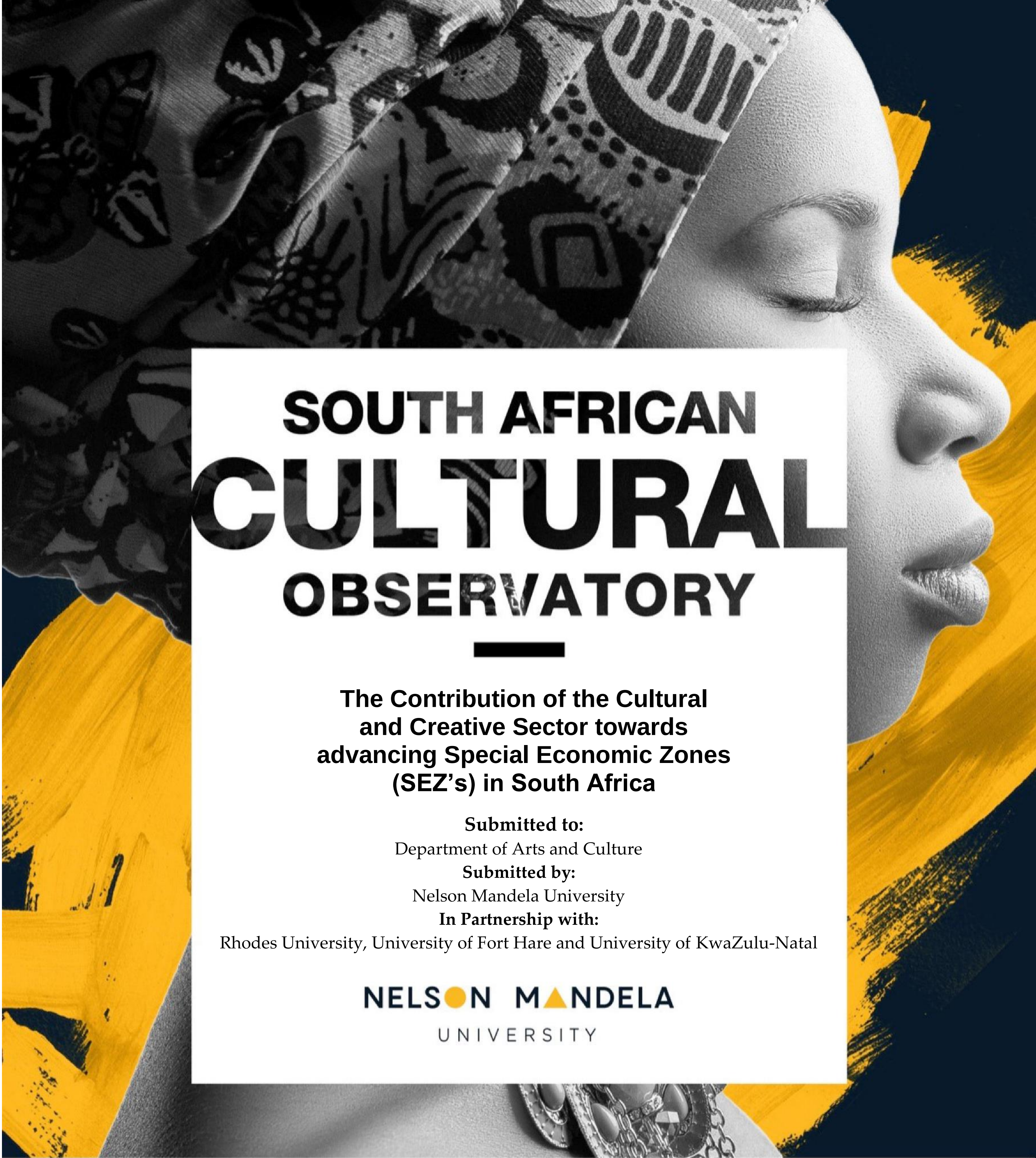

SOUTH AFRICAN CULTURAL OBSERVATORY

The Contribution of the Cultural and Creative Sector towards advancing Special Economic Zones (SEZ's) in South Africa

Submitted to:
Department of Arts and Culture
Submitted by:
Nelson Mandela University
In Partnership with:
Rhodes University, University of Fort Hare and University of KwaZulu-Natal

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South African Cultural Observatory

Report

The Contribution of the Cultural and Creative Sector towards advancing Special Economic Zones (SEZ's) in South Africa

December 2021

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Defining Key Concepts

- **Special Economic Zones:** Geographically designated areas set aside for specifically targeted economic activities. A number of incentives will be available to ensure SEZs growth, revenue generation, creation of jobs, attraction of Foreign Direct Investment (FDI) and international competitiveness
- **Creative Industry Masterplan**: Industry social pacts, in which each partner is expected to contribute, shifting away from a state-centric approach to a partnership model. A social compact that supports the development of a flourishing and competitive Creative Industry that enhances sustainable inclusive economic growth, creates quality employment, promotes transformation and contributing to sustainable economic development while enriching lives, celebrating national identity and cultural diversity, contributing to nation building and social cohesion.
- **Cultural goods**: Cultural goods: Consumer goods that convey ideas, symbols and ways of life, i.e. books, magazines, multimedia products, software, recordings, films, videos, audio-visual programmes, crafts and fashion[1].
- **Cultural Domains**: Represent a common set of culturally productive industries, activities and practices that can be grouped under A: Cultural and Natural Heritage; B: Performance and Celebration; C: Visual Arts and Crafts; D: Books and Press; E: Audio-visual and Interactive Media and F: Design and Creative Services
- **Cultural Heritage**: Cultural heritage includes artefacts, monuments, a group of buildings and sites, museums that have a diversity of values including symbolic, historic, artistic, aesthetic, ethnological or anthropological, scientific and social significance. It includes tangible heritage (movable, immobile and underwater), intangible cultural heritage (ICH) embedded into cultural, and natural heritage artefacts, sites or monuments. The definition excludes ICH related to other cultural domains such as festivals, celebration etc. It covers industrial heritage and cave paintings.
- **Performing Arts and Celebration**: Professional or amateur performing arts activities, such as theatre, dance, opera and puppetry, as well as the celebration of cultural events (festivals, feasts and fairs), which occur locally and can be informal in nature.
- **Visual Arts**: Arts which appeal primarily to the visual sense; they are art forms that focus on the creation of works, which are primarily visual in nature, or are multidimensional objects.
- **Books and Press**: Publishing in all its various formats: Books, Newspapers, and Periodicals. It also includes the electronic or virtual forms of publishing such as online newspapers, e-books and the digital distribution of books and press materials. Libraries, both physical and virtual, are included in this domain as are Book fairs.
- **Audio-visual**: Radio and Television broadcasting including Internet live streaming, Film and Video.
- **Design**: Units mainly engaged in the creative, artistic and aesthetic design of objects, environments and services.
- **Trade Balance**: The difference between the exports and imports of goods. Also called Net trade of goods
- **Cluster Theory**: The theory states that concentrating industries in specific regions creates several advantages. For one, greater economic activity occurs when many firms cluster in one area. In turn, this creates agglomeration spill overs which increases the

[1] UNESCO. (2009). *Cultural Goods*. Available online from: http://uis.unesco.org/en/glossary-term/cultural-goods?=undefined&wbdisable=true

total factor productivity of firms in the same county since they are all competing for the top spot.

Abstract

The growth and development of the cultural and creative industries in South Africa has been concentrated, uneven and nodal. Existing spatial and industrial planning literature details the value and opportunities presented by enterprise cluster theory. The report finds that Special Economic Zones (SEZs) as industrial clusters offer opportunities for CCI enterprises predominately in animation exports, film studios, cultural good exports, small enterprise development and incubation. The report finds that agglomeration, as characterized in the form of SEZs offered economic development opportunities and offers natural synergistic opportunities that can be leveraged by various CCI subsectors. The report also finds that SEZs offer critical opportunities for small and medium enterprise incubation and skills development for the CCI industries. Lastly, the report finds that technology and ICT infrastructure in SEZs offers opportunities for CCI export intensity as well as opportunities for backward linkages into the local economy. This report proposes various SEZ and CCI programmes and interventions which it expects to act as critical enablers of leveraging SEZs opportunities for the growth and development of CCI enterprises.

Purpose of the Report

The purpose of this report is to define and operationalize the potential role that the Cultural and Creative Industries (CCI) can play within the Special Economic Zone (SEZ) initiative being implemented by the South African Government.

