewage system in some areas.	Low water pressure, leaking building roofs and flooding in certain areas of production within the zone
Electricity	High tariffs, power interruptions and the zone cannot accommodate more electricity intensive firms.	Electricity supply is fairly stable compared to surrounding areas but tariffs are high and the zone cannot accommodate more electricity intensive firms.
Land and buildings	Land is abundant. However, concerns are about delays in acquiring buildings.	Land and buildings available but the costs are very high. Expansion or customization of facilities is restricted.
Communication network	Cell phone signal inside the CIDZ is weak.	Cell phone signal inside the ELIDZ is weak.
Ports and Transport	There is a sea port directly linked to the zone and there is rail and road transport system that connects the IDZ to major cities.	The available seaport is in East London. It is not equipped to handle large cargo vessels. The IDZ is only connected by road to major cities. It is far from economic activities. Firms have to rely on the CIDZ sea-port to import bulk cargo.

Source: Research participants

The major difference between the two IDZs is the enabling infrastructure such as the transport network that connect the zones to major markets and the sea ports. The transport related challenges facing the ELIDZ are worse because there is no rail transport infrastructure connecting East London to the bigger cities with larger

markets. East London is far from economic activity. It is only connected to the major metropolitans by road, making it difficult for manufacturers in the IDZ to competitively produce products for bigger markets. Moreover, the ELIDZ is not connected to a seaport that can handle large cargo vessels

In comparison to the ELIDZ, the CIDZ has fared better in attracting investors to the zone. In addition, the CIDZ has a number of projects in the pipeline. The ELIDZ has not succeeded in attracting significant investments.

Table 2, showing the performance of IDZs from the period 2002/2003 to 2013/2014)

IDZ	NUMBER OF INVESTORS	TOTAL VALUE OF INVESTMENT	DIRECT EMPLOYMENT
CIDZ	23	R10 Billion	3778
ELIDZ	21	R4 Billion	1179

Source: DTI

Over 80% of the manufacturers in the ELIDZ manufacture automotive components for Mercedes, a vehicle manufacturer that has a manufacturing plant in East London but outside the zone. The automotive component manufacturers were asked to relocate inside the zone by Mercedes. The manufacturers that are linked to Mercedes moved from other locations in East London to the ELIDZ to take advantage of the infrastructure provided by the ELIDZ. Part of the deal included offering the automotive manufacturers discounted rates on facilities and services within the IDZ.

With regard to water, electricity and the communication network the challenges faced by both IDZs are very similar. The manufacturing firms in both IDZs are more concerned with water and electricity, an indication that such services are crucial to their production processes. Land is available in both IDZs. However, the ELIDZ firms are more concerned with the costs associated with the newly built infrastructure for the automotive industry. The transport infrastructure that integrates the CIDZ to the rest of the economy is relatively efficient and the zone has fared better in attracting investors to the zone. As stated by (Makebenta, 2002), transport infrastructure reduces trade costs and enhances the market potential of products manufactured within SEZs.

CHAPTER 5 – CONCLUSION & RECOMMENDATIONS

In 2000 South Africa introduced the IDZ Programme, another form of the SEZ concept that is prevalent in a number of countries globally. According to the DTI, the objectives of IDZ programme are to attract FDI, to increase the competitiveness of firms, and to promote linkages between domestic and international firms. The policy intent of IDZs is similar to other SEZs internationally which are created to participate in the economic transformation of their host countries in a way that is faster and effective than would be the case without them (Farole, 2011). To achieve its objectives, the IDZ programme aim to provide investors with a hassle-free business environment and world class infrastructure (DTI, 2012). Following the review of the IDZ programme initiated in 2007, the DTI concluded that the IDZs performed far below expectations and zones continue to rely on Government funding for capital and current expenditure (DTI, 2012). The DTI blames policy and administrative challenges for the poor performance of the IDZ programme. A CDE report of 2012 also observed that the IDZs cannot be classified as SEZs because they do not have a liberal regulatory regime, which is one of the main structural features of economic zones globally. The DTI believes that a clearer policy and administrative framework will address the challenges of the IDZ programme (DTI, 2012).

