THE NATURE OF INVESTMENT CLIMATE THROUGH A FACET OF PUBLIC INVESTMENT: THE EMERGING MARKET CASE

Sinakhokonke Mpanza *, Pfano Mashau **

* School of Operations Magement, University of South Africa, Pretoria, South Africa
** *Corresponding author*, School of Management, IT and Governance, University of KwaZulu-Natal, Durban, South Africa
Contact details: University of KwaZulu-Natal, 238 Mazisi Kunene Rd., Glenwood, Durban, 4041, South Africa

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Abstract

The purpose of this article is to table the nature of investment climate through a perspective of public investment. The investment climate of a city is the responsibility of the city's municipal management (Biyase & Rooderick, 2018). Thus, this article provides insight into public investment in order to highlight the public sector's role to ensure a good investment climate. The article focuses on KwaZulu-Natal secondary cities, particularly Newcastle and the City of uMhlathuze (Richards Bay). This article followed a qualitative approach. Data was collected through semi-structured interviews. Thematic data analysis was adopted with the aid of NVivo version 12. Analysis and interpretation of the result are presented through models developed from NVivo. The key finding of this article discusses investment climate in secondary cities through the lance of the public sector's role in attracting investment by packaging effective investment incentives, planning and executing programs and projects to attract and retain investment, and targeting countries for inflow foreign direct investment based on the city's sectors, not political diplomacy. Moreover, key findings reveal that each of the identified cities has autonomous independence to package their own investment incentives to advance their investment climate. Respondents pointed out that Richards Bay has an industrial development zone that is aimed at attracting investors across the globe. Furthermore, respondents highlighted that the city has investment incentives, but they are not applicable to the city.

Keywords: Investment Climate, Secondary Cities, Public Investment, Investment Incentives

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1. INTRODUCTION

Having a balanced private sector investment in a city is essential for stimulating and maintaining economic growth. Cities themselves have an important role to play in this process, making investors aware of opportunities, building relationships with them, and, where necessary, stepping in to facilitate investment (Ba Trung & Kaizoji, 2017). But it is not always clear what investors are looking for when

investing, and how cities can make themselves more attractive for investment. The study is also striving to contextualize the investment climate concept in a different position by exploring the secondary cities. Secondary cities are home to 20% of the world's population and one-third of the total urban population (Kaufman, 2018). Moreover, the available data pertaining to investment climate is mostly based on the major cities within a country. According to Kummitha and Crutzen (2019), it is challenging to obtain relevant and updated data on emerging cities, particularly in developing countries. This gap in data availability leads to less scholarly publication on secondary cities. This article is aimed at tabling the nature of the investment climate in secondary cities, focusing on public investment.

The article is positioned to answer these research questions:

RQ1: Does public investment play an important role in fostering an investment climate in secondary cities?

RQ2: Is the public sector capable to acquire and retain a good investment climate?

The contribution of the article is to provide insight into the nature of the investment climate in secondary cities, which are mostly less treated as important than primary.

The remainder of this paper is structured as follows. The second section of this article entails the literature review which encompasses the concept of secondary cities and investment climate in global, Sub-Sahara Africa, and South African contexts. It also discusses unforeseen disruption in an economy. Section 3 of the article discusses the research methodology that is utilised in the study. Section 4 presents the analysis and interpretation of the result. Section 5 outlines and discusses the key findings of the article. Section 6 concludes the paper.

2. LITERATURE REVIEW

2.1. Secondary cities

A secondary city is largely determined by population, size, function, and economic status (Kummitha & Crutzen, 2019). Secondary cities are geographically defined urban jurisdictions or centres performing vital governance, logistical, and production functions at a sub-national or sub-metropolitan region level within a system of cities in a country. According to the South African Cities Networks (SACN, 2021), 39 municipalities in South Africa have been identified as secondary cities and comprise a mixed bag economically; for example, secondary cities, such as Rustenburg, are currently struggling as mining cities. In a South African context, secondary cities contain the following qualities:

- They are much smaller, with an average population that is seven times smaller than metros.
- Contain large areas of traditional land that are urbanising rapidly but without township development and planning regimes, which poses some challenges to how these intermediate city municipalities (ICMs) grow.
- Have very vulnerable economies because of a narrow economic base or a dependency on declining industries.

Moreover, according to the SACN (2021), these cities have a massive infrastructure need of about R14 billion per year, but only 43% is funded by grants. A concern is a low level of borrowing compared to the need and the potential — even ICMs with sustainable revenue sources and large tax bases are not in the market and actively borrowing.

At the outset, it was conceded that no official list of secondary cities exists for South Africa. Accordingly, in terms of opening up a conversation about secondary cities in the country, the SACN (2017) examined international definitions and criteria for classifying secondary cities and then, as a baseline, sought to identify a "starting line-up" of such urban places for South Africa. Although it was conceded that the list was subject to debate and that there may be other cities that might be classed as secondary cities, the SACN (2017) isolated a list of 22 cities for exploratory analysis in order "to begin a discussion into South African secondary cities" (p. 18).

2.2. Investment climate in a global context

The recovery from the crisis has repeatedly proved weaker than expected, with the current conjuncture characterised by modest demand growth, subdued investment, low inflation, and weak productivity growth (Organisation for Economic Co-operation and Development [OECD], 2018). According to the International Monetary Fund (IMF, 2020), investment climate is the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Experience to date also suggests that reliance on monetary policy alone will fail to deliver a rebound in growth. The scope for additional monetary policy measures is increasingly limited. Interest rates are now at the zero lower bound or negative in many advanced economies, and unconventional measures, such as quantitative easing and negative policy rates, may face decreasing returns and give rise to anomalies in financial markets (Égert, 2021).

Low-interest rates offer most OECD countries extremely favourable borrowing conditions to increase productive public spending. These favourable conditions are best used by locking-in low-interest rates with long-maturity borrowing (OECD, 2018). Well-targeted spending on education, health, or research and development brings significant output gains in the long run. Infrastructure needs are also sizeable in OECD countries, especially as fiscal consolidation in recent years has pushed down public capital spending to very low levels in many countries. In such a situation, additional public investment should generate high rates of return if good governance and framework conditions are in place. In a view to mitigating and adapting to climate change, these new investment projects could focus on low-carbon, climate-resilient options (De Henau & Himmelweit, 2020).

An increase in public investment reduces uncertainties around public debt. Additional public investment is estimated to reduce the uncertainties surrounding public debt in most OECD countries. The decline is marked in peripheral European

countries (Ireland and Portugal), as it helps those economies to move away from the critical debt threshold that could trigger adverse market reactions. In addition, the mechanical effect of a rise in output is larger for heavily indebted countries. In sum, the bigger the debt, the more critical it is to find ways to increase output. However, in Japan, where the high public capital stock suggests that the effect of public investment stimulus on output could even be negative, other policies may be better suited to raise output. Episodes of collective fiscal action have rarely been observed in the past, the coordinated response to the 2008 financial crisis and the period of fiscal austerity that followed in the euro area being two notable exceptions. The number of OECD countries that simultaneously injected a sustained large public-investment stimulus was around four per year on average in the pre-crisis period. In general, these were not coordinated. By contrast, more than 15 countries made a large increase in public investment spending in 2008, and 17 did so in 2009 (IMF, 2020).

Against this background, the OECD has recommended an increase in public investment to support demand and employment in the short run and catalyse private investment and innovation to increase potential output in the long term. Still, questions remain open about the size of public investment multipliers and the long-term returns on public capital, both of which play a role in determining how public debt-to-GDP ratios will evolve in response to higher public investment (United Nations [UN], 2018).

