

The logo for Σrsa, featuring a white Greek letter sigma (Σ) followed by the lowercase letters 'rsa' in a serif font, all in white on a dark blue square background.

Σrsa

Economic
Research
Southern
Africa

Place-based economic policies: international lessons for South Africa

Discussion Document 11

APRIL 2023

Claus Rabe, Harris Selod

About ERSA's Discussion Documents

Discussion documents are generally solicited pieces on topical issues of relevance to the national economic debate. The intention is to provide a summary of the issue, accompanied by a discussion about its relevance, importance, and way forward in South Africa. Generally, these are narrative driven contributions, relying on existing work and high-level analysis.

We provide the opportunity for contribution from all relevant perspectives, and therefore these papers do not represent a position by ERSA, its associates, or funders on the identified issues.

We hope that through this we can contribute to a more constructive and informed economic debate. We are particularly interested in hearing your thoughts and comments on these contributions. Please feel free to contact us directly or through LinkedIn. If you feel that you have a contribution that you would like to be part of this series, please contact us directly at research@econrsa.org

Matthew Simmonds
Director

Place-based economic policies: International lessons for South Africa

1. Introduction to place-based policies^{1,2}

Purpose of this paper³

This document surveys the international literature on place-based economic policies (hereafter ‘PBPs’) in urban settings and discusses evidence on whether these policies generate net growth or alter distributional outcomes, especially in cities in the developing world. The paper consists of five sections: First we define PBPs, situating them within a broader development context and discussing salient global trend. We then take a step back and explore the various rationales for PBPs and discuss the arguments for and against these policies relative to spatially-blind policies. In the third section, we survey the results of selected empirical studies to ascertain the effectiveness of PBPs within different development contexts. In the fourth section, we draw out reasons why PBPs might fail either at policy design or policy implementation stage. In the final section, we reflect on the recent history of PBPs in South Africa in light of international experience to draw out specific implications for South African PBPs.

1.2 Defining place-based growth policies

In this paper, we focus on policies that are (1) place-based – i.e., explicitly applied within a bounded geographic area delineated by the policy, and (2) growth-oriented – i.e., explicitly and principally designed to stimulate or re-direct private sector-led economic growth. Targeted beneficiaries are eligible to benefit from a given PBP based on the geographic location of the economic activity deemed desirable by the PBP. Economic activity includes any form of value- adding activity such as industrial production or logistics activity. Policies that aim primarily at improving the quality of life for residents (as

¹ Claus Rabe; PDG, Cape Town, South Africa. Email: claus@pdg.co.za

² Harris Selod, The World Bank, Development Research Group, Washington DC, USA. Email: hselod@worldbank.org

³ The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.

opposed to stimulating economic activity) lie beyond the scope of this paper.⁴

1.3 Classifying place-based policy

PBPs consist of bundles of specific instruments combined programmatically in different ways: no two PBPs are alike. However, it is possible to identify broad categories using the following attributes: rationale and expected impacts, geographic scale, targeted beneficiaries, primary instrument, and the level at which the policy is designed or implemented.

- **Rationale and expected impact:** The policy rationale may be located on a spectrum ranging between purely economic growth-enabling (e.g., increasing economic activity, promoting industrial clusters, or growing exports) and premised purely on equity considerations (namely, redistributing existing economic activity to lagging regions). The rationale will be reflected by the expected impacts and measures of success established for the policy. These may include local aggregate indicators of economic activity such as investments made in the targeted area, exports from that area, local GDP, the number of jobs created in the area, or broader outcome measures such as impacts on the unemployment rate or poverty levels.
- **Geographic scale:** The geographic scale may vary from intra-urban (that is, targeting specific precincts within cities, such as South Africa's Urban Development Zone) to regional (such as the EU's Cohesion policy). The causal theory underlying geographic scale differs significantly given the presence of agglomeration, network effects, labour pooling and the diffusion of benefits characterising urban economies.
- **Targeted beneficiaries:** The immediate beneficiaries of PBPs are generally firms and workers, with varying levels of targeting in relation to the sector and value chain. Here, PBPs primarily intend to incentivise location choice and other investment decisions by private

⁴ For a presentation of Promise Zones, see Carl Kitchens and Cullen T. Wallace, "The Impact of Place-Based Poverty Relief: Evidence from the Federal Promise Zone Program," *Regional Science and Urban Economics* 95 (July 1, 2022): 103735, <https://doi.org/10.1016/j.regsciurbeco.2021.103735>

sector investors. Government entities may perform an intermediary role, where grant funding is provided on a discretionary basis to administrative regions (i.e., government-to-government).

- **Primary instrument:** PBPs may aim to modify the spatial allocation of economic activity by reducing the costs of operating in the targeted areas. These may involve direct incentives to firms (e.g. tax incentives or rebates) conditional on locating or hiring in those areas, or investment (e.g. dedicated infrastructure or area-based management) that are expected to attract economic activity to the targeted areas. Typically, PBPs include a combination of the above instruments. Specific instruments can also be aimed at workers (e.g., transport subsidies to facilitate commutes).
- **Design and implementation levels:** The degree to which policies are centrally or locally designed, funded, and implemented can explain key features of PBPs, notably in terms of areas selected or targeted beneficiaries. In a centrally-designed PBP for instance, higher levels of government can apply criteria to decide which areas will be selected for the policy.

1.4 Key trends in international place-based policies

1.4.1 The proliferation of SEZs in developing countries

The most significant and widely observed global trend in PBPs is the proliferation of Special Economic Zones (SEZ) in developing countries. SEZs are defined as “geographically delimited area[s] where governments promote industrial activity through both fiscal and non- fiscal incentives, in addition to infrastructure and improved services”⁵. UNCTAD data shows the number of SEZ globally has increased more than tenfold between 1995 and 2017, with about 5,383 SEZs established in more than 130 countries, accounting for \$500bln in trade and employing 70 million workers⁶. Of these SEZ, 4 772 (89%) are in developing countries⁷: China alone has 2 543 SEZs and the Philippines 528. Only 237 (or 5%) of these SEZs are located in

⁵ UNCTAD, “Handbook on Special Economic Zones in Africa” (Geneva: United Nations, 2021), https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf

⁶ Andrés Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa: Evidence and Lessons Learnt,” *Regional Science Policy & Practice* 14, no. 2 (2022): 456–81, <https://doi.org/10.1111/rsp3.12535>

⁷ UNCTAD Universe of SEZ database (<https://unctad.org/node/3987>)

Table 1. Typology of leading place-based policies, with selected examples

Type	Geographical scale	Targeted beneficiaries	Rationale/Policy goal	Primary instruments	Examples
Special Economic Zone ¹	Regional	Firms within export- oriented value chain.	Aggregate growth through export- related investment.	Regulatory concessions	SEZs in Guangdong Province, China
Enterprise zone	Regional or intra- urban	Small and medium- sized firms and workers.	Redirecting economic growth by reducing business costs.	Tax incentives	French EZ program (Zones Franches Urbaines), SA's Urban Development Zone
Cluster policy	Regional	Innovation- oriented commercial and research entities within defined value chain.	Aggregate growth through innovation and competitiveness	Facilitation and funding collaboration	German Leading- Edge Clusters program (Spitzencluster- Wettbewerb)
Development corridors and growth poles	Regional Infrastructure funding	Sector agnostic Fund for the South (<i>Casse del Mezzogiorno</i>); Maputo Corridor; SA's Growth Poles ²	Jump-starting agglomeration through infrastructure		

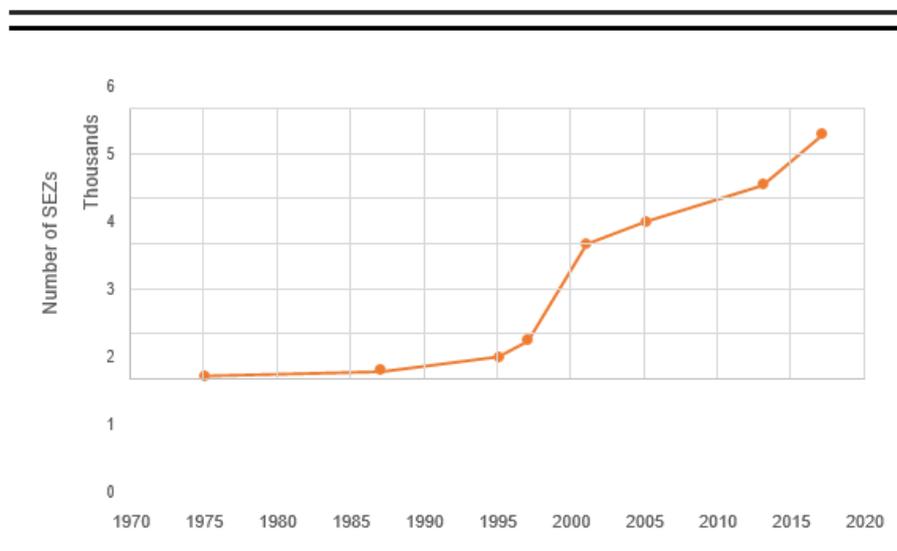
Note(s): (1) Also referred to as Export Processing and Free Trade Zones. (2) The 1975 National Physical Development plan took SA's Growth Pole Policy further to include development axes, growth points and deconcentration point.

Africa, of which 61 are in Kenya, 38 in Nigeria, 18 in Ethiopia and 10 in Egypt (South Africa has 8). However, the number of SEZs is growing faster in Africa than globally, with planned SEZs in Africa representing 22% of existing SEZs, compared to 10% outside of Africa. 27 SEZs are under development in Nigeria alone. Mozambique has 24 SEZs in planning phase, Rwanda seven and Cameroon five. As of 2019, no additional SEZs were planned in developed countries.

Ostensibly, SEZs serve an “export-led-growth” development strategy and is

a policy response to trade opportunities available to developing countries arising from globalisation and the eastward drift of the centre of gravity in global trade⁸. A more critical assessment may ascribe as the root cause of SEZ proliferation since the 1990s the growing disillusionment with the promise of convergence between rich and poor countries. Whereas the experience of the ‘Eastern Tigers’ created the expectation that developing countries will catch up with the Industrialised North thanks to both globalisation and internal structural transformation⁹, it became evident in the 1990s that the majority of Least Developed Countries (in Africa in particular) were not on a path to convergence. Furthermore, it became clear that many medium-income countries had fallen into the a “middle-income trap”, unable to tap into the innovation and productivity gains to compete in the high value-added market. Against this backdrop, SEZs presented a means to reconcile the need to attract increasingly mobile investment and industrial activity with the inability of host nations to implement politically difficult growth-enabling institutional and governance reforms¹⁰.

Figure 1. Global proliferation of SEZs



Note: Adapted from UNCTAD (2019)

⁸ Fabrizio Barca, Philip McCann, and Andrés Rodríguez-Pose, “The Case for Regional Development Intervention: Place-Based Versus Place-Neutral Approaches*,” *Journal of Regional Science* 52, no. 1 (2012): 134–52, <https://doi.org/10.1111/j.1467-9787.2011.00756.x>.

⁹ Barca, McCann, and Rodríguez-Pose.

¹⁰ Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

Not all SEZs are the same. Going back to the UNCTAD database, 339 out of 452 SEZs in developed countries are described as “logistic hubs”, whereas SEZs in developing economies are primarily described as “multi-activity” or “specialised”. 274 of the 280 SEZs described as “innovation-driven” are located in China. In Ireland, SEZs have evolved from an initial ‘enclave’ nature towards zones built on emerging digital technologies integrated into surrounding urban development¹¹. The progressive integration of SEZ enclaves with the surrounding regional and urban economy is considered further below as a flag.

1.4.2 Rising interest in economic development corridors

Another global trend is the rising interest in large transport corridor aiming at boosting economic activity through increased trade and regional integration along transport infrastructure investments. Plans for transport corridors have been on the rise globally, with a major initiative launched by China in 2013 with its “Belt and Road Initiative” (BRI), which aims both to facilitate global trade along transport corridors reminiscent of the Silk Road and to strengthen China’s position on the global scene. Whether supported by the BRI or through other funding mechanisms (in particular with the support of multilateral and regional agencies), there has been an increased focus on transport corridors in Africa in response to its infrastructure backlog. According to the African Development Corridors Database¹², the continent presently has 79 development corridors (covered by 184 projects) for a total of 122,000 km and a total investment of about \$550-650 billion.

2. Why do governments have place-based policies?

2.1 Why place-based policies?

Lessons from economic history in the developed world show that the location of industries in cities has been at the core of the industrialization and economic development processes as cities generally offer the enabling environment for the

¹¹ Douglas Z Zeng, “The Past, Present, and Future of Special Economic Zones and Their Impact,” *Journal of International Economic Law* 24, no. 2 (June 1, 2021): 259–75, <https://doi.org/10.1093/jiel/jgab014>.