The available literature suggests that in addition to a liberal regulatory regime, the provision of modern, efficient infrastructure such as transport, water, and telecommunications has been an important factor in determining the success of zones globally. China, one of the countries that have successfully used SEZs to achieve its objectives, did not only put in place an efficient regulatory regime but also good infrastructure such as roads, telephone, electricity, gas, sewerage, water and ports (Zeng, 2012). The SEZs in China are located closer to major cities with access to ports and railways linking the zones to international markets (Zeng, 2012). In comparison to traditional, publicly owned SEZs, modern private zones are more successful because they provide purpose built infrastructure to resident firms (FIAS, 2008).

The quality of infrastructure provided by the South African IDZs has not been sufficiently investigated. The DTI and the CDE report identify policy and administrative issues as the main reasons behind the failure of the IDZ Programme. This paper is an attempt to address this lacuna by investigating the infrastructure provided in the CIDZ and the ELIDZ. This study investigates the quality of infrastructure in the IDZs by asking whether zone operators and firms that have invested in the IDZs are satisfied with the standard of infrastructure available within these zones.

The data was gathered through a questionnaire that was sent to IDZ enterprises and conversational interviews that were conducted with zone operators. The questionnaires made it possible for the enterprises to involve relevant individuals across different units or departments within the firms to respond to the questions. The conversational interviews gave the IDZ authorities a chance to provide clarity on some of the issues raised by IDZ enterprises. The study also relies on official Government documents and an extensive review of the relevant literature on SEZs worldwide. For the purposes of this study, the facilities and services offered by the IDZs were

grouped as follows; land and buildings, water and sewage, power and electricity, communication infrastructure, ports and transport infrastructure.

The main findings of the study are that the process followed to procure services from construction companies mirrors the procedures in the rest of the economy. The regulatory environment that governs the tendering system used to procure service providers is complex and onerous resulting in additional costs to the IDZ authorities. This confirms the CDE report's observation that the IDZs cannot be regarded as SEZs because their regulatory regime is not liberal; in fact it is very similar to other industrial parks in the country. The aim of SEZs globally is to address the inefficiencies in the domestic economy by offering a liberal regulatory environment (FIAS, 2008). One of the main characteristics of SEZs worldwide is that they have dedicated governance structures (Farole, 2011). The South African IDZs do not have the necessary autonomy to develop their own procedures aimed at speeding-up the process of providing the necessary infrastructure to prospective investors. In their efforts to attract FDI, the IDZs are competing with other similar programmes world-wide and therefore such delays may deter investors from locating in the South African IDZs. To improve efficiency in providing the land and buildings to investors, government must allow a more liberal regulatory framework within the IDZs.

The approach used to determine the "discounts" on land and buildings is not transparent or predictable and each investor is handled on a case by case basis. For example, The CIDZ maintains a database of prospective employees and investors qualify for discounted rates if they recruit people from the data base and train them. The process appears complex and its costs may outweigh the benefits linked to the discounted rates offered to investors. A more transparent and predictable mechanism will eliminate the uncertainty around the costs associated with land and buildings in the zones. The Mahindra SEZ developer in India successfully used discounts on land to attract investors to the zone (Levien, 2011). The Tax exemptions on land within the zones translated to the discounts which made the rates much lower than in or around the major cities and the availability of land with the supporting infrastructure became a major factor for companies deciding to locate within the SEZs (Levien, 2011). Unlike India's clear and predictable process, the South African approach to offering discounts on land and buildings appears to be less transparent and investors have to negotiate such concessions from IDZ authorities on a case by case basis.

With regard to power and electricity, both the CIDZ and the ELIDZ do not have the capacity to meet current and future demand. ELIDZ and CIDZ authorities admitted that they are operating close to capacity in terms of power supply but insisted that should a need for extra electricity arise; the municipality would be able to provide additional electricity. The estimated 12 months period associated with approving applications for additional electricity is very long. In a study comparing the performance of SEZs in India, Sri Lanka and Bangladesh, Aggarwal (2005) found that electricity is one of the most important aspects of infrastructure for investors within the zones. Both Watson (2001) and Farole (2011) attribute the poor performance of African zones to the lack of critical infrastructure such as reliable electricity. The CIDZ admitted to losing major investments as result of its inability to supply the required electricity. The current practice of the IDZs to only accommodate what they refer

to as “clean industries” in the zones is clear evidence that the IDZ authorities are aware of their limited capacity to supply electricity. Focusing on industries that consume less power limits the pool of prospective investors to the IDZs. A number of non-African SEZs provide firms with an option to purchase electricity directly from the national grid at wholesale prices and such concessions on utilities are not common in African zones despite the huge problems with unreliable electricity (Farole, 2011). For the IDZ programme to meet its intended objectives of attracting FDI there is an urgent need for Government to invest in improving the electricity supply to the zones.