Both private and public investment is essential for the country's economy and a key driver of growth and job creation. Collectively, public and private investment can have a positive impact on employment by affecting aggregate demand (UN, 2018). Private investment directly contributes to a country's GDP (Deleidi, Iafrate, & Levrero, 2020). Public investment by nature is a vehicle for business development because it lays the relevant infrastructure for the private sector. These infrastructures may include transportation networks, electricity, water, fiber, and other communication infrastructures. Moreover, sufficient labour supply and skills due to good education and health structures are imperative to building a business-conducive environment (OECD, 2018). Facilitating and promoting fruitful investment is still burdensome in Sub-Saharan African countries. A variety of scholars over more than 20 years have studied and outlined that the lack of both private and public and private investment has negatively impacted job creation.

According to Trandafir and Bebeselea (2017), gross fixed capital formation (GFCF) encompasses land improvements (fences, ditches, drains); plant, machinery, and equipment purchases; and the construction of roads, railways as well as schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings (Stanley, 2020). GFCF is a determinant of both productivity and growth since more GFCF leads to increased economic growth. GFCF combines investment in the public and private sectors (Boshoff & Fourie, 2020). A country's development is not possible without GFCF. Without adequate investment, an economy cannot grow to its full potential; hence, investment is often called "the engine of growth" (Moyo & Le Roux, 2019). Investment in physical or human capital is one of the major economic growth sources (Maniriho, Musabanganji, & Lebailly, 2020). To grow, South Africa needs to bridge the trust gap between the public and private sectors. The problem is further complicated because although growth is a political responsibility, it is mostly achieved by the private sector (Boshoff & Fourie, 2020). The two sectors are dependent on each other (Boshoff et al., 2020). The South African Reserve Bank's (SARB, 2019) publication on GFCF shows that the downward trend in fixed capital investment continued as real gross fixed capital formation decreased further by 4.5% in the first quarter of 2019 — the fifth consecutive quarterly decline. Real fixed capital outlays by private business enterprises declined notably in the first quarter of 2019. In contrast, public corporations, and the general government increased, following several consecutive quarters of contraction.

Table 1. Gross-fixed capital formation (GFCF), 2018–2019

Sector	*Q1*	*Q2*	*Q3*	*Q4*	*Year*	*Q1*
Private business enterprises	-6.7	-1.3	2.9	-1.4	2.1	-9.8
Public corporations	-15.5	-13.8	-7.9	-5.6	-12.5	16.6
General government	-14.1	-4.3	9.0	-4.1	-4.4	1.6
Total	**-9.3**	**-3.8**	**-0.7**	**-2.5**	**-1.4**	**-4.5**

Source: SARB (2020).

In the year 2018, the president of South Africa embarked on an investment initiative to secure US$100 billion of investments by 2023. In the same 2018, South Africa recorded an increase in foreign direct investment inflows, accounting for close to 18% of foreign direct investment inflows into Africa (SARB, 2020; The National Treasury, 2020).

In the year 2017, foreign direct investment (FDI) was at US$1.3 billion and in 2018, it increased to US$7.1 billion. This shows a significant increased in FDI within a year.

2.3. Unforeseen disruption in an economy

This subsection considers the negative economic shocks that the coronavirus pandemic sparked both globally and regionally. This subsection discusses the global economy economic impact because this is important to an open economy such as South Africa. Therefore, the subsection further discusses the COVID-19 impact on South Africa's economy.

The IMF's most recent global economic growth projections point to a negative output shock from the pandemic that exceeds the global financial crisis's impact, making this the most severe global recession since the Great Depression (IMF, 2020).

The IMF predicts the global economy to contract by 3 percent in 2020. The magnitude of this predicted downturn dwarfs the annual downturn from the global financial crisis in 2009, where a contraction in global output of 0.1 percent was observed (Dingel & Neiman, 2020). Acknowledging that these projections may be revised, it is worth noting that the downturn is expected to be more severe in advanced economies relative to emerging markets and developing economies with a projected contraction in output of 6.1 and 1 percent, respectively, in 2020 (Adam, Henstridge, & Lee, 2020).

According to the National Treasury (2020), South Africa entered 2020, and the COVID-19 crisis period, on the back of a weak economic growth record, having experienced a technical recession in the final two quarters of 2019. Growth declined by 0.8 percent in quarter 3 of 2019 and by 1.4 percent in quarter 4 (SARB, 2020). Analysis indicates that a confluence of many factors fed into this weak economic performance, including network industry failures — particularly constraints in electricity supply; low consumer and business confidence; declining consumer spending and fixed investment spending; further deterioration of the financial condition of state-owned enterprises (SOEs); policy inertia; and slow implementation of proposed "structural reforms" (Nuru, 2020). These weak fundamentals are unlikely to disappear in the near term. Indeed, in some cases, these economic fundamentals may worsen, thus adversely affecting the economy's ability to absorb the negative impacts of the lockdown and the pandemic and prevent a quick recovery from the predicted recession (Arndt et al., 2020). Lockdowns and workplace closures disrupt supply chains and lower productivity, while purely in terms of the level of infections, can also disrupt labour supply (The National Treasury, 2020). Lockdown restrictions also cause a significant contraction in consumer demand for both goods and services. Beyond the country's borders, the disruption to production and supply chains and the collapse of commodity prices work to lower domestic exports significantly. In contrast, lower domestic demand reduces imports commensurately, or even more so (Joshua, Adedoyin, & Sarkodie, 2020). Examining the external-factors-led growth hypothesis for the South African economy. Together these factors all result in reduced business confidence, investment appetite, and firms' ability to invest over the medium and long term (Lu, 2020). More particularly in the private sector, significant employment losses and reductions in real wage growth and real disposable income place further pressure on consumer demand (Karim, 2020). The below table shows GDP projections for South Africa.

Table 2. GDP projections

Source	*Date of forecast*	*2019*	*2020*	*2021*
Treasure Budget	February 2020	0.6	0.9	1.3
HSBC	February 2020	0.2	-6.7	4.0
BER	April 2020	–	-9.5	3.0
SARB	April 2020	0.2	-5.8	2.2
IMF	April 2020	02	-5.8	4.0
Average		**0.3**	**-7.0**	**3.3**

Source: IMF (2020).

3. RESEARCH METHODOLOGY

This article is aimed at tabling the nature of the investment climate in secondary cities, focusing on public investment. Therefore, data was gathered across two cities in KwaZulu-Natal province, namely the city of Richard's Bay and Newcastle, and using the Trade and Investment Department of KwaZulu-Natal (TIKZN) as an investment promotion agency within the province. The analysis is primarily aimed at examining the investment climate of the aforementioned cities.