Accordingly, the report will aim to achieve the following objectives:

- Define the scope of SEZ operations and requirements
- Define the needs of SEZ operations which can be address through the CCI
- Define possible areas and means of increasing integration between SEZ operations and the CCI
- Define the possible benefits to integrating SEZ and CCI operations
- Define possible barriers to entry and integration between SEZ operations and the CCI
- Define a possible way forward

The Approach

Methodology

The approach taken in compiling the report includes:

- A desktop review of global, regional and national trends in creative economy development as well as in the special economic zones
- A review of existing stakeholder led documents (CCI master plan, DTIC reports etc) to ensure alignment with critical programmes, projects and initiatives.
- Engage with and interview critical stakeholders in CCI, SEZs, Industry and Public Sector
- Profile key challenges and interventions available for the CCI and SEZs nexus

Stakeholder Interviews

- **COEGA and ELIDZ:** We interview key personnel at the COEGA and ELIDZ special economic zones to ensure that we attain an enriched and on-the -ground understanding of the practical design, needs, programmes and opportunities for special economic zones and the available levers (or lack thereof) to drive growth in the cultural and creative industries. We achieved three in-depth interviews from these two SEZs covering both operations and investments. The questions asked covered SEZ operational design, operational needs, cluster and agglomeration value, incubation and skills and development and opportunities for CCI growth through partnership, incentives, infrastructure leverage and investment promotion.

- **Industry Practitioners**: We achieved one in-depth interview with an industry researcher and cultural and creative industry policy maker. The interview focused on his role and contribution to the development of the sector masterplan for the cultural and creative industries, policies for development of the sector, incentives previously lessons from development programmes and initiatives.
- **Government Departments**: We were unable to secure interviews with the department of Sports, Arts and Culture, Department of Trade, Industry and Competition and National Treasury. The challenges faced in securing the interviews we 1) low response rate 2) no time availability and 3) dishonoured meetings that had been secured.

Introduction

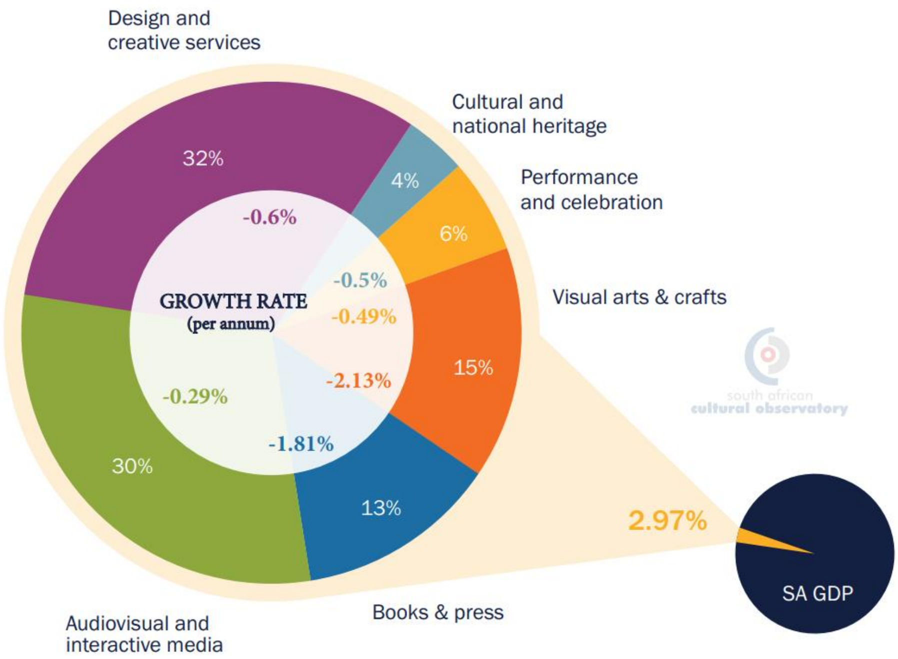
In the realm of institutional innovation, Special Economic Zones (SEZs) have emerged as a viable economic development model with significant potential to enable local businesses to generate foreign income through export earnings.

The Department of Trade, Industry and Competition defines Special Economic Zones (SEZs) as, *"...geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements (that may include laws) and systems that are often different from those that apply in the rest of the country."*

Historically, however, these designated economic hubs have broadly had an industrialization mandate whose primary investment has been in manufacturing, agriculture, and ICT, without much value created for or with the Cultural and Creative Industries (CCI). The contribution of CCIS to South Africa's economic growth is well-documented.

The 2020 CCI industry mapping research conducted by the South African Cultural Observatory found that the CCI industry directly contributed an estimated R74bn to the South African economy in 2018, an amount translating to 1.7% of the national GDP. However, the latest South African Cultural Observatory Mapping analysis used the recently rebased 2015 GDP data to establish the total GVA of the CCIs was approximately R161 billion or 3% of South Africa's production in 2020. At a macroeconomic level, this implies that CCIs contribution to the economy is on par with the agriculture sector – a sector certainly not as minute as some may have estimated.

Figure 1: CCI Contribution to GDP (Gross Value Added, at 2020 prices)

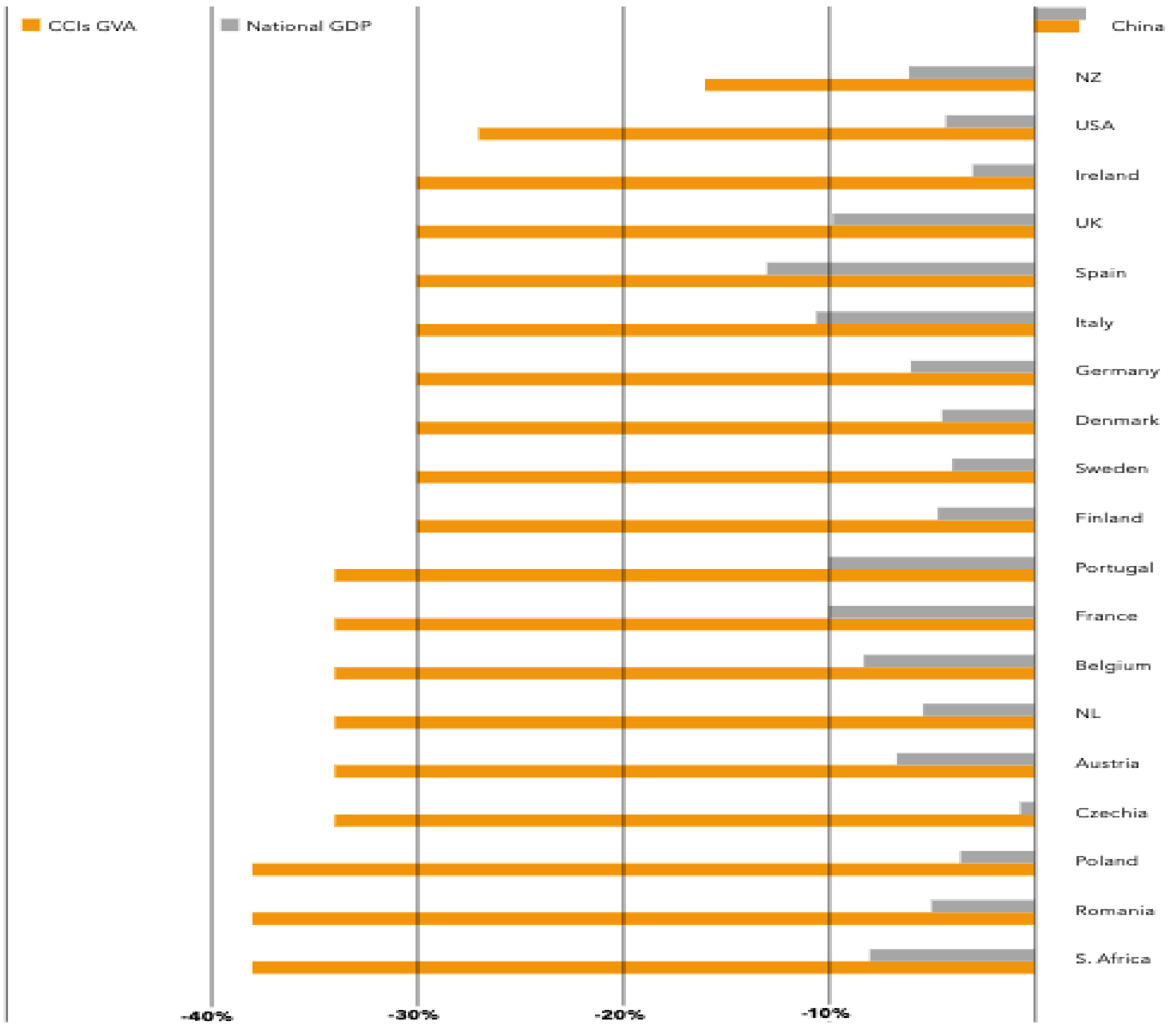


Source: *South African Cultural Observatory Mapping Study (2022)*

Measuring the contribution of the CCIs per domain to the South African economy using Gross Value Added (GVA) reveals a higher, previously unaccounted for margin accentuated by the value of its inputs to other sectors and ability to significantly create employment. The GVA is value added to all goods and services produced in a country in a given time period. A key distinguishing feature between GVA and GDP is that the former excludes taxes and subsidies.