¹² Jessica P. R. Thorn et al., “The African Development Corridors Database: A New Tool to Assess the Impacts of Infrastructure Investments,” *Scientific Data* 9, no. 1 (November 9, 2022): 679, <https://doi.org/10.1038/s41597-022-01771-y>.

development of manufacturing and services: local labour, financial services, and the presence of infrastructure for production and trade to other cities and the rest of the world. As cities trade with one another, this allows for both local specialization and diversification (as cities may first specialize in specific industries before diversifying after reaching a certain size). Importantly, the increase in urban population also makes cities more productive places thanks to increasing returns to scale or “agglomeration effects”: As cities grow, firms can more efficiently find workers (thanks to labour pooling and matching), linkages between customers and suppliers are strengthened, and knowledge creation and exchange between firms is facilitated. Estimates for the strength of agglomeration effects—which can be measured by the elasticity of wages with respect to city size—are lacking for developing countries but economists believe they are likely to be greater than in developed countries. In the case of Colombia for instance, Duranton (2015) finds agglomeration effects of about 5 percent, implying that a doubling of city size results in a 5 percent increase in labour productivity¹³. Such elasticities are even greater for Chinese and Indian cities¹⁴.

These agglomeration processes, however, do not seem to have picked up everywhere. Within both developed and developing economies, there are lagging regions which do not seem to be attractive to economic activity. In some of the least developed countries, the process seems to barely have started. What are the bottlenecks? Is there a need and a role for policies—and in particular PBPs—to trigger, accelerate or generate growth-enhancing processes of agglomeration?

Critics of PBP argue that interventions are not needed to alter market processes of economic agglomeration as firms have better information than governments to assess the benefits of a location. They also argue that spatially-blind policies such as sectoral policies and institutional and governance reforms might be more effective in promoting growth. On the other hand, proponents of PBPs

¹³ Gilles Duranton, “Agglomeration Effects in Colombia,” *Journal of Regional Science* 56, no. 2 (2016): 210–38, <https://doi.org/10.1111/jors.12239>.

¹⁴ Whether agglomeration effects occur in the informal sector however is unclear and contested.

argue that spatially-blind development policies do not maximize the growth potential of economies, and that the spatial imbalances arising or lingering on as economies develop (e.g., the welfare gap between urban and rural areas) precisely need to be addressed through PBPs. There is also a view that institutional reform is not in itself sufficient to guarantee growth as the development prospects of regions are tightly bound to economic geography constraints: In the case of South Africa, for instance, it has been argued that local economies organized in small regional markets force a development strategy focused on geographically remote international markets, and that special incentive measures are thus required to offset the cost of distance to these markets¹⁵. Moreover, economic growth can be undermined by diseconomies of agglomeration (e.g., the social and environmental costs associated with informal settlements), which proponents of PBPs believe should be addressed at least partly through PBPs. Finally, some PBPs create the space – literally and legally – for policymakers to create a geographically-defined ‘exception’ to the institutional, fiscal and regulatory regime prevailing in and sometimes constraining a given country or region. These ‘exceptions’ enable policymakers to benchmark the business operating environment within these zones against competitors rather than prevailing local regimes, which might be difficult to reform.¹⁶

2.2 Situating place-based policy in development strategy

Broader economic growth strategies may rely to varying degrees on PBPs, based on the relative significance attributed to spatial relative to non-spatial factors within an overall theory- of-change. In what follows, we discuss the rationales (or ‘mechanisms’) motivating the use of PBPs to achieve broader economic goals, distinguishing between growth-, equity-, and innovation-oriented rationales.

2.2.1 Growth-oriented rationales

¹⁵ Barca, McCann, and Rodríguez-Pose, “The Case for Regional Development Intervention.”

¹⁶ The Chinese experience with SEZs is instructive in this respect. See Xu’s account (2011) in section 2.2.5.

Growth-oriented PBP policies feature prominently in development strategies of developing economies that are in the investment-driven stage of economic development¹⁷. At this stage, the objective is to grow manufacturing and exports.

Export-led growth

Development strategies that prioritise economic growth commonly include the promotion of exports as a means to grow output and induce a virtuous circle of local economic development. The establishment and retention of business operations that export goods and services to external markets provide an important base for local economies. By harnessing local competitive advantages, outward-facing firms draw revenue from distant consumers, revenue which – both directly and indirectly – increases the aggregate income of local households. Directly, these firms pay salaries and procure inputs and services from local suppliers. Indirectly, employees spend a share of their salaries at local businesses¹⁸.

Jump-starting agglomeration

Development strategies that prioritise economic growth through industrialisation often rely on large state investment in infrastructure aiming to attract large industrial facilities to regions which have hitherto struggled to industrialise¹⁹. PBPs are seen to provide the ‘big push’²⁰ necessary to overcome the perceived coordination failure preventing agglomeration economies to take hold²¹. Agglomeration economies – that is, the increase in productivity resulting from the spatial concentration of economic activity – is subject to a market failure in that the positive externalities arising from co-location are not internalised in firm’s co-location decisions. Hence, large and

¹⁷ Michael E. Porter, “The Competitive Advantage of Nations,” Harvard Business Review, 1990, <http://cspug2s.units.it/sid/docenti/brusati/didattica/11%20Porter%20The%20Competitive%20Advantage%20of%20Nations.pdf>.

¹⁸ Daphne Kenyon, Adam Langley, and Bethany Paquin, “Rethinking Property Tax Incentives for Business,” Policy Focus Report (Boston, MA: Lincoln Institute of Land Policy, 2012).

¹⁹ Barca, McCann, and Rodríguez-Pose, “The Case for Regional Development Intervention.”

²⁰ P. N. Rosenstein-Rodan, “Problems of Industrialisation of Eastern and South-Eastern Europe,” The Economic Journal 53, no. 210/211 (1943): 202–11, <https://doi.org/10.2307/2226317>.

²¹ Patrick Kline and Enrico Moretti, “Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority *,” The Quarterly Journal of Economics 129, no. 1 (February 1, 2014): 275–331, <https://doi.org/10.1093/qje/qjt034>.

visible investment in infrastructure is seen as a means to ‘jump- start’ this self-reinforcing process of agglomeration in a given region²².

PBPs seeking to jump-start agglomeration may range from concentrated investment in tightly defined boundaries (i.e., enclaves like SEZ) to concentrated and coordinated investment in infrastructure over an entire region²³, such as a transport corridor. Infrastructure investment – particularly in transport – can be popular for decision-makers as the intervention is highly visible, tangible and simple. Interventions may also seek to address perceived diseconomies of agglomeration, with the establishment of new cities²⁴ or the expansion of existing transport networks.

2.2.2 Equity-based rationales

Development strategies may include PBPs to ensure that the benefits of economic growth are spatially balanced, whether across regions or across neighbourhoods within cities.

Lagging regions

Development strategies may target lagging regions²⁵ (that is, regions of persistent underdevelopment) in order to achieve better social cohesion across regions. Typical examples of lagging regions that were the target of PBPs include the Mezzogiorno region in Italy²⁶, Recife in Brazil, and the East European members of the European Union.

Contestation over the appropriate role and effectiveness of PBPs in addressing underdevelopment is rooted in different theories on the causes of underdevelopment itself. At a regional (i.e., core-periphery) scale, drivers of spatial

²² David Neumark and Helen Simpson, “Place-Based Policies,” Working Paper, NBER Working Paper Series (Cambridge: National Bureau of Economic Research, 2014), <http://www.nber.org/papers/w20049>.

²³ Kline and Moretti, “Local Economic Development, Agglomeration Economies, and the Big Push.”

²⁴ See Hegazy (2013) for a discussion on Egypt’s New Town Policy

²⁵ See Duranton and Venables (2018) on lagging regions

²⁶ Emanuele Felice and Amedeo Lepore, “State Intervention and Economic Growth in Southern Italy: The Rise and Fall of the ‘Cassa per Il Mezzogiorno’ (1950–1986),” *Business History* 59, no. 3 (2016): 319–41, <https://doi.org/10.1080/00076791.2016.1174214>.

divergence discussed in the literature are (1) agglomeration-based and (2) political economic.

Krugman's theory of agglomeration (also known as the 'core-periphery model') predicts that increasing factor mobility drive 'forces of divergence' between territories, where 'locational fundamentals' such as natural resources result in the initial formation of agglomerations, which become increasingly self-reinforcing (i.e., the centrifugal effect of agglomerations'²⁷) at the expense of other regions with less favourable starting conditions.

Other observers attribute underdevelopment to political economy causes – namely, the inherent bias held by local elites to favour public interventions in leading regions, and an unwillingness or inability to unlock latent economic potential in lagging regions²⁸. Keller expands on the inherent limitations of 'top-down' national development strategies, arguing that underdevelopment is caused in part by generic economic strategies that fail to exploit the location potential of each region, which the author implies is idiosyncratic: "national governments and top-down strategies have limited capacities to design good local policies that address challenges perceived at local level, and that ownership of development is best advanced locally through the deliberation of local stakeholders...[specifically through]...coalition building"²⁹.

Advocates of equity-based PBPs thus argue that policies which redistribute resources from leading to lagging regions are essential to achieve inter-regional convergence³⁰. The EU's Cohesion Policy is a prime example of top-down 'administered convergence', focusing both on infrastructure investment and on institutional and governance reform in target member states³¹. Another earlier example was Italy's 'Growth Pole Strategy' to industrialise Southern Italy, whereby

²⁷ Barca, McCann, and Rodríguez-Pose, "The Case for Regional Development Intervention."

²⁸ Barca, McCann, and Rodríguez-Pose

²⁹ Judith Keller and Tünde Virág, "A Drop in the Sea or Catalyst for Change: Diverse Effects of the Place-Based Approach in Europe," *European Planning Studies* 30, no. 5 (May 4, 2022): 860–78, <https://doi.org/10.1080/09654313.2021.1928047>.

³⁰ Barca, McCann, and Rodríguez-Pose, "The Case for Regional Development Intervention."

³¹ André Sapir et al., *An Agenda for a Growing Europe: The Sapir Report* (OUP Oxford, 2004).

60% of government investment would go to the South with the expectation that such public investment would attract private sector capital and create jobs.

Despite the political appeal of using PBPs in pursuit of spatial equity, the theoretical justification and empirical evidence as to its effectiveness is weak³². Several leading scholars believe that PBPs based on equity-based rationales alone are costly and ineffective, and that, instead, policy should focus on people, not places. Economic growth, productivity and individual incomes all benefit from agglomeration processes. Policy should thus aim, firstly, to facilitate the ability of individuals, households and firms to concentrate in space and reap the benefits of co-location³³, and secondly, to invest in connective infrastructure to link leading and lagging regions³⁴. Policies which seek to harness agglomeration forces are likely to maximise aggregate growth, whereas policies which seek to counter these forces impede aggregate growth, are costly and generally ineffective in achieving greater equity, and are ultimately ‘zero-sum’³⁵.

Urban revitalisation

Whereas the agglomeration and political economic dimensions of spatial divergence remain applicable at intra-urban scale, a further driver – spatial mismatch – is particularly relevant in seeking to explain persistent concentrations of poverty within particular neighbourhoods. The spatial mismatch theory (which sought to account for the race riots in the United States in the 1960s) hypothesises that African Americans experience higher unemployment, lower wages and longer commutes because there are fewer jobs available where they live. The mismatch between jobs and housing is due to a shift in the demand for labour from inner cities to the suburbs and the inability of households to move closer to jobs due to racial discrimination in the housing market. These two drivers are further aggravated by customer

³² In the case of Italy’s Growth Pole Policy, the strategy had the ultimate effect of rendering the economy heavily state-dependent whilst failing to overcome regional disparity (Felice and Lepore, “State Intervention and Economic Growth in Southern Italy.”).

³³ World Bank, “World Development Report 2009,” The World Bank. Washington, DC, 2009.

³⁴ World Bank.

³⁵ Enrico Moretti, “Local Labor Markets,” Working Paper, Working Paper Series (National Bureau of Economic Research, April 2010), <https://doi.org/10.3386/w15947>.

discrimination, lack of job information and inadequate public transport³⁶.

PBPs are thus viewed as suitable mechanisms to redirect business investments towards areas of high unemployment and poverty³⁷. By way of example, the French EZ program explicitly stated its ultimate objective as revitalising deprived neighbourhoods³⁸.

The main counter-arguments to the use of PBPs to revitalise urban neighbourhoods is that: (1) the impacts of PBPs are partially regressive, in that property owners capture a significant portion of the benefit³⁹ (often at the expense of renters) and (2) that, as seen with the EZ program, newly created employment opportunities often draw workers from other areas. In summary, a significant portion of the benefit arising from PBP investments accrues to parties not targeted by the policy rationale. The interconnectedness between individuals, households, firms, and neighbourhoods which arises with urban density means that the effects of place-based intervention will always be diffuse.