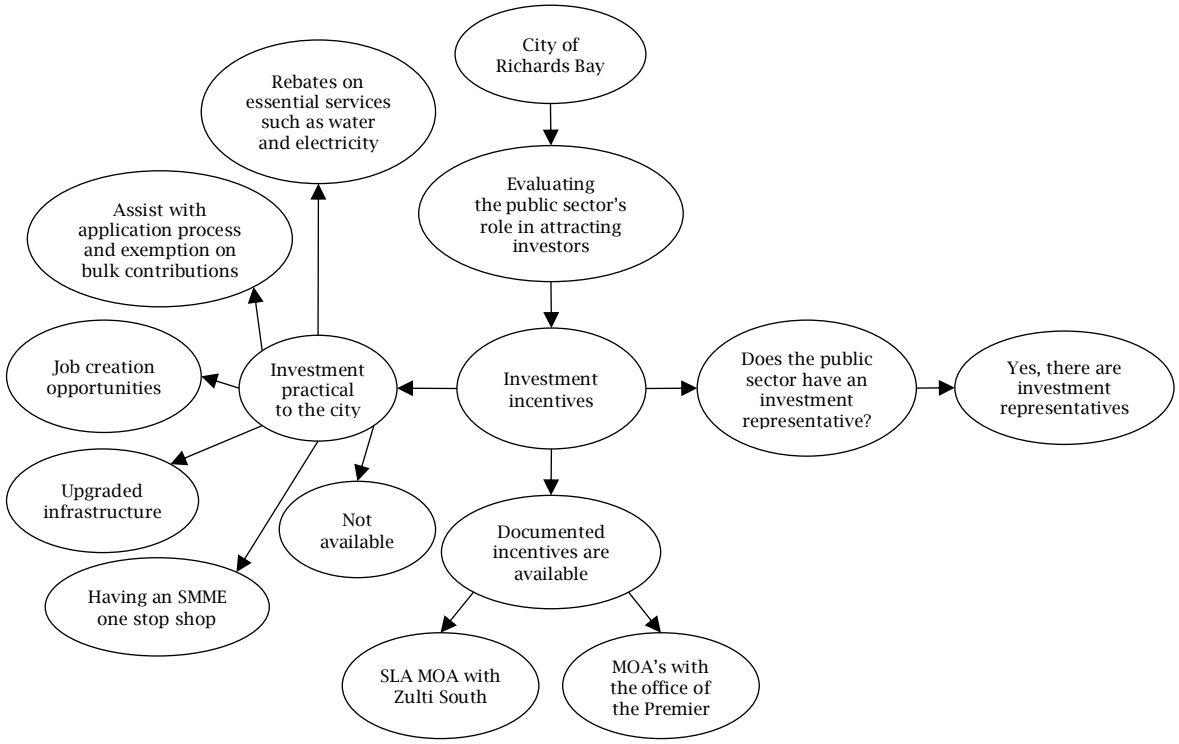
This article was extracted from a doctoral study. The study followed a qualitative research approach. The study utilised a purposive sampling method on 23 respondents. Data was collected through semi-structured interviews and analysed with the aid of NVivo version 12. After data collection, the authors transcribed data into a Microsoft Word document. This was followed by coding into themes and sub-themes through models. The themes were then analysed and categorised by investigating the patterns and categories. The outcomes of the analysis were then displayed in models to visualize the themes and relationships.

4. RESULTS AND INTERPRETATION OF RESULT

The results of the data analysis will be presented in three models per question to show the results from the three groups of respondents, (i.e., the city of Newcastle, the city of Richards Bay, and TIKZN), and the conclusion to each question will be stated below. The twelve below identified themes are aim at answering the aforementioned research questions.

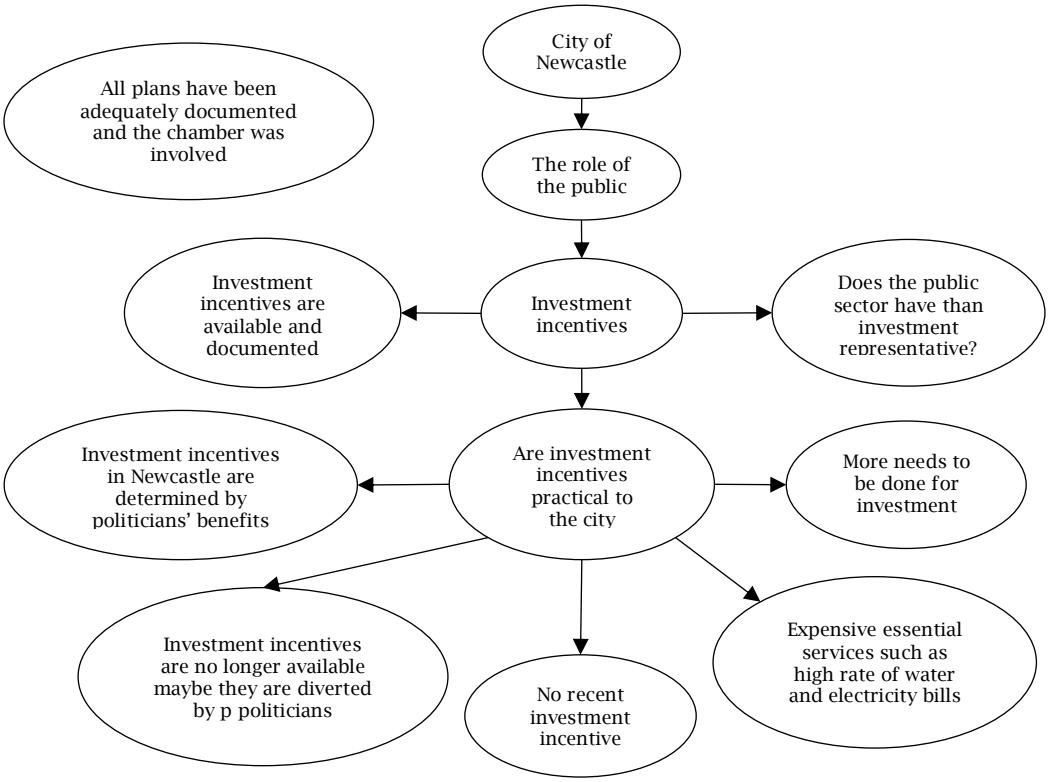
The model below outlines investment incentives from the Richards Bay perspective (Figure 1). This model aims to understand the investment climate of Richards Bay as the identified city for this article.

Figure 1. The available investment incentives provided at Richards Bay



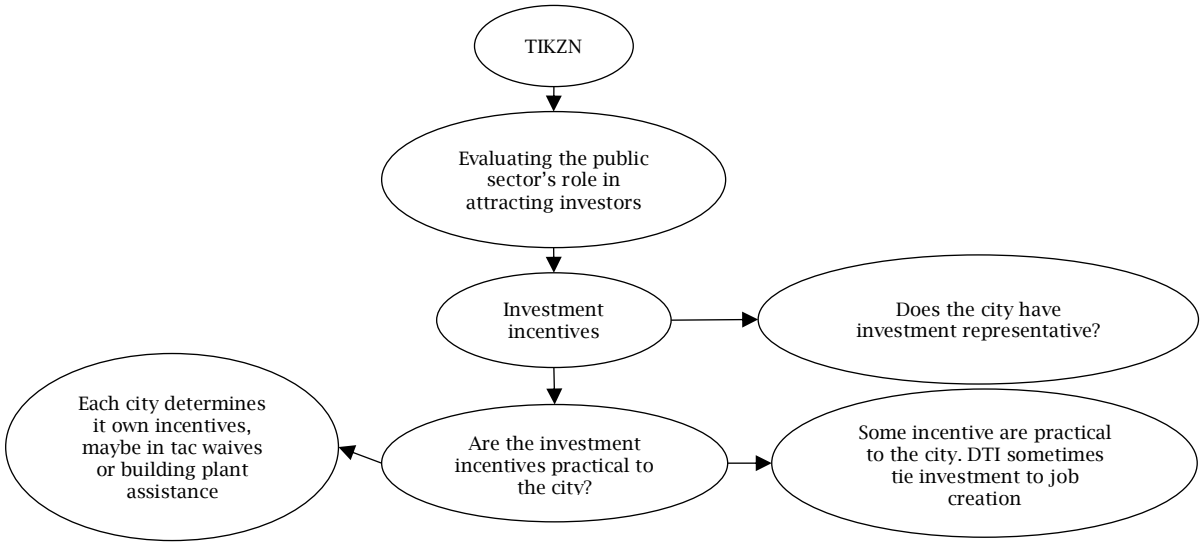
The model below outlines investment incentives from the Newcastle perspective (Figure 2). This model aims to understand the investment climate of Newcastle as the identified city for this article.