A substantial share of the CCIs total contribution to GDP in 2020 is attributable to the Design & Creative Services sector (R51 billion) narrowly followed by audiovisual and Interactive media sector (R48 billion). Visual arts and Crafts (23.4 billion) as well as Books and Press (21.5 billion) were some of the highest domain contributors to South Africa's GDP.

Figure 2: Annual percentages in CCIs GVA and national GDP, by Country: 2020-21

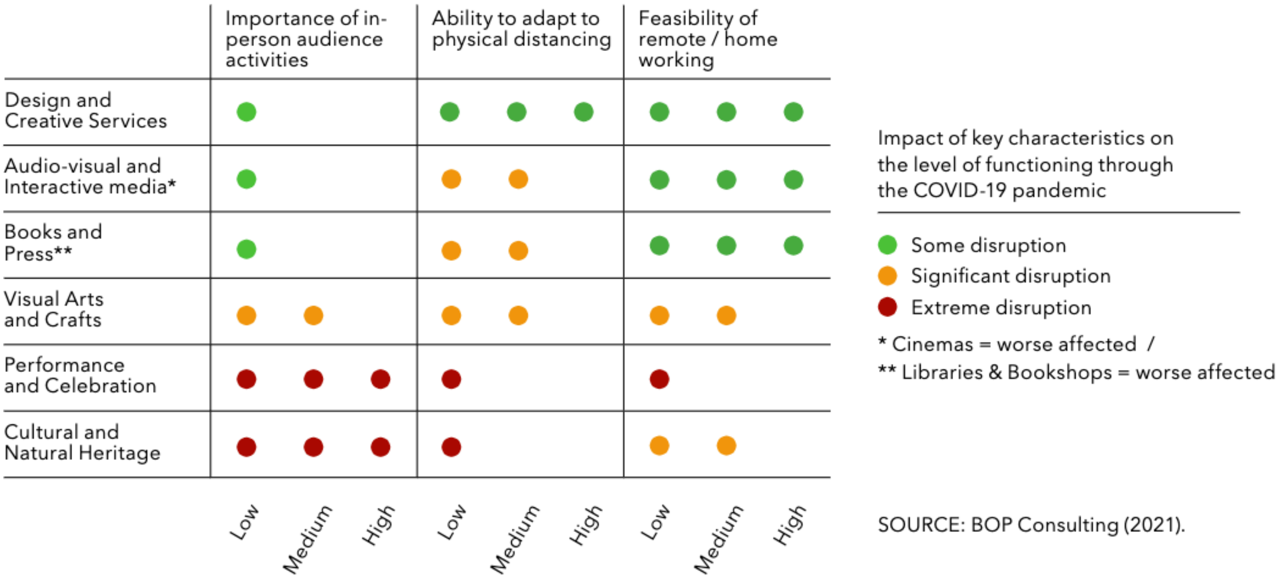


Source: UNESCO. (2021)

Figure 2 above shows a cross country comparison of gross value added (lost) from the CCIs between 2020 and 2021 and evidently South Africa is amongst the most negatively impacted with a GVA decline of approximately 38%.

The Covid-19 pandemic and the successive lockdowns resulted in a contraction of Books & Press as well as Visual Arts & Crafts output, the Performance, Audiovisual and Interactive Media as well as Design and Creative Service sectors experienced significant growth spurts during the pandemic following demand for locally sourced content. It should be noted, however, that the contraction of Crafts sector should be studied in context. Due to the informal nature of Crafts trade, its contribution to the CCIs output is likely to be higher than current estimates.

Figure 3: The Impact of the Covid-19 pandemic on CCIs



Source: UNESCO (2021): Cultural and Creative Industries in the Face of COVID19 – An Economic Impact Outlook

Although the systematic social lockdowns to contain the spread of Covid-19 epidemic had resulted in the contraction of Books & Press as well as Visual Arts & Crafts output, the Performance, Audiovisual and Interactive Media as well as Design and Creative Service sectors experienced significant growth spurts during the pandemic following demand for locally sourced content. It should be noted, however, that the contraction of Crafts sector should be studied in context. Due to the informal nature of Crafts trade, its contribution to the CCIs output is likely to be higher than current estimates. Nevertheless, when studying gross added (GVA) losses in CCIs to economic output or GDP across world economies during in the first year of the Covid-19 pandemic, we note losses in the vicinity of 30% - 40% across all, bar China, countries analyzed. As illustrated in Figure 2 above, South African CCIs registered the highest comparative GVA losses as a direct consequence of the pandemic. South Africa's strict social lockdown had response to covid-19 yielded a GVA loss of approximately -38% in the height of the crisis.

The demand-driven growth of CCIs and its far-reaching spillover effects in different tiers of the economy presents an opportunity to attract foreign direct investments through SEZs. South Africa boasts 11 designated SEZs in the Eastern Cape, Free State, Gauteng, KwaZulu Natal, Limpopo and Mpumalanga - of which seven are operational and one pending. COEGA accounted for more than 50% of private funding to SEZs, while the East London IDZ (now SEZ) and Dube Trade Port accounted for 20% and 10% of all investment attracted respectively. Makgetla (2021) argues that "SEZs would support industrialization in the region more effectively if they focused narrowly on supporting diversification through new clusters with substantial local and regional linkages" (Makgetla, 2021).

There is also a case for SEZs in the role they play as policy testing centers and scalable market microcosms. National Treasury heeds the advice of Ricardo Hausman and Dani Rodrik in their (2003)' where they argue in favour of more policy experimentation for industrial policy.

"There is a need for more experimentation and piloting of industrial policy options…

Special economic zones (SEZs) can be effective tools in this regard. SEZs allow the scope to experiment with policies on a small scale before rolling them out to the wider economy (if it makes sense to do so). In China, the Shanghai Free Trade Zone piloted reforms before they were implemented nationally" – National Treasury (2019)[2]

Simply, ***an opportunity exists to continue looking at experiments that could drive more value through SEZs and the broader economy. One such experiment ought to explore industry linkages between CCIs and SEZs.***

Breaking the mold with a market focused SEZ CCI marriage

CCIs continue to be seen more broadly as contributors to important non-market goals such as fostering identity formation through heritage, building social cohesion and education while their relative direct and non-direct economic contributions have still yet to attract the requisite level of attention and investment to drive sustainable growth. In fact, cultural and natural heritage as a sub-industry in the CCI has experienced a negative growth rate of 2.4% per annum. This, despite growth occurring in sectors that have contributed the largest share of GDP within the CCI.

On the microeconomic front, subsector gross value-added (GVA) growth in the CCI is becoming more evenly distributed. Design and Creative Services, for example, which makes up 32% of the sector's contribution GDP, has seen growth slowing at a negative growth rate of -0.6% per annum, while the next biggest sub-sector Audiovisual and Interactive Media which makes up 30% of industry GVA also saw growth slowing at a similar rate of -0.29% while the other subsectors Books and Press, Visual Arts and Craft, Performance and Celebration and Cultural and Natural Heritage experienced annual growth rates of -1.81%, -2.13%, -0.49 and -0.5% respectively[3].