2.2.3 Innovation-based rationales

Economies that have progressed from the investment- to innovation-driven stage of development may opt for PBPs which seek to create competitive advantage through technological innovation, specifically through the creation of clusters.

Following extensive research in developed country contexts, Porter observed that competitive industries are not randomly distributed but are in fact linked together through value chains and concentrated geographically within cities or regions⁴⁰. The presence of clusters create business environments which promote new business formation, resilience against external shocks and productivity-boosting technological innovation. These benefits arise from cooperation between firms,

³⁶ Keith R. Ihlanfeldt and David L. Sjoquist, "The Spatial Mismatch Hypothesis: A Review of Recent Studies and Their Implications for Welfare Reform," *Housing Policy Debate* 9, no. 4 (1998): 849–92.

³⁷ Kenyon, Langley, and Paquin, "Rethinking Property Tax Incentives for Business."

³⁸ Pauline Givord, Simon Quantin, and Corentin Trevien, "A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones," *Journal of Urban Economics* 105 (May 1, 2018): 149–61, <https://doi.org/10.1016/j.jue.2017.09.004>.

³⁹ Kitchens and Wallace, "The Impact of Place-Based Poverty Relief."

⁴⁰ Porter, "The Competitive Advantage of Nations."

academic institutions, research centres and public sector entities⁴¹.

As a variant of PBPs, cluster-based policies are key tools in development strategies focused on innovation and specialisation⁴². Clusters, and the policies that promote them, are activity-specific (e.g. boat-building, automotive, etc.). Posited as a response to perceived network failure within a given cluster, cluster-based policies seek to address missing or weak interaction between actors⁴³ through, for example, facilitation, funding and otherwise supporting collaboration.

2.3 Policy experimentation

Beyond the three higher-order rationales linking policy interventions to economic outcomes, a secondary underlying benefit common to all PBP is as instrument for policy experimentation, particularly in regional contexts where the constitutive policy elements have limited political support or are at odds with national legislation or identifies. Seen in this way, policymakers make opt to introduce economic reforms within geographically defined areas as a risk management and consensus-building strategy in pursuit of longer-term universal economic reform⁴⁴.

The Chinese experience with PBPs as policy experiment is instructive: There was initially vehement political resistance to SEZs, with national government regarding the accommodation of “foreign interests” as “selling the nation”⁴⁵. Renting land to multinational firms were at odds with the constitution, which did not provide for private property rights. In 1979 tentative permission was granted for officials from one municipality to set up one SEZ, purportedly as a ‘policy experiment’. After the meteoric success of SEZs, these eventually spread throughout China and became national policy in 1992. This resulted in a so-called “dual track system” where two systems (that is, experimenting and non-experimenting) coexisted within one country. According to Xu (2011), “the most important benefit of the dual track system

⁴¹ James Wilson, Emily Wise, and Madeline Smith, “Evidencing the Benefits of Cluster Policies: Towards a Generalised Framework of Effects,” *Policy Sciences*, no. 55 (2022): 369–91.

⁴² Wilson, Wise, and Smith.

⁴³ Wilson, Wise, and Smith.

⁴⁴ Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development,” *Journal of Economic Literature* 49, no. 4 (December 2011): 1076–1151, <https://doi.org/10.1257/jel.49.4.1076>.

⁴⁵ Xu.

is to reduce resistance to a reform by substantially reducing the number of losers through keeping the nonreforming system at earlier stages of the reform”.⁴⁶

3. How effective are place-based policies in practice?

A recurring theme in the literature on PBPs is the practical difficulty in measuring their effectiveness⁴⁷, particularly cluster-based policies⁴⁸. The difficulty in evaluating effectiveness is due firstly to the intangible, diffuse nature of impacts (particularly where the PBP operates at a territorial rather than enclave scale⁴⁹) and secondly due to the difficulty in establishing causal relationships between the policy and firm behaviour, and between firm behaviour and regional economic outcomes. Attribution is a challenge since each PBP is typically constituted of multiple overlapping policy instruments.

Notwithstanding these challenges, the preponderance of empirical research concludes that their effectiveness is mixed⁵⁰, with roughly an equal measure of studies finding that they are either wholly ineffective⁵¹ or at best exhibit weak positive effects on economic growth. While it remains the subject of ongoing debate, the perceived ineffectiveness and costliness of PBPs have led some commentators to caution against the use of PBPs except in exceptional circumstances⁵², arguing that development policies based on ‘spatially-blind strategies’ are more effective at enhancing efficiencies and generating positive distributional impacts⁵³.

However, the experience of different PBPs vary across countries at different stages of development. Heterogeneity in policy design, context and research methodology precludes the statistical aggregation of empirical results. Instead, we discuss the main themes emerging from empirical research on PBP effectiveness by

⁴⁶ Xu.

⁴⁷ Gilles Duranton and Anthony J. Venables, “Place-Based Policies for Development,” Policy Research Working Paper (Washington DC: World Bank Group, 2018).

⁴⁸ Wilson, Wise, and Smith, “Evidencing the Benefits of Cluster Policies: Towards a Generalised Framework of Effects.”

⁴⁹ U Cartner, H Graf, and M Rothgang, “Geographical Clustering and the Evaluation of Cluster Policies: Introduction,” *The Journal of Technology Transfer*, no. 44 (2019): 1665–72.

⁵⁰ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones”; Zeng, “The Past, Present, and Future of Special Economic Zones and Their Impact.”

⁵¹ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

⁵² World Bank, “World Development Report 2009.”

⁵³ World Bank.

means of three illustrative case studies. The experience of Enterprise Zones and cluster policy in developed economies are contrasted with that of Special Economic Zones in East Asia and developing economies, respectively.

3.1 Enterprise Zones in Developed countries

Developed economies derive their competitive advantage not by achieving efficiencies in factor markets but through the depth of their regional innovation networks⁵⁴. In this context, the rationale of PBPs are typically equity- or innovation-oriented. Two examples of equity-based PBPs in developed countries are Enterprise Zones in the US and Western Europe and the EU Cohesion Policy targeting lagging regions in Eastern and Southern Europe. We discuss Enterprise Zones and their effectiveness below:

Enterprise Zones (hereafter ‘EZ’) provide financial incentives to relocate to economically distressed areas. The rationale behind EZs is that economic prospects in distressed areas are encumbered by overlapping locational constraints (e.g. scarcity of skilled labour, inferior public goods and weakly developed factor markets)⁵⁵. The temporary provision of tax incentives helps overcome these locational constraints, kickstarting a self-reinforcing process of business formation and relocation.

EZs were first implemented in the United Kingdom in the 1980s before being replicated in the United State and elsewhere. The French EZ program has in particular been subject to extensive empirical analysis. The programme offered deep discounts to property, labour and business taxes to businesses with less than fifty employees, intended over ten years. The labour tax incentive alone amounted to 12% of payroll costs⁵⁶. The incentive was very initially very successful, with the number of businesses growing 70% and the number of jobs by a factor of 2.6, compared to similar areas without EZs⁵⁷. Firms in the business services sector were particularly

⁵⁴ Porter, “The Competitive Advantage of Nations.”

⁵⁵ Neumark and Simpson, “Place-Based Policies.”

⁵⁶ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

⁵⁷ The French EZ program generated ~40 000 jobs at a cost of €290mIn in 2001, implying ~€7000 per job. Since less than one third of employees lived within the EZ, the cost per local job is much higher (see Givord 2018)

responsive to financial incentives⁵⁸. However, researchers later found that these benefits were temporary, and that rates of economic growth quickly converged with control areas (namely, similar areas outside of EZs) once the incentive was tapered after five years. While the incentive was effective in changing short-term firm behaviour, it failed to induce the intended self-sustaining cycle of development. Researchers also found that more than two thirds of jobs created in EZs were taken up by residents living outside of EZs. For political reasons, French policymakers have had to continuously extend the incentive to sustain its benefits⁵⁹. The French experience is not unique: despite the proliferation of EZs in developed economies⁶⁰ researchers have found that they are of limited effectiveness⁶¹, with the Texas program being a rare exception^{62,63}. No comparable positive impacts were identified for similar programs in California, Indiana and Florida⁶⁴.

3.2 Export processing zones in East Africa

The experience of Export Processing Zones (the forerunner to SEZs) in China and the so-called Asian Tigers have boosted the appeal of this PBP as a means to boost economic growth across developing economies worldwide⁶⁵. According to Xu (2011), “among all the Chinese reform measures, EPZs has had the greatest direct impact on the global economy”⁶⁶. EPZs were established in the 1970s to attract investment and technology transfer. Due to the development of EPZs, “China started with virtually no Foreign Direct Investment (FDI) and almost negligible trade and foreign reserves in 1978”, and within 25 years “China has become one of the largest FDI recipient countries in the world, with the world’s largest foreign reserves, and also one of the largest trading countries in the world”⁶⁷. The rapid export-oriented growth

⁵⁸ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

⁵⁹ Givord, Quantin, and Trevien.

⁶⁰ Kenyon et al (2012)

⁶¹ Kenyon, Langley, and Paquin, “Rethinking Property Tax Incentives for Business.”

⁶² A 2013 study found that the Texas EZ program had a positive impact on resident employment (Freedman, 2013)

⁶³ Matthew Freedman, “Targeted Business Incentives and Local Labor Markets,” *Journal of Human Resources* 48, no. 2 (March 31, 2013): 311–44, <https://doi.org/10.3368/jhr.48.2.311>.

⁶⁴ Neumark and Simpson, “Place-Based Policies.”

⁶⁵ Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

⁶⁶ Xu, “The Fundamental Institutions of China’s Reforms and Development.”

⁶⁷ Xu.

of the Chinese economy is almost solely attributed to EPZs, the benefits of which diffused across domestic industries⁶⁸. However, as discussed below, the economic context and effectiveness of PBPs in East Asia is very different to emerging economies in Africa and Latin America.

3.3 Special economic zones in developing countries

Like the experience of EPZs in East Asia, developing low- and middle-income countries exhibit investment-driven economies that tend to favour PBPs that promote exports and industrial agglomeration⁶⁹, of which SEZs are prime examples. Special Economic Zones are defined 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”⁷⁰.

Unlike the East Asian experience, the experience of SEZs in non-East Asian developing economies have been decidedly mixed despite their unprecedented proliferation of SEZs in Africa, the Indian subcontinent and Latin America in recent years⁷¹ (a trend which is described above). The emerging view on effectiveness of SEZs in developing countries outside of China is that they generally perform below expectations⁷², fail to “jump-start” agglomeration in the surrounding industrial context⁷³, and incur large opportunity costs and public indebtedness^{74 75}. By way of example, EPZs in China accounted for 80% of FDI inflows, whereas outside of China

68 Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones” (3rd Global Free Trade & Special Economic Zones Summit, Dubai, 2013), <https://unctad.org/osgstatement/3rd-global-free-trade-special-economic-zones-summit>.

69 Lorenzo Cotula, Thierry Berger, and Perrine Burnod, “Special Economic Zones and Land Tenure: Global Trends and Local Impacts in Senegal and Madagascar,” *Land Tenure and Development* (Paris: Foncier & Développement, September 2022).

70 Claude Baissac, “Brief History of SEZs and Overview of Policy Debates,” in *Special Economic Zones in Africa, Directions in Development - General* (The World Bank, 2011), 23–60, https://doi.org/10.1596/9780821386385_CH02.

71 Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

72 Cotula, Berger, and Burnod, “Special Economic Zones and Land Tenure: Global Trends and Local Impacts in Senegal and Madagascar”; Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa”; Zeng, “The Past, Present, and Future of Special Economic Zones and Their Impact.”

73 Meir Alkon, “Do Special Economic Zones Induce Developmental Spillovers? Evidence from India’s States,” *World Development* 107 (July 1, 2018): 396–409, <https://doi.org/10.1016/j.worlddev.2018.02.028>.

74 UNCTAD, “Handbook on Special Economic Zones in Africa.”

75 Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

SEZs most investment is of domestic origin⁷⁶. A study on SEZs in India similarly found that the SEZ failed to generate local economic spillovers⁷⁷.

Systematic studies on the effectiveness of SEZs in Africa specifically are scarce, in part due to the fact that most SEZ programmes on the continent are less than 10 years old⁷⁸. A recent survey of 39 SEZs by UNCTAD indicated that most African SEZs remain largely undeveloped, with over 40% of SEZs being less than 25% occupied, and 75% less than 50% occupied. Only 15% operate at full capacity⁷⁹. Poor performance on the continent has been ascribed to an over-reliance on tax incentives and performance requirements that create enclaves unintegrated with the surrounding hinterland⁸⁰. SEZ policy design combined with weak institutional capacity is seen to create bottlenecks which impede the potential of SEZs.

The mixed experience of SEZs in developing countries outside of China does raise the question of whether creating dedicated priority investment zones are indeed the most efficient way of unlocking rapid investment and employment creation, and whether the gains in aggregate welfare exceeds the significant public sector investment in infrastructure, the cost of regulatory concessions and foregone tax revenue. In the next section, we consider challenges and pitfalls most likely to tip the scales of net impact.

