

Industrials, Manufacturing & Trade and Tax & Exchange Control



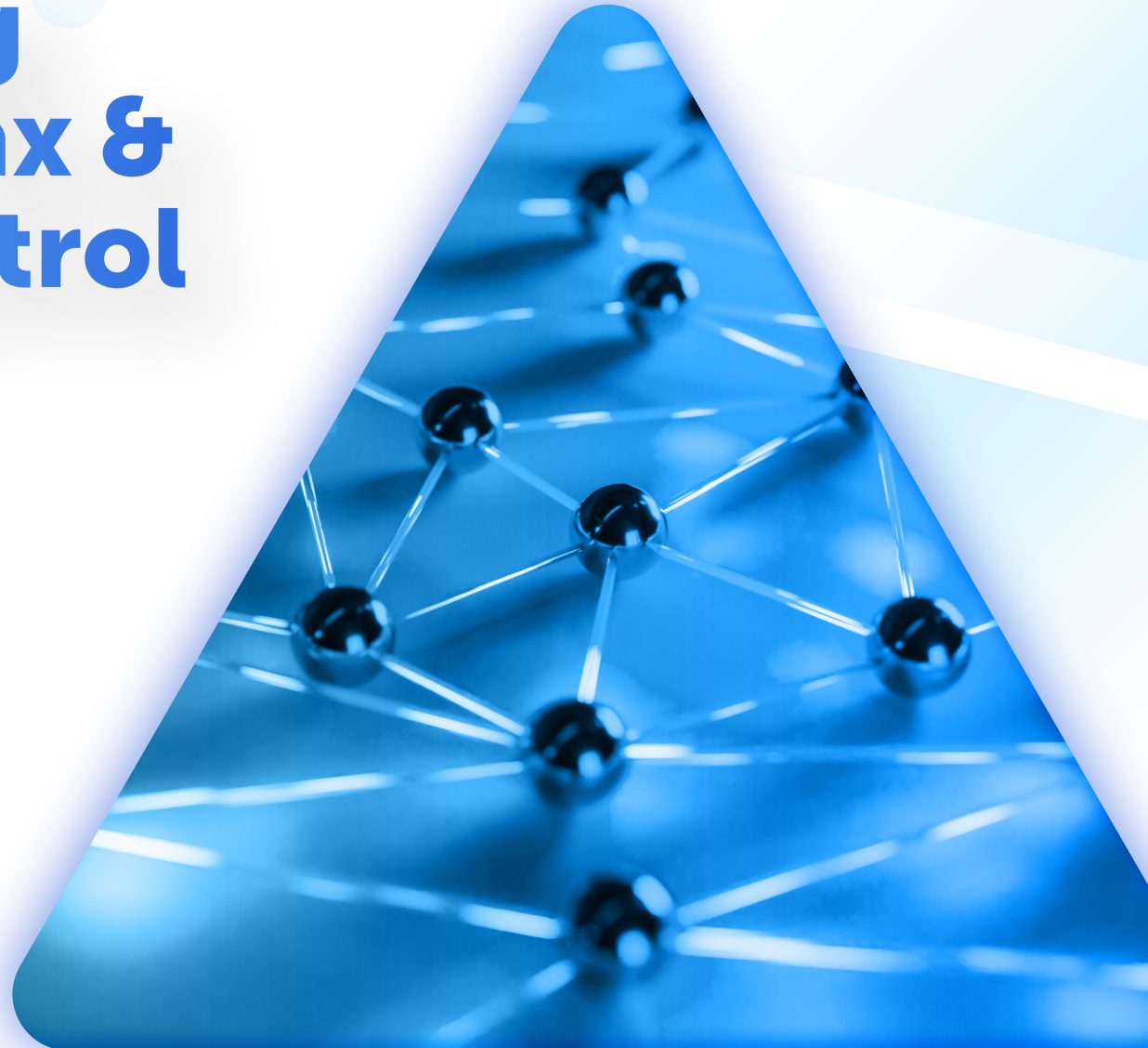
16 July 2026

South Africa

- South Africa remains an industrial titan, but the trajectory has shifted



For more insight into our
expertise and services



South Africa remains an industrial titan, but the trajectory has shifted

The African Development Bank's 2025 Africa Industrialisation Index (AfDB Index) has produced a result that deserves more nuance than most commentary has given it. For the first time since the index was launched in 2010, Morocco has edged past South Africa to claim the top ranking. The margin was negligible – a difference of 0.0019 points – but the trend it reflects should not be dismissed on that basis.