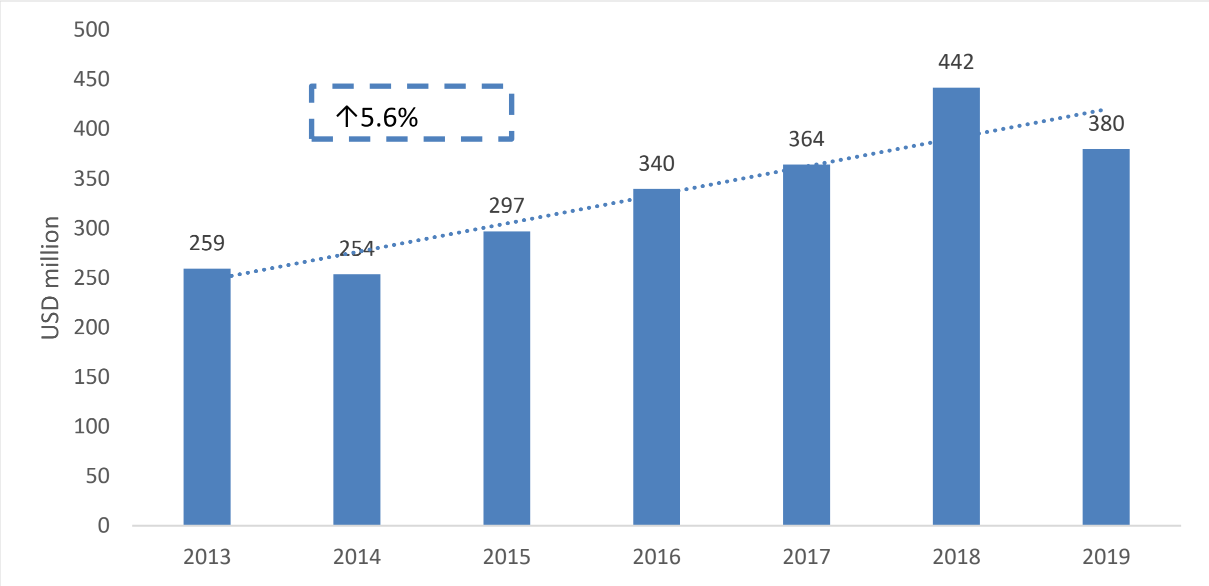
One of the critical points of consideration when observing the SEZ CCI nexus is a longitudinal view of export trends and export enablement–a strong domain of SEZs in general. From an international trade perspective, not only do member companies in the SEZs benefit from tax and customs incentives from but the SEZs often enable a unique route to market which presents an opportunity for CCIs to deepen their penetration and widen their footprint in the international market. A longitudinal analysis of cultural good exports between 2013 and 2019 provides key valuable lessons and pathway to generate valid inferences in this regard.

The value of cultural goods exports between 2013 and 2019 has grown at a compound annual growth rate of 5.6%, as illustrated by Figure 4 below. Over the same period, the share in total exports of cultural good increased by a benign 0.11% in 2013 to 0.14% of total exports by 2019. From a cultural domain lens, visual arts continue to dominate the share of exports, accounting for roughly 63% of total exports of cultural goods and services (Figure 5 below).

[2] Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa – National Treasury Economic Policy Unit

[3] Creating and Designing for Growth South Africa's Creative Industry Masterplan to 2040

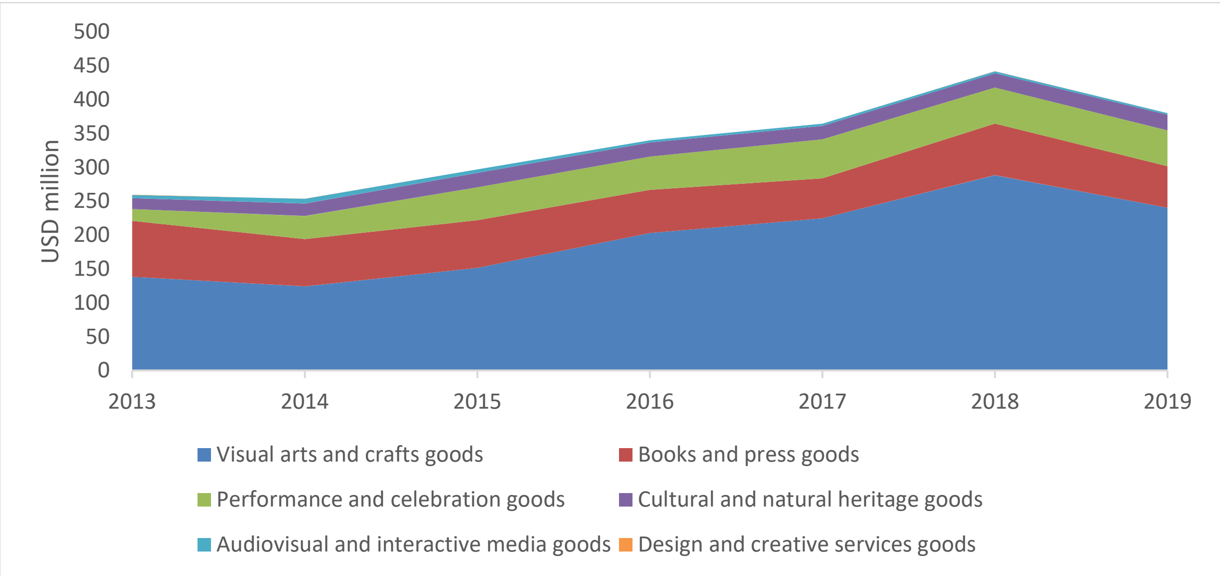
Figure 4: Cultural Exports



Source: UNESCO Institute for Statistics, Own Illustration

In addition, the trade balance for the export and import of cultural goods has narrowed materially (evidenced in figure 4 below) from $377million in 2013 to $61million in 2019. This suggests that the country is importing less over time relative to the amount it exports in cultural goods and services.

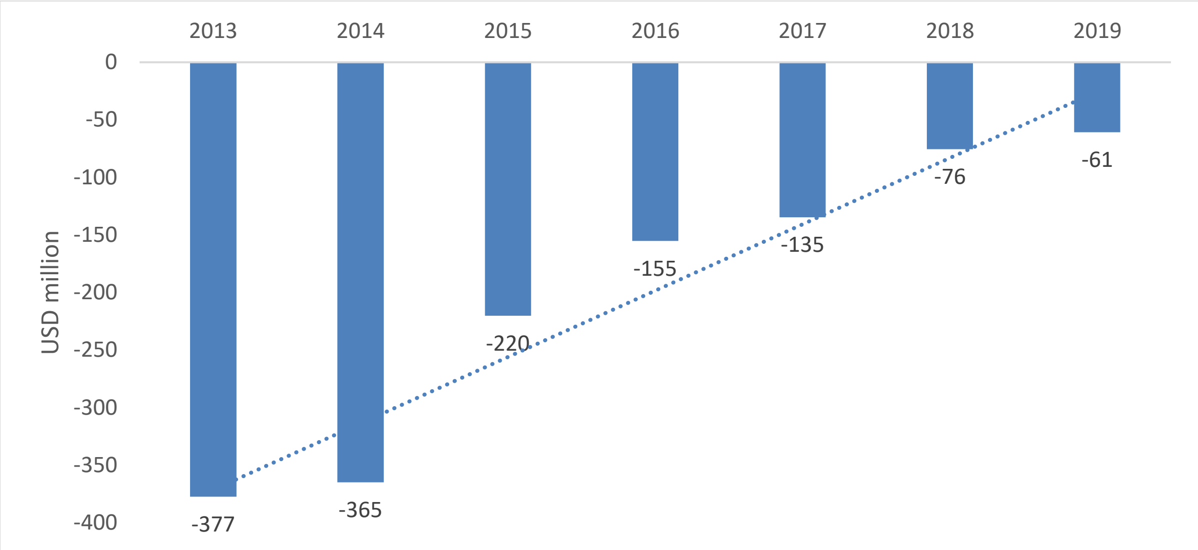
Figure 5: Exports by Cultural Domain



Source: UNESCO Institute for Statistics, Own Illustration

The net effect of importing less cultural goods over time is realized positive trade balance. Positive trade balances unlock enormous economic growth through multiplier effects. A multiplier refers to an economic factor that, when changed or increased, causes changes or increases in other economic variables. When computing national GDP, the greater the number of multiplier effects, the greater the gains in total output and spending thereof. In addition to GDP, multiplier effects extend to income, employment, and taxes.

Figure 6: Cultural Goods Trade Balance



Source: UNESCO Institute for Statistics, Own Illustration

Type I output multiplier effects concern forward and backward linkages, defined as the total outputs from each economic sector required to produce one additional unit of output. Meanwhile, Type II multiplier effects include a wide range of knock-on effects, from household income to expenditure patterns.

