<u>AN EXPORT PROCESSING ZONE (EPZ) IN COEGA</u>

The proposal is for the establishment of an Export Processing Zone (EPZ) in COEGA.

An EPZ would be open to all investors but would be particularly seeking to attract labour intensive export oriented manufacturing activities.

The Nelson Mandela Bay region has a number of significant potential advantages for the establishment of an EPZ. Three advantages are key:

- Excellent infrastructure – notably port facilities.
- The ready availability of large numbers of people who have previously been employed and trained (including in labour intensive manufacturing activities) but who are now unemployed.
- Significant excess capacity in Coega of serviced sites.

The EPZ could be accommodated within the dti's Special Economic Zones (SEZ) programme – but with two important additions/ modifications.

The first addition/modification concerns labour. The cost of labour is, of course, a key consideration. The National Minimum Wage (NMW) renders South African labour costs high. However, with the Employment Tax Incentive (ETI), South African wage costs become competitive – at least at "the upper end" of such labour intensive activities. The existence of a labour force with experience and skill underpin competitiveness in such activities.

As it stands however, the EIT is limited to two years. For an investor setting up a new operation in an EPZ this is too limited a time period. At the end of the two year period, a labour intensive operation is likely to be rendered uncompetitive.

<u>The EIT should be extended to 5 or possibly even 7 years.</u>

The second addition/modification concerns the maximisation of the benefits of excess capacity at Coega. Global best practice is that EPZs are best run by private firms with a profit incentive to attract and service tenants. Private investors are often loath to make a significant investment in a new EPZ venture where risks are high and returns are uncertain. In the case of Coega however, much of the investment has already been made. What is possible here is an arrangement whereby excess capacity could be leased to a private investor/operator with incentives tied to performance.

<u>Unused of underutilised sites at Coega should be leased to a private operator. Incentives to the private investor/operator should be in line with those offered elsewhere that have proven attractive to securing private firms to invest and operate an EPZ.</u>

Both of these proposals could be accommodated within the dti's SEZ programme. The SEZ programme does not require that all SEZs have identical incentives and operating procedures. Coega and NMR are different from other SEZs in that they offer the genuine prospect of fostering labour intensive manufacturing for export.

The cost of this programme is very limited. The wage subsidy is limited – and it is aimed directly at employment creation. Much of the investment in Coega has already been made.

In sum, if government established an EPZ as outlined, and it failed to be attractive to investors, the costs involved would be very limited. Indeed, the costs rise in tandem with employment gain.

In brief, on the upside, the EPZ, as outlined, provides significant potential for both employment and export gain while the downside in the event of the costs of failure resulting from an inability to attract investors is very low.

The EPZ is an experiment worth making because there are very good reasons as to why an EPZ in Coega could be very attractive to investors. However, if the experiment fails, the costs are very limited indeed.

The EPZ is an experiment worth making.