The water supply is not consistent and the water pressure is very low in both the ELIDZ and the CIDZ. In describing the poor quality of the water in the CIDZ, respondents made reference to the poor chemical composition of the water. Enterprises that use water as an input in their production processes are negatively affected by the low water pressure within the zone. Water is essential even for home consumption and investors may consider the availability of drinking water when deciding to locate in an IDZ. The available literature suggests that water and sewage infrastructure is an important aspect in the development of SEZs worldwide. Part of the reasons the Kaesong SEZ in North Korea has failed to attract FDI is because of poor quality infrastructure such as electricity, water supply, wastewater treatment system and telecommunications (Lim, 2011).

The firms within the IDZs need an efficient transport system to link them to the metropolitans that have bigger markets like Johannesburg, Durban and Cape Town. Aggarwal (2005) says zones that are located in remote areas without the necessary social and economic infrastructure tend to perform below expectation. The literature suggests that firms prefer location sites that have an efficient transport system to connect them to their suppliers and markets. For instance, it was found that the location decision of Japanese electronics firms were mostly influenced by transport and other infrastructure variables (Makabenta, 2002). Therefore it is essential for policy makers to improve the transport network that connects the IDZs to the rest of the economy.

The ELIDZ does not have a deep-water port that can handle large shipping vessels and to accommodate investors that need a deep port, the ELIDZ authorities use a port that is located 300 km away from the zone. Transporting products for such a long distance may discourage investors from locating in the ELIDZ. The most successful Chinese SEZs are located closer to major cities with access to major infrastructure such as ports and railways providing links to international markets (Zeng, 2012). To enable the ELIDZ to attract large export oriented firms that require a deep-water port, the Government should consider building a port that can handle bulk and containerised cargo in East London.

The Government and the IDZ authorities largely depend on the private sector to provide the necessary infrastructure for communication services. The Government should engage the service providers and propose measures that will reduce the costs of putting up the necessary communication infrastructure in areas that have low returns to private capital investments. In Vietnam, the lack of partnerships between the private sector and

Government in terms of infrastructure provision caused problems in the past and the zones sat vacant because authorities failed to provide transport and other infrastructure connections to the zones (FIAS, 2008).

The findings of this study show that a significant portion of investors in the zones are dissatisfied with the types of infrastructure examined in this study. The process that has to be followed when acquiring land is laborious and costly because the IDZs are not exempted from the legislation that is applicable in the rest of the country. With regard to power and electricity, both the CIDZ and the ELIDZ do not have the capacity to meet current and future demand. In fact, the IDZs currently discourage electricity intensive firms from locating within the zones. The water supply is not consistent and the water pressure is very low in both the ELIDZ and the CIDZ. The manufacturers that use water in their production processes complained about the low water pressure in the within the zones. The ELIDZ does not have a deep-water port that can handle large shipping vessels. Most of the enterprises located in the zones supply their final products to the domestic market which is a challenge because the IDZs are far from major markets and the transport infrastructure connecting the zones to the bigger metropolitans is not efficient.

Investment in infrastructure acts as an engine for economic growth which in turn provides the much needed resources for providing the required facilities and services to industries (Cheng, Ren & Imura, 2001). However, the costs associated with investing in infrastructure are a huge burden to a number of Governments that continue to be the sole providers of infrastructure to industries (Chang et. al. 2001). In South Africa, the zones are owned, promoted and financed by Government and the delivery of services is the responsibility of the zone operators, who are also financed by local or provincial Governments (CDE, 2012). Such an arrangement contradicts global trends which are shifting towards encouraging the participation of private capital in the ownership and management of SEZs (CDE, 2012).

Farole (2012) suggests that when the state capacity to provide infrastructure is weak, the approach should be to share the costs burden with the private sector. The arrangement in Public Private Partnerships (PPPs) is that Government provides the strategic direction and legislative framework for SEZs (Farole, 2012). Government also provides the infrastructure that private investors are not in a position to provide such as land and the enabling external infrastructure (Farole, 2012). On the other hand, the private sector invests in developing and operating SEZs (Farole 2012). A number of zone authorities world-wide reduce demands on Government services by contracting private developers to manage the infrastructure and mobilize investment (FIAS, 2008).

