

LOCAL ECONOMIC RESPONSES  
TO INDUSTRIAL MIGRATION  
IN SMALL TOWNS

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Submitted in partial fulfillment of the requirements for a Doctoral  
Degree in the Faculty of Human Sciences,  
University of KwaZulu-Natal

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*“To Mukile Winie Ngcobo, my late grandmother  
for her contribution to my life.  
May her soul rest in peace”*

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## **ABSTRACT**

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*This thesis examines how globalization poses immediate and long-term challenges and opportunities for small towns and, as a consequence, for local economic development policy. The authors' perspectives raise vital questions about the shape, substance, and function of small towns in an increasingly interdependent and competitive global economy. The thesis provide both retrospective and prospective insights into the ways in which poverty, industrial migration, economic globalization, and technological innovation affect public-sector choices for small towns approaching the turn of a new century.*

*The central theme emerging from this thesis is that the responses of the past will not necessarily provide a path to the future. Cities must innovate and adapt when seeking solutions to problems caused by rapid changes in their environment. Flexibility and creativity are key to designing public policies to deconcentrate poverty, increase opportunity, and furnish a better quality of life.*

*For example, the continuing loss of jobs and population in many large cities can be reversed only with public policies that profit from the emerging global economy. Cities must strategically adapt to the information age by mobilizing public and private resources to be successful in the new, highly competitive economic environment by coming up with new locally designed economic development interventions in what has been termed local economic development (LED)*

*LED in South Africa's small towns will be driven increasingly by forces of global economic interaction in the 21st century. Whereas the export sector is thriving, international trade and investment creating more and better paying jobs for developed, better-prepared regions, South Africa's small towns have yet to adjust quickly to these and other international forces.*

*As they are unable to grow and prosper, and take advantage of global economic benefits, they are currently faced with numerous challenges of improving their local*

*economic system to attract international investment, provide services and infrastructure to support globally competitive firms, and develop stronger entrepreneurial and technological capacity among small and medium-size companies. Local economic development and community action are essential to expanding and modernizing urban and rural infrastructure, strengthening mechanisms of community cooperation within small towns and fostering public-private partnerships to expand opportunities for employment.*

*Demands for integrating the poor into economic activities has proven to be a vital element of local economic development that build on business-oriented approaches to community development.*

*Using a combination of qualitative and quantitative methodologies (triangulation), data was collected within the framework of participatory approach to social enquiry.*

*Findings of this thesis provided a new perspective in dealing with local economic development and market failure. They also show that not all is worse, as community driven and locally designed economic regeneration programmes provide an alternative to global economic growth.*

## **ACKNOWLEDGMENT**

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The author of this thesis is grateful to the following persons for their assistance during the production of this work:

1. Professor Ari Sitas for his continued support and for giving direction and guidance as a principal supervisor to this thesis
2. Professor Phillip Harrison from the University of Witwaterand for his support for the international comparative study and for his help in attending the International Conference on LED in a post-apartheid South Africa
3. Dr Tony Bins, from University of Sussex for hosting the researcher and for his insightful contribution in the development of perspectives for this thesis
4. Dr Etienne Nel from the University of Rhodes for his support and for providing useful data for this thesis
5. Kathy Leslie for her continued support during editing and presentation of this thesis

## DECLARATION

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*“ This is to declare that, unless clearly stated and acknowledged, this thesis is the exclusive work of the author.*

*It is not a copy or a reproduction of any thesis and has not been submitted at any university before ”*

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## CHAPTER ONE: INTRODUCTION

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### 1.1 BACKGROUND

This thesis is the result of a detailed comparative study offering new perspectives on the future of small towns in the post-apartheid South Africa. It investigated the economic impact of industrial migration to small towns, and describes how small towns responded to economic decline that resulted from industrial migration. It locates debates around industrial migration within the context of globalization. It is an outcome of six years of work undertaken in a number of small (both urban and rural) towns of KwaZulu-Natal.

Interest in the spatial distribution of economic activities began when the researcher was employed by the University of Natal in 1995. It was during the time when the African National Congress (ANC) was in the process of developing its economic policy options for the post-apartheid democratic state and, as a researcher as well as an activist, the author participated in a number of policy research processes as part of the ANC research team.

The author later joined the Ethekwini Municipality as a researcher in Quality of Life studies, and continued with this line of research. Being exposed to the large amount of data created enthusiasm to further manipulate and interpret such data to test different theories and assumptions about local government in a post-apartheid context.

Two years later, in 1999, the researcher participated in a number of policy research processes that were part of the formulation of Provincial Growth and Development Strategy (PGDS), which had been negotiated and agreed to in the Regional Economic Forum (REF) where local economic development became high on the agenda. In this capacity, the researcher coordinated a number of local economic policy research processes undertaken in both the local and national government.

With the support from Professor Phillip Harrison<sup>1</sup> and Dr Tony Bins from Sussex, the researcher was able to formulate the study objectives that focused on economic decline. A

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<sup>1</sup> Phil Harrison is a senior lecturer with the Department of Planning at Wits University

number of international conferences<sup>2</sup> on local economic development were attended and that enabled the researcher to develop the research agenda that was informed by global theoretical discourse on local economic development. In addition, international conferences provided a global perspective on industrial migration, and demonstrated how other regions around the world dealt with the problem of industrial migration.

The choice of this topic was not accidental. Located within the broad framework of economic geography, the thesis had to draw in key postulates and propositions of the location theory, as well as globalization theory in an attempted to describe economic decline in small towns, particularly aspects such as center and periphery, agglomeration effects, localization and the influence of urbanization on economic decision-making.

Though the conventional location theory was relevant, the focus was on globalization theory because it has actually challenged key assumptions of Alfred Weber. The rapid development of new technologies of production, transportation and communication that resulted from global economic integration, are causing a profound reconsideration of the basic tenets of traditional theory. What the conventional theorists argued about the advantage of the center over the periphery is now greatly reduced and goods and services, information and decisions can be transported longer and longer distances with no loss in time, efficiency or cost effectiveness.

## **1.2 THE STUDY OBJECTIVE**

What this thesis attempted to address was a question, which is of great interest to government in the context of economic policy making processes: how to deal with economic decay taking place in small towns? The main objective was to make some contributions towards the discussion on small towns in decline and to the government objective of designing economic policy to deal with declining cities.

The objective was to show that location is no longer the single most important factor in determination of their economic futures. Geographical features such as mountain ranges,

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<sup>2</sup> E.g. International conference of Local Economic Development in a Post-Apartheid South Africa, 2000, University of Sussex, UK

rivers, ports, forests and mineral deposits are no longer the relevant advantages in any international competitive struggle.

Having gained sufficient background and exposure on the crisis in small towns, the study objective formulated and agreed to with the research supervisor was investigate domestic actions that small rural and urban towns have taken to cope with industrial migration. In the first case, it was assumed that the unfavourable international circumstances brought about by globalization created an environment of inadequate and uneven flow of resources and technology, to the detriment of poor regions from around the world.

### **1.3 THE RESEARCH FOCUS AND HYPOTHESIS**

One remarkable feature of the discourse on local government and development in the post-apartheid South Africa has been the emergence of the concept of 'developmental local government' as an approach to service delivery. However, there remains the contradiction between an analytical framework that argue for an increased role of local government and that which argued for a government that pursue national project.

This thesis argues that the post-apartheid government has retreated from the redistribution and welfare provisions of the Reconstruction and Development as a national project and is increasingly relying on market forces to address economic dislocations of the apartheid era.

The national development agenda (economic development) and the national growth trajectory has become the responsibility of the local state. Hart (2002:28) attributes such actions to sorts of territorial state power associated with neo-liberalism:

...the newly appointed leadership in local government suddenly found themselves perched precariously on seismic fault lines, confronted with direct demands for redistribution in the face of fiscal austerity and the protection of white privilege and, simultaneously, with helping to guarantee the conditions of accumulation and attract investment.

The following 1998 statement by the Centre for Development and Enterprise, the forerunner to the Urban Foundation, captured the dilemma facing local authorities in the post-1994 set-up:

...while any local authority in the new dispensation must be concerned about redress suffered by the poor areas... this must not in anyway lead to deterioration in the quality of administration and services as

they impact on wealthier neighbourhoods. Whilst the balance cannot be justified on a moral basis, it is a practical imperative and essential precondition for investment and employment creation, which eventually benefits the poor much more in the longer run than administratively driven redistribution in the short run. (1998:28).

In the final phase of local government restructuring in 2002 there was a drastic reduction in the number of local authorities from 830 to 284. Such reduction has not only enlarged municipal boundaries and municipal service responsibilities, but has also incorporated deep rural communities into single entities.

Such amalgamation did not lead to the integration of these vastly different areas. The analysis of data suggests that a number of small towns have no local growth plans and have distorted economies, which are inextricably linked to and dependent on the local state for their functioning. Single or government sector-dependent economies are unable to meet the government's vision of eliminating poverty.

#### **1.4 THE RESEARCH QUESTIONS**

Having formulated a hypothesis that attributed economic decline to both globalization and the inability of the post-apartheid state to develop a national agenda for restructuring the apartheid local economies, the thesis was interested in investigating the impact of industrial migration and whether the local economic regeneration initiatives that had been implemented in small declining towns did achieved the desired objective of providing alternative model for local economic growth.

The task of investigating local economic responses to industrial migration could only be achieved through a diagnostic analysis of the local economic system in small towns and how the apartheid system continued to affect all social institutions of South African society, and what is the new role of the "*orchestras of the apartheid state*", and other agencies that were used organs of total onslaught of the former government.

Secondly, the inextricable link between capitalism and apartheid and the use of race to justify the capitalist order required some form of detailed diagnosis. Such an analysis was critical, given that many industrial activities in manufacturing, and in key economic sectors, were part of the apartheid system of inputs and outputs in a programme that came to be known as

Industrial Decentralization. As a result, an entire chapter was dedicated to such a diagnostic review of apartheid's industrial decentralization policies and how they affected the future of small towns where they were implemented.

## **1.5 THE APPLICABILITY OF LOCATION THEORY IN THE STUDY OF ECONOMIC DECLINE**

Location theory has been at the heart of economic geography, and urban and regional economics for as long as these lines of inquiry have been with us. The literature is enormous on such aspects as center and periphery, agglomeration effects, localization and the influence of urbanization on economic decision-making.

The new global dreams of 'increased industrial inflows' and the increased reliance on the 'export-led economy' hypothesis to explain economic growth, also quite often described as a characteristic of the post-modern era, has quite often been cited as a reason for increased industrial migration away from poor regions.

At a theoretical level, the diagnosis focused on the implications of the concept of globalization on localism and 'localness'. In the first few chapters, the focus was on the concept of globalization, hailed in literature as an era of high productivity and global competitiveness. Central to this thesis is the argument that globalization had emerged as a scenario of surprise, opportunity, danger and dilemma. It posed danger and dilemma for under-developed regions, particularly those in Africa where the legacies of colonialism still exist.

One particularly surprising element of globalization was the international flows of capital, both private and public. The rapid development of new technologies of production, transportation and communication are causing a profound reconsideration of the basic tenets of traditional theory. The advantage of the center over the periphery is now greatly reduced and goods and services, information and decisions can be transported longer and longer distances with no loss in time, efficiency or cost effectiveness. This has obvious implications for received notions of agglomeration, localization and urbanization.

The new global economic system is incapable of creating a global economic system in which opportunities for development were distributed equitably to regions. Differences in

opportunities and living standards continued to have impact, and capital flow continued to bypass poor region. In addition and, worse of all, there continued to be a net transfer of resources and the international flow of firms from one region to the other.

This thesis argued that globalization has crippled poor regions because it took place when no meaningful economic restructuring of colonial legacies had been undertaken. Many small towns were unable to survive in the global economic systems. They had failed to raise productivity levels to compete in the global markets. As a result, the globalization process has not benefited small towns because they are no longer architects of their own destinies.

Following this line of argument, this thesis was able to juxtapose globalization and '*deteritorialization*' where the latter refers to the disintegration of local states. In the South African context, given the fragility of its democracy, the concept of *deteritorialization* has far reaching implications on the future of local government.

The crippling nature of globalization in small towns was attributed to different factors. The most notable one was the local industrial policy under apartheid. A detailed chapter was dedicated to industrial decentralization policies under apartheid. It was argued that, in an attempt to keep blacks out of big cities, firms were given huge incentives to locate in homelands and Bantustans. This was an attempt to reinforce the policy of the homeland system. These industries had, as a result, not been exposed to fierce competition or the survival strategies required to thrive in the global economic systems.

The false protection provided by the apartheid state, coupled with all the industrial incentives designed to keep them in the homelands or areas designated by the notorious Group Areas Act as 'black settlement areas', never exposed them to global economic demands. They therefore had very little understanding of global market demands. Since many of those small towns were largely dependent on such industries, the collapse of an industry subsequently meant the collapse of the economic base of those towns and centres they were located in.

In addition, a full chapter was focused on the status of disabled localities that had resulted from deregulation and liberalization of trade (through multilateral trade agreements such as the World Trade Organization), which forced the South African government to open its markets to foreign traders, thereby allowing an influx of cheap goods from around the world

to enter the South African market. Clothing and textile, as well as leather and footwear industries were some of the casualties.

Another blow to small towns economies, discussed in a separate chapter, was the increase in 'quasi-instantaneous trading', through the use of e-commerce and e-trade, which meant that small towns faced the challenge of developing new technological infrastructure and systems to support local industry. This new aspect of business was far beyond the control of local government and was a mandate, which they could not fund.

Given all of the above, this thesis argued that, neither the post-apartheid economic history nor the actual practice engaged in by local government, rules out the possibility of developmental local government being capable of playing a more dynamic role in the promotion of local economic development.

## **1.6 DEFINING LOCAL ECONOMIC DEVELOPMENT**

Drawing data from a number of writers on LED (such as Blackely, 1994), a definition of LED was constructed and formulated as follows:

...LED is a process in which local governments and/or community-based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area.

LED was located within the broad framework of developmental state capable of developing endogenous economic development agenda, by involving communities in shaping their own economic destinies. LED is capable of harnessing local resources and energy to consolidate and build local economic growth and development. In a development state, local government's strength lies in its ability to harness a wide spectrum of local capacity to work in a coordinated and integrated manner to achieve benefits that can be dispersed across an entire locality.