Figure 2. The available investment incentives on offer at Newcastle



The model below illustrates investment incentives from the TIKZN perspective (Figure 3). This model aims to understand the investment climate of both Richards Bay and Newcastle from the viewpoint of the investment promotion and facilitation agency.

Figure 3. The available investment incentives by the secondary cities from TIKZN perspectives



City of Richards Bay investment incentives: Investment incentives practical to the city — Rebates on essential services such as water and electricity, assistance with application processing and exemptions on bulk payment contributions, job creation opportunities, upgraded infrastructure, having an SMME one-stop-shop, none available. Documents available — Service Levy Agreement (SLA) Memorandum of Agreement (MOA) with ZULTI SOUTH, and MOA's with the premier's office. Does the public sector have investment representatives? — Yes, there are investment representatives.

City of Newcastle: Investment incentives practical to the city — Investment incentives are no more available maybe it's been diverted by politicians, business incentives at Newcastle are determined by politicians' benefits, and no recent investment incentive drive due to the low financial strength of the city of Newcastle, expensive essential services, such as high rate of electricity and water bills and more needs to be done for investment incentives. All plans have been adequately documented, and the chamber was involved.

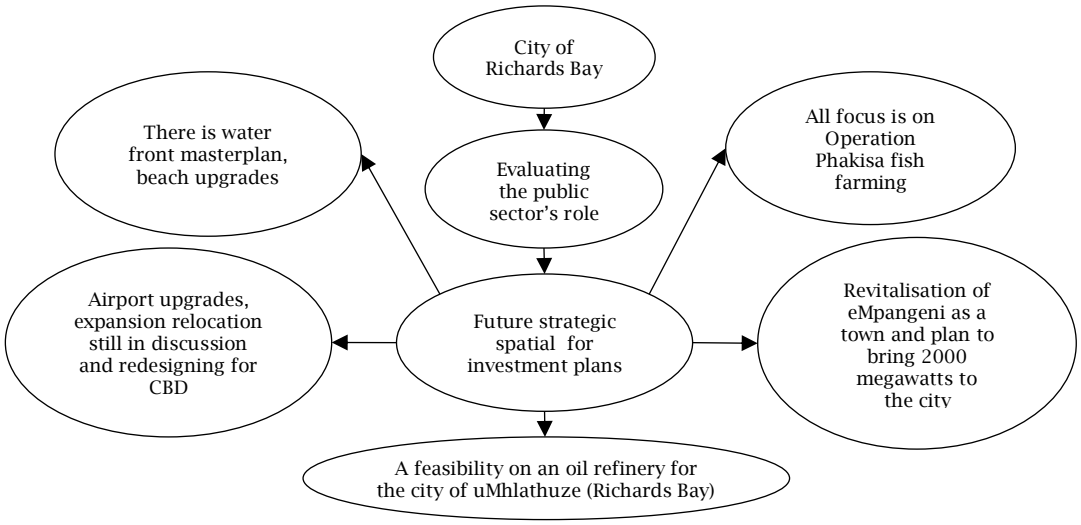
TIKZN: Investment incentives practical to the city — Each city determines its own incentives, maybe in tax waivers or building plant assistance, and some incentives are practical. Department of Trade and Industry (DTI) sometimes ties investments to job creation.

Investment incentives are determined by the city itself. Then, the city needs to decide how badly they need the Investment and what they are willing to trade off to attract their city investments. They also need to review their investment incentive strategy to be more attractive.

In summary, the city of Newcastle continues to suffer more in terms of investment attraction to the city. From the foregoing, it is evident that there is a communication gap between the stakeholders of policymaking from the national to the local spheres. Politicians and municipal officials, unions, and local residents must be consulted to formulate and implement investment policy.

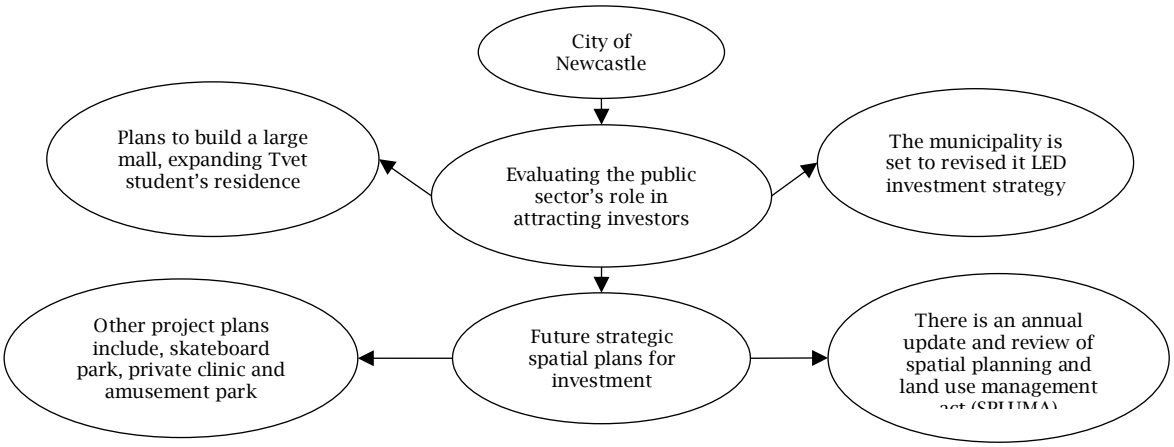
The model below shows the spatial, strategic plans for future investment in Richards Bay (Figure 4). This model aimed to highlight plans, programs, and projects that are in the pipeline for future investment in Richards Bay.

Figure 4. The future spatial, strategic plans for investment in Richards Bay



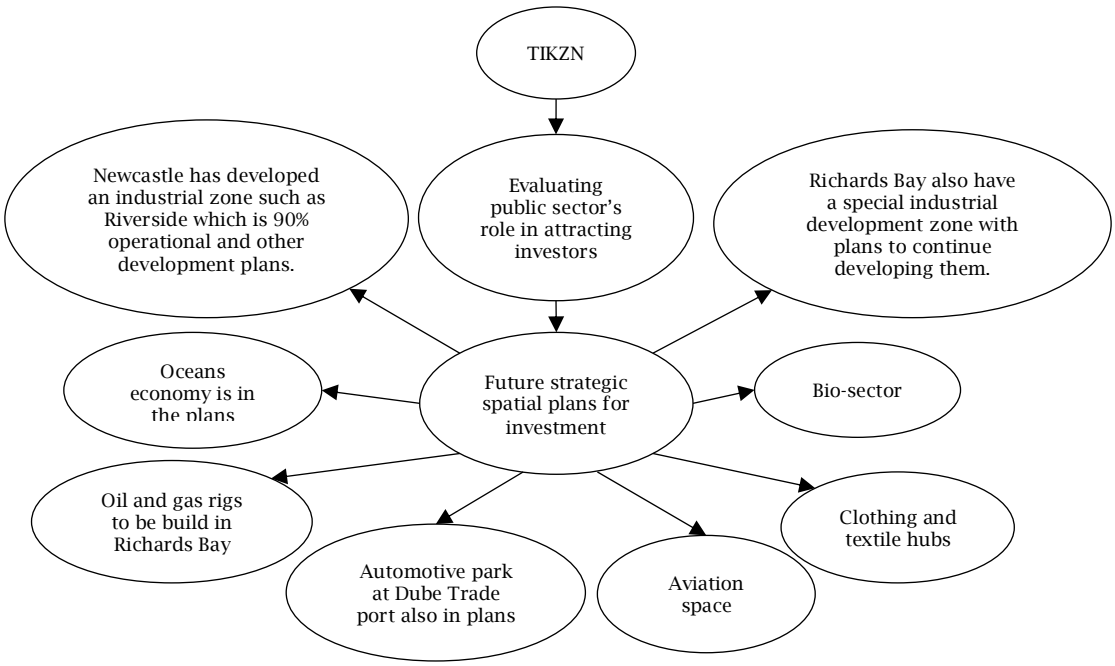
The model below shows the spatial, strategic plans for future investment in Newcastle (Figure 5). This model aimed to highlight plans, programs, and projects that are in the pipeline for future investment in Newcastle.