4. Key lessons from international experience

4.1 Inherent challenges with place-based policy

The lessons in this section introduce a set of factors policymakers should consider when designing place-based policies. These cross-cutting factors represent inherent limitations associated with place-based policies which should be accounted for and – where possible – anticipated and mitigated – during the policy design process.

4.1.1 Place-based policies require underlying location potential

⁷⁶ Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones.”

⁷⁷ Alkon, “Do Special Economic Zones Induce Developmental Spillovers?”

⁷⁸ Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

⁷⁹ UNCTAD, “Handbook on Special Economic Zones in Africa.”

⁸⁰ Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

Not all places offer the same potential for PBPs: a policy may succeed in one location and fail completely in another⁸¹. One of the most important determinants of success is the technical identification of a strategic location that responds to the needs of prospective investors⁸². Since location potential will rarely align geographically with political and equity priorities, a key challenge of policymakers is to avoid reductive and decontextualised assumptions about what makes a location ‘strategic’ in the eyes of a notional investor.

A ‘location package’⁸³ is made up of a combination of natural and human-made advantages (what Krugman refers to as “first” and “second nature”⁸⁴). Initial natural advantages such as navigable rivers, natural harbours, rich mineral deposits and natural gateways and crossroads through otherwise difficult terrain, provide the initial impetus for economic activity to concentrate in space. Over the course of decades, the concentration of population and production becomes a self-reinforcing cycle of growth and agglomeration, and the initial natural advantage becomes less significant than the productive advantage of co- location (i.e. reduced proximity between workers and firms). Proximity is valuable because being close together saves transport and communication costs, providing infrastructure is much cheaper per person, and proximity between workers, customers and firms creates a more productive and innovative operating environment⁸⁵.

In the medium-term, well-designed PBPs can harness the natural comparative advantage of a defined location. Recreating competitive advantage in unexceptional locations, however, takes many decades of sustained investment and only under the most favourable circumstances. Despite numerous ambitious attempts, it is extremely rare – in the absence of natural advantage or accumulated economic density - for economic clusters to establish and become self-sustaining purely on the

⁸¹ Alison Todes, “Spatial Targeting: Lessons for South African Experience” (University of Witwatersrand, 2013).

⁸² Zeng, “The Past, Present, and Future of Special Economic Zones and Their Impact.”

⁸³ B.A. Portnov and M. Schwartz, “On the Importance of The Location Package for Urban Growth,” *Urban Studies* 46, no. 8 (2009): 1665.

⁸⁴ Paul Krugman, “First Nature, Second Nature, and Metropolitan Location,” *Journal of Regional Science* 33, no. 2 (1993): 129–44, <https://doi.org/10.1111/j.1467-9787.1993.tb00217.x>.

⁸⁵ Duranton and Venables, “Place-Based Policies for Development.”

basis of government policy. Using PBP to promote economic dispersion to remote regions with undeveloped markets is very likely to fail, with benefits almost certainly outweighed by the cost. It is equally unlikely to enhance aggregate economic efficiency or productivity, as constrained public resources will be directed at compensating for locational disadvantage relative to the local core rather than enhancing competitive advantage in international trade. Seen in aggregate, PBPs which seek to compensate for poor location potential rather than enhance true strategic locations participate in a costly zero-sum game unlikely to increase economic growth.

The inherent unevenness of location potential suggests that convergence between regions should not be the principal development policy objective. Instead, development policy should seek to maximise the development potential of each region⁸⁶. Maximising local potential requires understanding locational comparative advantage from the perspective of investors rather than government officials.

Whereas the spatial targeting of PBPs will always be inherently political, decision-making should be informed by a systematic and evidence-based investigation into, inter alia:

1. the identification of clusters which promote productivity in the area, or sectors which export goods and services out of the area⁸⁷;
2. drivers of comparative advantage⁸⁸ as a function of locational and operating environment needs of the sectors and clusters previously identified;

⁸⁶ Barca, McCann, and Rodríguez-Pose, "The Case for Regional Development Intervention."

⁸⁷ Kenyon, Langley, and Paquin, "Rethinking Property Tax Incentives for Business."

⁸⁸ Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

3. availability of developable land aligned to sector-specific requirements (e.g. low land values, proximity to large cities⁸⁹, suppliers, large markets and industrial activity⁹⁰, and abundant space for future expansion⁹¹);
4. the cost of providing infrastructure to the site.

4.1.2 Place-based policies require an enabling environment

Whereas the prospects for a given PBP to stimulate exports may reside in its strategic location, the potential for self-sustaining growth and spillover benefits to the broader region resides in factors beyond the location itself.

As described in section 3, observers have attributed the poor environment as one of the main reasons why SEZs continue to underperform in developing economies outside of China. The availability of skilled workers and education levels, proximity to suppliers and markets, the availability of housing and higher order services (e.g. medical services and universities) all shape the growth trajectory of PBPs and economic integration with surrounding markets⁹².

Accordingly, PBPs should include proactive measures that look beyond zone boundaries, as well as recognise the role of policy design in creating barriers to integration. By way of example, some have argued that PBPs should look beyond conventional instruments (namely, infrastructure investment, trade concessions and regulatory exemptions), and include interventions aimed at growing skills, innovation and regional competitiveness⁹³. On the policy design front, an over-reliance on tax incentives and performance requirements tends to create enclaves host to unproductive activities unintegrated with the surrounding economic hinterland⁹⁴.

4.1.3 Place-based policies cause displacement

⁸⁹ Susanne A. Frick, Andrés Rodríguez-Pose, and Michael D. Wong, "Toward Economically Dynamic Special Economic Zones in Emerging Countries," *Economic Geography* 95, no. 1 (January 1, 2019): 30–64, <https://doi.org/10.1080/00130095.2018.1467732>.

⁹⁰ Frick, Rodríguez-Pose, and Wong.

⁹¹ Frick, Rodríguez-Pose, and Wong.

⁹² Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

⁹³ Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones."

⁹⁴ Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

One of the prevailing themes in PBPs is that of displacement. Should the incentives and public investment linked to a growth-oriented PBP merely serve to relocate economic activity from one area to another, then critics may argue that the PBP has ostensibly failed to stimulate aggregate economic growth. Displacement then can give a false impression of success (unless the PBP is explicitly aimed at redirecting rather than stimulating aggregate growth).

The spectre of displacement is not only limited to geographic zones. A reduction in the cost of movement between two territories through – for example – a transport corridor, may well result in greater concentration in one area, and concomitant marginalisation of the other⁹⁵. Under these conditions, infrastructure investment may boost national growth whilst disadvantaging territories with low comparative advantage.

Whereas displacement isn't necessarily negative in all circumstances, it is often at odds with or de-emphasised in PBP's theories-of-change. Accordingly, policymakers considering PBPs should take account of possible displacement effects⁹⁶ during design, implementation and monitoring and evaluation stages, putting in place reasonable mitigating measures.⁹⁷

4.1.4 Place-based policies create unintended distributional outcomes

One of the inherent problems encountered in equity-based PBPs, particularly those aimed at urban revitalisation, is that place-based policies are rarely effective in directing benefits towards specific beneficiary groups. Drawing from research on Enterprise and Empowerment Zones, the two main drivers of misdirected benefits and regressive distributional outcomes are

- (1) the operation of the land market, and
- (2) inward displacement of skilled workers and wealthier households.

⁹⁵ Fabrizio Barca, Philip McCann, and Andrés Rodríguez-Pose, "The Case for Regional Development Intervention: Place-Based versus Place-Neutral Approaches," *Journal of Regional Science* 52, no. 1 (2012): 134–52.

⁹⁶ Durantón and Venables, "Place-Based Policies for Development."

⁹⁷ Mitigating measures are 'reasonable' when the administrative and compliance burden created by such measures do not unduly diminish the attractiveness of the PBP in the eyes of potential investors.

By way of example, a financial incentive to businesses residing in an underperforming part of a city will – if effective – increase the demand for property, resulting in the benefits of the PBP being capitalised into property value increases and accruing to landowners. Thus, a PBP may have the adverse effect of reducing the affordability of housing for local residents who rent whilst not benefiting from the direct economic benefits of the PBP.

Another second cause of unintended distributional outcomes is the phenomenon where non-resident employment within a targeted zone grows much faster than resident employment. An example of this was the French EZ program, where local jobseekers and unemployed people represented only a minor part of hirings resulting from the EZ program⁹⁸. Similarly, in the case of US-based Enterprise Zones, it was found that PBPs attract well-off households from elsewhere⁹⁹. The consequence is that whereas income metrics may suggest positive improvements on average within a zone, the most impoverished households may well have been adversely affected¹⁰⁰

4.1.5 Place-based policies create subsidised unproductive activities

For growth-oriented PBPs, the quantity of investment is less important than the productivity of those investments. There is an inherent risk that PBPs tend to attract industries that require ongoing incentives to remain sustainable. The deeper the incentive, the less profitable, competitive¹⁰¹ and efficient those industries are likely to be (so-called ‘lame ducks’). The implication is that PBPs that measure success in terms of quantity of investment may in fact be reducing productivity¹⁰² and stifling

⁹⁸ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

⁹⁹ A. Peters and P. Fisher, “The Failures of Economic Development Incentives,” *Journal of the American Planning Association* 70, no. 1 (2004): 27–37.

¹⁰⁰ C. Lockwood Reynolds and Shawn M. Rohlin, “The Effects of Location-Based Tax Policies on the Distribution of Household Income: Evidence from the Federal Empowerment Zone Program,” *Journal of Urban Economics* 88 (July 1, 2015): 1–15, <https://doi.org/10.1016/j.jue.2015.04.003>.

¹⁰¹ “Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones.”

¹⁰² B. Bolnick, “Effectiveness and Economic Impact of Tax Incentives in the SADC Region,” Report Submitted by Nathan Associates to USAID (February), 2004.

innovation by insulating firms from processes of creative destruction¹⁰³. These challenges call into question the long-term viability and long-run impact of PBPS. Indeed, PBPs may have the effect of retarding long-term economic growth prospects while locking government into extending incentives indefinitely to prop up existing businesses (as demonstrated by the French EZ and Italy's Growth Pole Strategy).

As we have seen, the benefits of financial incentives are only apparent for the duration of the incentive itself¹⁰⁴. One of the ways to mitigate the risk of attracting innovation-stifling 'lame ducks' is by ensuring that PBPs focus only on industries where the country or region already has a demonstrable competitive advantage relative to external competitors¹⁰⁵. Another way to avoid attractive 'lame ducks' is to prioritise infrastructure (particularly as non-excludable public goods) over financial incentives. Experience shows that PBPs that rely disproportionately on financial incentives rarely induce self-sustaining cycle of agglomeration¹⁰⁶.

4.2 Implementation pitfalls to avoid

In the previous subsection, five policy design challenges inherent to PBPs are introduced. They feature (to varying degrees and in spite of design measures) in most if not all PBPs. There also exists a number of implementation pitfalls which are commonly observed (particularly in developing countries) but may be mitigated and even avoided if appropriate measures are put in place. These avoidable pitfalls are discussed below:

4.2.1 Politicisation of place-based policy design

While it is naïve to expect policy interventions to be insulated from political considerations, PBPs are in particular vulnerable to manipulation. At best, PBPs can create opportunities in politically constrained environments¹⁰⁷. More often, however, PBPs are used as a means to skew allocative decision-making towards political

¹⁰³ Philippe Aghion and Peter Howitt, "A Model of Growth Through Creative Destruction," *Econometrica* 60, no. 2 (1992): 323–51, <https://doi.org/10.2307/2951599>.

¹⁰⁴ Givord, Quantin, and Trevien, "A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones"; Frick, Rodríguez-Pose, and Wong, "Toward Economically Dynamic Special Economic Zones in Emerging Countries."

¹⁰⁵ "Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones."

¹⁰⁶ Givord, Quantin, and Trevien, "A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones."

¹⁰⁷ Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

objectives. Discretionary policy “can create severe problems by increasing administrative costs, politicising technical decisions, and creating avenues for corrupt practices”¹⁰⁸. Indeed, the main reason why PBPs underperform is due to the political nature of the location decision¹⁰⁹. When locations are decreed based on political considerations alone rather than the strategic nature of a given location, productive and competitive firms are unlikely to be interested. The less exceptional the location, the deeper the incentives required and, to extend the metaphor, the lamer the ducks drawn to the PBP.