South Africa is the continent's largest, most sophisticated and most diverse industrial economy, accounting for roughly 14% of Africa's total manufacturing value-added and the overwhelming share of southern Africa's output. Its heavy industry, automotive manufacturing, financial system, engineering depth and R&D capability remain unmatched on the continent. None of that changed overnight.

However, The African Development Bank's 2025 Africa Industrialisation Index (AfDB Index) has produced a result that deserves more nuance than most commentary has given it. For the first time since the index was launched in 2010, Morocco has edged past South Africa to claim the top ranking. The margin was negligible – a difference of 0.0019 points – but the trend it reflects should not be dismissed on that basis.

What the index has surfaced, is a divergence in trajectory: South Africa's industrial base has not contracted, but its competitive position is being eroded – steadily, cumulatively and largely through failures of execution rather than any deficit of capability.

A moment that crystallised the contrast

Nowhere was this more apparent than at the DEVAC SEZs & Economic Zones Conference in December 2025, sponsored by CDH. On stage, Mounir Lymouri, Mayor of Tangier, presented *"The Tangier Experience"*: a tightly co-ordinated industrial ecosystem anchored by the Tanger Med Special Agency, where land, ports, licensing and investor approvals are centralised under a single authority. Behind him stood a single, coherent institutional identity. Around the conference hall, the South African backdrop told a different story – a collage of national, provincial and municipal actors, each playing a role, but rarely acting as one. The contrast was structural, not cosmetic.

Scale vs trajectory: What the AfDB Index is really saying

The AfDB Index blends industrial output with execution drivers: infrastructure reliability, regulatory efficiency, policy certainty and the business environment. On the composite score, South Africa and Morocco are virtually level. The difference lies in direction. Morocco has recorded a steady, policy-driven ascent over 15 years, powered by export-led manufacturing, logistics integration and disciplined execution. South Africa, on the other hand, has experienced a gradual erosion from a very high base – not because its industrial capacity has diminished, but because cumulative friction across governance, regulation and infrastructure has steadily weighed on performance. That is how a country can remain Africa's industrial giant and still cede first place.

Why governance now matters more than physical scale

In an era of global supply chain restructuring, modern manufacturing is increasingly mobile. Capital flows not simply to the largest economy or the lowest-cost base, but toward speed of execution, regulatory certainty and institutional co-ordination. This is where the governance architecture surrounding South Africa's special economic zones (SEZ) warrants close scrutiny. The Special Economic Zones Act 16 of 2014 created a well-intentioned but multi-layered governance structure, distributed across national, provincial and municipal spheres of government. One-stop shops exist within designated zones, but they largely perform a facilitation and referral function rather than exercising decisive approval authority.

In practice, an investor seeking to establish operations in a South African SEZ must still navigate parallel and often sequential approval tracks – environmental authorisations under the National Environmental Management Act 107 of 1998, municipal zoning and land-use approvals, water-use licences, building plan approvals and sector-specific regulatory clearances – each governed by a different authority, operating on a different timeline and applying a different set of criteria. Taken individually, no single process is unreasonable. The problem is their accumulation: the compounding of individually defensible steps into a collective timeline that erodes investor confidence and delays the point at which capital becomes productive.



Morocco's Tanger Med model represents a fundamentally different institutional philosophy. The Tanger Med Special Agency operates as a single authority with consolidated decision-making power across land allocation, port access, licensing and investor approvals. By centralising these functions under one institutional roof, Morocco compresses project timelines from years to months and materially reduces the regulatory risk that global manufacturers price into their investment decisions. That structural difference – one interface versus many – carries real competitive consequences in global value chains, where speed to market and predictability of execution increasingly determine where capital lands.

Tax incentives

Governance complexity, however, is only part of the story. The tax framework that sits inside South Africa's SEZs is genuinely competitive -- but it carries its own friction. The base of the framework is a preferential corporate income tax rate of 15% and an accelerated building allowance of 10%. And while these incentives were designed to attract genuine productive investment into designated zones, they seemed to serve as a vehicle for profit-shifting by companies that simply route income through a zone-based entity while conducting their real operations elsewhere.

It was precisely this concern that gave rise to section 12R(4)(c) – the “20% *connected-party rule*” – which disqualified a company from qualifying status if more than 20% of its deductible expenditure or gross income arose from transactions with connected persons resident in the Republic or with permanent establishments of non-resident connected persons. The rule was, in principle, a legitimate anti-avoidance measure. Its logic was straightforward: a company that derives the overwhelming majority of its economic activity from dealings with related parties outside the zone is not genuinely operating within it – it is merely using the zone as a tax address.