Figure 5. The future spatial plans and strategic plans for investment in Newcastle



The model below shows the spatial and strategic plans for future investment in Newcastle and Richards Bay (Figure 6). This model aimed to highlight plans, programs, and projects that are in the pipeline for future investment for both Newcastle and Richards Bay.

Figure 6. The future spatial, strategic plans for investment from the TIKZN perspective



The city of Richards Bay: Future spatial, strategic plans for investment — There is a waterfront master plan, beach upgrades, airport upgrade expansion relocation still in discussion and re-designing for CBD, a feasibility study on an oil refinery for the city of uMhlathuze, revitalization of Empangeni as a town and a plan to bring 2000 megawatts to the city and all focused on operation Phakisa-fish farming.

The city of Newcastle — Plans to build a large mall expanding technical vocational education and training (TVET) colleges and students' residents, other project plans include a skateboard park, private clinic, and amusement park, there is an annual update and review of spatial planning, and land use management act (SPLUMA) and municipality are set to revise its LED investment strategy.

TIKZN — Newcastle has developed special industrial zones, such as Riverside, which is at 90% operational, and other development plans too. Oceans economy is in the plans, oil, and gas rigs are to be built at Richards Bay, an automotive park at Dube trade port is also in the plans, aviation space (aerotropolis), clothing and textile hubs, bio-sector, and Richards Bay have a special industrial development zone The Richards Bay Industrial

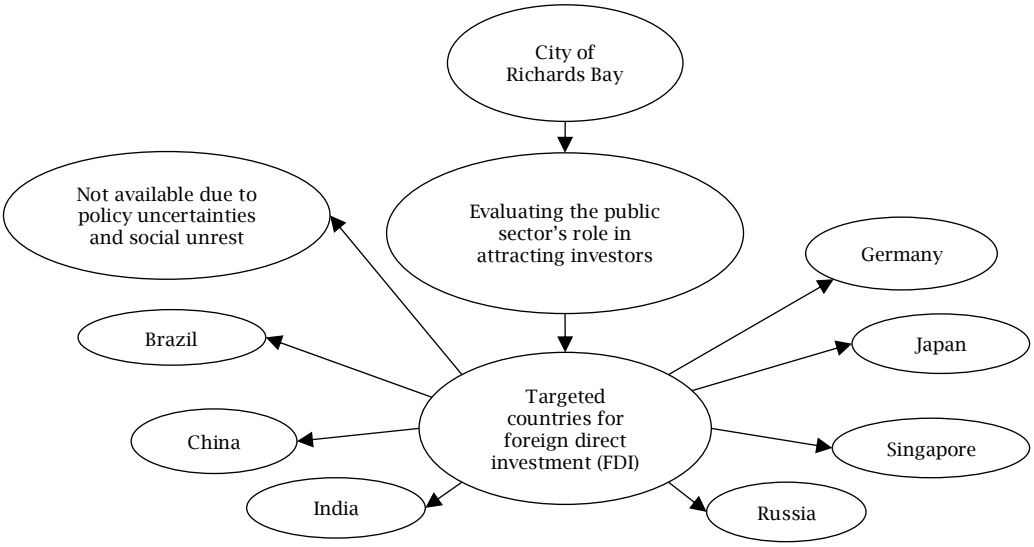
Development Zone (RBIDZ) with plans to continue developing them.

Both cities have great future investment plans, that if managed well, should transform the cities into metropolitan cities. The key issue is proper management of the projects to come to fruition.

This article notes that more elephant projects are concentrated in Richards Bay city compared to Newcastle city. This shows that Richards Bay has more investment potential than Newcastle. However, Newcastle may attract more patronage considering its large population and predominant textile and fabric market.

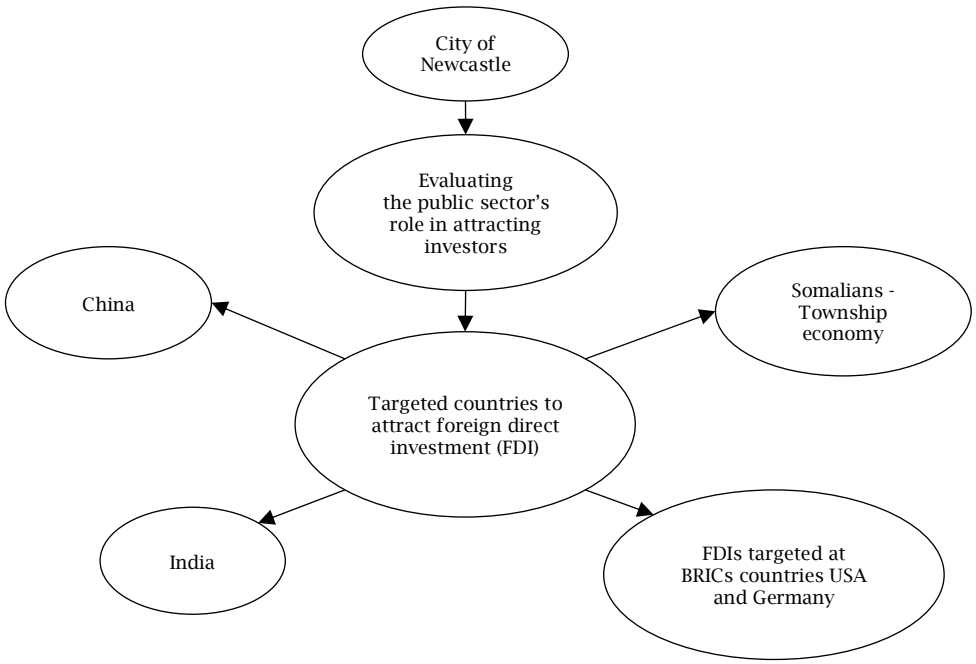
The model below shows the targeted countries to attract foreign direct investment in Richards Bay (Figure 7). This model is aimed to present countries that Richards Bay targets for foreign direct investment.