Table 1: CCI Type I and Type II output multipliers

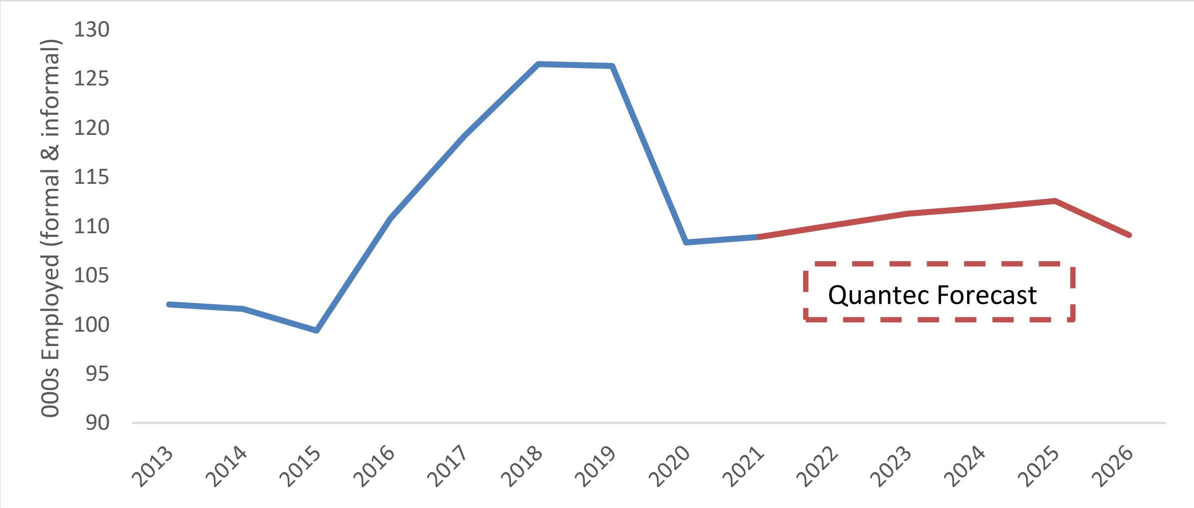
	Type 1 Output Multipliers	Type 2 Output Multipliers
Cultural and Natural Heritage	1.850	3.740
Performance and Celebration	1.894	3.748
Visual Arts and Crafts	2.092	3.700
Books and Press	1.903	3.814
Audio-visual and Interactive Media	1.891	4.170
Design and Creative Services	1.881	4.353

Source: Source: South African Cultural Observatory Mapping Study (2022)

The South African Cultural Observatory analysed Type I and Type II output multiplier effects of the CCIs and deduced that for every R1 million spent by foreign tourists on Cultural and Natural Heritage Products and Services translates to direct and indirect economic impact to the value of R1.85 million. Assuming that the R1.85 million is saved, invested or spent in other sectors of the economy, the induced impact or Type II output multiplier effect is R3.74 million. With the largest share of contributions of all the domains, the Design and Creatives Services sector has the largest multiplier effects followed, naturally, by the Audio-visual and Interactive Media sector.

The largest predictor of Type II multiplier effects is the economic return on each additional unit of employment created in response to increased demand. As a low-barriers to entry sector—especially in the Cultural and Heritage. In their 2021 paper "Do creative industries generate multiplier effects? Evidence from UK cities, 1997-2018", Diana Gutierrez-Posada and Others found that in the UK, in the period under examination, each job created in the creative industry created an additional 1.9 jobs in non-tradable sectors like construction, services, accommodation, food etc. At an aggregate level they find that "creative economy-led policies for cities can have positive – albeit partial – local economic impacts" (Gutierrez-Posada et al, 2021). And in an adjacent research report, Subur Karyatun and Others (2020) found that "tourism village had an important economic impact for local communities with a Keynesian income multiplier effect value of 2.57, 1.74 for the Income multiplier type I ratio, and 2.23 for the type II. While the employment multiplier value is 0.0000041". So, in so far as CCIs are direct and indirect contributors to tourism is becomes increasingly evident that the multiplier effect of the CCI industry has multiple transmission mechanisms into the local economy.

Figure 7: Recreation, Cultural, Sport Activities Employment (Actuals and Forecasts)



Source: Quantec Easy Data - SA Standardised Industry Forecast Employment, own illustration

The Quantec forecast for the Recreation, Cultural, Sport sectors shows a steep decline in employment following the COVID-19 impact on the sector and forecast very little employment growth in the sector.

The data and the literature therefore anchor the importance of the exploration of the growth nexus between SEZs and the CCIs – making particular emphasis on the opportunities to leverage existing growth, infrastructure, and routes to market to ensure viable and sustainable CCIs that are able to leverage critical opportunities in the economy.

The rest of the report:

1. Unpacks the structure, form and function of an SEZ
2. Review existing literature on SEZs, clustering and CCI opportunities
3. Map out linkages and growth and investment opportunities
4. Draw Recommendations and Conclusion

Structure, Form and Function of SEZ Operations

The operations of an SEZ should inherently take the shape and form aligned to its critical mandate of economic enablement through capacity building, technology advancement, infrastructure support, route to market enablement (incentives, concessions, waivers, subsidies etc), marketing and promotion and investment sourcing and pooling.

What are the export aims of SEZs and what opportunities does this present for CCIs?

CCIs are generally labour intense across all skills profiles across the subsectors within the CCI (Banks, 2010). Digital intensification as well as the infrastructure capacity endowment of SEZs open a direct window of opportunity for the export ambitions of the CCIs to be aligned to those of the SEZs, with new markets opening for subsectors like animation, knowledge management, software etc.

Table 2: Export Activity Aims of SEZs

The South African SEZs are to be orientated towards promoting, developing and consolidation of four basic kinds of export activity	
1. Labour-intensive light manufacturing and assembly that incorporates unskilled, skilled, technical, and managerial personnel to produce higher value-added products and services	2. Manufacturing activities linked to local industry that incorporate substantial level of local inputs, downstream manufactures, components and/or services
3. The technologically intensive service sector that demands higher skill levels and value added	4. Capital intensive and natural resource based primary activities

Source: Adapted from DTI (2009) - Comparative Analysis: RSA IDZs in the Global Context (draft report)

The Global Innovation Index highlights some critical gaps in the South African economy

Table 3: Global Innovation Index (2021) – South Africa

	Overall GII	Institutions	Human Capital and Research	Infrastructure	Market Sophistication	Business Sophistication	Knowledge and Technology Outputs	Creative Inputs
South Africa	61	55	67	83	23	51	61	79
Quartile	3rd	3rd	2nd	2nd	4th	3rd	3rd	2nd

* 1st quartile is lowest ranked, and 4th is highest ranked

Source: Global Innovation Index 2021

It shows that the country ranks in the second last quartile for its creative inputs, ranks in the same quartile for its human capital investment and research and development as well as in the infrastructure pillar. In the index, creative output comprises 1) intangible assets, 2) creative goods services and 3) online creativity. These developmental areas are incidentally the critical focus areas for SEZs as well and creates a real opportunity for CCIs to partner with SEZs to make progress on the evident weakness in these areas.

Table 4 and 5: The content detailed herein not only details the primary areas in which objective assessment on alignment (or the lack thereof) in the growth and development agenda of SEZ, particularly as envisaged by the DTIC as a body that support both the SEZs as well as the growth and developmental needs of the CCIs. In facilitation this opportunity, the DTIC will need to play a critical role going forward.

Table 4: SEZ / IDZ Core Principles

Seven core principles underpin the South African SEZ Programmes	
1. The promotion of sustainable local and foreign investment, orientated towards achieving sustainable growth and development and facilitation of technology transfer.	2. It is directed at new companies in order to prevent the relocation of industry
3. The implementation of best practice environmental and industrial safety standards as competitive advantages for zone investors	4. A strategic human resource focus, designed to significantly improve skills and human resource development at all levels
5. The application of ruling labour legislation and full compliance with prevailing standards and regulations	6. The active application of government incentive programmes available to investors.
7. The minimum financial commitments by the state while maximizing investment in the provision of world class infrastructure	

Source: Adapted from DTI (2009) – Comparative Analysis: RSA IDZs in the Global Context (draft report)

Table 5: Intended Objectives of the SEZs

Intended Objectives of the SEZs Based on DTI Reports	
1. SEZs are seen as a useful instrument to unlock a series of strategic projects identified and promoted by government. More particularly, being port related, SEZs are potential gateways for a series of export-orientated manufacturing industries.	2. SEZs are designed to promote the continued vertical integration of South African industry through the establishment of linkages with downstream industries to effectively incorporate local inputs, raw materials, services and labour into the production of internationally competitive export products.
3. SEZs are seen as promoting a set of development projects which are likely to optimise the utilisation of existing infrastructure in terms of ports, airports, roads and telecommunications	4. Each SEZ is to 'designate a significant proportion of its area to developing labour-intensive industries and services', in particular seeking to attract new enterprises that utilise leading edge technologies and progressive manufacturing systems
5. Those projects using outdated or low technological levels 'will be specifically avoided in order to focus on enterprises and products that will contribute to increasing South Africa's technological level'	6. SEZs will have a strategic human resource component aimed at facilitating advanced labour relations and rapid development of human resources. It is the aim that SEZs will benefit from accelerated skills development programmes
7. SEZs are geared to the goal of earning foreign exchange through their export activities	8. Supplier networks are to be promoted in order to more effectively incorporate the SMME sector in export processes, both as direct exporters as well as indirectly as providers of export-orientated goods, inputs and services

9. SEZs are seen as ideal locations for new enterprises that arise out of industrial co-operation between South Africa and industrialised countries through joint ventures, mergers and strategic alliances	10. SEZs are to be co-ordinated towards promoting, developing and consolidating the four basic classifications of export activities as identified in the 1998 consultative document, namely labour intensive light manufacturing and assembly; manufacturing activities linked to local industry; the export services sector; and, capital intensive and natural resource-based primary activities.