A great deal of attention was paid to the significant potential local government has utilized LED as a means to overcome historical divisions and differences along race, class and gender lines. Through an investigation into various forms of LED initiatives undertaken in a number

of small towns, the thesis sought to investigate the integration of poverty objectives into LED strategies and how these assisted in achieving broader developmental objectives of the state.

## **1.7 METHODOLOGY OF CASE STUDIES**

Through the use of case studies as a method of demonstrating local economic base and municipalities' ability to respond decisively to local economic decline, this thesis investigated how LED movement had evolved over time and what led local municipalities to embrace the strategy of LED as an alternative to foreign aid. The methodology of case studies was also used to investigate what local economic development strategies were used to attract foreign investments and business activity, and how they marketed their distinctiveness and comparative advantage.

## **1.8 GLOOMY PERSPECTIVE**

In this thesis, investigating the concept of LED provided both the optimistic and the pessimistic perspectives to it. A related concern on LED processes undertaken in local government was raised. It was argued that such processes continued to be highly formalized, without much understanding of the prevalence of informal relations and networks that underpin survival strategies.

As it was found in all the case studies, the different stakeholders tended to focus on the formal economy and easily identifiable actors in their LED strategies. However, in these same areas, the informal economy tended to predominate in poor areas and yet very little understanding or information about it featured in the LED initiatives. Such an oversight was simultaneously a problem of perspective, in that only formal business counted, and a problem of 'approach'. It was a challenge to feasibly incorporate the informal economy in an LED strategy.

Having looked at the impact of globalization on small towns and small town's ability to develop local economic strategies to deal with the social evils of globalization, the hypothesis was formulated. Drawing from the work of Hart's (2002:48), this thesis argued that:

...the constructions of both economic and cultural globalization frequently deploys dichotomous understanding of time and space, in which time is accorded active primacy, and space appears as a passive container.

In this thesis, space or localness or ‘locality’ was accorded primacy over time, and an argument based on Hart’s hypothesis that globalization has crippled small and rural urban centres was developed. It was argued that even though coastal regions managed to attract private investment and capital from around the world, small rural centres of the third world was experiencing a slow painful death.

This thesis revokes the ‘impact model’ as a diagnostic tool, which meant that it had to investigate the impact of ‘time (globalization)’ over ‘space’ (localities). In other words, it sought to investigate the impact of globalization in the economic base of small towns. The impact model was based on the assumption that globalization has led to economic migration and rapidly accelerated flow of firms<sup>3</sup> away from small towns, leading to industrial concentration in better off regions.

## **1.9 REFLECTIONS ON SOME KEY FINDINGS**

The impact model was applied to the most common and widely practiced local interventions to economic decline, promoted by the local government, namely, Small Enterprise Development, Business Retention and Expansion, Early Warning Systems Development, as well as Place Marketing and Investment Promotion.

A detailed account of each of these initiatives was provided in separate chapters. Having provided a detailed account of each of these initiatives, a conclusion was reached that South Africa’s post apartheid local government system required focused national policy interventions that would transform the local economic system and prepare it for a new socio-economic and global agenda.

The thesis further argued that except for the deracialisation of the local capitalist system, no real institutional transformation has taken place in local government. It was for this reason that a chapter was dedicated to economic (not political) institutions.

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<sup>3</sup> These were industries attracted to small urban and rural centres during the apartheid homeland systems, as shock absorbers to decrease labour migration to metropolitan areas.

After a number of LED institutional arrangements were investigated and described, this thesis concluded with the validation of the study hypothesis that local government transformation in post-apartheid South Africa has quite literally entailed redrawing lines on maps to incorporate areas previously defined as 'white' and 'black' under the Group Areas Act into single geographical and administrative entities. It has not meant any major economic transformation of local economic policy frameworks or institutions that implement economic strategy. Instead, central government has been retreating from its redistribution and economic development agenda and leaving that role to local government.

It would not be possible to understand the challenges facing small towns without understanding the historical context from which they had emerged. It was for this reason that a chapter was dedicated to discussing the apartheid states industrial decentralization policy and its impact on small towns. After a detailed analysis of that policy framework, this thesis was able to conclude that there remains a need for the restructuring of the apartheid state industrialization policy framework before any major policies on global economic integration can be initiated, Global economic integration has resulted in massive industrial migration that has had devastating effects on the economies of small towns.

In conclusion, this thesis identified many challenges faced by local government. Having applied one of the best methodologies in social science, that of engaging with the phenomena under study through an act of participation, and having engaged the leadership of local government and other important stakeholders, it was possible to accept the study hypothesis that globalization has been damaging to the economic base of the local state.

In addition, having thoroughly reviewed literature on industrial migration and other works on spatial distribution of economic activities, the author was able to develop a conceptual framework that could be used in developing policy interventions and the analysis of economic decline, as it takes place in peripheral cities and towns in South Africa.

**2.1. INTRODUCTION**

In the last ten years, South Africa has established, as its principle of legitimacy, its ability to promote sustainable development. Development can be understood as steady high rates of economic growth and structural change in the productive system, both domestically and in relationship to the international economy. In the post-apartheid state, sustainable development has been established as an ‘ideological hegemony’, and economic development has become a ‘hegemonic’ project which most development economists have sought to write about.

At local government level, the capacity to implement economic policies sagaciously and effectively is yet to be established. The lack of such capacity can be attributed to various factors — institutional, technical, administrative and political. Underpinning all these is the lack of autonomy of local government from social forces, which has disabled it in devising long-term economic policies unencumbered by myopic private interests. In this thesis, local government disability was described.

However, it was not the intention of this thesis to exaggerate the role of local government. The economic crisis of the 1970s, the demise of the theoretical armour for state intervention, the ideological hegemony of neo-conservatism in key funding institutions and donor countries, the palpable failure of ‘development planning’ in many countries, stagnation and the crisis of accumulation in the socialist countries and the changing ‘mood’ towards Third World Countries (Afropessimism, anti-Thirdworldism etc.), the pessimism or cynicism of the development establishment about its counterparts in the recipient countries — all these pointed to ‘government failure’ as more insidious than the market failure that state policies had purportedly been designed to correct.

However, although some of the arguments against state intervention are based on an idealized and dogmatic view of markets, there is now widespread acceptance of ‘market failure’ on the grounds of economies of scale, imperfect information, etc.

Lots of research has already been undertaken on the ability of mature industrial economies to retain their positions at the apex of the economic hierarchy of nations. Given the fact that

many of South Africa's small towns are inured to stagnation, economic decline and industrial migration, this thesis was deliberately focused on small towns, with the aim of understanding the causes of such economic decline and how small towns have responded to it.

Though there is a change occurring in the national economy, with a number of key economic interventions having been tried, where progress at macro-economic environment has been achieved, it has become increasingly difficult for the local state to match the national government.

Given the legacy of apartheid and the need to transform the former government's industrial decentralization strategies, the focus of this thesis was on the need to shift towards regional liberalization where the prospect of additional gains appeared to be more promising.

As a consequence of our inability to transform the legacy of the past, many urban cities found themselves constrained in their ability to manage the economic relations in order to achieve domestic policy objectives, such as full employment or business retention. Previous recourse to interventions such as subsidies and incentives, blatant manipulation of the local economy, and bureaucratic measures designed to reinforce the former government ideology were then no more.

As South Africa moved more toward macroeconomic stability, regions and cities became both more significant as economic actors and more aware of the increased burden on them to strategically plan for their economic futures in an environment in which they were increasingly exposed to challenges to existing economic activities and to opportunities for growth into new areas emanating from the international economy.

Local government as an economic entity arguably reached the peak of its power in the middle decades of the 20th Century. It was later under attack simultaneously by contradictory forces. These forces were, on the one hand, supranationalism, including globalization and regionalisation and, on the other, subnationalism. The biggest challenge facing local government in the post-modern area was industrial migration, which was an outcome of globalization.

Numerous interpretations emerged in an attempt to explain industrial migration. This chapter provides a synthesis of voluminous research on location theory and its relevance to the

interpretation of industrial migration. The objective was not to reproduce the theories as they are, but to describe their relevance as conceptual tools appropriate in the analysis of the economic decline that specific small towns are experiencing. The assumption was that any study on the movement of industries from one area to another can best be understood within the theoretical conceptual tools developed by classical theorists. The study of the spatial distribution of economic activity is not new. A body of literature on location theory already exists and was reviewed, analyzed and adapted for this research.

Because migration of industries cannot be considered separately from their location, this research begins by examining a few aspects of general location theory before proceeding to some specific elements of industrial migration. The discussion on location theory falls into two divisions, namely, conventional classical theory and the behaviourist theory of industrial migration.

## **2.2. CLASSICAL PERSPECTIVES ON INDUSTRIAL MIGRATION**

According to the classical perspective on the phenomena of industrial flight, industrial migration is an inevitable syndrome and a factor of globalization. In other words, one can assume that small towns' industries are migrating because they are free to compete for raw materials, labour and the market. As a result, each industry will try to achieve a minimum level of production costs, by relocating to those areas where it is possible to do so. The relevance and the applicability of such an interpretation were tested by this thesis and details of value propositions within this framework of analysis are provided in the sections that follow in this thesis.

Forming part of the classical perspective is the theory called the 'least cost approach' that argues that cost of labour, raw material and doing business in small towns is the main factor an industry would consider when making a decision about where to locate its premises.

There are three leading scholars who have written extensively and who can therefore be categorized as founding figures and forefathers in the evolution of the theory of industrial migration. They are Von Thunen (1875), Alfred Weber (1909 and 1928) and Edgar Hoover (1963). The work of these scholars has been reviewed and the relevance of their theoretical analysis was tested in the development of the argument for this study. The study compares the

contribution of each of the scholars on neo- classical theory. Key postulates by each of them are described and their direct relevance to the study of small towns explained.

The reason for focusing on the three scholars was that they provided the basis within which all other classical location theorists had developed. They are regarded as father figures in the area of locational development economics.

Even the emergence of the liberal international economics that aggravated the problems of small towns, where restraints on the movement of capital and skilled labour was based in some of the key postulates of these scholars. The three scholars also provide theoretical interpretations on the apparently inexorable forces behind the perverse movement of factors of production, which was the focus of this thesis.

A comparative analysis of the key postulates of the three scholars is provided hereunder, with the aim of identifying similarities and differences in the assumptions of the causes industrial migrations. As will be seen in the later chapters of this thesis, some of these postulates remains relevant, even to date, in the interpretation of phenomena of industrial migrations.

### 2.3.COMPARATIVE ANALYSIS OF CLASSICAL LOCATION

### THEORISTS

**Table 2.1: The Relevance of Classical Location Theory in the Analysis of Industrial Migration**

<i>Perspective</i>	<i>Key postulates</i>	<i>Applicability</i>
Von Thunen (1819-1842)	<p>Von Thunen proposed a theory of agricultural land use where the product with most profit would outbid others for preferred location, producing a concentric spatial pattern of land use organized around a central market.</p> <p>Assumptions of the theory:</p> <ul style="list-style-type: none"> <li>• Land is homogeneous</li> <li>• Uniform transportation surface</li> <li>• Single market place</li> </ul> <p>Land is allocated to the highest and best use through a bid-rent process where the location rent cost of land is a function of:</p> <ul style="list-style-type: none"> <li>• Price-cost structure of different goods</li> <li>• Transportation / location costs (relative to the central market)</li> </ul>	<p>Although Von Thunen’s model is based on agricultural land uses, his basic concepts of the economic demand for land by different users serve as the basis for some subsequent models of urban form.</p> <p>Von Thunen’s theory remains relevant because land values remains highest near the central market (since it is the most desirable location) and decreasing with distance away from the center. Intensity of land use (e.g. density) remains the greatest near the center and decrease with distance away from the center.</p>
Alfred Weber (1909 & 1928)	<p>He focuses on three main postulates:</p> <ul style="list-style-type: none"> <li>▪ One oriented to transportation and</li> <li>▪ The other oriented to labour.</li> <li>▪ A third but less prominent type of orientation, comprises the industries that locate because of agglomeration advantages, that is, proximity to auxiliary industries, better marketing outlets or economies of size, including adequate public facilities.</li> </ul>	<p>By scrutinizing Weber’s argument one can find a close relationship between the labour and agglomerating factors, which appears to be a cause for concern. Thus, only those industries with the ability to add value were able to reduce expenses by agglomerating.</p> <p>The analysis of data obtained from Newcastle suggests that the labour cost and the costs of machinery were the main reasons for Chinese industries locating in that region. Therefore, the theory was relevant.</p>

Edgar Hoover (1935)	<p>Hoover's approach to plant location suggests demand determinants as well as cost factors. He separates cost factors into transportation and production factors. He places more emphasis on freight costs. His inclusion of the institutional factors places his theory within a capitalistic framework. He therefore not only places emphasis on cost, but also abstracts from demand, despite his suggestive reference to such factors of location.</p>	<p>The greatest weakness in Hoover's work is the failure to probe deeply into locational interdependence and socio-economic conditions within which the industries operate.</p> <p>Though he mentions supply and market areas and assumes the location dynamics, he does not explain his theory from the standpoint of locational interdependence. Therefore this thesis found this approach less relevant in the analysis of the position of small towns.</p>
(Stuart Hollard, 1976).	<p>He argued that uneven development between regions is essential to the dynamic growth of a capitalist system. This therefore means that any attempt to secure greater regional equality through government redistribution policies reduces the over-all level of income to be redistributed.</p> <p>The theory is premised on a harmonious self-adjustment of the system. It proceeds from the point of view that firms are rational in making their investment decisions, and that firms locate where their profits are high.</p>	<p>According to this theory, any form of intervention by government may backfire in the long run through reducing the over-all level of income in the local economy.</p> <p>The regional differences in activity rates, and the under-utilisation of the labour force, causes congestion in areas of labour inflows and involuntary unemployment in areas of labour outflows. In addition, the wide range of disparities in the provision and the utilization of social services in different regions cannot be accounted for by the research, therefore it was not relevant.</p>

## 2.4. COMPARATIVE ANALYSIS OF THE CLASSICAL INDUSTRIAL MIGRATION THEORY

From the above comparative analysis of the works of the classical location theorists, one can logically conclude that transportation and logistics are two of the key common denominators of the classical location theorists that remain relevant in the post-modern era. Close analysis of Von Thunen's theory revolves around the cost of transportation and the rent of land, explaining why a particular agricultural product was grown on a given plot of land, whilst Weber's theory was based on three general factors of location, namely transportation cost, labour cost and agglomerating forces.