Figure 7. The targeted countries to attract foreign direct investment at Richards Bay



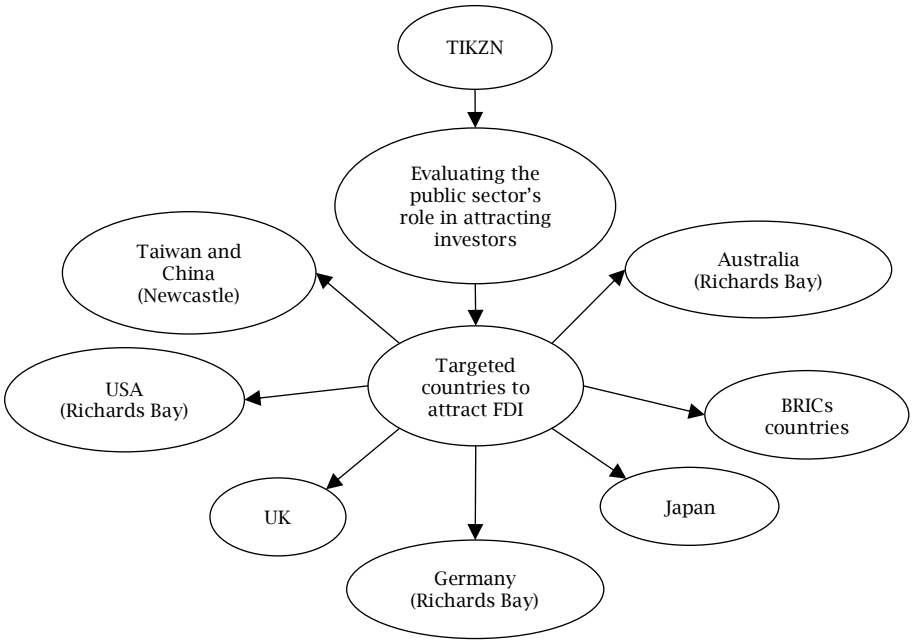
The model that shows the targeted countries to attract foreign direct investment in Newcastle is illustrated in Figure 8. This model is aimed to present countries that Newcastle targets for foreign direct investment.

Figure 8. The targeted countries to attract foreign direct investment in the city of Newcastle



The model below shows the targeted countries to attract foreign direct investment for Newcastle and Richards Bay (Figure 9). This model is aimed to present countries that Newcastle and Richards Bay targets for foreign direct investment.

Figure 9. The targeted countries to attract foreign direct investment from TIKZN perspectives



The city of Richards Bay targeted countries to attract FDIs — The countries include Germany, Japan, Singapore, Russia, India, China, and Brazil. No investment target countries are available due to policy uncertainties and social unrest.

The city of Newcastle — The countries include the BRICS countries, the USA, Germany, and the Somalians-township economy.

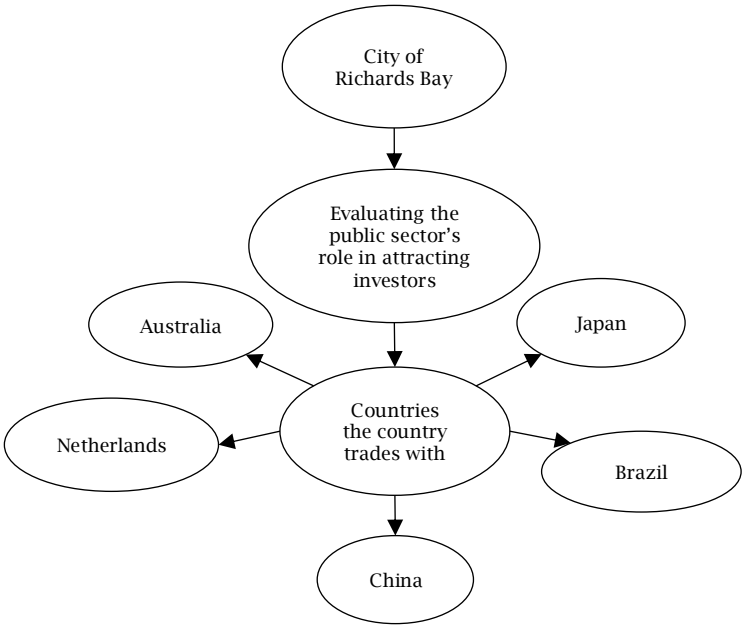
TIKZN — Taiwan and China (Newcastle), the USA (Richards Bay), the UK, Germany (Richards Bay), Australia (Richards Bay), Japan, and the BRICS countries.

The focus is on the BRICS countries, such as Brazil, Russia, China, and India, and after that on other Western countries such as the USA, Germany, Japan, and Australia.

In summary, it is evident from both secondary cities that foreign investment attraction is huge if properly managed. Skills exchange and importation of international technology will aid small, medium, and micro-enterprises in these secondary cities.

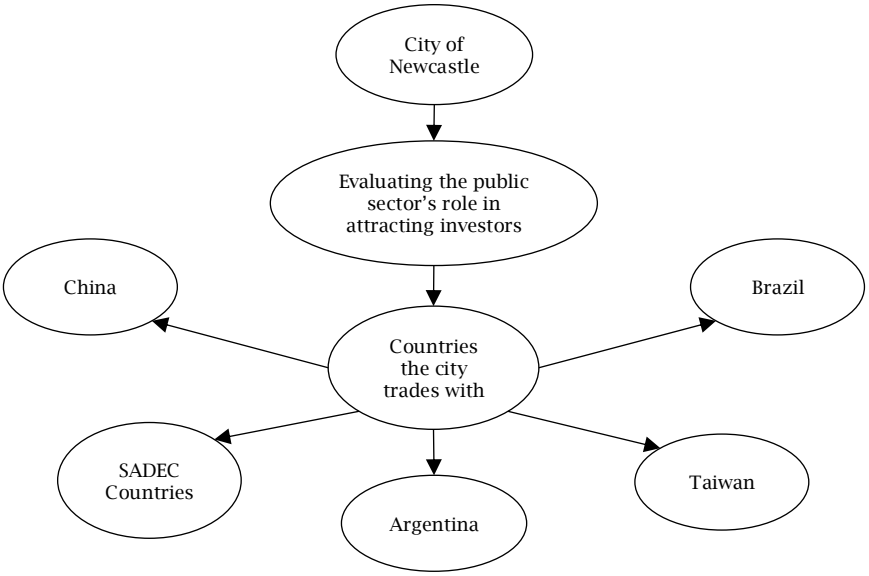
The model that shows the countries that trade with Richards Bay is illustrated in Figure 10. This model is aimed to present countries that trade with Richards Bay.

Figure 10. The countries the city trade with at the city of Richards Bay



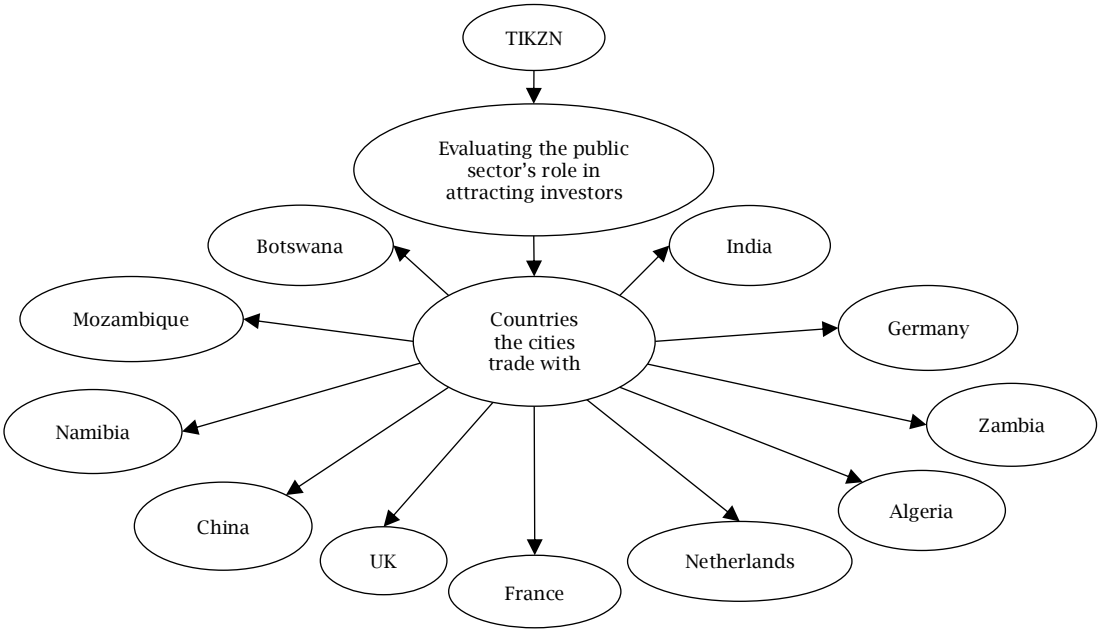
The model that shows the countries that trade with Newcastle is illustrated in Figure 11. This model is aimed to present countries that trade with Newcastle.