In practice, however, the rule proved blunt to the point of being counterproductive. Modern industrial investment rarely operates in isolation. Manufacturers embedded in global value chains depend on intra-group procurement, shared services, centralised treasury functions and integrated logistics – all of which can generate connected-party flows that are entirely commercial in nature. A component manufacturer supplying its parent group's assembly plant, or a zone-based entity purchasing raw materials from a related trading house, would routinely breach the 20% threshold despite conducting genuine, arm's-length business. The rule thus penalised vertical integration and discouraged the very clustered supply chains that SEZs are designed to attract.

Government recognised this structural tension. The 2026 Budget proposal to replace the blunt 20% threshold with an arm's-length transfer pricing test is therefore significant. Rather than disqualifying a company on the basis of the volume of its connected-party dealings, the new approach asks the more commercially relevant question: are those dealings priced at market-related terms? This shifts the framework from suspicion-based exclusion to commercial realism – and it is directionally aligned with where international tax is heading. The Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) framework has long established arm's-length pricing as the global benchmark for intra-group dealings, and with South Africa



confirming in the 2026 Budget that updated Pillar 2 global minimum tax rules will be implemented in 2026/27, the domestic reform is timely. There is, however, a Pillar 2 nuance worth watching: South Africa's 15% SEZ rate sits precisely at the global minimum tax floor. For large multinationals with annual revenues exceeding EUR 750 million, the benefit survives — but only just. Any erosion of the effective rate through the compounding effect of allowances and deductions risks triggering top-up taxes in investors' home jurisdictions, silently reclaiming what South Africa has given. The margin for error is narrow.

Even then, the deeper problem is not the connected-party rule in isolation — it is a pattern. Both the preferential 15% rate and the accelerated building allowance contain sunset clauses, ceasing to apply for years of assessment commencing on or after 1 January 2031. A prospective investor making a 15- to 20-year capital commitment today faces genuine uncertainty beyond that date. And the sunset is not an anomaly: it runs like a thread through the entire incentive architecture. The section 12I additional investment allowance — which at its peak offered a 100% deduction for greenfield manufacturing projects — closed to new applicants in March 2020. The enhanced renewable energy allowance under section 12BA, providing a 125% deduction for qualifying assets, expired in February 2025. The broader suite is genuinely rich: section 12C's accelerated depreciation for manufacturing plant, the 150% R&D deduction under

section 11D, learnership allowances under section 12H, the Employment Tax Incentive for young workers, and duty-free importation of production inputs for Industrial Development Zones. But richness and permanence are different things.

The contrast with Morocco sharpens the point. Morocco's incentive framework does not try to do everything. An initial tax holiday, followed by a sustained reduced rate over a 20-year horizon anchored in its 2022 Investment Charter, with a single qualifying condition tied to export orientation. No stacking complexity. No sunset anxiety. No rules that shift mid-investment. Which raises a question worth considering: is less more? South Africa's incentive buffet is varied, frequently refreshed and impressively comprehensive — but an investor cannot rely on a menu that changes while they are still at the table. South Africa seems to offer everything to attract capital and not enough that is permanent to keep it invested. Morocco may be proving the opposite: that one credible, long-term commitment beats a complex suite of time-limited tools. One need not throw everything and the kitchen sink at investors to win. Sometimes the most powerful signal is simply knowing that the rules will still be there.

Energy, carbon and the next competitive frontier

The index also looks forward. Morocco has invested aggressively in renewable energy, enabling its SEZs to offer lower-carbon manufacturing platforms



through MASEN-enabled solar and wind capacity. As Europe's Carbon Border Adjustment Mechanism (CBAM) tightens, this is no longer an ESG issue, it is a trade and margin issue. South Africa's carbon-intensive grid remains a structural headwind, despite ongoing reforms to private generation and wheeling. Until clean energy access becomes routine for industrial exporters, carbon will continue to erode competitiveness at the border.

South Africa's Government is aware of the imperative: private renewable energy projects and power wheeling to industry are gradually being enabled. But for now, the absence of accessible, reliable green power in SEZs is a structural disadvantage in the global race for sustainable industrial investment – one that compounds over time as CBAM tightens.