Weber's theory of location was procedurally the opposite of Von Thunen's. In the former scheme, the location of industry was given and the type of production was determined. In Weber's theory, the branch of industry was given and the place of location sought.

Therefore, Von Thunen was an economist and farmer, it was not unsurprising therefore that his main interest as a theorist was agricultural landuse. His work is based on the concept of land rent, which are closely related to the potential profit the farmer could make. He assumes a homogeneous land surface and consuming centre, whereas Weber assumes uneven deposits of fuel and raw material and several consuming centres, though his geometrical representations and general discussions are framed in terms of a given buying point (Greenhut, 1956: 9). Hoover separates the cost factors of location into two groups, namely:

- Transportation factors and,
- Production factors

His inclusion of institutional factors places his theory within a capitalistic framework. He focuses on all possible locating forces, not only the general factors that affect plant locations. This interest leads him into a rather succinct, yet well-developed analysis of the locational influence of property taxes and climate. He regards the property tax burden as an element of land cost. This factor, he claims, affects the location in much the same manner as the interest burden.

Later contributions to the location theory, reacting to this least-cost approach, developed new points of view, which came to be known as 'market-oriented' and 'locational-

interdependence' theories. These were based on, respectively, 'sale maximization' and the locational influence which industries exert on one another. Market-oriented theories were developed in the 1920s, locational-interdependence theory developed in the 1940s.

Classical location theory generally assumes that a new plant has to locate somewhere and the decision will be based on certain factors. On the other hand, the behaviourist school recognizes other possibilities, such as deciding against investment or transferring part of production to another location.

For a clear general concept of location theory, it was necessary to look elsewhere for useful theoretical developments. The theories of regional growth are an obvious possibility. Some of them such as growth-pole theory, and cumulative casualty theory or 'backwash and spread effects' contain all the elements of location, but imply moves rather than stating them clearly.

## CHAPTER THREE: THE RESEARCH HYPOTHESIS

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### 3.1. INTRODUCTION

This thesis hypothesizes that, if globalization continues, as it seems likely to do, one can anticipate that the power of the local state will be further eroded. Of course at any given moment different states will have different capabilities: some will clearly be able to influence economic events more than others.

At one extreme are small towns that are not unconnected to globalization in the wider sense. In these towns local government has been on the verge of disintegration and its ability to control the economy has been much diminished. At the other extreme are coastal towns such as Pinetown that have managed to attract global industries and have more control over their economic destiny than those that are landlocked on the peripheries.

No one would pretend that the local state was as capable of regulating its economic affairs as it was in the 1980's. It clearly was not, because globalization has made a difference. One of the paradoxes of the late 20th Century was that the tendency of local government to intervene in economic affairs has increased, political rhetoric notwithstanding, at a time when the effectiveness of its interventions has declined.

Where once the talk in developed countries was of 'fine tuning' the economy, today the talk often is of a 'battle against inflation', a 'war on drugs', a possible 'trade war' and even a 'war against poverty'. Precise interventions to make relatively minor adjustments to the domestic economy were replaced by bludgeons attempting to cope with major shocks to the system.

In the South African context, the post-industrial development era is characterised by contradictions and the continued legacy of the apartheid. The collapse of the apartheid order and the resurgence of the liberation movement created expectations of a government driven by a socialist movement, which was hoped would be capable of steering the economy towards the ideals of socialism. However, this has not been the case.

Instead, in the post-apartheid South Africa, owners of capital and capitalist management have increasingly become sole decision-makers in choosing locations for their investments. Other factors of production, such as labour, do not carry equal weight in making decisions for investment location.

### **3.2. PROBLEM STATEMENT**

As predicted by the classical location hypothesis, costs and profits are not the only motives for a company to move. Though spatial considerations only represent one dimension in the whole range of choices, the decision about whether to retain a given proportion of the generated surplus for future investments or dispose of it to shareholders in the form of profits, has become the prerogative of owners of capital and capitalist management. The role of government and labour is diminishing. Large-scale job losses and industrial closures have become an indicator of the conventional cost-minimisation and maximum profit policy of the classical capitalist state.

Socio-economic considerations and / or the development agenda are not a factor for consideration at all. Though government believes that employment creation is the responsibility of the private sector, there has been a shift in power of decision-making, more towards the capitalist owners of production and capitalist management to 'make profit at all cost'.

Given the global conditions within which the industries have to operate and compete, they have tended to relocate their investments to regions where they can make maximum profit. Thus the belief that private businesses can create jobs has become meaningless. As a result, their decisions have led to increased industrial migrations, a phenomenon with devastating effects on small towns. A large number of communities, especially those in the peripheries, were affected directly by the consequences of such migration.

It needs to be stated that the phenomena of industrial migration is not unique to South Africa's small towns. It has been felt by many regions throughout the world as a recurrent feature of the capitalist economy. As new technologies and new investment patterns lead to closures, outdated technologies and less profitable plants are being closed down.

Whereas in the past closures were followed by the introduction of new technology and new innovative plans and new jobs, in the post-modern era, closures and job losses are no longer counteracted by new plant opening and job gains.

### **3.3. THE HYPOTHESIS**

The main argument of this thesis is that the rapid development of new technologies of production, transportation and communication has caused a profound reconsideration of the basic tenets of traditional location theory. The advantage of the center over the periphery has been greatly reduced as goods and services, information and decisions can be transported longer and longer distances with no loss in time, efficiency or cost effectiveness.

Firms migrate because of perceived risk-adjusted returns on their investments and the general investment environment in a host locality. This means that industrial migration can largely be attributed to reasons that are not related to productive processes within the firm, but are associated with the local economic environment and the policies in local government.

Even though firm level factors such as natural resource discoveries through natural resource beneficiation, changes in technology, effective industrial policies, and demographic shifts appear to be the underlying reasons for capital mobility in small towns, the local socio-political conditions within local government have influenced firm decisions about the location of their investments. Even though South Africa may have what may be perceived to be one of the most liberal national macroeconomic and regulatory frameworks in the form of GEAR, the microeconomic environment is what appears to be a cause for concern to investors.

Due to the lack of local stable microeconomic conditions and appropriate business retention strategies, industrial migration has unleashed the following types of multiplier effects in local government:

- First and foremost, the structure of the local economy has changed. Unlike the national economy, small towns' economic growth is no longer dominated by services industries. All businesses that were supplying equipment and material, together with those parts of the public sector responsible for services such as fuel, water, transport and maintenance, to resource-based industries have disappeared.

Given the strategic importance of the services industries in middle-income economies, accounting for more than 50% of the local economy, and 70% of employment, access to efficient and globally competitive services inputs is regarded as a key source of productivity gains and is key for local economic competitiveness.

- Secondly, due to the loss of income, the purchasing power of small towns has diminished, in turn reducing their revenue base. Logically, it can be concluded that the closure of one firm can inevitably threaten jobs of others who are employed by services related industries. As a result, the local economy has been significantly undermined.
- Due to the poor capacity of small towns to develop their own local industrial promotion policies and clear industrial incentive packages, they have not seen any self-adjustment<sup>4</sup> of their local economies or inflows of capital from rich locations or direct foreign investments. In other words, local established conglomerates are not investing in new locations.
- Capital reinvestment in bigger towns has chiefly taken the form of the replacement of technology and equipment, as a requirement for participation in the global market. No such technological innovations and changes have taken place in the small towns. The lack of technological innovations or the infusion of technological changes in productive industries have led to industries fleeing those locations to others that could enable them to penetrate global networks more easily and at a minimal cost. Technical progress and new capital-intensive innovations have decreased the value of labour as a factor of production in these regions.
- Due to labour market elasticity, there has been an increase in labour and skills migration from small towns to growth centres. In pursuit of skilled labour and also in an attempt to avoid any expenditure on skills development, many industries are relocating their investments into growth centres.

In the context of KwaZulu-Natal, features of economic decay and industrial decline are visible when driving along the N3 highway towards Gauteng. In many small towns along that route, such as Mooi River and Estcourt, shops and factories have either been closed or are

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<sup>4</sup> The study was able to disprove key postulates of the traditional capitalist assertion that industrial migration would be dealt with naturally by the capitalist system as it adjusts itself (self-adjustment theory)

dilapidated, and large numbers of men are on the streets, obviously unemployed. The impact of such closures is severe and bitterly felt and has shattering effects on the local community.

This thesis, however, argues that industrial migration is not necessarily widespread in KwaZulu-Natal, but rather is found in the specific rural local towns that were linked to the economic history under apartheid. Though the effect of industrial migration is less felt in other regions of KZN, localities such as Mooi River, Estcourt and Howick have visible economic decline indicators. In addition, the knock-on effects of major industrial closure such as the one experienced when Mooi River Textiles ceased operations, spread to all areas in the neighbouring localities.

In the case of Mooi River and other small towns that were protected by the apartheid's industrial policies, mainly in the Eastern Cape, the phenomenon has destroyed the economic base and social fabric of those towns. With little or no visible response from the state, the area is increasingly condemned to a slow and lingering economic decline. The principal victim, aside from that of individual workers and their families, is the community at large. In places such as Durban, the closure of a single large plant would not be felt as intensely as it is in a small town such as Mooi River. The size and the degree to which the local economy is dependent on the single industry determine the extent of the impact.

In Mooi River, the accumulation of closures of small businesses that were supplying the textile industry worsened the situation. However, the resilience of the retail and financial sector has attempted to offset the decline of the manufacturing sector to some extent, but with limited effect.

The current economic decline, resulting from industrial migration and firm relocations, remains a key challenge to the post-apartheid state, given the resources and energies spent in regenerating the local economies. It was for this reason that this thesis hypothesises that the post apartheid state's local economic interventions will be unable to yield the required results due to the following:

- The process of institutional reconfigurations necessitated by political integration remains incomplete

- The economic base of small towns is structurally defective due to the lack of economic diversification in the local economy
- All interventions attempted by both the state and the private sector have had little impact on economic growth

Instead, we have seen an increase in industrial outflow from small towns to big coastal towns, from underdeveloped to developed regions. As part of an export-led economy, KZN's industries have found it more profitable to locate at port cities such as Durban and Richards Bay. These are becoming growth points, characterised by rapidly improving income levels and quality of life of their communities. Both labour and capital markets are larger at the coast. This generates further opportunities for capital investment in a wide range of products and services.

As more firms are closed and private capital migrates, the movement of labour from the affected regions to growth centres has meant that the latter rapidly reach their 'full-employment ceilings'. This, in turn, leads to a decline in 'labour market elasticity'. Due to capital flight from small towns, the labour reserve from small localities has become the lever for new long-term capital accumulation in more developed regions such as Durban and Richards Bay, which have enjoyed new investments and an increased rate of return on capital.

Small towns have, as a result, become the donor of both labour and capital to bigger localities. Capital in the form of savings accumulated during the days under apartheid has been attracted to the better regions, at the expense of the smaller ones.

As was argued by Hollard, "...uneven development between regions is essential to the dynamic growth of a capitalist system" (1976: 103). It is one of the most controversial perspectives, given the devastating nature of this uneven development. In other words, the view that some regions are destined to be better off than others is rejected. Such a hypothesis ignores local responses to economic decline that yields creative local economic solutions to local economic problems.

To hold the view that "uneven development between regions is essential to the dynamic growth of a capitalist system" is to endorse a system that "is like a snake that bites itself from its tale in order to feed itself."

The liberalization of trade barriers, and the subsequent absorption of foreign investment from around the world, has brought a degree of instability to small towns because they are no longer cushioned by the superficial protective barriers they had during the apartheid era. As Castells (1996:15) argued, “geographic metaphors cannot account for the complexity and speed of global flows of capital and trade”. Volatility, fragility and technological under-preparedness by small towns have led to capital flight and industrial mobility despite global opportunities being widely reported in metropolitan areas.

Medium-sized industries, mainly located in small towns, were either closing down or relocating due to the stringent requirements of international trade. Only giant companies were enjoying the fruits of globalization. It was not the purpose of this study to enter into the debate on the effects of globalization<sup>5</sup> on medium-sized industries that are operating in South Africa’s small towns, but to focus on the spatial dynamics and spatial dislocations that have resulted from the phenomena under study.

It could therefore be argued that small towns have suffered for the following reasons:

- Small towns’ economic bases are structurally defective. The economic super-structure was a political engineering process aimed at achieving specific political outcomes. It was aimed at retaining a particular economic philosophy, enshrined in the apartheid policy of racial segregation. With the disintegration of the apartheid state and the removal of its industrial policies and strategy, it has become increasingly costly to remain financially viable without state support.
- There has been an increased role of the state in the regulation of industrial relations and industrial conflicts. The South African government policy on minimum wages and the institutionalization of conflict management mechanisms through the establishment of wage determinations and bargaining councils means that the small town industrial context is becoming increasingly influenced by bargaining council resolutions. It is no longer possible for industries to choose small towns locations, with the purpose of exploitation of unskilled labour, since such practice has been outlawed. A small town’s labour is therefore no longer cheaper than the labour in the metropolitan areas.

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<sup>5</sup> Features of globalization are domestic deregulation, liberalization of transborder transactions, financial wizardry, new trade regimes and trade blocks, and new information technology (see Hart, 2002).

## **CHAPTER FOUR: GLOBAL ECONOMIC INTEGRATION AND THE EFFECTS IN THE LOCAL ECONOMY**

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### **4.1. INTRODUCTION**

A key value proposition of this thesis argues that the 21st century will be a global century, marked by increasing international trade and investment, growing transnational communications and expanding cross-border alliances of businesses and industries. Cities seeking to improve or even maintain their economic position will need to provide the labour force, services, and infrastructure that allow locally based domestic and foreign-owned firms to participate more successfully in the international marketplace.

Driven in large part by global competitive forces, the primary engine of urban economic development has shifted from one based on mass-production industries and low-skill service jobs to a more sophisticated technology- and knowledge-based system of production and services.

Such a shift has provided higher incomes to those small towns that have the economic systems to participate effectively in the new urban economy while leaving behind those that do not. Likewise, those towns that become more globally linked and responsive to the competitive needs of businesses will attract investment and jobs while those that do not will decline. In the emerging global economy, international trade and investment will be key drivers of urban and regional growth and crucial sources of local jobs and wealth.