Figure 11. The model shows the countries the city trades with at the city of Newcastle



The model that shows the countries that trade with both Newcastle and Richards Bay is illustrated in Figure 12. This model is aimed to present countries that trade with Newcastle and Richards Bay.

Figure 12. The countries the two secondary cities trade with from the perspective of the TIKZN



The city of Richards Bay — Countries the city trades with: Australia, Netherlands, China, Brazil, and Japan.

The city of Newcastle: China, SADEC countries, Argentina, Taiwan, and Brazil.

TIKZN — Botswana, Mozambique, Namibia, China, the UK, France, the Netherlands, Algeria, Zambia, Germany, and India.

Trading involves the BRICS countries and several SADEC and African countries. These countries include Botswana, Mozambique, Namibia, Algeria, and Zambia. Trading is also involved with several Western countries such as the UK, France, Netherlands, and Germany.

In summary, Richards Bay and Newcastle cities have great economic investment opportunities for South Africa, which may impact the GDP growth considering the numerous international networks attracted to these secondary cities.

5. DISCUSSION

5.1. Investment incentives

According to some of the Richards Bay respondents, investment incentives include tax holidays, freedom accommodation for foreign investors, upgraded infrastructures, SMME one-stop-shop, water and electricity rebates, and giving exemptions on bulk payments contributions. However, poor investment incentives in Richards Bay deter investors due to the high cost of social amenities. One of the respondents from Richards Bay posited that *"the incentives available are through the Richards Bay Industrial Development Zone. The city of uMhlathuze is working on packaging its investment incentives. So, the city, for example, does incentivize investors with certain rebates such as in water and electricity"*. In a contrary opinion, another respondent stated that *"There are no incentives; people are paying a high price for the land. The government should be giving incentives, but there is no such even the RBIDZ should be giving incentives"*. This suggests that investment incentives in Newcastle is not practical. Findings also revealed that investment incentives are documented within the municipality, such as SLA's MOA with ZULTI SOUTH and MOA's with the premier's office. Also, the respondents agreed that the public sector has investment representatives that assist with application processing.

Findings from Newcastle suggest that investment incentives are available but not practical to the city due to the city's low financial strength or due to diversion by the politicians. Some of the respondents argued that business incentives at Newcastle are influenced by political gain, which leads to the high cost of essential services such as electricity and water. One of the respondents indicated that *"There are incentives in the city, but politicians act like these incentives belong to them when investors come to the city. So, it is more about personal gain than investment prosperity"*. It was further revealed that Newcastle is burdened with a financial deficit and finds it difficult to practice investment incentives. The respondents opined that *"There are incentives but, currently the city of Newcastle is struggling financially, so they have stopped offering incentives to those who come and invest in the city … For now, it will be hard for the city to package investment incentives because of the current deficit"*. This pathetic situation may be one of the reasons Newcastle is yet to develop. A previous study on over 40 Latin American, Caribbean, and African countries indicated that investment incentives such as lower corporate income tax rates and longer tax holidays significantly attract foreign investors (Klemm & Van Parys, 2011). But this is lacking in Newcastle.

The respondents agreed that more needs to be done for investment incentives in Newcastle. The outcome of the in-depth interviews indicated that investment incentives are adequately documented with the consent of the Chambers. Similarly, investment representatives are also constituted in the public sector.

Perceptions from the TIKZN revealed that each city determines its own incentive packages, which may be building plant assistance or tax waivers. This indicated that tax rebate is a major investment incentive to attract foreign investments into secondary cities. This finding is consistent with the study conducted in Germany by Becker, Egger, and Merlo (2012), in which the researchers investigated how low business tax rates attracted multi-national enterprises in 11,000 municipalities. The researchers found that a one percent reduction in tax rate led to an increase in legally established multi-national firms.

It is argued that some of these incentives are practical and determined by nationally regulated agencies. One of the officials stated that *"The incentives are regulated at the national by the DTI manufacturing grants, black industrialist and sometimes foreign investment grant but these all managed by the head office. Some of these incentives are practical to these identified cities"*. Another respondent agreed that most of the incentives are determined at the national level but argued that these incentives are not practical. *"The incentives are not practical to these cities. Most incentives are at the national level from the DTI"*. As a result of the low budget and dependent on rates, the municipalities do not control the incentives. Consequently, they depend on their rates to package investment incentives. This is corroborated by one of the officials that *"it is difficult for municipalities to have all these incentives by themselves because they survive on rates. Thus, they do not have control over this"*. All the TIKZN respondents agreed that each city or municipality has the right to package its own incentives. Additionally, most of the respondents assert that investment incentives for the two secondary cities are documented. Municipalities in charge of secondary cities need to be attractive in different dimensions to attract foreign investments.

5.2. Spatial, strategic plans for future investment

As part of evaluating the public sector's role in attracting investors into the secondary cities, this article investigated the future spatial, and strategic plans for investment in the secondary cities. The research question was, "What are the spatial, strategic plans for investments?". The respondents from Richards Bay stated some strategic plans, which include a waterfront master plan, beach upgrades, airport upgrade, and feasibility study on an oil refinery in uMhlathuze, and revitalisation of Empangeni town by bringing 2000 megawatts into the city. The following expressions were made by the respondents: *"We are in the process of revitalizing eMpanageni as a town. We also assisting Eskom with their EIA, which aimed to bring 2000 megawatts of power to the city of uMhlathuze"*. The research findings on energy transition are contrary to Bridge, Bouzarovski, Bradshaw, and Eyre (2013) that renewable energy in South Africa has moved from transition to neglect in the way spatial processes structured energy systems. However, McEwan (2017) argued that the South African government has currently begun electricity generation until 2030. Furthermore, one of the respondents explains the current expansion on transportation *"Currently the city of Richards Bay wants to expand the airport. They want to create a proper airport; this is due to businesses around the industrial development zone". "Upgrades on roads, airport expansion and harbour*

expansion, beach upgrades". These research findings confirm the assertion of Arthur (2018), where the researcher opined that Cairo (Egypt), Johannesburg, and Durban (South Africa) are the secondary cities in Africa in terms of airport-city strategy. The airport-city strategy has been identified as a revenue-generating source and foreign investment attraction.

One of the respondents posited that the municipalities heavily rely on TIKZN support to execute these projects, without which the projects may not be realised.