Farole (2012) identifies forms of PPPs that increase the participation of the private sector in SEZs. These include subcontracting certain aspects of service provision or management to specialists firms for a fee and turn the zone into a high value asset by giving concessions to private investors to develop or expand the existing infrastructure.

The lack of partnerships between Government and the private sector negatively affect the provision of infrastructure in the South African zones. Therefore, in light of the research question it can be concluded that investors are not entirely satisfied with the quality of infrastructure provided by IDZs. The zone operators also agree that there is room for improvement particularly with regard to the infrastructure linking the zones to the rest of the economy. The Alcan and Sea Ark investments were deterred partly due to the inability of the CIDZ to provide the required electricity. The findings suggest that the quality of infrastructure may have contributed to the failure of the IDZ programme and it is important to address these issues under the SEZ programme.

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ANNEXURE 1

LETTER TO RESEARCH PARTICIPANTS

Dear Sir/Madam

I am employed by the International Trade Administration Commission of South Africa (ITAC) as a manager under the tariff investigations unit. I am currently conducting an academic study on the quality of the infrastructure provided by Industrial Development Zones.

The general consensus within Department of Trade and Industry (dti) is that the IDZ programme has performed far below expectations, particularly when compared with similar programmes in Asian countries. The DTI believes that the “world class” infrastructure provided by the zones should start yielding the desired results.

My task is to investigate what services and facilities are provided in IDZs for purposes of improving the competitiveness of enterprises. In other words, is the infrastructure really “world class “or there is still room for improvement?

The research aims to achieve the following:

- **Identify weakness or challenges related to infrastructure in IDZs**
- **Compare the infrastructure offered by the South African IDZs with the world’s best performing zones**
- **Advise the DTI on what could be improved with regard to infrastructure**

Please would you be so kind and give me your inputs with regards to the Infrastructure available to your company and what suggestions can be made in assisting policy makers to create a more sustainable environment for investment in the IDZs.

Please use the template below for the feedback and forward your comments or queries directly to Dumisani Mbambo: email: dmbambo@itac.org.za, Tel: 012 394 3743 for any queries or comments.

Kindest Regards

Dumisani Mbambo

ANNEXURE 2

RESEARCH INSIGHTS FROM A QUESTIONNAIRE SENT TO ENTERPRISES IN THE CIDZ

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ Enterprise 1)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	<ul style="list-style-type: none"> -<i>availability</i> -<i>efficiency</i> 	It's sufficient to meet current actual requirement.
ELECTRICITY	<ul style="list-style-type: none"> -<i>availability</i> -<i>efficiency</i> 	We have experienced few power outages.
TRANSPORT NETWORKS	<ul style="list-style-type: none"> <i>linkages to the ports</i> <i>and to major markets</i> 	Short of linkages to the ports and major markets.
LAND AND BUILDINGS	<ul style="list-style-type: none"> -<i>availability</i> -<i>finance</i> -<i>affordability</i> -<i>sustainability</i> -<i>efficiency</i> 	The land is available and abundant.
COMMUNICATION NETWORKS	<ul style="list-style-type: none"> -<i>availability,</i> -<i>affordability</i> 	Unstable telecommunication signal in the IDZ has been observed.
PORT	<ul style="list-style-type: none"> -<i>efficiency</i> -<i>capacity</i> -<i>affordability</i> 	Any industrial development zone without the proper actual handling capacity and supporting facilities cannot become a "world Class" IDZ.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 2)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	No comment.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Power supply is not sufficient for current and future usage.
TRANSPORT	<i>linkages to the ports and to major markets</i>	Lack of public transport between the major points. Lack of proper administration on mini buses between different zones. Road maintenance especially in areas surrounding construction sites desires is hazardous to resident firms.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Finance is not readily available and such an arrangement is not sustainable in the long run.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	Weak cell phone signal affects daily operation severely.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	Port needs to increase its actual handling capacity and also improve supporting facilities and services.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 3)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	Drinking water is of poor quality.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Eskom needs to increase its electricity production in order to meet current and future demand. Alternatively, focus on solar power and natural gas. These alternative energy resources and matured technology need to be brought into play.
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	Not enough cleaning and maintenance. Mini buses not monitored within the zone.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Policy makers of South Africa need to be able to identify and differentiate between "What's Right?" And "What can be done with insufficient resources i.e. capital, technology, human resources etc.?"
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	Install more tower or cell phone signal enhancement devices in the IDZ.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	More significant than the construction of the hardware and equipment, is the "software" - service team with highly qualified, richly experienced members is invaluable and indispensable as they often create wonders.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 4)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	No problems to date, but the IDZ do not appear to have any advantage over established urban industrial townships
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	From an electrical infrastructure perspective our experience with Coega IDZ was disappointing. We understood that the power supply infrastructure would be provided as part of the IDZ land lease package. It only became apparent during the development phase of our project that we had to pay millions of Rands in distribution infrastructure charges to Nelson Mandela Bay Metro (NMBM). In other words from an electrical infrastructure point of view there was no benefit for being in an IDZ relative to any other urban industrial area
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	Coega IDZ has good road transport infrastructure. This had some influence in our decision to develop a manufacturing facility in Coega.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Land is freely available and we could pick and choose from any number of sites. This had some influence in our decision to develop a manufacturing facility in Coega. The cost of land is not excessive (but land pricing is not a draw card). We did not require the IDZ to provide any buildings as we do our own development.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	No problems to date, but the IDZ do not appear to have any advantage over established urban industrial townships.