But it is not only the location decision that is vulnerable to undue political influence. Other design parameters at risk of interference are the governance structure of implementing agencies and instrument selection. To demonstrate these two risks: experimentation through PBPs often involve risks for local officials tasked with implementation, requiring special initiatives to address unexpected contingencies. Unless officials are provided with the necessary political backing and provided the necessary incentives to take initiative, experiments in PBP will likely fail¹¹⁰. At the same time, a survey of Indian SEZs concluded that PBPs naturally increase the risk of rent-seeking behaviour by local politicians. SEZs are used as vehicles for rent capture by local politicians, and - fatally undermined in their effectiveness - lead to eventual policy failure¹¹¹. Political considerations may also influence instrument selection. For example, PBPs may be designed to obfuscate the economic costs of subsidies since the cost of tax incentives are less transparent than direct expenditure¹¹².

To mitigate against the risk of locational and implementation decisions around PBPs being overly politicised and vulnerable to rent capture, it is necessary for central policymakers to develop an implementation plan which mitigates governance

¹⁰⁸ Bolnick, “Effectiveness and Economic Impact of Tax Incentives in the SADC Region.”

¹⁰⁹ “Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones.”

¹¹⁰ Xu, “The Fundamental Institutions of China’s Reforms and Development.”

¹¹¹ Alkon, “Do Special Economic Zones Induce Developmental Spillovers?”

¹¹² Kenyon, Langley, and Paquin, “Rethinking Property Tax Incentives for Business.”

risks arising from the political economic incentive structure facing local politicians. These may include measures to protect local officials from political interference and setting standards for the economic appraisal of PBPs.

4.2.2 Credibility of policy appraisal methods

While PBPs are an integral part of development policy, they are very expensive and require that choices be made between locations, target beneficiaries and instrument selection. Choices are particularly stark in developing countries where constrained resources and the lumpiness of many public investments mean that, of necessity, some places will be served with roads, telecommunications, power and other public services, before others. While it is unrealistic to expect the initiation of PBPs to transcend short-term political considerations, the excessive politicisation of the PBP appraisal process generally guarantees its eventual failure. Where PBP cannot escape the weight of political demands, sector policies may be preferred.

Indeed, only in countries with highly disciplined administrative systems and embedded evidence-based appraisal methods do PBPs yield specific advantages over sector policies in supporting economic growth effectively. Such appraisal methods should be able to provide an independent assessment of:

- **binding constraints to growth** that may fatally scupper the effectiveness of the PBP. A growth diagnostic assessment identifies whether a proposed location or region is facing a binding constraint to growth. Binding constraints are those that, if relieved, would produce the largest gains in growth and entrepreneurship of any potential constraint area¹¹³.
- **comparative advantage of location** which appreciates the multidimensionality of business location requirements, is cognisant of the changing patterns in international production”¹¹⁴, and allows for the PBP to adapt the location’s endowments.

¹¹³ Ricardo Hausmann, Dani Rodrik, and Andrés Velasco, “Getting the Diagnosis Right,” *Finance & Development* 43, no. 001 (March 17, 2006), <https://doi.org/10.5089/9781451922431.022.A005>.

¹¹⁴ UNCTAD, “Handbook on Special Economic Zones in Africa.”

- **competitive advantage of the target sector** in international markets based on intimate knowledge of market dynamics.
- **the economic cost of pursuing the PBP** relative to spatially-blind alternatives. For example, comparing policy options may involve comparing the financial cost of creating a local job through a PBP with the cost of alternative policies intended to create jobs¹¹⁵.
- **an explicit rationale** and monitoring and evaluation framework by deconstructing the PBP in terms of a theory-of-change linking inputs to outcomes, and performance indicators to assess progress.

Even in well-capacitated policymaking environments, ex-ante appraisal of PBPs is notoriously difficult due to two features of PBPs: firstly, PBPs are expected to generate both direct and indirect benefits. Whereas methods to estimate direct impacts is reasonably straightforward, indirect effects require consideration of responses by the private sector and sunk costs associated with location decisions¹¹⁶; Secondly, the inherently spatial nature of the ex-ante assessment implies that impacts are contingent on highly complex spatial interactions between, inter alia, public and private investments, and the spatial behaviour of customers and suppliers. Thus, the difficulty in predicting indirect effects opens up the decision-making process open to scrutiny and manipulation (so-called ‘optimism bias’).

4.2.3 Firms strategies differ from policy goals

Firms exist to survive, grow and maximise profit, not to create jobs or uplift regions. Firms react to incentives insofar the immediate benefits outweigh the costs but will only comply minimally and superficially with eligibility requirements. Even high-minded business executives will rarely, if ever, cede decision-making power to the long-run vision underpinning a PBP.

The inherent divergence between firm strategy and PBP goals poses the quintessential principal-agent problem: that is, a conflict in interest and priorities that

¹¹⁵ Givord, Quentin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

¹¹⁶ Duranton and Venables, “Place-Based Policies for Development.”

arise when the agent (i.e., the beneficiary firm) takes actions (i.e., investing in a designated zone) on behalf of the principal (the government entity implementing the PBP). Problems arise from the inherent discrepancy of interests and information between the beneficiary firm and the implementing authority, particularly where the latter lacks the means or will to penalise the firm for non-compliance. The principal-agent problem gives rise to moral hazard and conflict of interest.

Policymakers consider PBPs should anticipate and plan for the inherent difference between policy and firm goals. Principal-agent problems can be mitigated by (1) the formulation of a clear theory-of-change establishing both the aims and intended outcomes of the PBP, and a clear selection of outcome indicators, to assess whether policy goals are being progressed by firm behaviour. For example, businesses may be required to provide evidence that they are engaging in productive economic activity¹¹⁷; (2) implementing conditionalities or binding agreements on the governing principles underpinning the relationship between the beneficiary firm and the implementing authority. However, the imposition of conditionalities should be balanced against the administrative burden imposed on beneficiaries, which may undermine the attractiveness of the PBP; and (3) ensuring the implementing entity is equipped with the necessary capability and authority to regulate firms' strategies¹¹⁸.

4.2.4 Intergovernmental alignment in de-risking PBPs

The attractiveness of PBPs to potential investors is premised in part on the ability of government to create an enabling environment for businesses to operate. This depends in on government's ability to reduce the cost of regulation on businesses, the administration of which is typically spread across multiple regulatory authorities. Therefore, the ability of the implementing authority to attract investors hinges on its ability to enhance intergovernmental coordination of regulatory processes – specifically pertaining to land use management, the environment, water, labour and customs. Since regulatory processes are typically sequentially linked, the celerity at

¹¹⁷ Givord, Quentin, and Trevien, "A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones."

¹¹⁸ Xu, "The Fundamental Institutions of China's Reforms and Development."

which the implementing authority can ensure the necessary approvals is often dependent on the active cooperation, common purpose and technical capacity of each regulatory authority involved. In contexts where there is significant differences in the technical capacity or cooperativeness of regulatory authorities, it becomes near-impossible for implementing agents to offer the coordinated, whole-of-government approach essential to signalling that the region is “open for business”¹¹⁹. It may thus be said that the value proposition of PBPs is only as strong as the weakest link in the regulatory chain.

4.2.5 Measuring effectiveness

In preceding sections, the inherent challenges and avoidable pitfalls associated with PBPs have been set out. A recurring theme has been the difficulty in anticipating and measuring the impact of PBPs, whether retro- or prospective. These difficulties arise due to the inherent complexity of intervening in spatial systems, and the multiplicity of indirect effects – both intended and unintended. It has also been shown, however, that PBPs succeed or fail depending on whether the targeting decision with regards to location and sector is sufficiently informed by a dispassionate assessment of comparative advantage, and that the specification and implementation of the PBP itself is premised on an explicit theory-of-change, linking inputs to anticipated outcomes.

However, credible technical decision-making is ultimately dependent on the availability of credible data, a credible theoretical grounding for the causal mechanisms linking inputs to outcomes, and an adequately capacitated implementing authority equipped to monitor and evaluate the effectiveness of the PBP during implementation, and equally equipped to regulate the behaviour of firms to mitigate disparity in strategic objectives. These analytical demands may not be unique to PBPs but are particularly pronounced. The theoretical foundations of PBPs are not well-established¹²⁰, precludes the establishment of a generalized

¹¹⁹ UNCTAD, “Handbook on Special Economic Zones in Africa.”

¹²⁰ Givord, Quantin, and Trevien, “A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones.”

framework¹²¹, the determination of comparative advantage and the assessment of impacts associated with PBPs are highly context-specific¹²², and it is generally acknowledged that it is “extremely difficult” to systematically assess and benchmark the impact of PBPs¹²³.

Policy monitoring and evaluation capacities are particularly challenging in poorly- capacitated implementing authorities in developing country contexts. This challenge is particularly acute in cluster-based policies, since the impacts of territory-based rather than enclave-based PBPs are diffused across a wide region and multiple interacting entities. In this context, it is notoriously difficult to establish links between firm-level behaviour and regional economic outcomes¹²⁴.

4.3 Conclusion

Markets are imperfect, but government may be even less perfect. Their choices, dictated as they are by political considerations, often fail to take account of windfall effects, economic costs, or whether their interventions actually enhance competitiveness. Given the myriad challenges associated with PBPs, and ambiguous evidence as to their effectiveness in practice, big debates rage amongst economists on whether PBPs are actually needed, or whether a market-driven outcome is in fact more efficient, whether markets or the State are best placed to determine location choice, whether PBPs adversely affect market-driven agglomeration by artificially sustaining unproductive activities in non-strategic locations, whether markets need government interventions to realise clusters? Or, whether pursuing PBPs despite their challenges is warranted given that markets are only concerned with efficiency, not equity. The next section will explore the relevance of these debates to South Africa, given its particular history and experience with PBPs.

5 Implications for South Africa

5.1 The South African experience

¹²¹ Wilson, Wise, and Smith, “Evidencing the Benefits of Cluster Policies: Towards a Generalised Framework of Effects.”

¹²² Frick, Rodríguez-Pose, and Wong, “Toward Economically Dynamic Special Economic Zones in Emerging Countries.”

¹²³ Wilson, Wise, and Smith, “Evidencing the Benefits of Cluster Policies: Towards a Generalised Framework of Effects.”

¹²⁴ Wilson, Wise, and Smith.

The section below provides a brief synopsis of PBPs in South Africa, applying insofar relevant to the framework established in this paper to the narrative account prepared by Todes¹²⁵. The synopsis traces change and continuity across three political periods: the Apartheid era, the political transition period (1996-2010) and recent developments (since 2010).

5.1.1 Apartheid-era place-based policies (1940s-1996)

When discussing PBPs during Apartheid, it is worthwhile bearing in mind that while the ideology underpinning Apartheid was inherently place-based, the ensuing policies ultimately sought to achieve objectives beyond aggregate welfare. With this caveat in mind, the focus of this section will be on PBPs ostensibly designed to grow or redirect economic growth. Applying this narrower frame, South Africa's industrial decentralisation policies (introduced from the 1940s to 1996) are not only the most prolific, but arguably most emblematic, of South Africa's approach to spatial targeting. These policies aimed to promote industrial agglomeration outside of urban centres, particularly within or adjacent to erstwhile homeland regions. As these growth poles were remote from existing economic activity or strategic locations, the incentives provided by the State were particularly deep. Predictably, the industrial concerns drawn to these incentives were largely lame ducks, collapsing soon after the incentives were withdrawn in the 1990s¹²⁶. Decades of deep incentives, infrastructure investment and robust government support may have led to the emergence of industrial clusters, but these clusters were transient and unproductive. Costly and sustained efforts by the State were not sufficient to overcome the simple fact that the spatial targeting process was politically driven rather than guided by dispassionate consideration of comparative advantage.

5.1.2 Place-based policies from 1996 to 2010

After the political transition, PBPs shifted from being ostensibly aimed at jump-starting industrial agglomeration in lagging regions using incentives, towards a PBP regime focused more explicitly on growth-oriented infrastructure investment. This

¹²⁵ Todes, "Spatial Targeting: Lessons for South African Experience."

¹²⁶ Todes.

shift is illustrated by the Maputo Development Corridor (1995-2001), one of eleven Special Development Initiatives. In contrast to the Growth Pole Strategy of the Apartheid era, SDIs were conceived as highly targeted interventions driven by the State and lasting no more than 18 months, after which the infrastructure is handed over to local or provincial government. The interventions were fairly sector agnostic, seeking to bolster manufacturing, tourism and agriculture, inter alia. Although the programme coordinators failed to systematically gather data with regards to economic impact and performance, ex-post evaluations found that – except for the Maputo Corridor and one other SDI – the PBP failed to stimulate the expected private sector response. The reasons for underperformance include broader economic conditions, the politicisation of project selection, very short intervention timeframes, poor alignment between respective spheres of government, and protracted delays due to time-consuming participatory processes with local communities. On the impact side, the evaluation found that the majority of jobs created were temporary and low-waged¹²⁷. The SDI programme was eventually replaced by the SEZ programme in 2001, discussed in the next section.

5.1.3 Recent place-based policies (2010-2023)

The salient features of PBPs in recent years are the maturation of the SEZ programme and, drawing on the National Development Plan, the introduction of spatially discretionary grants by National Treasury.