Source: Adapted from DTI (2009) - Comparative Analysis: RSA IDZs in the Global Context (draft report)

Aligning SEZ Operations and the Creative Industries Master Plan

The Creative Sector Masterplan was tabled in 2020 and in considering linkages and opportunities for the CCIs to leverage SEZs it is therefore to use the development framework provides in the masterplan to ensure that the key opportunity areas in the master plan ought to be visible synergistically in the aims and ambitions of SEZs and their operations. The in-depth interviews conducted with both the COEGA and ELIDZ special economic zones explored the extent to which the current creative sector master plan aligns with their operations and the associated opportunities to leverage the masterplan for the development of the CCIs within the SEZs. Below are the key areas of the master plan that offer opportunities for CCI development within the SEZs as identified by the interviewees.

Supply side interventions: SEZs have detailed their emphasis and plans from a skills development, technology advancement, competitiveness enhancements as well as leveraging their infrastructure to drive and accelerate the development of critical intellectual property and knowledge economy management. The SEZ aligning areas in the master plan are:

- Creative skills (growing the talent)
- Competitiveness (formalizing the sector and business and entrepreneurial environment)
- Attract domestic and foreign investment
- Access to inputs and finance
- Develop IP and stimulate innovation

Production infrastructure: SEZs like the East London IDZ already have technology centres aimed at both digital and non-digital skills development as well as an incubation centre that assists aspirant enterprises from idea phase to pre-commercial stage. Opportunities for incubation and enterprise accelerators in both the SEZ context and that as detailed in the masterplan there align:

- Incubators and innovation hubs
- Accelerators

Market efficiencies: A primary emphasis of the SEZs is the role they play and aspire to continue playing in technology development and advancement. Opportunities have already been identified in how SEZ not only have scope to drive global export competitiveness but also to create backward linkages that support local government and local industry.

- Smart government (efficacy of incentives)
- SEZ ICT infrastructure leverage

Demand infrastructure: The SEZ CCI opportunity lends itself to visible opportunities in the infrastructure that not only allows for high velocity sector linkages like tourism but also offers long-term value and through digital infrastructure and solutions provision. The masterplan details the following:

- Tourism linkages
- Venues

- Digital platforms

Demand-side interventions: SEZs have also looked to the marketing and investment promotion activities they do as well as continue to seek new domestic and foreign investment markets, marketplaces and opportunities

- Marketing and promotion
- Export development
- Localization

SEZs and CCI Growth Nexus – Literature Review

Key Question 1: **Do SEZs Impact Firm Exporting Behaviour?**

Literature:

- *Davies and Mazhikeyev (2016): The Impact of Special Economic Zones on Exporting Behaviour*

  The study uses firm-level data covering 21 African and Asian countries and compares firms in SEZs to non-SEZ firms. They find that SEZ firms are generally more export oriented at the extensive and intensive margins – these speaking to either using firms using existing resources more intensively or deploying more resource. In open economies, particularly those generally open to exports, SEZs seem to increase exporting at the extensive margin by as much as 25%. For those that are closed to exports and/or imports, however, the opposite effect is found. This is consistent with Johansson and Nilsson (1997) and may be reflective of differences between open and closed economies with respect to the effectiveness of trade authorities. At the intensive margin, we find that SEZs increase the value of exports, but only in countries with barriers to imports where the estimate increase is 3.6%".

Implications for CCIs?

- The 25% increase in exports at the extensive margin is a particularly important given the role that SEZs play in capacity building for enterprises. Simply this suggests that CCI firms can sweat both existing assets as well as leverage SEZ infrastructure in order to realize material export gains. Critical therefore will be a view on what the optimal resource deployment and utilization for CCI firms to ensure they get the optimal export led enterprise growth.

Key Question 2: **Are SEZs at the risk of becoming white elephants in Southern Africa?**

Literature:

- *Phiri and Manchishi (2020) - Special economic zones in Southern Africa: white elephants or latent drivers of growth and employment?*

  The study used a case-study approach and find that special economic zones in the Eastern Cape in South Africa, are largely latent drivers of growth and employment hampered by inadequate infrastructure financing and provision and weak local supplier capabilities. Special economic zones in Lusaka, Zambia, face similar constraints but are further hampered by inadequate business services provision, burdensome regulations and business procedures, a fragmented incentive framework, institutional coordination failures, and a weak design that does not leverage strategic anchor industries for greater agglomeration economies, thus rendering them more of white elephants.

- Le Roux and Schoeman (2016): A Comparative Analysis of the Design of Spatial Economic Zones_ The Case of SA, Malaysia and Indonesia
  - Findings indicate that the new SEZ Programme in South Africa is on par with the SEZ programmes in Malaysia and Indonesia. The ideas of the One-Stop-Shop, type of SEZs allowed for and the marketing strategy are similar in all three countries. The incentives offered are also lucrative in all countries, although some of the specific incentives are different. The governance, ownership and funding differ slightly amongst the countries: Indonesia has the President as the highest power governing the SEZs and allows for fully private entities to own and fund SEZs.

Implications for CCIs?

- Special economic zones are not in and of themselves patently valuable to growth and development unless there is a textured understanding on the special conditions that will inform their success. This suggests that as CCIs explore the opportunity to leverage SEZs for growth and development – more intentional programmes and interventions will be necessary to ensure that the ROI on any investment is realised.

Key Question 3: **What are the key SEZ lessons Africa can learn from China?**

Literature:

- *Zeng (2015): Global Experiences with Special Economic Zones with a Focus on China and Africa*
  1) There are opportunities to use SEZs to address the market failures or binding constraints that cannot be addressed through other options. 2) Institutional quality (both regulatory and industry) continues to be a critical value point in the effective deployment in SEZs as an economic growth and development tool. 3) An appropriate development model that takes into account the country's strategic and industrial position is useful in the successful deployment of SEZs. 4) A focus on creating a productive and conducive business environment inside the special economic zone improves not only the operating context of the zone operators but also the growth and development imperative on enterprises in the zone. 5) It is important for the zone design and development to a adopt a pragmatic and realistic scheme / programme development approach where starting small on and implementable projects increase the value and viability of the zone. 6) An emphasis on skills training and technology transfer and diffusion is necessary. 7) It is important to continue to explore on how to create better linkages with local economy. 8) As well as backward linkages and circular economy opportunities to increase the multiplier effect of the SEZs.

Implications for CCIs?

- South Africa currently generates R25 billion worth of waste annually, of which 90% ends up in landfill sites that are currently close to capacity. The global emphasis on creative circular economy opportunities (particularly in industrial parks) means there opportunities to arts and craft to leverage such waste into commercial artefacts. In addition, the literature suggests that a "test and scale" approach not only de-risks investment but creates a clearer runway on what could be potential value accretive investments in the SEZ for the CCIs.

Key Question 4: **What is the role of the knowledge economy is driving industrialisation outcomes?**

Literature:

- *Duru et al (2020): Knowledge Management a Catalyst for African Manufacturing Industrialisation*

  This paper contributes to existing knowledge from an African cultural perspective on the importance of knowledge creation and application in manufacturing for African industrialisation through an endogenous strategy. By adopting and embracing knowledge management, African countries can create a coherent and collective endogenous growth strategy that integrates basic development principles with local characteristics to improve socio-economic growth. 'Endogenous growth is economic growth at a rate determined by internal forces to the economic system, particularly those governing the opportunities and incentives to create technological knowledge' (Okereke & Agupusi, 2015, p.31).

Implications for CCIs?

- The CCIs is in many respects a knowledge economy and continues to play a critical role in the design and documentation of critical intellectual property. Given the industrialisation agenda, particularly through manufacturing, a SEZ CCI marriage can offer great partnership and value sharing economy within the zone.