In the past, urban economists focused on the domestic exports of cities to areas outside their immediate region, but international trade and investment will play an increasingly important role in the future in urban economic revitalization, job generation and wealth creation. Small towns' economic recovery, for example, rests heavily on their emergence as important centres for exports.

Trade regimes or international trade agreements are some of the main policy interventions that have stimulated worldwide industrial mobility. In this thesis, the analyses of international trade agreements was aimed at examining their purpose and providing a picture of the main aspects of each agreement in so far as they are pertinent to KwaZulu-Natal as well as their contribution to the movement of industries in pursuit of opportunities emanating from such trade agreements.

Most of these agreements are detailed and lengthy, and much of their content was not of any particular relevance for the purpose of this thesis. These agreements were categorised according to whether they were multilateral, bilateral or unilateral.

As was shown in this thesis, the increased role of multilateralism had both positive and negative spin-offs for small towns. For those in Africa, multilateralism has been more negative. Whereas the phenomenon was expected to generate more opportunities for the under-developed world through the global economic integration that was envisaged, multilateralism did not come with the expected global economic integration. Instead, it has led to economic decline.

The implication for South African, including KwaZulu-Natal industries, was that the government was expected to promote exports and international trade in order to increase the amount of labour and capital within the economy. The World Trade Organisation (WTO) essentially stresses export promotion, and this has been accepted by the South African government<sup>6</sup>. It was hoped that exports would increase competition in the local market and this would in turn increase employment opportunities. However, multilateralism, just like globalization has disabled small localities, as they were unable to promote international trade, given poor logistical infrastructure that is required to facilitate international trade.

Embracing the 'export-led growth hypothesis' has been one characteristic of South Africa's industrial strategy. The main objection to the export-led growth hypothesis has come from UNCTAD 2001 report, where it was argued that:

the theoretical benchmark for the export-led growth hypothesis is considered generally weak and is based on the bivariate and ad hoc production of functions, whilst the empirical results derived from traditional econometrics have been highly criticized for being spurious.

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<sup>6</sup> A substantial amount of research has been carried out on the export-led growth hypothesis, which postulates that export expansion is the one of the main determinants of growth.

If one follows such an argument, it means that over-reliance on the export growth-led hypothesis can be misleading given the fact that the WTO has been promoting export promotion in an indiscriminate way, though evidence on the role of exports in an economy is still inconclusive. Although the theoretical links between trade and economic growth was not the focus of this thesis, the analysis of literature on this subject suggests that the debate is far from over.

The most important issue that this thesis hoped to examine was the impact of multilateralism on the local industrial base. This thesis therefore argues that inland KZN was geographically well positioned to serve the markets of Lesotho and Swaziland in particular. Therefore, industries located in small towns were attracted to these markets where local government conditions, including industrial incentives, were similar to those that existed under the apartheid's industrial decentralisation scheme. More and more industries have relocated their operations to these areas.

#### **4.2. THE AFRICA GROWTH AND OPPORTUNITIES ACT**

The Africa Growth and Opportunity Act (AGOA) was one of the most significant unilateral trade agreements that had far reaching implications for local capital and its ability to penetrate the US market. The US president signed AGOA in 2000<sup>7</sup>, and it originally designated 35 sub-Saharan Africa countries as beneficiaries. Zimbabwe was later excluded. South Africa was included in the list. Essentially, AGOA offered duty-free and quota free access for textile and apparel commodities over a period of eight years.

Addressing the 2<sup>nd</sup> US-Africa Trade Cooperation Forum conference held in Mauritius in 2003, George Bush, the US president told the delegates of that conference that the US Congress was investigating the possibility of a wider Generalised System of Preferences (GSP) provisions for AGOA beneficiaries.

There appeared to be at least two implications for South African firms. The first was that they would not be as attractive for labour intensive industries as would be the Less Developed

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<sup>7</sup> On 2 October 2002, President Clinton signed a proclamation designating 34 (with an exception of Zimbabwe) sub-Saharan African countries as beneficiary countries under AGOA. The Presidential proclamation designates these sub-Saharan countries as beneficiaries for purposes of trade preferences made available under AGOA

Countries such as Lesotho and Malawi that enjoyed more favourable access to the US market under AGOA. This arrangement was, however, expected to end by 30 September 2004. Secondly, South African firms could aim for niche markets in the US.

The proclamation modifies the Harmonized Tariff Schedule of the US to reflect the apparel and textile trade preferences made available under Section 112 of the Act. It also delegates to the Office of the US Trade Representative the authority to publish through a Federal Register notice determinations regarding whether a country has established an effective visa system and meets the other custom-related requirements under Section 112 of the Act.

#### **4.3. APPAREL AND TEXTILE PREFERENCES**

The Act lifted all existing quotas on textile and apparel products from sub-Saharan Africa (within 30-days of a U.S. Government determining that Kenya and Mauritius had adopted an effective visa system), and extended duty and quota-free US market access for sub-Saharan African apparel made from yarns and fabrics not available in the US. In addition, the Act extended duty and quota-free treatment for apparel made in Africa from cashmere and some merino wools as well as apparel produced in Africa from silk, velvet, linen, and other fabrics not produced in commercial quantities in the US.

The Act further provided for duty-free and quota-free access to the US market without limits for apparel made in eligible Sub-Saharan African countries from US fabric, yarn, and thread. Apparel imports made with regional (African) fabric and yarn were subjected to a cap of 15% of overall US apparel imports, growing by 3.5% of overall imports over an 8 year period.

#### **4.4. ELIGIBILITY REVIEW FACTORS**

The USTR-chaired Subcommittee of the Trade Policy Staff Committee (TPSC) had already identified specific policy objectives that were to be pursued with specific governments. Objectives with respect to economic reform, internationally recognised workers rights, human rights, anti-corruption actions, intellectual property protection, and elimination of the worst forms of child labour were established and pursued with a wide range of countries<sup>8</sup>. The

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<sup>8</sup> Zimbabwe was excluded because, according to the US State Department, it failed all these tests, a view which was not shared by some of the AGOA beneficiaries who were part of SADC.

USTR's recommendations to the President regarding the designation of AGOA beneficiary countries were based on the results of these efforts.

In considering the eligibility of sub-Saharan African countries based on the existing criteria under the Generalized System of Preference programme as well as the new AGOA criteria and a new GSP criteria, these new criterion include whether these countries have established or are making continual progress toward establishing a market-based economy, the rule of law, the elimination of barriers to US trade and investment, economic policies to reduce poverty, the protection of internationally recognised workers' rights, and a system to combat corruption.

#### **4.5. CUSTOMS-RELATED ELIGIBILITY DETERMINATION**

AGOA required that beneficiary countries meet certain customs-related requirements in order to receive the apparel and textile benefits of AGOA. The USTR-chaired inter-agency committee was the structure that determined, *inter alia*, that countries had an effective visa system and enforced procedures to prevent unlawful transshipment and the use of counterfeit documents. In addition, countries had to agree to cooperate with US customs in investigating and preventing transshipment and were expected to have implemented or be making substantial progress towards implementing and following procedures and requirements similar to those of NAFTA Chapter 5<sup>9</sup>.

From the look of things, it was clear that AGOA institutionalised a process for strengthening US relations with African countries and provided incentives for African countries to achieve political and economic reform and growth, the US way. The Act offered beneficiary sub-Saharan African countries duty-free and quota-free US market access for essentially all products through the GSP programme. It also provided additional security for investors and trade in African countries by ensuring GSP benefits for eight years, and eliminated the GSP competitive needs limitation for African countries.

In addition, the Act established the US-Sub-Saharan African Trade and Economic Forum whose responsibility it was to facilitate regular trade and investment policy discussions and promote the use of technical assistance to strengthen economic reforms and development, including assistance to strengthen the relationship between US firms in sub-Saharan Africa.

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<sup>9</sup> Chapter 5 of the North Atlantic Free Trade Area agreement

#### **4.6. EXPANSION PROCESS FOR AGOA BENEFICIARIES**

A review of almost 1,900 items was conducted by the USTR-chaired GSP Subcommittee of the TPSC, in addition to the standard GSP list of approximately 4,600 items available to non-AGOA GSP beneficiary countries<sup>10</sup>. The additional GSP line items, which included the previously excluded items such as footwear, luggage, handbags, watches and flatware, were included after an extensive process of public comment and review.

In an attempt to determine whether preferential market access opened opportunities for industries from Africa, this thesis concludes that very few industries were able to attract investments from the US to small towns in Africa and very few South African companies were able to expand to the US. Therefore it remains to be further tested whether AGOA has had any effects on the economies of small towns, despite the expectations that it carried.

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<sup>10</sup> Second US-Africa Trade and Economic Cooperation Forum Conference, Mauritius, January 2003.

## CHAPTER FIVE: METHODOLOGY FRAMEWORK

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### 5.1. INTRODUCTION

One of the key value judgments in this thesis is that globalization has resulted in an increased flow of capital away from small towns. With the almost non-existent development interventions being coordinated at the local level, it was appropriate to agree with Davies'<sup>11</sup> assertion that:

small town decline is merely ignored by those who live in larger, more vibrant communities.

The real impact of globalization does, of course, extend well beyond the negative or positive impact of economic growth. Current growth statistics are of no direct relevance to small towns. In the context of globalization, economic growth has been achieved at the expense of the destruction of small towns and the neglect of large proportions of poor people who reside in those towns.

It is a known fact that government policy makers stay in larger more vibrant economic metropolises. They do not feel the impact of total economic collapse that some of the small towns are experiencing. As a result, the situation has become an embarrassment for those who see them, especially the political leaders who would like to report positive issues about the post-apartheid local state.

In order to provide a balanced perspective that captures the views of politicians and economic development practitioners about the causes and the effects of the phenomena under study, a combined methodological approach was an option for this study, in a process known as 'triangulation'.

Denzin defines this concept as:

multiple methods of observation that direct the researcher to utilize several different tools in the observational process. (1978: 103).

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<sup>11</sup> Main Street Blues: The Decline of Small Town America. Urban Life and Landscape Series. Ohio University Press.

He further asserts that triangulation leads to greater confidence in research findings. This approach was found to be appropriate in view of the level of diversity that characterized economic decline in small towns. No single research method could adequately deal with the multiple sources of data, which ranged from local economic regeneration reports undertaken mainly by the provincial government departments to the municipal integrated development plans.

## **5.2. SAMPLING TECHNIQUE - HOW THE CASE STUDIES WERE SELECTED**

In 1994, the provincial ministry for economic development and tourism announced the provincial Reconstruction and Development Programme, where all municipalities were invited to apply for funding to implement their local economic development plans.

The Regional Economic Forum<sup>12</sup> was entrusted with the function of implementing that programme. It was stated in the Chapter One of this thesis that the researcher was appointed as the Regional Coordinator for this programme, therefore was privileged to information on those municipalities that had applied for the RDP funding.

From a list containing 12 selected municipalities, a shortlist of four was selected for detailed analysis, as case studies. These case studies were:

1. The Coal Rim region comprising of Dundee, Glencoe, Dannhauser and Hattingspruit
2. The Midlands region, mainly focusing on Howick, but also using available data on Mooi River
3. The North Coast region, mainly focusing on KwaDukuza, but also drawing data from Kwa-Sithebe
4. Pinetown, but also drawing data from the broader Durban metro region

The basis for clustering as a sampling technique was that all the cluster localities had experienced some degree of homogeneity in economic decline. Spatial clustering on the basis of homogeneity in economic decline can be illustrated using the following framework:

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<sup>12</sup> A body comprising of labour, business, government and civil society established as a forum to facilitate dialogue on economic development policies of the province of KwaZulu-Natal

**Table 5.1: Sampling Frame**

<i>The Cluster</i>	<i>Cluster Localities</i>	<i>Value Proposition</i>
The Coal Rim Cluster	Dannhauser, Vryheid, Uitrecht, Newcastle and Hattingspruit	The collapse of the coal mining sector, and its impact in service industries of Dundee.
Sisonke Cluster	Ixopo, Highflat and Richmond	The collapse of the forestry industry and its impact on the small town of Ixopo
North Coast Economic Development Initiative	Mandeni/Isithebe Industrial Township and KwaDukuza / Stanger	The decline of sugar exports and its impact on the small town of KwaDukuza / Stanger
Midlands Investment Initiative	Midland towns of Mooi River, Estcourt and Howick	Service-based economy and the decline of wood-processing based economy of Howick
Pinetown (eThekweni)	The Inner West Area of Ethekwini Municipality	Pinetown industrial base as the key growth node - a success story

A key characteristic of the selected small towns is that they are both rural and urban in spatial form. This may have resulted in a bias in the selection process, in favour of those regions whose spatial characteristics concurred with the values and beliefs of the researcher. For instance, the selection may have been based on logistical conveniences, where it may have been easier for the researcher to travel to some towns than to others.

To avoid this eventuality, all municipalities that appeared on the list provided were then chosen on the basis that there were already government interventions that were directed at reviving those regions. In this way, all identifying criteria were eliminated from the selection procedure and bias towards particular spatial forms was obviated.

### **5.3. ETHNOGRAPHIC ORIENTATION OF THIS THESIS**

One unique aspect of this thesis is that research was undertaken through an act of participation. In another words, the researcher was an active participant in the local economic development initiatives funded through the RDP. It was therefore possible to describe what was going on, whom or what was involved, when and where certain things happened, and how and why they occurred in a particular situation.

The focus of the study was to investigate relevant variables of industrial behaviour in the context of globalization of the market place. As is described in this study, these variables had devastating effects on the economies of the small towns.

Participation in the RDP programme proved an indispensable exercise in this regard, especially in terms of a strategy of engaging with various role players who were involved in local economic regeneration studies. The act of participation during the analysis was a process rather than an event, as relationship building with key opinion makers in local government, private sector and civic structures that were active in local economic development was a continuous process. These structures ranged from:

- Local government departments
- Political leadership in local government
- Organized labour, mainly represented by the civic organizations
- Business, mainly represented by the regional Business Chambers.

The focus of the investigation was on the local economy and economic activities within the locality as well as local responses to economic decline as the system tried to restore local equilibrium broken down by economic collapse.

In line with the sociological tradition of participatory methodology, the underlying assumptions was that ‘*an understanding*’ or what Max Weber termed as ‘*verstehen*’<sup>13</sup>, could only be achieved through the process of participation and that insights could be gained by means of introspection.