The SEZ programme has its origins in the establishment of an Industrial Development Zone in Coega in 2001. These IDZs were later reconceived as SEZs, of which eleven are currently operating in South Africa. The successes and failures of the SEZ programme in South Africa, ably surveyed in previous CDE working papers¹²⁸, will not be repeated in this paper. The rationale of the SEZ may be described as primarily focused on unlocking export-led growth. It has also been lauded by

¹²⁷ Todes.

¹²⁸ Antony Altbeker, Katie McKeown, and Anne Bernstein, "Special Economic Zones: Lessons for South Africa from International Evidence and Local Experience," Round Table (Johannesburg: Centre for Development and Enterprise, 2012); Antony Altbeker, Rehan Visser, and Lisa Bulterman, "What If South Africa Had a Special Economic Zone That Was Actually Special?," The Growth Agenda (Johannesburg: Centre for Development and actually-special-1.pdf.

international observers for its particular efforts in proactively cultivating linkages between economic activities within the SEZ, and small businesses located in the surrounding areas¹²⁹. These efforts include the establishment of an SMME Development Unit, the SMME Supplier Database, a training and development programme, and technical mentoring. These efforts have served to increase procurement by small businesses to 40% and the involvement of nearly four hundred small businesses in training¹³⁰.

Another prominent development in PBPs was the introduction of the discretionary grants by National Treasury. Its Urban Network Strategy emphasises the need for city policy and allocative decisions to be guided by the pursuit of normative principles as established by the Spatial Planning and Land Use Management Act. To support the realisation of the UNS, grants were introduced that were conditional on metro governments preparing and reporting on credible spatial plans and capital expenditure frameworks in pursuit of predefined spatial objectives (e.g. spatial efficiency, spatial justice, etc.). The UNS sets out a methodology for cities to identify neighbourhoods where both growth- and equity-oriented objectives could be met simultaneously (so-called 'Integration Zones'). Positing that the extent of overlap (and thus opportunity for effective intervention) hinges on the spatial articulation of transport networks, the Urban Network Strategy sought to promote transit-oriented development in the wake of heavy (and partially stranded) investment in bus rapid transit systems in the run-up to the 2010 World Cup. Although a systematic evaluation of this programme has yet to be conducted, most observers familiar with the sector would find that attempts at densification along public transport corridors have generally failed (with some notable exceptions such as the Gautrain), and that the sustainability of public transport operations have declined further in recent years. Mounting fiscal pressure faced by cities in recent years have seen the decline in emphasis on TOD objectives and a reorientation towards

¹²⁹ Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

¹³⁰ Rodríguez-Pose et al.

maintaining basic services and managing growing informality.

5.1.4 The advent of township economic strategy (2023-)

As neither ad hoc ‘community projects’ or more capital-intensive mobility-based responses to persistent underdevelopment in South African townships have been effective in bringing about even modest gains in the material welfare of township residents, there is mounting pressure on cities to develop and implement a local variant of PBPs colloquially referred to as “township economic strategy”.

At its core, the groundswell of activity around township economic strategy is premised on the view that the spatial design of, and historical underinvestment in, South African townships and its residents prevent any realistic possibility of incremental economic convergence with the rest of the city. Irrespective of government investment in infrastructure, inward investment by formal businesses into townships are neither likely nor desirable¹³¹. Accordingly, exceptional policy measures are required to initiate the self-reinforcing cycle of endogenous economic growth. Underlying this approach is the tacit acknowledgement that informal economic activity will neither be formalised nor regulated away in this generation.

However, a review of existing efforts across South African cities suggest that the theoretical and technical underpinnings of this approach remain unconsolidated and unproven. Indeed, the recent elevation of township economic strategy in policy discourse is more reflective of the perceived scale of political problem posed by persistent underdevelopment rather than the coherence of the treatment solution. What may be discerned however is that township economic strategies may broadly be differentiated from previous “Local Economic Development”-type (hereafter ‘LED’) predecessors¹³² in its call for:

- a programmatic rather than ad hoc approach to project selection,
- an explicit focus on improving the business operating environment rather than conflating social and economic objectives,

¹³¹ Inward investment in township economies have been typified by the development of large shopping centres. Notwithstanding significant benefits accruing to consumers, formal retail is generally perceived as posing unfair competition to locally owned businesses.

¹³² LED-type interventions typifies South African cities traditional response to lagging urban neighbourhoods.

- elevating custodianship from an under-resourced and low-profile LED unit to that of the political principal of the city or region,
- expanding the range of instruments from brick-and-mortar interventions alone (e.g., building trading stalls) to include, inter alia, regulatory exemptions and human capital interventions (e.g., direct support to SMMEs).

As South African cities and provincial governments rush to elevate township economic strategies to the top of their policy priorities, two policy models are emerging: firstly, there is the ‘closed model’ of intervention. This model places the State at the centre of economic development, prioritising direct support to targeted beneficiaries (e.g. SMMEs) and resorting to anti-competitive measures such as restricting so-called foreign-owned business operations and imposing procurement rules on public sector budgets in favour of locally-owned, township-based businesses. The closed model is inherently transactional in nature, favouring political patronage. In contrast, the ‘open model’ places the entrepreneur at the centre of economic development, prioritising indirect interventions which seek to create an enabling environment for self-selected, growth-oriented entrepreneurs to invest in and grow their businesses. The open model is distinct in that it prioritises least-cost investment in non-rival, non-excludable public goods like basic services, economic infrastructure and the public environment. Whereas both models include changes to the regulatory environment, the open model prioritises exemptions to land use, building and business regulations whereas the closed model stresses the need to regulate competition. While both models aim to realise economic convergence through policy and regulatory differentiation across generically defined urban contexts, neither model formally meets the first criterion for PBPs as set out in this paper (that is, a policy that is explicitly applied within a bounded geographic area delineated by the policy).

Indeed, the reluctance to define ‘townships’ in terms of technical criteria and spatial delineation signals both the political nature of its rationale and its nascency

as a place-based policy mechanism.¹³³

Given the generic, poorly defined and politically mutable treatment of the core components of PBP¹³⁴ in township economic strategy discourse, it is too soon to evaluate it as an PBP alongside the more established and studied categories introduced in this paper. Indeed, one may be justified as describing it as an aspirational rather than established policy approach.

5.2 Specific considerations for South African policymakers

In the preceding sections a number of case studies were introduced which help illustrate some of the experiences and lessons from PBPs across different contexts. The question arises that to what extent these experiences and lesson are directly applicable to the South African context, with its particular combination of characteristics. From a purely economic perspective, there are some fairly uncontroversial aspects which differentiates South Africa from East Asian, sub-Saharan African, and comparator middle-income countries:

5.2.1 Trade potential and the middle-income trap

Despite enjoying abundant natural resources, South Africa does face some binding constraints to its competitive advantage. South Africa is a small, remote, resource-based middle-income economy. Its export potential is bounded by a small domestic market (i.e., lacking a favourable ‘home market effect’) and geographic remoteness to international markets. Alongside a number of Latin American countries, South Africa is caught in the so-called middle-income trap, where income levels stagnate rather than converge over time with income levels observed in developed economies. As commonly found in countries heavily dependent on resource exports¹³⁵, recent urbanisation in South Africa has led to ‘consumption cities’ rather than ‘production cities’. These factors help explain the limits to development strategy hinging on

¹³³ It is not clear to this author when the term ‘township’ as used in the discourse narrowly refers to dormitory suburbs formally established and reserved for designated racial groups during the Apartheid government, or whether it applies broadly to low-income, predominantly outlying neighbourhoods consisting of both formal and informal settlements.

¹³⁴ That is, (1) an economic rationale linked to a set of explicit causal assumptions culminating in (2) the delineation of geographic boundaries and instrument selection.

¹³⁵ Douglas Gollin, Remi Jedwab, and Dietrich Vollrath, “Urbanization with and without Industrialization,” *Journal of Economic Growth* 21, no. 1 (March 1, 2016): 35–70, <https://doi.org/10.1007/s10887-015-9121-4>.

inward-looking industrial policy (e.g., through import substitution and localisation policies¹³⁶).

5.2.2 State capability

There is substantial evidence pointing towards the linkages between political developments and economic performance¹³⁷. The persistence of underdevelopment in lagging regions worldwide has put the spotlight on capable institutions and governance as preconditions for the effectiveness of PBPs. In Africa and India, the failure of SEZs is blamed on weak institutions. In South Africa, rapidly declining state capability poses a particular challenge to PBPs: the rapid deterioration of the health of state-owned enterprises and associated network industries, the deterioration of local governments' ability to provide basic services, the perceived retreat by law enforcement and proliferation of extortion rackets and other forms of organised crime, and the build-up of debt since 2007, all signal a dramatic decline in capability. While it is possible to create specially managed enclaves insulated from regional declines in service provision and infrastructure quality, the contrast between operating conditions within and outside of these enclaves not only create inherent distortions but impede the economic integration of special zones with the domestic economy at large.

As we have seen, integration not only enhances the long-term economic and political sustainability of the enclave itself but enables positive spill-overs of benefits rather than benefits accruing to beneficiary firms alone. By way of example, the establishment of an oil-rig repair SEZ requires hundreds of experienced and duly qualified welders. The extent to which a community will benefit from proximity to such a SEZ will be contingent upon the extent to which the education system has produced suitable welder apprentices, and the extent to which local business prospects and living conditions have served to retain experienced welders within the

¹³⁶ See CDE 2022 report on localisation (<https://www.cde.org.za/the-siren-song-of-localisation-why-localisation-policy-will-not-lead-to-industrialisation-3/>)

¹³⁷ Ricardo Hausmann, "South Africa's Macroeconomic Risks after a Decade of Microeconomic Turbulence," Working Paper Series 404 (Cambridge, Mass.: Centre for International Development, 2022), <https://growthlab.cid.harvard.edu/publications/macro-economic-risks-after-decade-microeconomic-turbulence-south-africa-2007>.

local labour pool. Thus, the scope for economic integration is closely linked to the capability of the state to provide a range of services and opportunities. Absent a steady supply of local welders, the SEZ will have to source from elsewhere at the expense of its own competitive advantage and local communities alike.

5.2.3 Entrepreneurial potential

The prospects of creating broad-based benefit from PBPs is hampered by a weak entrepreneurial culture in South Africa. South Africa's poor entrepreneurial potential is evident in the small size of the informal sector compared to other middle-income economies, the high proportion of salaried workers to entrepreneurs, and the very large proportion of informal workers being engaged in survivalist rather than growth-oriented business activity. Limited potential is in part a product of historical factors, such as the very high market concentration arising from Apartheid-era corporatism, inter-generational effects of salaried parents on entrepreneurial acumen of children, entrenched and gendered equalisation norms which stigmatises entrepreneurial success in black townships. The implication for South Africa is that the extent to which local businesspersons are able to respond to the up- and downstream opportunities created by a PBP is limited by socially-embedded impediments to entrepreneurship, and that benefits will be largely captured by formal players, investors, landowners, shareholders (often pension funds) and salaried workers. While the recent emergence of township economic strategies in South African cities is posited as a robust place-based response to entrenched spatial and social disadvantage in townships, this policy approach remains unconsolidated and unproven.

5.2.4 Spatial unevenness of poverty and human capital

South Africa is an outlier when measured against the level of income heterogeneity between rural and urban households and between respective regions¹³⁸. The economic prospects of respective regions are tightly bound to their natural advantage

¹³⁸ Average household incomes per district municipality range from 39% below (OR Tambo) to 34% higher (City of Cape Town) than average income at national level (R272k/month). Comparable figures for the top 2.5% of households range from 74% below national average (Alfred Nzo) to 86% above national average (City of Johannesburg) (Source: Quantec (2022) RSA Standardised Regional Household Current Income Deciles).

and the cumulative effect of political design and economic processes over centuries, suggesting a very high degree of hysteresis¹³⁹. Historical unevenness in economic prospects are perpetuated by structural unemployment, where large sections of the labour force disengage permanently from the economy due to their productive potential¹⁴⁰ falling below the value of social grants. Structural unemployment manifest in very low labour utilisation rates and significant variation in unemployment across regions¹⁴¹. Whether PBPs are able to overcome profoundly embedded and socialised immobility centuries in the making (e.g., the primacy of social equalisation norms over entrepreneurship and innovation), remains an open question. On the other side of the labour market, the scarcity and extreme spatial concentration of technical skills required for modern manufacturing processes places an absolute limit in the extent to which PBPs can reshape South Africa's economic geography.¹⁴² The implication for South Africa is that (excepting PBPs closely linked to an extractive industry) there are very few locations outside of existing agglomerations where PBPs can respond to growth- and equity- oriented rationales simultaneously. The movement of people from low - to high potential locations, as demonstrated by observed rates of in-migration from rural areas to South Africa's cities, is far more consequential, enduring and efficient than any conceivable State-led programme of administered convergence.