Perceptions from Newcastle indicated a plan to expand the TVET colleges and build a large mall. There is also an annual update and review of spatial planning on the Land Use Management Act (SPLMA). On this note, Turok (2014) posited that the people of South Africa deserve better living conditions through access to the city labour market and well-situated land for settlement. Other project plans include a skateboard park, private clinic, amusement park, and an investment strategy to revise the Local Economic Development Plan.

In a similar vein, respondents from the TIKZN added that there are strategic plans to develop infrastructures that can attract investors to secondary cities. Some of the future strategic plans as confirmed by the TIKZN officials include ocean economy plans, oil and gas rigs, an automobile park at the Dube trade port, aviation space, clothing, and textile hubs, and a bio-sector. This indicates that Newcastle and Richards Bay have future potential to become international cities if these future strategic plans are properly implemented.

5.3. Targeted countries to attract foreign direct investment

Another area of evaluating the public sector's role in attracting investors is ensuring foreign direct investment with trade partners from other countries. Respondents from the city of Richards Bay highlighted some targeted countries of interest in promoting FDI. Some of these countries include Brazil, China, India, Russia, Singapore, Japan, and Germany. Newcastle's findings revealed that FDI is targeted towards China, India, the USA, Germany, Somalians's township economy, and BRICS countries. According to the TIKZN opinions, Newcastle has a FDI interest in Taiwan and China, while Richards Bay targeted the USA, Germany, and Australia. Further, the UK, Japan, and the BRICS countries are targets of both cities. It is worthy of note that the attraction of FDI is a function of available infrastructural facilities, social deliveries, trade policies, and the political atmosphere. One of the respondents from Richards Bay posited that Richards Bay started an FDI target before Singapore. Today, Singapore is the fastest-growing economy in the world because it goes outside its shores to attract investors. However, the major problem with Richards Bay is land accessibility and power supply, which deter investors, *"The funny thing about Singapore is that they started after Richards, and they are now one of the fastest-growing economies in the world. They do go to outward missions to try to attract investors; the problem starts when investors come and the issues around land accessibility power supply surfaces. That's the problem"*.

5.4. Countries involved in trade with the secondary cities

The public sector also plays a pivotal role in promoting trading partners from other countries. The question stated was "Which countries does the city trade with the most?". According to the respondents in Richards Bay, some of the countries that the city currently trades with are Australia, Netherlands, China, Brazil, and Japan. Respondents from Newcastle also posited that the city's trading partners are found in China, Argentina, Taiwan, Brazil, and the SADEC countries. From the TIKZN perspective, most of the trading partners with the secondary cities are located in Botswana, Mozambique, Namibia, China, the UK, France, the Netherlands, Algeria, Zambia, Germany, and India. It is important to note that Richards Bay and Newcastle cities have great economic investment opportunities for South Africa, which may impact the GDP growth considering the numerous international networks attracted to these secondary cities. Thus, China appears to be the most dominant trade partner with the secondary cities. This mirrors the high rates of Chinese investors in KwaZulu-Natal, South Africa. It is evident that the public sector has significantly attracted some trading partners into the secondary cities. According to Cejudo and Michel (2017), trading investors contribute to the development of the host nation through technology transfer or skills and the GDP. The researchers noted some of the global trading partners that have impacted various economies, which include Sony and Philips in Malaysia, Mobile Petrochemical in Indonesia, General Motors in Brazil, and Ford in Mexico.

5.5. Proposed recommendations from the findings

Investigations into the public sector's role in attracting investors into the secondary cities revealed that there are no investment incentives practical to the secondary cities. The reason was attributed to the poor financial strength of the cities and the high cost of essential services such as electricity rates and water bills. This article recommended that the investment incentives schemes be reviewed and made practical for business attraction in each city. TIKZN and other investment regulatory bodies need to ensure that municipalities in charge of each emerging city implement a trade-off policy on import and export duties and establish foreign direct investments to encourage investors. However, political leaders, union leaders, community residents, and respective stakeholders must be consulted before such an investment policy can be formulated.

Findings revealed that the selected secondary cities have their investment report documented and readily available. Also, the outcome of the qualitative analysis suggests that each city demonstrated the involvement of Chambers of Commerce as investment representatives.

Spatial strategic plans for future investment include a waterfront master plan, beach upgrades, a feasibility study on an oil refinery, 2000 megawatts city plan, an automotive park, aviation space (aerotropolis), clothing and textile hubs, expansion of TVET colleges, private clinic, special industrial development zone IDZ and amusement parks. Evidence suggests that the secondary cities have future economic viability to become smart,

transformative cities in South Africa. Smart cities have been described as a key policy approach adopted by governments of various countries to address urban challenges (Haarstad, 2016).

The outcome of the in-depth analysis indicated that some of the targeted countries to attract FDI into the emerging markets include Germany, Japan, Singapore, Russia, India, China, and Brazil, BRICS countries, the USA, Germany, and the Somalians-township, Taiwan and the UK. It is interesting to note that South Africa has been spotted as having the potential of Africa to play a key role in global economic growth and development in relation to Brazil, Russia, India, and China (Biyase & Rooderick, 2018).

In terms of countries in trade partnerships with the secondary cities, findings revealed that Australia, the Netherlands, China, Brazil, Japan, SADEC countries, Argentina, Taiwan, Botswana, Mozambique, Namibia, the UK, France, Algeria, Zambia, Germany, and India. Regarding sister city partnerships in other countries, Richards Bay has partnerships with Brazil, China, Mozambique, and Milwaukee in the US. But the city of Newcastle is not economically viable in terms of sister-city partnerships. Despite some deficiencies in Newcastle, these findings revealed that the public sector's role is significant in relation to international trade partnerships. This study recommends that the South Africa government adopt a strategic policy on trade partnerships, particularly for secondary cities. Besides, strategic policies on trade partnerships between Europe and Africa are found to be instrumental for international development (Murphy & Walsh, 2013).

According to the TIKZN, the South African Embassy or Consulate is the sole representative body for all cities' partnerships. Findings suggest that these cities are represented locally, which hinders the international recognition and development of these secondary cities from becoming smart cities. It is suggested that municipalities in charge of different cities be empowered to negotiate independently with international trade partners for local benefits. This will promote indigenous knowledge and skills through technology transfer.

6. CONCLUSION

The article discussed investment climate from a generic perspective from the global context to the South African context. Also, this article provided a clear depiction of secondary cities in reference to the purpose of this article. Secondary cities play a very important role in supporting primary cities with a variety of elements of the economy such as labour supply and transport network links. However, they receive less priority from the national government in terms of investment incentives. This is evident in this article that the identified secondary cities are still dependent on the national government. The trail of the investment climate in secondary cities shows a similar nature to South Africa's investment climate or outlook. This is evident with countries South Africa trades with, which are similar to the ones the identified trade with. In terms of targeted countries to attract FDIs into the emerging markets, findings indicated that policy uncertainties and social unrest discouraged the attraction of FDIs from the targeted countries into the emerging cities. Further research can advance the impact of politics in governance in relation to FDIs. In terms of strategies to attract and balance investment, strategic location, and good road network, upgrading infrastructures, guaranteeing safety, and political will were found to be lacking in emerging cities. Consequently, investors are deterred from taking a business interest in emerging cities. The limitations identified in this article include the struggle to access the government executives interviewed in the study. Also, as highlighted in the introduction there is a gap in data and literature pertaining to the investment climate in secondary cities. Most of the data and the literature reviews accessible focus on primary cities. There is a need for future studies to investigate the implementation of government legislation on spatial strategies and the geographical location of CBDs in South Africa.

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