For this reason, the act of ‘participation’ characterized all the research processes and was the principal methodology of this study. Spending extended periods of time in each of the study areas, as part of the national and provincial policy research teams, the researcher became exposed to the effects of economic decline by witnessing the symptoms of economic decline such as rising unemployment and large-scale job losses.

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<sup>13</sup> According Frediricks and Ludtke (1975: 27) “*vestehen* (which refers to the inner perspectives of the phenomena under study, from their point of view) generally belongs to the context of discovery, and not to the context of justification”. The concept does not refer to observation itself or to description. It is used to designate that which is to be used and described (the object under study)

The researcher was able to gain deeper insights into commonly taken for granted views of the world, from the point of view of the local municipal officials, due to his strategic positioning within the local opinion making structures (mainly within local government) and also because he was associated with the University of Natal, one of the known higher education institutions that has produced a number of leadership personalities in the province.

The University's involvement was already known, as it had been a participant in the local economic regeneration studies undertaken by the Department of Provincial and Local Government, and had a high level of credibility. The researcher was able to enjoy respect as an agent of change as new interventions were being debated as part of the research outcome.

The unit for analysis for this thesis was the locality or a municipality rather than socially isolated individuals. Therefore, it was not necessary to request special access to data banks from gatekeepers because the researcher was part of the process of government-driven economic regeneration plans.

During participation, the researcher had to find a balance between his involvement as a development specialist<sup>14</sup> and also as an independent social scientist. The role of being a development economist was known and clear. This then enabled the researcher to move freely, observe directly and engage in informal interviews.

As Jorgensen (1989:37) predicted:

during participant observation, the researcher must sustain access once it has been granted and maintain relationships with people in the field.

There, sustainability of access to key data sources and a prolonged period of observation was a key technique to getting authentic information that allowed the researcher to generalize on the findings.

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<sup>14</sup> As the Regional Coordinator for the KwaZulu-Natal Economic Council.

## 5.4 RESEARCH METHODS

Within the framework of triangulation, a three-pronged process was followed, namely:

### *Literature Review*

This method was not merely the review of theoretical literature as that had been undertaken during the construction of the theoretical framework. A prolonged period of time was dedicated to gathering municipal records and development planning research reports and other sectoral plans undertaken within each of the selected case studies. This process was particularly focused on recorded information of the activities of various local economic development forums and committees, local council minutes and resolutions.

In normal circumstances, information containing local municipal council resolutions is not easily accessible. Though it was difficult to negotiate access to local council resolutions because of local by-laws protecting access to information, an active participation in the making of that decision made the researcher a stakeholder during distribution of such minutes.

Such data was also made available to municipal-driven local economic development steering committees that had been established to implement LED initiatives in each of the declining localities. Such data was also shared with officials from the provincial government, who was funding the initiatives, for record keeping purposes.

That information (including newspapers, minutes of meetings, photographs, integrated development plans and sector promotion plans) was used to formulate key research questions for the interview process.

### *Open-ended qualitative interviews*

The total number of 45 interviews with respondents drawn from local government, local business personalities and local development champions, was conducted over a period of six months. Interview respondents were grouped as follows:

1. The first group comprised of municipal officials (municipal managers and development planning practitioner), development consultants, researchers and academics.

2. The second group comprised of private sector respondents who were mainly drawn from the chambers of commerce and industry in each of the pilot areas. Organized business such as the chambers and sector formations such as local tourism committees were targeted.
3. The third group encompassed political leadership drawn from both the provincial and national government. The following departments proved to be key in data quality provision, namely:
  - Department of Provincial and Local Government
  - Department of Trade and Industry
  - Department of Minerals and Energy
  - Provincial Departments of Economic Development
  - Traditional and Local Government

The interviews yielded good information and formed the basis for the bulk of this thesis. The firm focused questionnaire did not yield the desired results as it only generated industrial behavioural information.

One major advantage of the interview process was the level of flexibility at which it was conducted. The researcher was able to probe in detail for specific answers and repeat questions where responses indicated that the interviewees had misunderstood questions.

Another achievement in this thesis was the researcher's ability not to follow the shotgun approach in probing for answers to various questions. Interviews were conducted as if they were mere discussions on issues under study. The researcher's participation in the LED policy research processes enabled the researcher to decide which questions would be appropriate at any given point in time.

#### *The quantitative interviews*

The questionnaire was designed and administered over 60% of the total number of firms available from the list that had been obtained from the Durban Chamber of Commerce and Industry. The design, the administration and the analysis of data lasted for a period of six months, as it was undertaken concurrently with the other instruments, sometimes using the services of junior research interns.

A semi-structured questionnaire was used to understand the firms' perspectives and locational issues that affected them. The objective was to test some of the key fundamental assumptions identified in the location theory, which formed the basis of the study hypothesis.

The survey was designed such that municipalities could utilize it as an '*early warning system*', providing information about potential local economic crisis that may face local business in future.

## **5.5 GENERIC PROBLEMS ENCOUNTERED**

The following are some of the problems that were encountered during the research process:

### *Low response rate*

It was quite difficult to retrieve information from some of the respondents, despite numerous attempts to contact them. Some had to be contacted at least three times before a positive response to the survey was forthcoming.

It needs to be stated that the questionnaires did not yield the required information. Firstly, very few companies, including those that were interviewed, completed the questionnaires. Secondly, among those that did complete them, it was apparent that many were not able to supply all the information that was asked for.

### *Quality of Information:*

Certain questionnaires were only partially filled in. This can possibly be interpreted as a reluctance to see the value in providing information for the survey.

## **5.6. RELIABILITY AND VALIDITY CONSIDERATIONS**

Smith (1975: 58) defines reliability by posing a question:

will the same method used by different researchers and / or at different times produce the same result?

Essentially this was the requirement, which the application of any validity and reliability-measuring instrument to differing groups under different sets of circumstances should lead to the same observation. The combination of a number of data-gathering instruments, within the

framework of triangular methodology, was the best assurance that the data obtained during the interviews in small towns was reliable.

Mouton (1988:79) does not separate the two concepts, as he argues:

the central consideration of validity concerning the process of collection is that of reliability.

The attainment of reliability in research findings, however, is far from unproblematic. As Mouton further argues:

reliability of the process is influenced by variables such as: the researcher, the researched, the researching instrument and the research context (ibid: 80).

The reliability of the research instrument utilized was not a concern for this thesis, as the combination of multiple instruments proved to be the best way of avoiding the impact of the researcher's prejudice within the studied areas. Two variables, which can affect the reliability and validity of the research, are the researcher effect and the orientation effect. These will be discussed in turn, including an account of steps taken in the research to eliminate the effect if these variables.

## **5.7. AVOIDING THE RESEARCHER EFFECT**

The affiliation and orientation of the researcher are two of the most significant research variables identified by Mouton (1988: 81)<sup>15</sup>. The researcher's affiliation and orientation to current institutional frameworks that existed, in his role as a participant observer, was both positive and negative.

It was negative because it became difficult to provide an objective analysis of the situation, from a detached person's point of view, but it was positive because the researcher was able to capture key issues from the point of view of the people that were being investigated.

In addition, many forms of research, seeking to understand the impact of job losses in small and big towns, were conducted by local government structures. Most local authorities tend to

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<sup>15</sup>This study only deals with the researcher effect variable. On other participant effect variables, see Roethlisberger & Dickson (1939), Schuman & Presser (1981), and Sudman and Bradburn (1982).

be suspicious of such research and react negatively to the interview situation, because, in the words of the Mooi River Mayor:

We have been excessively researched, due to the proliferation of 'development consultants', who are masquerading as messiahs and saviours of the poor.

Such a view of research may have interfered with the response rate, if it was unguided. The status of the researcher was made known to all participants in the various local economic regeneration programmes. His role, both as a provincial coordinator of the now-defunct KwaZulu-Natal Economic Council, as well as a research student of the University of Natal, gave him a degree of credibility in the eyes of the respondents.

As a result, most interviewees were motivated to answer the questions positively and authentically. To avoid untruthful responses to questions, it was made clear to respondents that the research was purely academic, and had nothing to do with the state.

## **5.8. ORIENTATION EFFECT.**

Hyman (1954: 58) separates the influence of the orientation of the researcher into three broad categories, namely bias-producing cognitive factors, attitude structure and role expectation.

Bias-producing cognitive factors can result in pre-determined interpretations of respondents' answers. This danger was always guarded against in the context of this study. The researcher often had to hazard guesses about the attitudes and responses of the less literate people to phenomena such as industrial migration and LED as the two main concepts of this thesis were not known to them. In a deliberate act of simplifying concepts and questions, the researcher had to rephrase questions, in order to avoid the reinforcement of stereotypes and biases quite often associated with social research, such as race, gender and class.

The researcher had to remain in charge of the process and not be led by the interviewee when probing further. At the same time, he had to ensure that the interviewee was relaxed and that a rapport had been established.

In addition, the researcher was able to authenticate information, at the time of the interview. Hyman (1954:58) refers to the tendency of some researchers to believe that the attitude of

respondents is likely to display a uniform structure. This leads the researcher to anticipate the answer to questions. The problem of attitude structure expectation was avoided in these interviews by supplementing them with group discussions and private conversations.

‘Role expectation’ refers to the tendency of researchers to believe that certain attitudes or behaviours occur in individuals who belong to a particular group (1954: 81). Role expectation did not lead this researcher to develop rigid stereotypes about respondents, who, in any event, came from diverse organisations, backgrounds and environments.

Lastly, it became evident that one of the most lasting and appropriate methodologies of social science that is still largely applicable and highly reliable in different contexts and social settings, is participant observation.

Using the framework of triangulation, as defined by Denzin (1978), the study was able to command some level of respectable authenticity in its conclusion due to the combination of desktop review, open-ended interviews and the early warning survey.

## **CHAPTER SIX: HISTORICAL OVERVIEW OF THE DEVELOPMENT OF INDUSTRIAL POLICY IN SOUTH AFRICA**

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### **6.1. INTRODUCTION**

The argument so far has been that the absence of deliberate policy interventions to attract both finance capital (savings) and human capital (highly skilled workers) has been detrimental to the economies of many small towns. There were policy interventions under apartheid, where the National Party government tried to impose controls on outflows of labour from homelands to what was described as 'white South Africa'. However, these interventions were never wholly successful and the economic forces that transmit inequality continued to operate even if their consequences were somewhat attenuated.

This section of the study will focus on the industrial decentralisation policy of the apartheid state and its impact on small towns. The analysis will provide the historical framework within which current industrial development patterns can be understood thus explaining the legacy within which these towns exist.

The decentralization policies of the apartheid state are a classical example of ideologically driven regional policy in the recent history of RSA. Anxious to stimulate growth in the 'Bantustans', the apartheid regime tried to move industrial activities from areas of high population concentration to peripheral zones, which were mainly small towns largely populated by black communities.

Over a period of many years the apartheid government attempted to achieve the population distribution it desired with a combination of coercion and incentives. Influx control and population removal measures were introduced in order to exercise control over the movement of people. The policy of creating jobs within or near the borders of the Bantustans was intended to provide incentives for people to remain in those areas. Co-operation for implementing the policy was sought through the conservative, salaried chiefs and other leaders who were granted a political platform through the system.

In this study the link between the apartheid decentralisation programme and the policy of separate development, which was the core of the apartheid policy, will be outlined. In the discussion of decentralization that follows, the focus will be on the causal link with apartheid policy, the ideological rationale, utilisation of economic plans in enforcing the ideological strategy, as well as the creation of a link between the constitutional and economic frameworks.

The apartheid government's industrial decentralisation strategy is examined in order to explain the historical impact of such a strategy on small towns as well as the restructuring that will be required to implement new strategies in the post-apartheid development context. This study argues that any restructuring of the apartheid state's 'decentralisation strategy' should not be divorced from the government's transformation agenda. The implementation of such a strategy should be linked to developmental government strategy. Restructuring the apartheid industrial policies can only adequately be understood within the context of local economic planning. Unfortunately this is not government policy at present in the post apartheid development context although it should be the centrepiece of developmental local government.

## **6.2. MANIFESTATION OF THE APARTHEID STRATEGY IN SMALL TOWNS**

This study argues that the apartheid government's industrial strategy was developed as part of the government's attempt to achieve greater coherence in its political strategy, since both strategies were inextricably linked.

The economic plan divided South Africa, including the independent and non-independent 'homelands', into eight development regions, each with its particular development needs, potential functional relationships and physical characteristics. Within these regions were eleven deconcentration points which were areas close to existing large metropolitan areas, 49 industrial development points of which 21 were in the so called 'white' South Africa, and 28 were in the homelands. (IDC, 2002:10).

In KwaZulu-Natal, the areas of Isithebe, Ezakheni and Madadeni were identified as deconcentration points as they fell under the jurisdiction of the Kwa-Zulu self-governing state. These areas were intended as alternative growth points to the existing white areas such as

Mandeni, Ladysmith and Newcastle respectively. The development of black townships such as Sondombili in Mandeni, Ezakheni in Ladysmith and Madadeni in Newcastle can be linked to the development and the implementation of the apartheid industrial strategy, as these townships were constructed to house labour reserves to supply decentralised industries.

The regions were allocated huge sums of money per year as an incentive for labour absorption. The government-sponsored package was geared towards attracting labour-intensive industries to these areas. A major change occurred with a shift away from tax concessions to direct cash payments, which were linked to the number of workers employed. In addition, these areas qualified for a percentage rail rebate, discount on harbour charges and generous subsidies on electricity, housing and training.

The strategy of industrial decentralisation was high on the apartheid government's list of priorities. The state devoted a lot of resources to what it called 'new regional development strategy'. One of the respondents during the interviews argued that, "the government effectively paid up to 80% of labour costs of companies who were prepared to locate in small towns" (interview with John Schnel, former industrialist in Mandeni). That meant that companies that were located in those small towns only had to cater for operating costs, the balance was paid for by the state.

The financial package was not envisaged as being the central financial pillar of the strategy. That role was reserved for the Development Bank. Its responsibility was to contribute towards the development and expansion of projects. The government hoped that the necessary capital would be raised through debentures issued on South African and overseas capital markets.