5.2.5 The political economy of the core and periphery

The effectiveness of PBPs is closely tied to the political economic incentives and risks facing local officials and politicians in implementing PBPs at regional level. As policy experiments, PBPs are well-suited to introduce economic reforms where universal reforms are likely to meet political resistance. At the same time, one of the main pitfalls of PBPs is when locational decisions are made on political grounds

¹³⁹ Christopher Loewald, Konstantin Makrelov, and Andreas Worgotter, "Addressing Low Labour Utilisation in South Africa," Working Paper Series (South African Reserve Bank, 2021).

¹⁴⁰ As a function of educational attainment, familial circumstances, locational immobility and psycho-social conditions, inter alia.

¹⁴¹ Unemployment rates range from 59% in Greater Sekhukhune to 15% in the Cape Winelands. Labour absorption rate varies from 57% in the Overberg to 16% in OR Tambo (Source: Quantec (2022) RSA Standardised Regional Labour).

¹⁴² For example, 80% of South Africa's highly skilled metal workers are located in 10 out of 52 cities and district municipalities (Quantec, 2022).

rather than on the basis of observed comparative advantage. In the case of South Africa and many sub-Saharan countries governed by sclerotic political organisations spawned from liberation movements, South Africa's governing party's political constituency is largely poor and rural, rather than middle income and urban. Like many sub-Saharan countries, South Africa's urban centres are hotbeds of opposition politics. Thus, the generic observation that core-periphery imbalance is caused by the inherent pro-urban bias of political elites¹⁴³ may not apply to South Africa or many sub-Saharan countries. Instead, South Africa's political elite draws its legitimacy from its ability to direct investment towards rural areas. This baked in rural bias has particular bearing on the prospects and risks of politically directed spatial targeting in South Africa.

5.2.6 Land ownership

As discussed in a previous section, interventions within urban contexts that increase demand for land results in property value increases. A considerable proportion of benefit accrues to owners of land, of which a subset may be owner-occupiers¹⁴⁴. South Africa is somewhat distinct from many comparator countries given the reasonably high proportion of owner-occupants relative to renters. This observations hold true not only in affluent parts of the city, but indeed extends to former Black African townships where residential properties are disproportionately held by older, female beneficiaries from State-assisted housing. Higher- than-usual rates of ownership across income bands in former Black African townships suggest that adverse distributional impacts due to land ownership patterns will be less significant relative to urban contexts where land ownership is concentrated (e.g., in South African inner cities and decentralised business nodes). Distributed land ownership bodes well for township economic strategies that follow an 'open model' of intervention¹⁴⁵ (see discussion in previous section above), as the material benefits arising from enhanced property rights and improvements to neighbourhood amenity

¹⁴³ Keller and Virág, "A Drop in the Sea or Catalyst for Change."

¹⁴⁴ J. Vernon Henderson, "Cities in Developing Countries," in Lectures on Urban Economics (Urban Economics Association, London: London School of Economics, 2020).

¹⁴⁵ See discussion in preceding section on 'open' and 'closed' models for township economic intervention.

will be broadly distributed across vulnerable homeowners.

5.2.7 Township economic strategy

It is common knowledge that spatially-targeted interventions have struggled to make significant inroads into undoing the locational disadvantage of South African townships. Policymakers are coming to terms with the fact that our urban economies are likely to become more, rather than less, informal over time.

Thus, recent efforts to systematise and elevate township economic interventions merit special consideration with respect to the inherent challenges and implementation pitfalls observed in the international literature:

- **Not all townships are the same:** Current township strategy does not clearly define what a township is, nor does it differentiate between different types of geographic and urban contexts that is found under the loosely defined umbrella concept of 'township'. Policymakers should recognise that the binding constraints and locational assets differ significantly across low-income neighbourhoods, within and across cities. What works in townships like well-located Alexandra or Galeshewe is unlikely to be effective in remote areas like Delft. It is therefore incumbent upon policymakers to develop a typology of low-income neighbourhoods and provide clear technical criteria for their identification and spatial delineation.
- **Focus on growth-oriented entrepreneurs:** A key weakness in township economic strategy is a reluctance to distinguish between growth-oriented entrepreneurs and survivalist, home-based traders. Economic strategies aimed at SMME growth must harness the energy of growth-oriented entrepreneurs who demonstrate the requisite aptitude, permanence and risk tolerance. Social programmes are better suited to protect vulnerable groups like survivalist traders from the effects of extreme poverty.
- **Avoid a closed model of intervention:** International experiences from PBP cautions against adopting a closed model of intervention with respect to township economies, while arguing in favour of the open model. An open model does not pick winners. It focuses on creating enabling environment

rather than subsidising unproductive activities, rendering it is less vulnerable to political patronage. It is also particularly well-suited to areas with distributed land ownership, as found in formal townships. By placing the growth-oriented entrepreneur (incl. homeowner developers) at the centre of the strategy, an open model is neither reliant on State largesse nor the economic literacy of municipal policymakers. Instead, it enables the policymaker to focus its efforts on two or three binding constraints inhibiting entrepreneurs that fall within core provincial and municipal functions (e.g., basic services, the quality of the public environment, or regulation of space and activity). An important limitation to the open model is the inherent difficulty in attributing neighbourhood-level impacts to township strategies, owing to the diffuse and indirect benefit arising from investment in non-excludable and non-rival public goods.

6. What will it take for place-based policies to be effective in South Africa?

6.1.1. Be realistic about what PBPs can and cannot achieve

A summary conclusion of this review is that policymakers should approach PBPs with caution. With good design and technical implementation, it is possible that PBPs can enhance the competitiveness of strategic locations. Well-designed PBPs can, over time, attract investment and promote exports. When the PBP includes proactive measures to foster economic linkages with the domestic economy, it is possible that PBPs will after many years and coordinated investment, generate benefits to the surrounding economy and have a positive impact on income levels. PBPs can also provide a vehicle for policy experimentation, especially when political resistance is encountered at national level. PBPs can improve investor sentiment, the adoption of technologies, the inward migration of skilled workers, aggregate employment, balance of trade, regional competitiveness, and stimulate aggregate demand for goods and services. Properly implemented, PBPs create the space for experimentation in economic and industrial policies and regulatory enablement and capacitating local officials to engage investors.

However, PBPs have proved ineffective as tools for reducing spatial inequality or overcoming path dependencies shaping spatial outcomes. PBPs are unlikely to significantly alleviate fiscal stress at local government level in the short term. PBPs will not in themselves reduce inequality, which in South Africa is primarily a reflection of extreme differences in the productive potential of labour, shaped in turn by skewed patterns of educational attainment, health conditions and psycho-social factors. PBPs such as exempting businesses from minimum wage may increase employment but will not affect incomes at the bottom of the distribution as wages would approximate the productive potential of individuals, which may fall below both minimum wage but also unemployment grants. Costs of commuting will further skew the individual's preference for working relative to drawing on grant. It cannot be assumed that the psycho-social benefit of gainful employment is priced into the decision to work, particularly in communities where low labour force participation is normalised. Providing public goods that reduces cost of commuting, improving quality of education and worker health, will likely have greater impact on inequality by raising the productive potential of individuals and influencing their propensity to seek gainful employment where the pay-off relative to a grant-dependent state exceeds the threshold to induce labour force participation.

6.1.2 Be dispassionate about what makes a location 'strategic'

Every region in South Africa harbours unmet development potential. However, that potential – as measured in its ability to attract inward investment and create jobs - differs markedly across regions. Emphasising the need for PBPs to target locations that are truly strategic in their ability to unlock virtuous cycles of economic growth and generate benefits which outweigh the opportunity cost of public investment does not imply that the task of PBPs in development policy is to subsidise the growth of South Africa's biggest cities at the expense of other, non-core regions. Instead, it is recognising that whereas each region has its unique potential, it is the responsibility of local and regional institutions (rather than national development policy) to define pathways to development that speak to its specific attributes¹⁴⁶. At the same time, it

¹⁴⁶ Barca, McCann, and Rodríguez-Pose, "The Case for Regional Development Intervention."

is the responsibility of national development policy to systematically identify those locations of highest comparative advantage as defined in terms of global trading systems. To quote Barca, “convergence should not be principal development policy objective, but rather maximising the development potential of all regions”¹⁴⁷.

6.1.3 Get the basics right before considering financial incentives

The inability of a weakened public sector to provide basic services and maintain a minimally safe operating environment, combined with the proliferation of onerous and antiquated regulations governing business, labour relations and land use, serve to impose a far greater burden on businesses than any conceivable financial benefit that could be offered in terms of a PBP. South African economic policy remains stuck in the ‘closed model’ of economic development, where benefits are directed towards a narrowly defined pool of preferred beneficiaries (e.g., through instruments like local procurement rules and financial incentives). These have led to a host of unintended consequences such as the emergence of extortion rackets plaguing the construction, transport and energy sectors. Such ‘closed models’ have been shown to create opportunities for rent-seeking and attract unproductive firms.

Alternatively, an ‘open model’ of economic development opts to improve the operating environment for all economic actors by investing in non-excludable, non-rival economic infrastructure such as network infrastructure or simplified regulation. Since the societal benefit is broad-based and non-transactional, an open model tends to be politically unattractive in the short-term.

Underinvestment in public infrastructure has resulted in unreliable electricity and water supply, and deteriorating road and rail infrastructure. In a context where regions throughout South Africa are experiencing rapid declines in business operating environments, prioritising PBPs which seek to arrest decline through special measures – albeit limited to geographically defined areas of high economic significance - may gradually create an economic advantage relative to its declining hinterland. While this may shore up South Africa’s ability to compete internationally and thus drive export-led industrialisation, it may also aggravate core-periphery

¹⁴⁷ Barca, McCann, and Rodríguez-Pose.

divergence. Growth-oriented PBPs focusing on creating stable operating platforms for businesses may be essential but equity concerns require parallel investment in people and their economic and geographic mobility.

6.1.4 Establish dedicated institutions that understand investors

Identifying locations which exhibit comparative advantage requires that the policymaker place the prospective investor and their often-idiosyncratic business location requirements at the forefront of appraisal. The process of identifying comparative advantages requires not only rigorous analysis of available economic and spatial data, but frequent and meaningful engagement with prospective investors themselves.

Government officials are poorly placed to understand and empathise with the needs of existing businesses and prospective investors. The establishment of a dedicated agency driven by dedicated, risk-tolerant and economically literate staff is essential in engaging businesses on a regular and equal basis. Dedicated agencies that operate outside of government departments but championed by political leadership have the necessary flexibility to operate in a non-bureaucratic way, linking stakeholders, different spheres of government, and communities¹⁴⁸.

6.1.5 Avoid enclaves: foster linkages with surrounding economy

PBPs are more likely to flourish and gain political acceptance if they are integrated into the surrounding economy¹⁴⁹. The geographic distance between areas of greatest locational advantage and of greatest political priority respectively can be reduced by strengthening the linkages between activities benefiting from place-based policies and the overall domestic economy. PBPs will only generate broader economic benefits if the skills, technology and employment opportunities attracted by the PBP extend into the local economy through the creation of supplier industries and the transfer of technology and skills. The experience of SEZs show that the strength of positive spillovers increase when the PBP zone is positioned as an integral part of the region's development strategy rather than a discrete enclave. Integration can be

¹⁴⁸ Todes, "Spatial Targeting: Lessons for South African Experience."

¹⁴⁹ Rodríguez-Pose et al., "The Challenge of Developing Special Economic Zones in Africa."

facilitated through training and skills development, connective network infrastructure, narrowing the gap between the zonal and regional regulatory regimes, and avoiding excessive financial incentives¹⁵⁰.

6.1.6. Adapt or die: the transience of comparative advantage

The comparative advantage of locations – the combination of attributes that makes a location ‘strategic’ relative to its competitors – is not fixed in time. Instead, international experience of PBPs in general and SEZ in particular suggests that comparative advantage is a function of changing markets, consumer preferences, and global policy agendas. Growing consumer activism and pressure for value chains to align with Sustainable Development Goals, multinational firms in developed countries can no longer be seen to outsource environmentally harmful production activities and benefit from poor social protection. For these reasons, UNCTAD believes that new generation SEZs will have to demonstrate social and environmental sustainability in order to be competitive.¹⁵¹

For example, SEZs initial advantage globally was exemption from onerous labour and environmental legislation which rendered many manufacturing activities in developed economies uncompetitive. These cost-based comparative advantage was further facilitated by favourable trade agreements like AGOA in Africa. However, the elevation of sustainability concerns amongst trading nations about the social and environmental impacts of unsustainable practices in SEZs is creating increasing reputational risk for existing and potential investors. Furthermore, the reliance on ‘cheap labour’ and the tendency of deep incentives to attract ‘lame ducks’ impedes the technological modernisation required to remain relevant in an increasingly digital trading environment. With African SEZs relying disproportionately on deep financial incentives to attract investors, there are concerns that the adoption of a global minimum corporate tax rate may undermine this mechanism¹⁵². A South African example is the exposure of the heavily subsidised automotive cluster to anticipated

¹⁵⁰ “Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones.”