Key Question 5: **What role does clustering and agglomeration play for the development of the CCIs?**

Literature:

- *Boix et al (2014): Micro-geographies of Creative Industry clusters in Europe: From Hots Spots from Assemblages*

  The investigation reveals that creative firms are highly clustered, and that clusters are concentrated in a 'creative belt' stretching from the South of England to the South-east of Germany. These clusters are predominantly metropolitan, heterogeneous, cross borders, and may co-locate to form assemblages. Moreover, it can be concluded that the clustering of CI is an extremely important and widespread phenomenon, and that co-clustering of CI is so significant and widespread, that it could deserve as much attention as clustering itself. The distribution of clusters, their diversity (whether they be in hot spots, bunches, hubs or clouds), and the differences between CI, suggest a need to advance towards strategies that support not only the clusters but also the linkages between clusters

- *Lazzeretti et al (2012) - Reasons for Clustering of Creative Industries in Italy and Spain*

  The main results showcase the existence of some common determinants of the clustering of creative industries, with human capital, the creative class and agglomeration economies being the most important. Creative industries are affected by agglomeration economies, which basically act as centripetal forces, fostering the incubation and attraction of creative industries in places with specific characteristics (localization economies) or in large cities and metropolises (urbanization economies) (Lorenzen & Frederiksen, 2008; Chapain & De Propris, 2009). Urbanization economies and related variety are particularly important in Spain, where the creative industries cluster in the core of the largest metropolitan areas. In Italy, where the creative industries are more distributed across the territory, forming networks of medium-sized cities, the district-based localization economies are especially important, as well as the presence of cultural and artistic heritage.

- *Turok (2010): Cities, Clusters and Creative Industries: The Case of Film and Television in Scotland*

  Cities seem to matter to the location decisions and performance of firms and broadcasters, hence their urban concentration. The features of cities that seem to matter most, at least outside London, are those associated with agglomeration economies, rather than industrial complexes or social networks. City size and density matter for the existence of a pool of creative and technical talent, as well as generalized urban assets such as external air connections, recreational facilities and cultural amenities. Highly skilled labour is mobile, which is partly why the quality of life and image of cities is important to attract and retain qualified personnel, as well as efficient external transport links

- *Pratt (2010): Micro-clustering of the media industries in London*

  The conclusion to be drawn from the above sketches of various prominent examples of the media industries in London is that there is a complex and overlapping presence is that does not really constitute a 'media cluster'. It is an overlapping set of activities, that share similar activities and forms, but are orientated to quite different markets, audiences and outcomes. The evidence from wider research is that it is the people: or more precisely it is the social information flow that it critical in maintaining an active reputation economy within and across a number of industries: television, advertising, new media and film.

Implications for SEZs?

- The SEZ model is an industrial cluster approach that aims to leverage the zone scalable technology advancement, skills development and technology transfer, export competitiveness and broad-based contribution to economic and developmental outcomes. There is overwhelming evidence on the value and opportunities that agglomeration and CCI clustering offers for development of the sector. The literature suggests the SEZ model is already partially reflected in how CCIs globally organise themselves and therefore is in its design synergistic to a marriage opportunity of SEZs and CCIs.

Rounding up the Literature

The literature broadly confirms that in the first instance SEZs continue to offer value for the growth and development of enterprises, industry and the economy at large, conditional on particular intentionally on leveraging existing sector / commodity comparative advantages as well as ensuring that the institutional framework is conducive and accommodative for investors and participating enterprises.

The literature also suggests that agglomeration and clustering (particularly for the CCIs) offers value not only for the industrial base often found at SEZs but also critically for export opportunity, technology and knowledge advancement as well as backward linkages within the local economy. What will be critical in further consideration therefore will be a use of the typology articulated below in critically assessing the nature and size of the CCI opportunity within SEZs:

Table 6: Clustering Typology for SEZ CCI Marriage Considerations

Consideration	In it Detail?	Questions it Asks:
Place	Location; (geographical) area; region; place; location conditions; creative habitat; urban area/locale; physicality	Where are..?
Proximity	Geographical proximity; communication; cooperation; interconnection; flows; (production) linkages; relationships; partnerships	How close…?
Population	Critical mass; population; hub; agglomeration; group	How many…?
Profile	Skills; commonalities and complementarities; value-added chains; activities; specialisation	What kind…?
Path-Dependency	Historical boundedness; life-cycles; path-dependencies; historical accident	How evolves…?
Policy	Governance structures, meta-planning, purpose	Which…?
Performance	Costs; knowledge (exchange); spill-overs; positive externalities; competitiveness; economic benefits, innovation; (innovative) capabilities; learning processes; economic, social and cultural dynamism; efficiency; presence of capital	What output..?

Source: Adapted from Komorowski (2016) – The Seven Parameters of Media Clusters_ An Integrated Approach for Local Cluster Analysis

Case Study – COEGA CCI Opportunities

Through its commercial body, Coega Development Corporate (CDC), Coega SEZ had the principal objective of expediating domestic socioeconomic development through a foreign direct investment-attracting industrial ecosystem comprised of diverse competitive, value-adding enterprises . As a strategy minimize production turnaround time while enhancing efficiency, the Coega SEZ utilizes a business cluster framework.

The Coega SEZ is divided into 14 sectorial zones as illustrated below:

Figure 8 – COEGA Sectoral / Industrial Zones

Marco-Serrano, Rausell-Koster and Abeledo-Sanchis (2014) explore the role of education, human capital development and the economic development nexus with the cultural and creative industries. They found three critical things:

- Cities and universities are key factors for development of the CCIs. There is a circular relationship observed between the two factors and the economic growth of the region. This reinforces the opportunities that agglomeration and economic clusters offer for the growth and development of the CCIs and human capital stock in the region.
- Variables representing human capital stock represented the proportion of students between the ages 20 and 24, stressing the value of CCIs in crowding in youth economic participation. They found a correlation between CCI employment and youth participation.
- Universities do not only continue to be material contributors to the generation of human capital stock, technology and innovation creation and transfer but also create solvent demand and are becoming centers for culture dissemination.

With COEGA being located both as an economic cluster, in an urban area with critical linkages to the Nelson Mandela Bay University; the use of Zone 4 in the COEGA industrial complex for skills incubation, skills development and training offers critical opportunities to leverage the SEZ as creative economic human capital development hub.

Case Study – East London IDZ CCI Opportunities

An overview of thematic insights summarized in Table 7 provides an analytical lens through which opportunities for CCIs in the East London IDZ may be examined. The first of such opportunities ripe for exploration is encapsulated under the Creative Machinery and Equipment theme. Importable inputs such as video equipment are exempted from import duties, which has the potential to significantly improve CCI share of foreign income. The gains achieved in duty-free international trade may be repurposed to accelerate critical growth-enablers such as digital capability, in line with the Digital Skills for the Creative Industry theme, as well as SMME development, as per Small and Medium Enterprise Incubation theme.

Table 7: Key Reflections from In-Depth Interview: Opportunities

Theme	Interview Nugget - Opportunities
Land Tenure and Tenant Fulfilment	"We've only got about 30% of our land parcel left for development. We are small. If you look at CEOGA for example they geographically a lot bigger so maybe a bit unfair because it's harder for them to fill up that space and reach the economies of scale like we have"
Optimising Portfolio Mix and Specialisation	"There's lots of them (IDZs) in South Africa at various stages of development, and the DTIC is also looking at revitalizing industrial parks, so I do think we are probably getting closer to a point where we're going to actually need to have a gentleman's agreement and shake hands and say, you know who's going to specialize in what" "We're going to start competing against each other and racing to the bottom in terms of rental rights, so you know, I think that some way the question must be asked now, should we not start allowing them to specialize?"
Animation Opportunities	"Film and animation. We've had interest, so Disney had been here to talk to us. I think they can see a big portion of our land which is in another area called Berlin. We've got 648 hectares of Greenfield site, so I think a lot like that type Town film studios where they built their big pirate ship"