### **6.3. LINK BETWEEN INDUSTRIAL DECENTRALISATION AND APARTHEID POLICIES**

According to the government of the day, the apartheid industrial strategy was consistent with its policy of creating independent homelands and what it called 'self-governing' states. Both strategies adopted a regional approach in which development areas were demarcated according to political criteria rather than developmental priorities. All the consultative structures and secretariats formed to formalise co-operation and interaction were composed of

apartheid architects and functionaries. Prominent homeland leaders and leaders of the so-called 'self-governing states' were instrumental in ensuring the success of the apartheid state.

In KwaZulu-Natal, the Prime Minister of the KwaZulu 'self-governing state', Mr. Mangosuthu Buthelezi, was quite supportive of the strategy and he personally invited foreign companies to locate in his area. This was perceived by the liberation movement in exile as 'sanction busting', at a time when the campaign to discourage foreign direct investment in South Africa was gaining momentum.

Because traditional apartheid failed to win support and legitimacy among blacks, the state needed to devise a new approach, which would ensure stability and maintenance of the system over the long term, particularly in black areas, which were facing increasing youth militancy.

Leading representatives of capital, such as the Chairman of Anglo-American, Harry Oppenheimer, warned repeatedly of the dangers of a revolution unless the original Apartheid formula was adapted or reformed. Repression alone could no longer be relied on to contain the situation. The original strategy had failed to entrench the population distribution necessary to provide a basis for ethnic political partition. (Interview, Ian Philips, Special Advisor to Minister Jeff Radebe, Public Enterprises, 2002.07.30)

During the 1970's, traditional apartheid aggravated certain problems faced by capital. These included limits on the size of consumer-markets, which were confined to small towns in homelands, a shortage of skilled labour and a growing requirement for a stable semi-skilled work force in secondary industries. The most serious problem jointly facing capital and the state, though, was growing opposition to the capitalist system, a perception captured in the often-quoted statement of Mr. Jan Steyn, executive director of the Urban Foundation, to the effect that South Africa's priority had become the maintenance of the free enterprise system. (Urban Foundation, 1988)

These factors constituted a crisis for apartheid and the government moved to resolve the contradictions facing the policy. A leading role was given to intellectuals and 'technocrats' in this process, through the forum of commissions of enquiry. Two of the best-known 'intellectuals' and 'ethnocrats' allotted the task of devising a new plan were Professor Nic

Wiehahn, who chaired a commission of enquiry into labour legislation, and Dr. P Riekert, who chaired a commission of enquiry into manpower utilisation.

The focus of this research is not on the recommendations of each of these technocrats. It is, however, sufficient to argue that their reports and recommendations became the hallmarks of the revised strategy which centred on making the division between urban and rural blacks as salient a division as ethnicity.

#### **6.4. THE ECONOMIC AND POLITICAL AIMS OF THE INDUSTRIAL DECENTRALISATION STRATEGY**

The functional role of the state's industrial policy was clearly stated by one of the key captains of the apartheid machinery, Minister of Constitutional Affairs, Chris Heunis, when he said:

a more balanced development action in a regional context is necessary in order to carry out the policy of the separate development to its logical conclusion. (SABC News, 1988)

It was clear that the intention of the apartheid regime was to eventually accommodate black people in some 'independent' political order, and to keep them away from major metropolitan areas. It was hoped that there would no longer be a moral obligation to accommodate them in the central political system, but to establish 'pseudo economic nodes' in the form of small towns, in which the majority of black South Africans would be encouraged to live.

Differences arose over how best to entrench political partition. The reformist intellectuals believed that over the long term, South Africa needed to move toward an ethnically based political association in a federal system. Federation was seen to be more feasible than a confederation which is a single constitutional unit involving an agreement between sovereign independent states.

The establishment of a confederation, based on ethnic homelands, was vitiated by the refusal of certain homeland leaders to accept their 'independence'. This was one of the central problems facing the apartheid strategy and it made the realisation of the formation of a confederation based on bilateral agreements with 'independent states', unobtainable.

Furthermore, the constitutional future of so-called 'urban blacks' could not be settled within a conventional confederal formula. For these reasons the development of 'federal features' was advised. A pattern of population distribution had to be maintained. It was believed that it would be preferable to keep the descendants of the different major African chiefdoms living in and around their original areas of settlement.

The research argues that essentially, the economic decentralisation strategy and the emergence of the apartheid type 'small towns' were aimed at providing the economic base for the population distribution needed to retain ethnicity as the fundamental organising principle of the society.

The apartheid state had hoped that the private sector would assist in ensuring the economic viability of the small town so that their constitutional and political goal could succeed. The emergence of apartheid type small towns was therefore viewed as an important strategy in influx control because it was essential that control of movement should rest less on coercion and more on economic incentives.

The analysis of the policy framework within which the strategy was being implemented enables this research to conclude that there was a contradiction between theoretical free market principles and the strict control over the movement of African labour that the strategy entailed. The removal of discrimination against non-whites, it can be argued, was only one step towards eliminating the imbalance.

This process was fraught with danger if taken too far because the government's strategy could not succeed unless it was accompanied by an effective programme of stabilising the migration of people in the region as a whole. This geographic dimension was an indispensable element of the new dispensation. Influx control was viewed by all as a fundamental non-negotiable principle of the reform process.

The principle of geographic distribution of ethnic groups remained as important as it ever was in terms of the original Verwoedean doctrine. However, serious differences arose over its interpretation. The nationalist party government believed that attempts at industrial decentralisation to various 'rural growth points' through enticing incentives might help them

achieve the political agenda. Instead, they opted for a policy of creating growth poles in broad regional areas, which included metropolitan areas, throughout the country.

The earlier architects of the industrialisation strategy were less conservative than those that had been implemented in the late eighties. The country was almost ungovernable due to the mass popular movement led by the United Democratic Front. What was perceived, as 'flexibility' within the strategy was unacceptable to the politicians of the time. P.W Botha opted for a far more conservative decentralisation policy.

The aim was the attainment of a more rigidly segregationist pattern of demographic distribution away from metropolitan areas, throughout the country. He believed that the 49 development points that had been identified for the decentralisation strategy far exceeded the bounds of economic possibility. The six most favourable areas would all be in white areas. The black states would need to have development points as well. Due to financial constraints a strict selection process had to be followed.

The necessary infrastructure was not provided in all 49 locations. The proposed Development Bank was the central mechanism for channelling funds to various places. Although plans for 'disincentives' to discourage industrial expansion in urban areas had not yet been finalised, the plan to create additional sources of income for local authorities could form part of the disincentive package in urban areas.

The decentralisation strategy in both its economic and political aspects went hand in hand with the concept of depoliticisation. This term involved the removal from the sphere of government of all functions and services that could be met and provided by the private sector. As soon as the government, for example, assumed responsibility for supplying houses, it became a political matter. People who were not represented in the political process would then attribute their lack of housing to their lack of parliamentary representation. Fewer issues would get politicised if matters such as housing could be confined to the economic sphere.

## **6.5. CONSTITUTIONAL BACK -UP TO INDUSTRIAL DEVELOPMENT STRATEGY**

The strategy of decentralisation was intended to provide the economic infrastructure necessary to retain ethnic political partition in either a federation or a confederation. There was no final blueprint on the constitutional details of the future system, but planners were working in a direction whose salient features could be outlined as follows.

The homelands were intended to remain the unit of government for Africans on an ethnic basis. In the rest of South Africa, there would be two important levels of government: a municipal level (strictly divided on the basis of ethnicity), and a central level, involving Coloureds, Indians and Whites as suggested in the constitutional proposals. Various municipalities in the same geographic region could be linked by joint services committees. Beyond municipal level, there was no coherent plan for the constitutional future of Africans outside the homelands.

This research found no data available on government's plans for the future of the provinces. Instead, the country was divided into a number of regional entities, and initially between four and eight was suggested. This included homelands but they had no constitutional significance and would merely be designated as economic cooperative areas. Regions falling outside homelands would be administered by appointed representatives of the central government.

Matters deemed to affect national security were to be retained by the central state. This included anything the government considered necessary, such as influx control, which was not negotiable in principle, although the method of its implementation was still open to discussion. At the level of the central state, control was exercised by a closely-knit power structure: probably with an executive president. Although the system would be based on the international confederal model, it would gradually gain more characteristics of a federal than a confederal system.

This research concluded that the state's decentralisation strategy was designed to 'save ethnicity' as the fundamental organising principle of South Africa's political economy. Where ethnic divisions had been undercut through migration to urban centres, the goal of the strategy was to promote upwards class mobility to integrate Africans into the capitalist economy. This group of privileged insiders was expected to develop as much of a stake in the system as the chiefs and bureaucrats in the rural areas who owed their status and power to the homelands system.

The free enterprise system was regarded as a mechanism for removing the sphere of authority from the central state apparatus and placing it in the market place. This, it was hoped, would defuse the demands of politically excluded groups for state control.

The political implications of the arithmetic of numbers, as the government had hoped, were carefully worked out, ruling out the chance of a co-option strategy that could in any way fundamentally threaten the power base of whites. For this reason, the co-option strategy continued to be supplemented by tight influx control measures in order to achieve the demographic balance that would make a policy of ethnic political partition feasible.

The improved decentralisation incentives were largely a revised method of achieving the demographic distribution needed for the success of the territorial and constitutional entrenchment of ethnicity. They followed logically from and had the same basic aims as the previous failed attempt at promoting border industries and investment inside the homelands. The Development Bank was to be the financial pivot of the revised decentralisation strategy.

### 7.1. INTRODUCTION.

In the preceding chapters, it has been shown that a combination of the apartheid legacy and globalization demand has produced an economic situation that poses far-reaching implications for the continued existence of the local state. The flow of 'bads', which has resulted from both apartheid legacy as well as the rise of globalization, has been difficult to control. This thesis has already stressed the point, in the preceding chapters, that globalization implies not only the universal dissemination of goods but also the dissemination of 'bads'.

In order to demonstrate the effect of globalization on the economic base of small towns, the section that follows will provide a detailed account of the situation in small towns. In each of the selected case studies, the broad socio-economic demography of the town will be analyzed, followed by an account of the nature of industrial migration that was experienced.

In order to show local economic innovations that attempted to deal with the effects of industrial migration, the focus was specifically on local economic intervention initiatives by either local municipalities or a partnership between the municipality and organs of civil society. The thesis deliberately did not focus on national government interventions, since these did not trigger any local innovations. The focus was specifically on local industrial development interventions aimed at creating jobs for local people.

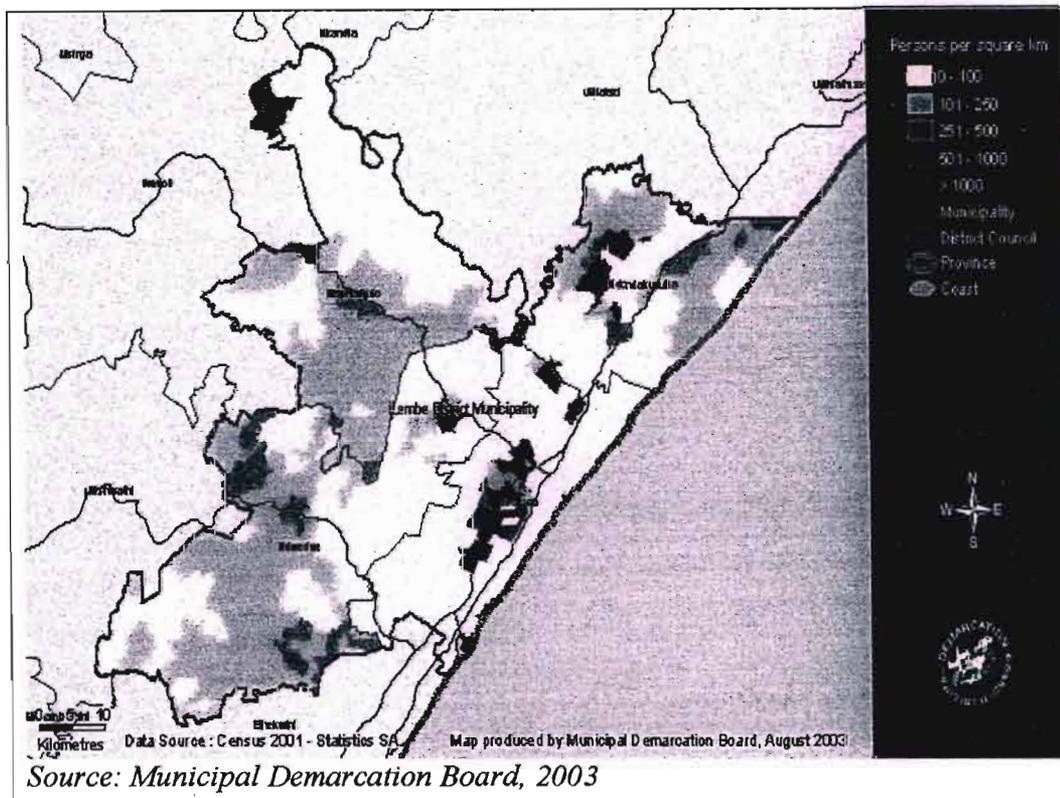
It needs to be stated, however, that one of the problems that hampered the analysis was a shortage of statistics. Statistics provided in this thesis were drawn from both the 1991 and 1996 census information respectively. Any branded as 1998 and 2002 were based on projections done by both the DBSA and the Demarcation Board respectively.

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<sup>16</sup> The method of selecting case studies was detailed on the chapter six (methodology)

## 7.2. CASE STUDY 1: KWADUKUZA /STANGER

KwaDukuza forms part of the Lower Tugela sub-region, one of the four regions of King Shaka District Municipality, for which statistics were available. In 1991, the Gross Geographic Product (GGP) for this area was guestimated at R 704, 00 p/a. Manufacturing contributed 32% and agriculture 18% to the GGP (Ilembe Regional Development Plan, 1999).



**Figure 7.1: Map showing the KwaDukuza/Stanger area**

### 7.2.1. SOCIO-ECONOMIC DEMOGRAPHY OF KWADUKUZA

The contribution of this sub-region to the provincial economy was small, 'guestimated' at about 1% in 1980. This figure fell marginally to 0.7% by 1991 and it was estimated to have dropped to 0.34% in 1998 (Ilembe Regional Development Plan, 1999). In addition to its small size in real terms, the economy of the area appears to be stagnating.

The analysis of data obtained from the KwaDukuza municipality during fieldwork suggests that the area has experienced industrial migration in sectors such as agriculture, services and small-scale manufacturing. Though the area has some competitive advantages in the agricultural and manufacturing sectors, these sectors have been shedding jobs and more and more businesses are closing down.