FEEDBACKS WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 5)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	-availability -efficiency	Poor quality.
ELECTRICITY	-availability -efficiency	Electricity tariffs in the Coega IDZ are too high for the long term sustainability of our business.
TRANSPORT	<i>linkages to the ports and to major markets</i>	Good.
LAND AND BUILDINGS	-availability -finance -affordability -sustainability -efficiency	Good.
COMMUNICATION	-availability, -affordability	Fair but not better than surrounding area.
PORT	-efficiency -capacity -affordability	From our perspective the IDZ's do not appear to have any significant advantage over other established urban industrial areas. We do not benefit from the port infrastructure as we neither import nor export goods. We believe that for an IDZ to truly succeed they should provide long term competitive advantage to the tenant (e.g. provision of lower cost utilities, energy, or alternatively lower tax rates).

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 6)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	We have serious challenges with low water pressure and quality of drinking water is very poor.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Frequent interruptions of electricity supply.
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	The provision of roads, water and telecoms infrastructure is not a differentiating feature relative to other urban industrial developments.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Available.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	The telecoms infrastructure is not a differentiating feature relative to other urban industrial developments.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	Old technology.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 7)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	Availability of water is good. The chemical composition of the water is very poor.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	On-going continuous supply not guaranteed because of numerous power failures.
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	Road network and access to national freeways good and access to both the airport and the seaport is good.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Land is available but the maintenance and support on the ground should get more attention. Taking decisions regarding requests or expansions very laborious and long process.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	The IDZ should provide better broadband capacity.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	No issues. We do not use the port.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 8)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	The municipal water supply is average with low pressure at times. This is not a problem for us because we make fresh water as a by-product to our process so this is not an issue. We do not have water born sewerage, the CDC operates a conservancy tank for us, this is not ideal for obvious reasons.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Electricity supply is reasonably consistent however we purchase direct from the municipality. It would be great if there was a preferential rate direct with Eskom.
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	Truck transport for our goods is readily available however there is no transport infrastructure to get staff to work.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance,</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Buildings and facilities are fine and problems are attended to when required.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	We have to operate over a microwave link or wireless link as there is no cable infrastructure in the zone we are in.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	We do not use the facility.

FEEDBACK WITH REGARD TO INFRASTRUCTURE (CIDZ enterprise 9)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	-availability -efficiency	The IDZ should provide water born sewerage system for Zone 7.
ELECTRICITY	-availability -efficiency	The IDZ should negotiate preferential rates direct with Eskom. The cost of electricity in the Coega IDZ is too high for our business to operate efficiently. Coega /NMBM tariffs are approximately 40% higher than equivalent direct Eskom tariffs. We are an electrically intensive industry and therefore we need competitive electricity tariffs for our long term sustainability.
TRANSPORT	<i>linkages to the ports and to major markets</i>	Provide some transport options to get staff to Zone 7.
LAND AND BUILDINGS	-availability -finance -affordability -sustainability -efficiency	No major problems.
COMMUNICATION	-availability -affordability	Offer an affordable and simple solution.
PORT	-efficiency -capacity -affordability	Our company is not export oriented.