Data "Hungry" Opportunities	"I've seen a lot of film and animation taking place with South African animators - but with them working from Dubai. So I think once we start pushing heavy internet traffic with faster, more reliable and cheaper Internet speeds and internet services, we can start pushing the boundaries on that film and animations and other things on the editing and software side"
Digital Skills Advancement	"We've got a science and technology park, so we the only IDZ with that and we push a lot of skills programs and training through that. They've recently done a provincial skills audit where digital skills were identified as an opportunity for growth point, so they currently developing skills training around digital skills"
Eastern Cape Scenery and Landscapes	"We certainly got quite a few films that are being shot in the trance car area, so we've got very unique and beautiful landscapes. The Eastern Cape Development Corporation is currently sponsoring the Survivor Series. I think you will see that we are investing in the film industry, but I think there's a lot more that can be done because everything runs out of Cape Town and the question is, "could we not be doing more over here?""
Creative Economy Machinery and Equipment	"So, if you are bringing over machinery and equipment and there's duties. If you're importing it into an IDZ, it'll be duty free, so I'm just thinking of expensive camera equipment etc. I don't know what the duties are on those, but technically they would come in duty free and then anything that is made or produced in the IDZ and then exported. It'll be duty and VAT free"
Film Studio Top Structure	"The IDZ can only build a top structure for investors, so technically we could provide a structure in which basic studio infrastructure is provided"
Digital Skills for the Creative Industry	"Firstly, you or an investor can ask us to skill people up. We can source the right people and get the right skills developed and we can partner with government and provide the right kind of people to service that industry. So, I think we could create a national labour pool of dedicated and (particularly digitally) skilled people"
Data Centre	"We have a big data centre so we can host and develop a lot of or hold a lot of that content - which would be interesting to explore for the creative industry. In addition, from a disaster recovery point of view and from a just warehousing of data, we do offer those services"
Small and Medium Enterprise Incubation	"We have big targets for SMME development as well as innovation and entrepreneurship. We've got a business incubator in our science park. People come to us with innovations and we actually invest in those innovations and take it up to pre commercial level. And then the intention is that, hopefully that innovator will help them market that product. They'll get an order book and then they can set up and manufacture that good in the IDZ as a full-blown investor.

The absence of clearly defined strategic inclinations in in the East London IDZ presents an existential crisis in the form of intra-competitive behaviour. This implies an inherent inefficiency in portfolio optimisation. The addition of the CCIs in the East London IDZ presents the opportunity to trial a specialization-centric model that lessens overlaps in competitive objective, maximizes cross-portfolio optimisation and, ultimately, results in the amelioration in one of the most pervasive challenges facing SEZs—achieving economies of scale, as shall be discussed in Table

8 below.

Table 8: Key Reflections from In-Depth Interview: Challenges

Theme	Interview Nugget - Challenges
Achieving Scale within an SEZ	"I think we at this point now where we can be more selective over who comes. But really, we focus, you know, we can't just relocate industry so someone that's working in East London in a factory can't move their factory to the RDZ because of our incentives. because that will essentially kill the property market will compete against industrialists" "But there are certain limitations within the act. You can't have a panel beating company there, we cannot have scrap metal dealers etc and we have limitations that we can't have arms manufacturing despite the advanced technology they bring"
Corporate Income Tax incentives not fit for purpose	"Where the real benefit comes in is probably in the zero rating from a VAT point of view and exemptions from import and custom duties - that's where most of the benefit is realized. As for the for the small enterprises there, it may take approximately 6 or 7 years before they'll start to have real benefits from a corporate income tax point of view (its being reduced from 28% to 15% is still far below their tax thresholds)
Missing Industry Champions	"You might need more champions, especially in the creative industry / sector. That isn't really pushed a lot and we've seen some movies taking place and being shot but not enough on opportunity scouting on how that could be supported by the operations of the IDZ

In the interviews conducted, we explored gaps and missed opportunities in the current SEZ model and potential value that could be unlocked through a CCI and SEZ marriage. Table 8 above details extracts from the interviews that offer critical points of reflection on the challenges that continue to be pervasive if not addressed in the exploration of leveraging SEZs as a growth lever the CCIs. The dominant themes that emerged interrogated challenges in the ability to scale the SEZ model, constraints from the lack of availability of critical politic and industry champions for CCIs as well as challenges around the design aspects of incentives which appeared not to be fit for purpose for the targeted beneficiaries to get the requisite benefit.

Conclusions

Policy interventions for the cultural and creative industries are often approached as a response to observed market or system failures. Market failures in this industry would pertain to the 1) the extent to which the market perceives its goods and services as public non-rival goods 2) as merit goods or 3) through the cost of investment for the development of the sector (Bakhshi, Cunningham and Mateos-Garcia, 2015).

"Markets function efficiently when businesses, institutions, and households are able to capture all of the benefits from their economic activities and fully bear the costs. This requires that goods and services produced are 'rival'—consumption by one individual precludes consumption by another—and 'excludable'—it is possible to exclude someone from consuming the good or service in question. Goods and services not satisfying these two conditions are said to have 'public good' characteristics. The benefits and costs associated with their production and consumption that are not reflected in their prices are described as their positive or negative 'externalities' (or 'spillovers')" [Bakhshi, Cunningham and Mateos-Garcia, 2015].

The key opportunities, therefore, to address the said market failures are 1) sector agglomeration as a growth and development lever, 2) skills development and SMME incubation through an SEZ industrial complex development approach, 3) leveraging SEZ ICT infrastructure to support CCI development and 4) to leverage the SEZs to drive backwards linkages into local and adjacent industries for the growth and development of the CCIs.

The interviews conducted revealed a critical opportunity to leverage clustering / agglomeration as a growth and development approach which opens opportunities for skills development and SME incubation, ICT infrastructure usage for deepening CCI exports with a particular emphasis on animation opportunities as well as establishing backward linkages into the local economy, through tourism, top infrastructure (hard and soft), as well as informal CCI subsectors.

- ***Agglomeration***: The literature has affirmed that shape and form of SEZs and the incumbent cluster model is fit for purpose for both the needs of the SEZ as well as the needs for growth and development of the CCIs. This structure has shown success in many global and local industry settings and confirms that the SEZ does offer synergistic value sharing with the CCIs.
- ***Skills Development***: Industrial Zone 4 and 5 at COEGA SEZ as well as the Technology Park at the East London IDZ/SEZ are currently geared towards offering incubation for SMEs in the CCIs as well as and research and innovation linked skills development for CCIs industry participants. The opportunity would be referred to as a "low hanging" fruit due to the high velocity at which such an intervention can be delivered.
- ***ICT for Export Intensity***: Findings from literature and the in-depth interviews suggest that there is a big opportunity to leverage the existing and vast ICT infrastructure at the SEZs to deepen the country's export intensity through delivery audiovisual services and products like animation etc. It can also offer streaming led value propositions that could see real risk adjusted growth in the digital CCI export market from South Africa into global markets.
- ***Backward Linkages***: The literature and interviews have revealed real opportunities in the ability to leverage the top infrastructure to provide studios for filming. In addition, the SEZs have underutilized the opportunities to create backward linkages into the local economy and CCI led tourism, informal craft and CCI subsectors are opportunities that must still be deeply explored.

Models for the growth and development of the CCIs better fitted through a growth model and an innovation model. The former proposes a positive relation between economic growth and the growth of cultural industries and the industries as a growth driver for the economy at the aggregate level. The latter proposes the CCIs as an element of innovation in the economic system and less so as a distinguishable industry. Both approaches imply that the growth in the CCIs will be supported by 1) higher household incomes, 2) a rise in human capital, 3) the growth in ICT and 4) access to global markets. (Potts and Cunningham, 2008).

Lazzeretti, Capone & Boix (2012) explore the extent to which the growth and the development of CCIs was a function of clustering and agglomeration – where these industries tended to concentrate around medium and large cities to form localized creative systems. They found a number of factors that influenced the agglomeration of CCIs: 1) history and cultural heritage endowments, 2) size of local economy and firm structure 3) the extent of urbanization, 4) technology, talent and tolerance. These findings support the propositions that there is a positive relationship between CCI development and space (agglomeration or the lack thereof).

The report has identified critical points of intersection between special economic zones and the cultural and creative industries in South Africa. Potential constraining factors may be linked to regulatory red tape, political will and at time lack of funding availability. On balance however, the report finds that the opportunity for CCI's to leverage SEZs is not capital intensive and can plug into existing programmes and infrastructure with the existing SEZs. This suggests therefore that with a relatively high velocity, the CCIs and the SEZs can successfully forge a successful and sustainable socio-economic development model and operationalisation framework.

Local policy and development frameworks including the White Paper on Arts and the Creative Industry Master Plan broadly show guidance on the development interventions necessary for the growth of the CCIs. The frameworks in their current still however miss the critical link of market access and market development for the CCIs. The special economic zone industrial model offers both value in terms of agglomeration as well as market access and market linkages for the CCIs. This suggests that additional work must be conducted to further interrogate more immediate opportunities for development of the CCIs through the SEZ industrial complex model.

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