Although statistics on patterns of migration in KwaDukuza were unavailable, it was assumed that migration took place across the board from primary sector industries such as agriculture to tertiary sector industries such as tourism. Statistics available from the DBSA (2002) demonstrate the nature of industrial mobility, where the regions contribution to national growth, which was estimated at 13% in 2002, has decreased and was estimated at only 7% (KwaDukuza Integrated Development Plan, 2002).

The above sectors combined contribute slightly less than 27% of the total GGP (Ilembe RDP, 1999). One of the problems with such a statistic is that some of the industries that were making an important contribution to the economy of the area both in terms of employment and in terms of contribution to the GGP were not considered by this thesis.

Data analyzed for this study also suggest that the financial, government and other social services sectors also experienced industrial decline of 5%. Mergers and acquisitions, discussed later in this thesis as a factor leading to the decline, account for most of the decline of the financial sector. However, if this is viewed in comparison with employment, there is reason to be concerned, as this lack of growth has a direct correlation to employment creation.

### **7.2.2. LOCAL ECONOMIC DEVELOPMENT RESPONSES IN KWADUKUZA: AN ANALYSIS**

As was the case with many of South Africa's small towns, KwaDukuza's local industrial development policies were part and parcel of their integrated development plans. The analysis of the KwaDukuza IDP (2002) suggests that the implicit objectives of local municipality in KwaDukuza were typically:

- To accelerate their economic growth or arrest their decline.
- To reduce above average rates of unemployment and underdevelopment.

Attempts to achieve these objectives were clearly evident in local government interventions in the field of development planning and local economic development. These interventions did not include any measures designed to invite industries to locate in the regions. Inducements to industry were generally provided in a number of ways. For example, the government assisted in building an adequate infrastructure of social and economic capital, the absence of which could have seriously deterred industry from locating in the area. However, local government in the area was unable to offer direct financial assistance to firms locating in the area. In KwaDukuza, inducement policies were not combined with a policy of retaining the existing business activity. The focus was on attracting revenue-producing and job-creating industries to the area.

It needs to be stated that the approach adopted during the analysis of data for this study was not focused on local economic competitiveness. An area's share of the regional economy is constantly changing: industrial flight from one area means a gain for another area. Instead, the approach was to define the local economic base as the set of institutions and economic policies supportive of high rates of economic growth.

Industrial development was one of the key strategies adopted by this area, in the promotion of local economic development. Such a strategy was dominated by the attempt by this municipality to woo smokestack industrial processing firms to locate in the area, by means of industrial incentives.

The analysis of industrial development interventions undertaken in this study area suggest that the rationale behind the location incentives package developed for the area may have been influenced by three interrelated economic arguments:

- The infant industry analogy, which reflects the need to overcome the initial economic decline which existed in KwaDukuza prior to the build-up of urban agglomeration economies of pre-1994,
- The spread (multiplier effect) argument, and
- The wasted worker thesis.

To illustrate the relevance of the 'infant industry hypothesis' in understanding the situation in KwaDukuza, one can compare the two lower North Coast towns of KwaDukuza and Mandeni, which began to trade freely during the industrial decentralization era. Because of the support

from the apartheid state, Mandeni was characterized by an industrial base, large-scale production capacity and long production base. Mandeni was thus able to undersell the KwaDukuza industries, even in the latter's home markets.

In the post-apartheid era, it was in KwaDukuza's interest to subsidize the development of its own industry that operated initially at a disadvantage. However, once it overcame its inexperience, adequately trained its labour force and built its image, economic sustainability indicators started to emerge and it was later able to compete effectively with Mandeni on industrial development. This process was precipitated by the availability of local government-sponsored LED strategy.

The 'multiplier effect hypothesis' was also relevant in the interpretation of economic events in KwaDukuza. The 'multiplier effect hypothesis' is an element of growth pole theory, which has been dealt with in the preceding chapters of this thesis.

Because of local government intervention in private sector promotion and industrial incentives packages offered as part of the investment promotion strategy, the new industries started to train their labour force, showing that the workers of the area were more productive than was previously thought. This example encouraged other industries to emulate them. In addition, the newly employed workers provided jobs for other people in the area by spending their wages within the local economy. New suppliers were then induced to move to the area. Forward linkages were then developed as customers located to the surrounding areas. The regional income multiplier was assumed to be sizeable.

Within the provincial spatial economic context, KwaDukuza remained a growth node in terms of the regional development programme. Therefore, the type of investment that suited the area had the following characteristics:

- It was relatively large generating sufficient direct and indirect potential effects in the economy;
- It had a relatively fast-growing sector;
- The quantity and intensity of its inter-relationships with other sectors was important so that a large number of induced effects could be transmitted;
- These inter-relationships and induced effects occurred locally.

Although KwaDukuza's strategy could be explained using the growth pole theory, in fact, it contradicted the basic premises of the theory, in that it attempted to attract all types of manufacturing investment to the area – irrespective of whether or not they were propulsive or not. Thus, KwaDukuza's strategy overturns some of the very foundations of growth pole theory. The authorities hoped instead that the degree of investment attracted would be sufficient for the area to achieve relatively significant agglomeration economies.

On the other hand, the 'wasted worker' thesis was also a useful theoretical tool to analyze the situation, from the employment creation point of view. According to this view, living patterns, high location and transportation costs in large metropolitan areas surrounding KwaDukuza, (mainly Durban and Richards Bay) conspired against potential workers in those areas, so that their skills were being wasted. The high costs of commuting often prevented them from working in metropolitan areas. This immobility also resulted from psychological blocks harboured by disadvantaged workers, rendering them incapable of holding or even seeking jobs in areas where employment opportunities exist.

Workers had to be convinced that jobs were open to them in the metropolitan areas. All this gave credence to the concept of 'taking the work to the workers' as a solution to the problem of backward economic regions. This strategy was based on the conviction that the mobility of labour was frequently overestimated.

A consequence of this argument was that inducing private industries to locate in depressed areas offered a means of helping to alleviate the problems in such areas. In the context of a broad-based rationale for locating incentives, KwaDukuza had been unable to offer an attractive package of incentives capable of attracting new industries.

The area had no short-term incentives aimed at alleviating the short-term financing problems experienced by industrialists when they locate in an area. No capital incentives such as renting rebates were available; neither were there labour incentives or compensation for relocation costs.

There were no long-term benefits that could compensate the industrialists for certain longer-term cost disadvantages found. Despite the strategic location of the area, along the N2 highway, which links the north coast and Durban, it was unable to offer any transport rebates,

electricity incentives or cash training grants. Although these types of incentives are in accord with the 'infant industry' argument and the 'wasted worker' thesis, it was left to national government to finance them.

South Africa's existing incentive package of industrial incentives has resulted in the introduction of predominantly cash-based incentives. In contrast to the predominantly tax-based incentives that preceded them, none of these were evident in the area. In some local authorities, short-term incentives were being made available as cash payments, thus helping industrialists to bridge cash flow problems during the establishment phase of their factories. However, this was not been the case in the study area.

### **7.2.3. LABOUR MARKET ELASTICITY IN KWADUKUZA: AN ANALYSIS**

The elasticity of the labour market can be a fair determinant of the extent to which industrial decline may have occurred. It is a common course for employers to choose locations where they are likely to find workers with the necessary skills. This dynamic occurs on a global scale. It is the main reason that international flows of capital, whether private or public, are incapable of creating a global economic system in which opportunities for development are distributed equally amongst all people.

Differences in opportunities and in living standards continue to remain very great and if capital flows continue to bypass KwaDukuza, there continues to be a net transfer of resources from the area to rich centres such as Durban and Richards Bay. This thesis contends that this phenomenon is likely to increase as the province becomes more and more export-oriented because of the lack of logistical infrastructure that can support international trade.

The analysis of data from the KwaDukuza case study suggests that industrial migration can be a powerful force in human development. It can impact on employment rate and the supply of labour.

KwaDukuza experienced both the positive and negative impacts of industrial migration. On the one hand places such as Ballito have experienced positive economic growth and more business activity has been attracted to the area while on the other hand, KwaDukuza (Stanger) has lost many of its skilled workers.

In KwaDukuza's case migration has had a largely negative effect. The loss of desperately needed skilled labour and professionals to Durban and Richards Bay adversely affected the local economy. This phenomenon, allied to the removal of protective barriers, resulted in local firms finding it increasingly difficult to compete in the international markets.

The inelasticity of the labour market has forced some firms to relocate to other parts of the province in which there is a large pool of labour with the skills that are particularly required for their activities. A number of high-tech companies have moved out of the area due to the unavailability of highly skilled labour. Capital tends to concentrate in better-off regions where labour with advanced skills for particular kinds of production is required.

This research found that there were no policies in place to counteract the emigration of skilled labour. As a result, KwaDukuza and other regions in the province were forced to bear a double burden. The area lost financial and human capital, which was vital for its future development but it was forced to retain unskilled labour of which there was great abundance and which will contribute relatively little to the area's future development.

The loss of financial and human capital, when combined with the involuntary retention of unskilled labour, resulted both in greater inequalities in the distribution of income and in lower real wages for low-skilled workers. It can therefore be concluded that the operation of the local economic system frustrated human development in the area.

From the preceding discussion it can be concluded that incomplete globalization and the partial integration of local labour markets on a provincial level have accentuated local inequality in the distribution of income. Local human capital mobility resulted in a flow of skilled labour from the areas where they were poorly paid (by international standards) to the wealthy areas of Durban and Richards Bay, where they are well paid. This scenario has significant implications for KwaDukuza since the area has demonstrated its intention to participate in a 'global market' in which advanced technology and highly skilled personnel are essential.

#### **7.2.4. TECHNOLOGICAL CHANGES IN KWADUKUZA**

Technology has played a decisive role in world affairs (Talalay, 1997). It is an enabling factor in the creation of a global society. Although there remains considerable debate about the nature, extent and implications of the globalization of technology, Howell (1997) argues that there is no doubt that the generation, diffusion and utilisation of technology is being played out in an increasingly global arena.

Anecdotal evidence from this study suggests that the economy of KwaDukuza was 'factor driven' instead of being technology driven. It was largely based on factors of production, such as labour and low input costs.

As the metropolitan economies saw tremendous growth in the 90's, due in large part to a global technological boom, the area was forced to watch as its industrial base continuously dwindled. The benefits of technology went unseen by the common citizens. Very few people had access, which was highly concentrated among higher education communities and whites that resided along the coast, in places such as Ballito.

It needs to be stated, however, that the demand for new technology is being driven by a thriving software piracy market in urban metropolitan areas such as Durban, which is estimated to be above 90%, and internet access which is expected to double by 2005. This thesis found that over 50% of the population in KwaDukuza had never even heard of the internet. Of those that had, 65% had no opportunity to use it.

This lack of knowledge and slow growth was attributed to lagging telecommunications infrastructure. Technological facilities do not even accommodate the demand for communication, let alone data. It is estimated that there are over 10,000 settlements in this town without phone lines. Legacies of the apartheid era have left this town with political, economic and social barriers to the invigoration of the technological development industry.

As a response to such technological backwardness, KwaDukuza largely relied on the micro-economic interventions of LED projects, and did not develop an ability to harness global technology and apply it to local economic needs. This thesis found no evidence of KwaDukuza's readiness to adopt modern developments in communications and transportation aimed at making the area attractive to FDI.

Technological changes have not had a profound impact on either the shape or the character of KwaDukuza's local economic systems of innovation nor on local growth prospects. Though technology generation is a global phenomenon, the utilization of the technology and its influence on patterns of trade and investment has not occurred in the area under study.

Technological change, according to Moore (1984:23) involves:

The provision of new information, knowledge that is used effectively in industrial operations and has measurable effect on cost, product quality, level of output or sales and other ancillary operations of the firm.

This study found no evidence to prove that local industries were using new technology. This became an important factor influencing cost, product quality, level of output or sales and other ancillary operations of the firm.

In conclusion, the inability of the local industry to acquire and use new technology has affected production and sales. This was largely due to the fact that the key economic sectors were affected by natural disasters such as droughts and floods. At the time of the crisis, local industry increasingly relied on support services and technical assistance from outside.

Moreover, data analyzed for this research suggests that the introduction of new machinery in medium-size industries located in the area often occurred without the necessary training in the use of such technology. As a result, no change in operations took place and technological change remained incomplete. This research therefore concluded that in order to compete in the global arena, a more efficient technological competitiveness strategy would have to be pursued in the area.



Accordingly, Ixopo developed as a rural town characterized by a significant prevalence of the agricultural sector in its economy. The output of this sector is enhanced by the spatial location of the town. Ixopo is situated at the junction of routes that link the area with Durban, Pietermaritzburg and the South Coast.

The area occupies 18.33% of the total Sisonke area and accounts for approximately one third (33.24%) of total district population. Most of the land is under forestry and commercial agriculture. Other land uses include settlement, subsistence agriculture and conservation.

As reflected in the table below, the most prominent sectors in terms of contribution to local GGP are:

**Table 7.1: Relative Contributions to Local GGP per Sector**

Agriculture	39.79%
Government	21.80. %
Trade or Commerce	13.05%
Transport	11. 16%
Manufacturing	15%

Source :Ixopo IDP (1999)

The table above illustrates the contribution of each sector to employment. It should be noted that agriculture and government were the main employment sectors. The economic pattern with respect to employment differed somewhat from that of the GGP. However, the overall local pattern of the GGP and employment contribution corresponded to that of the District. A relatively high percentage of employees were drawn from marginalized groups, such as women and youth.

Ixopo experienced industrial decline in manufacturing, agriculture and forestry, the sectors that formed the basis of the local economy. The area has not seen any growth since 1998 and the municipality continued to loose funds from levies. Despite the opening of the Eston Sugar Mill, such an investment made no significant contribution to economic performance. Analysis of data on the income and expenditure patterns of Ixopo reveals no increase in GGP.

Estimated economic indicators for Ixopo and the Cross-Border region (KZN-Eastern Cape Border) for 1998 were derived from the Eskom study (Data Research Africa, 1995) based on the former districts. The study should thus not be read as conclusive, but as estimates for the new political boundaries.