Annexure 3

Insights from a questionnaire sent to NAACAM members located within the ELIDZ

FEED BACK FROM 8 AUTOMOTIVE MANUFACTURERS UNDER NACAAM

FEEDBACK WITH REGARD TO NACAAM (Enterprise 1)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	We experience inconsistent water supply and pressure.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Adequate, good in relation to other areas (BCM power grid vs. ELIDZ)
TRANSPORT	<i>linkages to the ports</i> <i>and to major markets</i>	Transport service to and from the IDZ area for the workforce is not good, on-going issues).
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Rental terms are not competitive. Maintenance responsibilities for tenants.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	Adequate.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	Further improvements are possible by the re-implementation of the “direct vessel route” from Europe, as was in place in 2007/8.

FEEDBACK WITH REGARD TO NACAAM (Enterprise 2)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	Inconsistent water supply and pressure. Leaks experienced, and we recently had to deal with two mini-floods as a result of faulty geysers.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	Electrical supply is fairly stable, but a few outages were experienced during production times.
TRANSPORT	<i>linkages to the ports and to major markets</i>	Main roadway to plant has unacceptable risks as cars and trucks continually park along “yellow lines”. Moreover, servicing and repairs of trucks is undertaken in the main roadway which is a potential risk to road users.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Rates and terms are no longer attractive as per offers during initial agreements. Excessive maintenance costs are a responsibility of tenants. Improvements/changes are restricted and if undertaken they become the responsibility of tenants. The leaking of roofs remains the biggest problem.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	No issues relating to the IDZ role.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	No issues, cost reductions and further improvements are possible by the re-implementation of the “direct vessel route” from Europe, as was in place in 2007/8.

FEEDBACK WITH REGARD TO NACAAM (Enterprise 3)

INFRASTRUCTURE		REMARKS
WATER AND SEWAGE	- <i>availability</i> - <i>efficiency</i>	Find and implement a solution for a more consistent supply and pressure.
ELECTRICITY	- <i>availability</i> - <i>efficiency</i>	As far as possible, ensure optimal supply and consistency – Eskom being the key role player.
TRANSPORT	<i>linkages to the ports and to major markets</i>	Find and implement a solution for the parking requirements of the “VDS” cars and trucks. The solution must eliminate the risk which is imposed with the use of the yellow line parking issue.
LAND AND BUILDINGS	- <i>availability</i> - <i>finance</i> - <i>affordability</i> - <i>sustainability</i> - <i>efficiency</i>	Find and implement a solution for the massive rental increases faced by tenants: -Implement cost saving initiatives within the IDZ organisation. -Make maximum use of Government concessions, grants, etc. so that tenants can also benefit. -Re-structure rental / maintenance agreements to be more in line with market and best practice.
COMMUNICATION	- <i>availability</i> - <i>affordability</i>	No issues, but within restraints, ensure optimal supply and consistency – Telkom being one of the key role player.
PORT	- <i>efficiency</i> - <i>capacity</i> - <i>affordability</i>	The on-going high demand for cost reductions and further improvements to the global shipping route is possible. The IDZ together with Mercedes can pressurize the shipping companies to re-implement the “direct vessel route” from Europe (Antwerp), as was in place in 2007/8. The East London Port will have the high delivery volumes in place to support this improvement.

Annexure 4

Research insights gathered from meetings with DTI, CIDZ and ELIDZ

DEPARTMENT	FEEDBACK
<p>The Department of Trade and Industry Tel: 012 394 3743</p>	<ul style="list-style-type: none"> -To qualify for funding companies must make an undertaking to invest R200 Million. -100% of the money is credited to the companies VAT account by SARS for future tax deductions. -10 to 15 years leasing agreement. -Approval is linked to job creation, sustainability, and training. -Communication services fall outside the scope of the IDZ authorities. -Bulk infrastructure like water and electricity is provided by the municipality. -The municipality is obliged to provide the infrastructure up to the boundaries of the IDZs.
<p>Ms Gerda Smit Customs Operational Leader Tel: 041 403 0564</p>	<ul style="list-style-type: none"> -The IDZ has a data base for potential employees. - The investors are obliged to provide training. -The rent of R53 per square meter is linked to the investor providing training to workers. -Investors enjoy a 1st 6 months rental holiday. -A company called Earthery steel was asked to redesign processes because of power requirements. -Alcan was also not approved because of electricity. -Environmental assessment takes 18 months. -Foreign Direct investor requires 35% SMMEs. -It takes 18 months to build the required building. -Alcan investment required too much electricity. -Utilities are very expensive. -Enabling infrastructure around PE is crumbling. -Sewage system pushed out into the SEA. -Not much linkage with neighbouring countries particularly sub-Saharan countries. -Rail link to JHB still too slow. -Meat processors still need inspectors.