The real takeaway: A wake-up call

The AfDB Index should be read for what it is: a warning, not a verdict. South Africa still possesses everything required to reclaim momentum – deep capital markets, advanced manufacturing, world-class engineers and institutional depth. But the window is not indefinite, and time lost to institutional drift and regulatory friction is not easily recovered. What is now required is execution discipline across three fronts:

- **Simpler SEZ governance:** Empower a genuinely integrated SEZ authority to act as a single decision-maker across environmental, licensing and municipal approvals, compressing timelines and reducing investor risk.
- **Commercially aligned and durable tax rules:** Enact the arm's-length transfer pricing reform proposed in the 2026 Budget, and commit to legislating incentive certainty. A complex suite that keeps refreshing is not the same as a reliable one. Investors need to know the rules will be there when their capital matures – not discover mid-investment that the locks have changed.

- **Integrated energy solutions:** Embed renewable energy infrastructure into SEZ design and enable power wheeling for industrial users, so South African exports can meet European carbon requirements without penalty.

South Africa's industrial capacity is not in question. What is in question is whether the institutional and policy environment will be reformed with the urgency required to match it. The 2026 Budget has opened a window with the transfer pricing reform and the signals on incentive certainty. Whether that window leads to sustained action or closes again will determine where South Africa sits on the *next index* – *and, more importantly, where the next wave of industrial capital lands.*

Jackwell Feris and Puleng Mothabeng

OUR TEAM

For more information about our Industrials, Manufacturing & Trade sector and services in South Africa, Kenya and Namibia, please contact:

**Jackwell Feris**

Sector Head:
Industrials, Manufacturing & Trade
Director: Dispute Resolution
T +27 (0)11 562 1825
E jackwell.feris@cdhlegal.com

**Tim Fletcher**

Chairperson, Chief Risk Officer
Director: Dispute Resolution
T +27 (0)11 562 1061
E tim.fletcher@cdhlegal.com

**Sammy Ndolo**

Managing Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E sammy.ndolo@cdhlegal.com

**Megan Rodgers**

Managing Partner | Cape Town
Sector Head: Oil & Gas
T +27 (0)21 481 6429
E megan.rodgers@cdhlegal.com

**Aadil Patel**

Practice Head & Director:
Employment Law
Sector Head:
Government & State-Owned Entities
T +27 (0)11 562 1107
E aadil.patel@cdhlegal.com

**Susan Meyer**

Director: Competition Law
T +27 (0)21 481 6469
E susan.meyer@cdhlegal.com

**Petr Erasmus**

Director:
Tax & Exchange Control
T +27 (0)11 562 1450
E petr.erasmus@cdhlegal.com

**Muhammad Gattoo**

Practice Head & Director:
Real Estate Law & Conveyancing
T +27 (0)11 562 1174
E muhammad.gattoo@cdhlegal.com

**Ian Hayes**

Practice Head & Director:
Corporate & Commercial
T +27 (0)11 562 1593
E ian.hayes@cdhlegal.com

**Anja Hofmeyr**

Director:
Dispute Resolution
T +27 (0)11 562 1129
E anja.hofmeyr@cdhlegal.com

**Fiona Leppan**

Director:
Employment Law
T +27 (0)11 562 1152
E fiona.leppan@cdhlegal.com

**Corné Lewis**

Director:
Dispute Resolution
T +27 (0)11 562 1042
E corne.lewis@cdhlegal.com

**Vincent Manko**

Director:
Dispute Resolution
T +27 (0)11 562 1660
E vincent.manko@cdhlegal.com

**Anita Moolman**

Director:
Corporate & Commercial
T +27 (0)11 562 1376
E anita.moolman@cdhlegal.com

**Mashudu Mphafudi**

Practice Head & Director:
Banking, Finance & Projects
T +27 (0)11 562 1093
E mashudu.mphafudi@cdhlegal.com

OUR TEAM

For more information about our Industrials, Manufacturing & Trade sector and services in South Africa, Kenya and Namibia, please contact:



Desmond Odhiambo

Partner | Kenya

T +254 731 086 649

+254 204 409 918

+254 710 560 114

E desmond.odhiambo@cdhlegal.com



Shem Otanga

Partner | Kenya

T +254 731 086 649

+254 204 409 918

+254 710 560 114

E shem.otanga@cdhlegal.com



Allan Reid

Executive Consultant:

Corporate & Commercial

T +27 (0)11 562 1222

E allan.reid@cdhlegal.com



Roxanna Valayathum

Joint Sector Head: Pharmaceuticals

Director: Corporate & Commercial

T +27 (0)11 562 1122

E roxanna.valayathum@cdhlegal.com



Njeri Wagacha

Partner | Kenya

East Africa Lead:

Industrials, Manufacturing & Trade

T +254 731 086 649

+254 204 409 918

+254 710 560 114

E njeri.wagacha@cdhlegal.com



Alecia Pienaar

Counsel:

Environmental Law

T +27 (0)21 481 6343

E alecia.pienaar@cdhlegal.com



Andrew van Niekerk

Consultant:

Banking, Finance & Projects

T +27 (0)21 481 6491

E andrew.vanniekerk@cdhlegal.com



Alistair Young

Director:

Corporate & Commercial

T +27 (0)11 562 1258

E alistair.young@cdhlegal.com



Lauriene Maingi

Associate | Kenya

T +254 731 086 649

+254 204 409 918

+254 710 560 114

E lauriene.maingi@cdhlegal.com



Kelo Seleka

Senior Associate:

Dispute Resolution

T +27 (0)11 562 1926

E keloabetswe.seleka@cdhlegal.com

OUR TEAM

For more information about our Tax & Exchange Control practice and services in South Africa, Kenya and Namibia, please contact:



Emil Brincker

Practice Head & Director:
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com



Patrick Kauta

Managing Partner | Namibia
T +264 833 730 100
M +264 811 447 777
E patrick.kauta@cdhlegal.com



Gerhard Badenhorst

Director:
Tax & Exchange Control
T +27 (0)11 562 1870
E gerhard.badenhorst@cdhlegal.com



Jerome Brink

Director:
Tax & Exchange Control
T +27 (0)11 562 1484
E jerome.brink@cdhlegal.com



Petr Erasmus

Director:
Tax & Exchange Control
T +27 (0)11 562 1450
E petr.erasmus@cdhlegal.com



Dries Hoek

Director:
Tax & Exchange Control
T +27 (0)11 562 1425
E dries.hoek@cdhlegal.com



Alex Kanyi

Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E alex.kanyi@cdhlegal.com



Heinrich Louw

Director:
Tax & Exchange Control
T +27 (0)11 562 1187
E heinrich.louw@cdhlegal.com



Howmera Parak

Director:
Tax & Exchange Control
T +27 (0)11 562 1467
E howmera.parak@cdhlegal.com



Stephan Spamer

Director:
Tax & Exchange Control
T +27 (0)11 562 1294
E stephan.spamer@cdhlegal.com



Tersia van Schalkwyk

Tax Consultant:
Tax & Exchange Control
T +27 (0)21 481 6404
E tersia.vanschalkwyk@cdhlegal.com



Nicholas Carroll

Senior Associate:
Tax & Exchange Control
T +27 (0)21 481 6433
E nicholas.carroll@cdhlegal.com



Varusha Moodaley

Senior Associate:
Tax & Exchange Control
T +27 (0)21 481 6392
E varusha.moodaley@cdhlegal.com



Mariska Delpoit

Associate:
Tax & Exchange Control
T +27 (0)11 562 1574
E mariska.delpoit@cdhlegal.com



Denis Maina

Associate | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E denis.maina@cdhlegal.com



Puleng Mothabeng

Associate:
Tax & Exchange Control
T +27 (0)11 562 1355
E puleng.mothabeng@cdhlegal.com



Naomi Mudyiwa

Associate:
Tax & Exchange Control
T +27 (0)11 562 1113
E naomi.mudyiwa@cdhlegal.com



Charity Muindi

Associate | Kenya
T +254 731 086 649
+254 708 562 546
+254 710 560 114
E charity.muindi@cdhlegal.com



Savera Singh

Associate:
Tax & Exchange Control
T +27 (0)11 562 1575
E savera.singh@cdhlegal.com

BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

PLEASE NOTE

This information is published for general information purposes and is not intended to constitute legal advice. Specialist legal advice should always be sought in relation to any particular situation. Cliffe Dekker Hofmeyr will accept no responsibility for any actions taken or not taken on the basis of this publication.

JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.
Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI

Merchant Square, 3rd floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.
T +254 731 086 649 | +254 204 409 918 | +254 710 560 114
E cdhkenya@cdhlegal.com

ONGWEDIVA

Shop No. 94, Oshana Mall, Ongwediva, Namibia
T +264 (0) 81 287 8330 E cdhnamibia@cdhlegal.com

STELLENBOSCH

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.
T +27 (0)21 481 6400 E cdh Stellenbosch@cdhlegal.com

WINDHOEK

2nd Floor, 4@Steps - East Tower, Hilltop Estate, Kleine Kuppe, Windhoek.
PO Box 97115, Maerua Mall, Windhoek, Namibia, 10020
T +264 833 730 100 E cdhnamibia@cdhlegal.com

©2026 16014/JUL