¹⁵¹ UNCTAD, “Handbook on Special Economic Zones in Africa”.

¹⁵² Rodríguez-Pose et al., “The Challenge of Developing Special Economic Zones in Africa.”

changing preferences regarding combustion engines relative to electric vehicles. Thus, it is essential for South Africa to mitigate such risks by embedding good practice in social and environmental protection in policy design, alongside incremental adoption of advanced technologies¹⁵³. Failure to adapt in line with global priorities, consumer preferences and technological change will eventually force PBPs into a race to the bottom.

7. Conclusion

This paper reviews international experiences in the context of South Africa-specific considerations to realistically assess what PBPs can and cannot achieve, and more importantly shed light on their unintended consequences. It finds that where the design and spatial targeting of PBPs are captured by political considerations, they seem to do more harm than good. By subsidising unproductive economic activity, PBPs in South Africa draw political capital and scarce public resources away from much-needed structural reforms and other public goods, such as education, health, and investments in non-rival and non-excludable goods that help everyone.

References

Aghion, Philippe, and Peter Howitt. "A Model of Growth Through Creative Destruction." *Econometrica* 60, no. 2 (1992): 323–51. <https://doi.org/10.2307/2951599>.

Alkon, Meir. "Do Special Economic Zones Induce Developmental Spillovers? Evidence from India's States." *World Development* 107 (July 1, 2018): 396–409. <https://doi.org/10.1016/j.worlddev.2018.02.028>.

Altbeker, Antony, Katie McKeown, and Anne Bernstein. "Special Economic Zones: Lessons for South Africa from International Evidence and Local Experience." Round Table. Johannesburg: Centre for Development and Enterprise, 2012.

Altbeker, Antony, Rehan Visser, and Lisa Bulterman. "What If South Africa Had a Special Economic Zone That Was Actually Special?" *The Growth Agenda*. Johannesburg: Centre for

¹⁵³ "Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones"; UNCTAD, "Handbook on Special Economic Zones in Africa."

Development and Enterprise, 2021. file:///C:/Users/claus/Downloads/What-if-South-Africa- had-a-special-economic-zone-that-was-actually-special-1.pdf.

Baissac, Claude. “Brief History of SEZs and Overview of Policy Debates.” In *Special Economic Zones in Africa*, 23–60. *Directions in Development - General*. The World Bank, 2011. https://doi.org/10.1596/9780821386385_CH02.

Barca, Fabrizio, Philip McCann, and Andrés Rodríguez-Pose. “The Case for Regional Development Intervention: Place-Based Versus Place-Neutral Approaches*.” *Journal of Regional Science* 52, no. 1 (2012): 134–52. <https://doi.org/10.1111/j.1467-9787.2011.00756.x>.

———. “The Case for Regional Development Intervention: Place-Based versus Place-Neutral Approaches.” *Journal of Regional Science* 52, no. 1 (2012): 134–52.

Bolnick, B. “Effectiveness and Economic Impact of Tax Incentives in the SADC Region.” Report Submitted by Nathan Associates to USAID (February), 2004.

Cartner, U, H Graf, and M Rothgang. “Geographical Clustering and the Evaluation of Cluster Policies: Introduction.” *The Journal of Technology Transfer*, no. 44 (2019): 1665–72.

Cotula, Lorenzo, Thierry Berger, and Perrine Burnod. “Special Economic Zones and Land Tenure: Global Trends and Local Impacts in Senegal and Madagascar.” *Land Tenure and Development*. Paris: Foncier & Developpement, September 2022.

Duranton, Gilles. “Agglomeration Effects in Colombia.” *Journal of Regional Science* 56, no. 2 (2016): 210–38. <https://doi.org/10.1111/jors.12239>.

Duranton, Gilles, and Anthony J. Venables. “Place-Based Policies for Development.” Policy Research Working Paper. Washington DC: World Bank Group, 2018.

Felice, Emanuele, and Amedeo Lepore. “State Intervention and Economic Growth in Southern Italy: The Rise and Fall of the ‘Cassa per Il Mezzogiorno’ (1950–1986).” *Business History* 59, no. 3 (2016): 319–41. <https://doi.org/10.1080/00076791.2016.1174214>.

Freedman, Matthew. “Targeted Business Incentives and Local Labor Markets.” *Journal of Human Resources* 48, no. 2 (March 31, 2013): 311–44. <https://doi.org/10.3368/jhr.48.2.311>.

Frick, Susanne A., Andrés Rodríguez-Pose, and Michael D. Wong. "Toward Economically Dynamic Special Economic Zones in Emerging Countries." *Economic Geography* 95, no. 1 (January 1, 2019): 30–64. <https://doi.org/10.1080/00130095.2018.1467732>.

Givord, Pauline, Simon Quantin, and Corentin Trevien. "A Long-Term Evaluation of the First Generation of French Urban Enterprise Zones." *Journal of Urban Economics* 105 (May 1, 2018): 149–61. <https://doi.org/10.1016/j.jue.2017.09.004>.

Gollin, Douglas, Remi Jedwab, and Dietrich Vollrath. "Urbanization with and without Industrialization." *Journal of Economic Growth* 21, no. 1 (March 1, 2016): 35–70. <https://doi.org/10.1007/s10887-015-9121-4>.

Hausmann, Ricardo. "South Africa's Macroeconomic Risks after a Decade of Microeconomic Turbulence." Working Paper Series 404. Cambridge, Mass.: Centre for International Development, 2022. <https://growthlab.cid.harvard.edu/publications/macroeconomic-risks-after-decade-microeconomic-turbulence-south-africa-2007>.

Hausmann, Ricardo, Dani Rodrik, and Andrés Velasco. "Getting the Diagnosis Right." *Finance & Development* 43, no. 001 (March 17, 2006). <https://doi.org/10.5089/9781451922431.022.A005>.

Henderson, J. Vernon. "Cities in Developing Countries." In *Lectures on Urban Economics*. London: London School of Economics, 2020.

Ihlanfeldt, Keith R., and David L. Sjoquist. "The Spatial Mismatch Hypothesis: A Review of Recent Studies and Their Implications for Welfare Reform." *Housing Policy Debate* 9, no. 4 (1998): 849–92.

Keller, Judit, and Tünde Virág. "A Drop in the Sea or Catalyst for Change: Diverse Effects of the Place-Based Approach in Europe." *European Planning Studies* 30, no. 5 (May 4, 2022): 860–78. <https://doi.org/10.1080/09654313.2021.1928047>.

Kenyon, Daphne, Adam Langley, and Bethany Paquin. "Rethinking Property Tax Incentives for Business." Policy Focus Report. Boston, MA: Lincoln Institute of Land Policy, 2012.

Kitchens, Carl, and Cullen T. Wallace. "The Impact of Place-Based Poverty Relief: Evidence from the Federal Promise Zone Program." *Regional Science and Urban Economics* 95 (July 1, 2022): 103735. <https://doi.org/10.1016/j.regsciurbeco.2021.103735>.

Kline, Patrick, and Enrico Moretti. "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority *." *The Quarterly Journal of Economics* 129, no. 1 (February 1, 2014): 275–331. <https://doi.org/10.1093/qje/qjt034>.

Krugman, Paul. "First Nature, Second Nature, and Metropolitan Location." *Journal of Regional Science* 33, no. 2 (1993): 129–44. <https://doi.org/10.1111/j.1467-9787.1993.tb00217.x>.

Loewald, Christopher, Konstantin Makrelou, and Andreas Worgotter. "Addressing Low Labour Utilisation in South Africa." Working Paper Series. South African Reserve Bank, 2021.

Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade and Special Economic Zones." Dubai, 2013. [https:// unctad.org/osgstatement/3rd-global-free-trade-special-economic-zones-summit](https://unctad.org/osgstatement/3rd-global-free-trade-special-economic-zones-summit).

Moretti, Enrico. "Local Labor Markets." Working Paper. Working Paper Series. National Bureau of Economic Research, April 2010. <https://doi.org/10.3386/w15947>.

Neumark, David, and Helen Simpson. "Place-Based Policies." Working Paper. NBER Working Paper Series. Cambridge: National Bureau of Economic Research, 2014. <http://www.nber.org/papers/w20049>.

Peters, A., and P. Fisher. "The Failures of Economic Development Incentives." *Journal of the American Planning Association* 70, no. 1 (2004): 27–37.

Porter, Michael E. "The Competitive Advantage of Nations." *Harvard Business Review*, 1990. <http://cspug2s.units.it/sid/docenti/brusati/didattica/11%20Porter%20The%20Competitive%20Advantage%20of%20Nations.pdf>.

Portnov, B.A., and M. Schwartz. "On the Importance of The Location Package 'for Urban Growth." *Urban Studies* 46, no. 8 (2009): 1665.

Reynolds, C. Lockwood, and Shawn M. Rohlin. "The Effects of Location-Based Tax Policies on the Distribution of Household Income: Evidence from the Federal Empowerment Zone Program." *Journal of Urban Economics* 88 (July 1, 2015): 1–15. <https://doi.org/10.1016/j.jue.2015.04.003>.

Rodríguez-Pose, Andrés, Federico Bartalucci, Susanne A. Frick, Amelia U. Santos-Paulino, and Richard Bolwijn. “The Challenge of Developing Special Economic Zones in Africa: Evidence and Lessons Learnt.” *Regional Science Policy & Practice* 14, no. 2 (2022): 456–81. <https://doi.org/10.1111/rsp3.12535>.

Rosenstein-Rodan, P. N. “Problems of Industrialisation of Eastern and South-Eastern Europe.” *The Economic Journal* 53, no. 210/211 (1943): 202–11. <https://doi.org/10.2307/2226317>.

Sapir, André, Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José Viñals, et al. *An Agenda for a Growing Europe: The Sapir Report*. OUP Oxford, 2004.

Thorn, Jessica P. R., Diego Juffe Bignoli, Ben Mwangi, and Robert A. Marchant. “The African Development Corridors Database: A New Tool to Assess the Impacts of Infrastructure Investments.” *Scientific Data* 9, no. 1 (November 9, 2022): 679. <https://doi.org/10.1038/s41597-022-01771-y>.

Todes, Alison. “Spatial Targeting: Lessons for South African Experience.” University of Witwatersrand, 2013.

UNCTAD. “Handbook on Special Economic Zones in Africa.” Geneva: United Nations, 2021. https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf.

Wilson, James, Emily Wise, and Madeline Smith. “Evidencing the Benefits of Cluster Policies: Towards a Generalised Framework of Effects.” *Policy Sciences*, no. 55 (2022): 369–91.

World Bank. “World Development Report 2009.” The World Bank. Washington, DC, 2009

Xu, Chenggang. “The Fundamental Institutions of China’s Reforms and Development.” *Journal of Economic Literature* 49, no. 4 (December 2011): 1076–1151. <https://doi.org/10.1257/jel.49.4.1076>.

Zeng, Douglas Z. “The Past, Present, and Future of Special Economic Zones and Their Impact.” *Journal of International Economic Law* 24, no. 2 (June 1, 2021): 259–75. <https://doi.org/10.1093/jiel/jgab014>.

Economic Research Southern Africa (ERSA) is a platform that supports the development of economic policy by connecting economic research to national policy debate and identifying areas of future research. It has served as the premier platform for economics researchers across Southern Africa to publish their work, participate in conferences and training programmes, and contribute to the national debate on public policy, since 2004. It does this by:

- Conducting on-going research that develops and contributes to research across five broad themes.
- Sharing and promoting policy relevant economic research and code through the SAMNet Initiative.
- Stimulating discussions that contribute towards national debate, by bringing a network of economic experts to share ideas.
- Upskilling academics and students through the skills development initiative.
- Nurturing economic talent by encouraging all brains that are curious about economics to grow their knowledge and confidence in the subject.

Our network draws a broad and representative range of expert economic researchers and policy makers from a variety of academic, financial and government institutions. In this way, ERSA encourages the creation, dissemination and discussion of independent and expert economic policy-oriented research.

For more information about ERSA, please visit our website at www.econrsa.org.

Other Discussion Document Publications:

Discussion Document 06: A systematic and historical review of basic income support programs in middle-income countries by Biniam Bedasso and Ermias Woldensenbet

Discussion Document 07: South Africa's yield curve conundrum by Ruan Erasmus and Daan Steenkamp

Discussion Document 08: Importance of employment programs for the youth in South Africa by Jessica Gagete-Miranda and Michelle Please

Discussion Document 09: Crime: A policy-oriented survey by Sebastian Galiani

Discussion Document 10: What luminosity data can and cannot reveal about South Africa's urban economies by Takwanisa Machedzede