DEPARTMENT	FEEDBACK
	<ul style="list-style-type: none"> -Electricity is one of the major factors in determining what kind of investments is allowed to locate in the zone. -Electricity shortages only affected the zones in 2009. -In comparison to the neighbouring towns, the zones are more efficient in terms of electricity supply. -Capacity of the port is 1 Million containers a year. Coega is currently handling 800 000. -The Rio Tinto Group second-largest Aluminum producer in the world suspended the Coega smelter project in South Africa, following failure by the country's state-run utility Eskom Holdings Limited to guarantee power for the plant. -The CIDZ has a number of projects in the pipeline. -The IDZ prefers to build the infrastructure in most cases. -The requirement to comply with legislation such as the Public Finance Management Act (PFMA) delays the process of providing land and buildings to investor. -Costs are market related. -To generate income and thrive towards being sustainable, the IDZs offer professional services like project management, training solutions, and travelling services among others.
<p>ELIDZ Mr Ondela Hlwati Investment Project Analyst Tel: 043 702 8200</p>	<ul style="list-style-type: none"> -Over 80 per cent of the manufacturers in the in the zone are linked to Mercedes and they were asked to locate inside the zone by the Original Equipment Manufacturer (OEM). In some instances the ELIDZ had to rent out its infrastructure at discounted rates just to be able to attract investments. -For instance there is a company that is renting for less than 30 Rands per square meters. -The market related prices are 180 rand per square meter. -The ELIDZ have to discount the land in order to get investors. -At times the ELIDZ has to sell land relatively cheap. -Manufacturers that are linked to Mercedes moved from other locations in East London to the zone in order to take advantage of the state of the art infrastructure provided by the ELIDZ. - The market rate for land is currently 180 per square meters. -The Coega IDZ is connected by locomotive rail transport and by

DEPARTMENT	FEEDBACK
	<p>road.</p> <ul style="list-style-type: none"> -It takes 24 hours to move products by rail from Coega to Johannesburg. -The Coega IDZ believes that an electric powered train would be a better option for investors. -The East London IDZ's port is not deep enough to handle large vessels. -The operator uses the COEGA port to attract investment that require. -Once approved it is relatively quick to the get funding. -All the IDZ have to compete for funding from the DTI. -The department allocates a budget every year. -Successful projects are funded on a case by case basis. -Projects are evaluated, compared and approved by the DTI. -In comparison to the neighbouring towns, the zones are more efficient in terms of electricity supply. -Electricity shortages only affected the zones in 2009. -The ELIDZ has a capacity of 40mVA. -Currently, the IDZ is using just under 20 MVA. -The East London IDZ can apply for more electricity from the municipality if a need arises. -It takes about 12 months to get applications approved. -The ELIDZ is always looking for clean industries. -The limiting factors are environmental. -The electricity is a major factor in determining what kind of investments locate in the IDZs. -The East London IDZ refers to industries that use less electricity as clean industries. -The ELIDZ is connected by road to Johannesburg. -The port is very shallow because of a rock bed. -Transnet indicated to the IDZ that removing the rock bed will be too costly. -Unlike Coega the IDZ is not linked to a port. -The port is mainly used by Mercedes. -Most of the enterprises are supplying Mercedes.

DEPARTMENT	FEEDBACK
	<ul style="list-style-type: none">-The company directed all its suppliers to locate in the IDZ.-The suppliers could not afford the infrastructure.-The IDZ provided buildings that are equipped with the necessary tooling

ANNEXURE 5
LIST OF PARTICIPANTS

NAME	CONTACT DETAILS
Ms Gerda Smit	Coega IDZ Customs Operational Leader Phone: 041 403 0564
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