### **7.3.2. INDUSTRIAL DEVELOPMENT CONTEXT IN IXOPO**

Ixopo is one of the main employment centres within the region. The town is strategically located with respect to Ugu, Umzimkhulu and the Eastern Cape. It is centrally situated in the new area defined as the Sisonke District.

After extended visits, interviews and the analysis of all by-laws and town planning schemes, it is clear that no industrial development interventions were undertaken in the entire district of Sisonke. Land use in the area was diversified. Forestry was the biggest user of land. The remaining land was used for commercial agriculture, human settlement and commerce.

Given the distance of the area from major transport infrastructure and the nature of the surrounding terrain, the centre appeared best suited to commercial, agricultural and administrative development, rather than industrial development.

The area was effectively an agricultural area. It was the only strong economic centre within the Sisonke District. A number of priorities were identified during interviews, many of them linked to agricultural development, financial support and capital investment in training, fencing, dipping facilities, grazing camps, dams and equipment hire.

The role of the new district council, which came into effect after local government elections in 1999, was not clear and it had done very little to build on the area's traditional role of a rural service centre and transform it into an active facilitator of economic development and job creation. No immediate economic interventions were attempted within the framework of local economic development as foreseen in the local government transformation legislation.

Local government in the region was faced with enormous tasks of developing the local economy in the context of globalization-related constraints and the old socio-economic deformations. In its favour were the strength and potential of commercial agriculture and the

opportunities that existed for diversification within the sector. The local economic objective for local government, in exercising their developmental local government mandate needed to be on building on the area's key comparative and competitive advantages in order to create more jobs.

### **7.3.3. THE NATURE OF ECONOMIC DECLINE AND INDUSTRIAL MIGRATION IN IXOPO**

The new openings resulting from the end of apartheid and worldwide economic isolation have brought not only opportunities, but also competition from experienced and very well developed regions. Ixopo has had to deal with the effects of the changed economic terrain.

Ixopo is currently experiencing changes in its core areas of economic strength; agriculture and forestry. These changes have resulted in job losses as companies turn to different employment options. Research alone cannot solve the problems of the town but a coordinated and continuous effort on the part of the Local Economic Development Forum was identified as one condition for success. Critical to this, was its inability to read signals early and respond appropriately to market trends. Despite the advent of the Physical Planning Act that became operative in 1968, there was no evidence of the impact of the apartheid government policy of industrial decentralization on industrial development in the area.

Visibly missing in the integrated development plan (IDP) of the areas, in terms of local responses to economic decline were the following:

- Tax holiday
- Interest-free or low-interest loans for local small businesses
- Any rebates for conducting business in the area

Unlike in other small towns where industrial development had taken place under the 'agency system', where inducements were offered to companies who undertook operations within those areas, the analysis of local government industry support in Ixopo revealed that:

- Leasehold factory sites, buildings and services were not available
- Loans institutions were not located in the area. As a result, loans granted were not on an interest-free basis, as the area 'was not on the map'.

- The structures established under industrial relations legislation, for example bargaining councils, had no jurisdiction in the area.

An analysis of Ixopo's town planning schemes indicated a primitive approach to industry promotions. These were based on physical controls introduced in terms of the spatial planning. Previous municipalities under apartheid were only interested in achieving the dual purpose of arresting the growth of the Black population in metropolitan areas, while achieving the desired cheap labour. Similar to the aim of the industrial decentralization strategy under apartheid, the strategy of forcing metropolitan industrialists to decentralize (Barclay, Hanekom and Palmer, 1987:65) never benefited the area. Despite incentives being available at a specific number of growth points, aimed at enabling manufacturers to easily determine which incentives they would qualify for, no evidence of this existed in the study area.

For the small service industry, mainly linked to agriculture and forestry, challenges were also faced on the following fronts:

- Labour was no longer readily available and there was a need for creating employment;
- Infrastructure and services such as power, water, rail facilities, housing and transport available to the local population groups were not adequate to meet the requirements of the industrialists concerned.

#### **7.3.4. LABOUR MARKET ELASTICITY**

A significant feature of the labour market in the area was the employment of large numbers of unskilled Black people who performed most of the manual and non-technical work, and the continued migration of skilled labour to both Durban and Pietermaritzburg. Most of the labour was drawn from the surrounding rural settlements but some came from neighbouring locations such as Umzimkhulu. Most of the technical and management posts were filled by 'white' skilled workers.

The table below is an illustration of the structure of the local labour market.

**Table 7.2: The Structure of Ixopo Labour Market**

Status	%
Employed	8%
Unemployed (looking for work)	10%
Not working (not looking)	4%
Not working (home makers)	9%
Not working (scholar)	12%
Not working (pensioner/retired)	8%
Not working (not wishing to work)	1%
Not working (none of the above)	3%
N/A (younger than 15 years old)	43%
Total	100%

Source: IDP

### **7.3.5. TECHNOLOGICAL CHANGE AND ITS IMPACT ON THE LOCAL ECONOMY**

The key assumption of this thesis was that technology could assume two major roles in furthering sustainability and industrial development in small towns. First, it could help decrease vulnerability and arrest economic decline by expanding the knowledge base and increasing the area's adaptive capacity (e.g. on the economic front, the diversification of the economy). Second, technology could help to respond to the numerous contingencies (demographic, economic, social, environmental, etc) that an unknown future holds. The impact is long-term. Therefore the areas local economic development policies needed to consider explicitly long-term uncertainties.

It is a matter for lamentation that Ixopo spent very little to promote and advance technology. It is of course a truism that the area could not be able to adapt to emerging technologies and globalization as it failed to accord adequate priority to expanding its relevant scientific and technological base through sustainable local development strategies.

The local municipality has a constitutional obligation and the role of developing manpower in the country. Unfortunately, the local municipality was so grossly under-funded that they could not make any impact on the development of technology. Though there were good intentions as the local municipality attempted to take on new roles in the drive for economic development and in

growing new firms, such good intentions were effectively hindered by under-funded mandates and patronization by the private sector.

Unfortunately, the local municipality has been unable to develop innovative ways of diversifying their sources of revenue. They failed to move closer to and align with the productive private sector. Failure to expand the scope of their services to this sector meant failure to develop a mutually beneficial, symbiotic and synergistic relationship.

There is no doubt that technological considerations in the area needed to pay attention to key sectors that support the local economy, such as agriculture, manufacturing and processing. Apart from this, any new development agenda needed to also consider long-term sustainability as well as cultivating or imbibing vital technologies in the fields of human development, social services, information and communication, and environmental management.

The highly competitive agricultural environment, which is characteristic of the economic base of the area, has led to the gradual introduction of new agricultural technologies and a higher degree of mechanization being embraced by the local farmers. This resulted in a decline in the employment capacity of the agricultural sector, although according to the agricultural union, outputs remained the same or have improved<sup>17</sup>. This research found that there was a growing tendency towards seasonal and temporary labour employment options. It is probable that farmers who could not meet the demands of the new climate were being forced out of business, although no study has yet been conducted in this regard.

This research found that the number of farmers serviced by Ixopo was declining. This trend could be attributed to the following reasons:

- The very existence of Ixopo was under threat since agriculture was the pillar to which most of the town's economic activities were anchored.
- Ixopo was beginning to see a high concentration of agricultural commercial services with fewer farmers. This then bottlenecked a significant participation by Small and Medium-sized Enterprises (SMME's) and created widespread unemployment in the sector.

This picture must be seen against the background that agriculture is the prime contributor to the local GGP. Figures on Ixopo could not be acquired but regional estimates prove that agriculture

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<sup>17</sup> Interview with Mr Walter Ntuli, President of Kwa-Zulu Natal Agricultural Union.

accounts for 39.79% of the whole. Intervention in this regard is of critical importance. It should be targeted towards building sub-sectoral technological support systems, diversification of the primary product base and beneficiation of local produce.

An opportunity exists to formalize this sector through development programmes and the provision of support services and access to markets. However the prospects for further development of farming in Ixopo are limited by available land and water reserves. (*Interview with the Port Shepstone Development Company, April 2000*).

## 7.4. CASE STUDY 3: DUNDEE AND THE COAL RIM REGION<sup>18</sup>

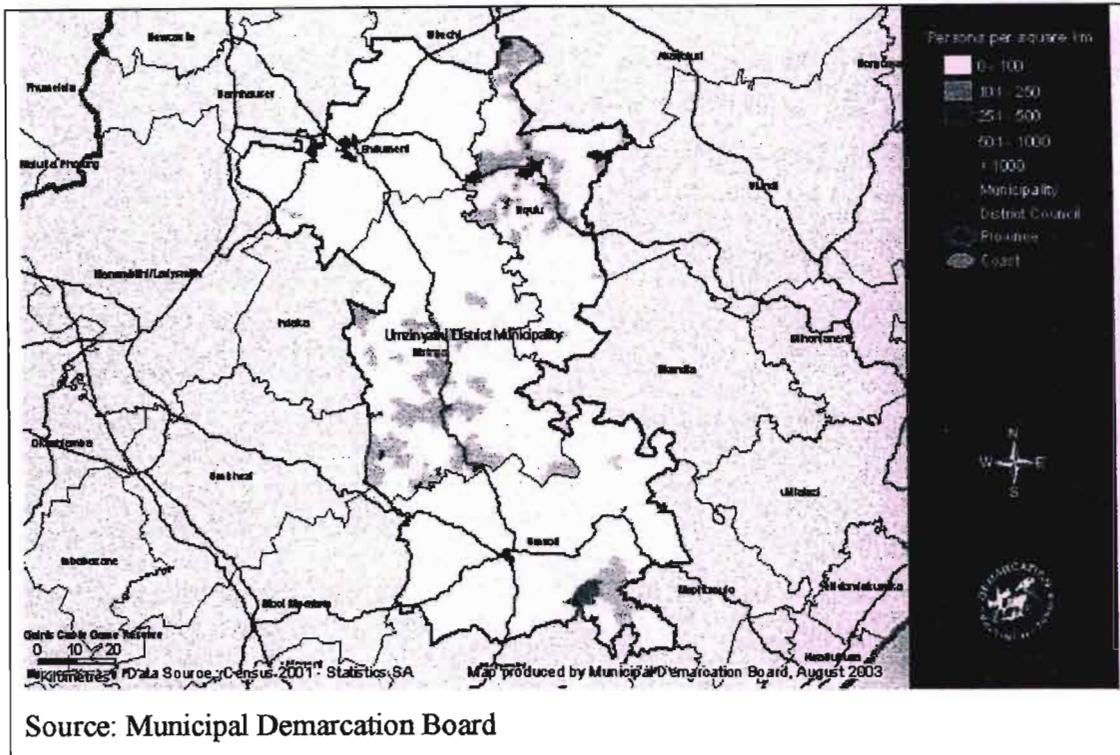


Figure 7.3: Map of the Coal Rim Cluster

### 7.4.1. SOCIO-ECONOMIC DEMOGRAPHY

The Coal Rim is a typical example of an area that was grossly affected and disabled by globalization. This global effect can be observed, not only with regard to the local industry, but also with regard to linguistic changes and the restructuring of known language phrases. Known for its strong coal mining industry, a Zulu saying ‘*amalahle awabuyeli eDundee*<sup>19</sup>’ had been formulated and used by four decades of generations of the area and became part and parcel of the local Zulu language. Due to global economic integration and the discovery of new coal reserves in South East Asia, coal mining in the area completely collapsed. Therefore the language phrases (such as the one cited above) and other expressions that associated the area with coal mining have become irrelevant.

<sup>18</sup> The Coal Rim Cluster is made up of small towns along the N11 from Ladysmith to Newcastle, including Dundee, Dannhauser and Glencoe. The focus of the study is on the ‘decentralised’ nodes of Ladysmith, Newcastle and Dundee.

<sup>19</sup> Literally translated into “coal will never return to Dundee”, meaning things will never be the same.

The study area experienced a prolonged period of economic decline, well documented in the literature reviewed for this study (see *Umzinyathi Regional Development Plan, 1999*) and corroborated by interviews held with senior officials of the local and the district municipalities. This decline was mainly attributable to the decline of the primary KZN coal mining industry and its consequential effect on secondary and tertiary industries such as manufacturing, transport, commerce and social services.

The other primary sector, agriculture, also experienced general decline in economic terms over the period of ten years, resulting in lower productivity and employment levels. Other factors, such as administrative rationalization, which resulted in the relocation of certain provincial administrative functions to larger centres like Ladysmith, and the relocation of key manufacturing industries to Gauteng, exacerbated the situation.

The Coal Rim region's economic fortunes were heavily influenced by past policies such as large-scale resettlement, homeland and decentralisation policies. This thesis therefore argued that at any point in time, macro economic development policy and planning context, at both a provincial and national level, will remain critical to the actualisation of the development potential of the area and its municipality and to development projects, programmes and investments.

The 1997 Provincial Spatial Growth and Development Framework classified Dundee as commercial farmlands. Newcastle, Danhauser and Glencoe were seen as an inland corridor. The Ladysmith-Newcastle axis was identified as having the potential to become a development corridor, but this potential was never realized. Such a framework also outlined the importance of promoting the development potential of rural and small town areas.

The major economic sectors of the area identified by the Provincial Spatial Growth and Development Framework were manufacturing, commercial activities, community services, agricultural industries / services and transport. The analysis of these sectors, undertaken by the local municipality's integrated development plans clearly showed economic decline in high proportions, particularly in the major industries associated with coal mining.

The decline of the coal mining industry has meant that the area is no longer a large employment centre, as compared to other small towns such as Ladysmith, which has survived through clothing and textile operations owned by the Chinese.

#### **7.4.2. INVESTMENT MARKETING AS A LOCAL RESPONSE TO ECONOMIC DECLINE**

One of the most visible local economic responses undertaken by the area was the attraction of Chinese from the Far East countries such as China and Taiwan, to invest in the area. According to the provincial government's department of economic affairs, the total Chinese investment in the area was estimated at R4b<sup>20</sup>.

Hart (2002) provides a detailed account of the theoretical underpinnings of the Chinese presence in the region. As she observed, in common with many other places around the globe, the area has become an attractive node in worldwide Chinese and Taiwanese diasporas. Network forms of production, which were the predominant organizational form in Taiwan and China had been formed and were becoming prevalent in the area.

Hart's (2002:167) conclusion that the entire region of the Coal Rim (specifically in the study area) had emerged as '*Chinese Business Networks*', or what the unions would prefer to term '*sweatshops*' was also confirmed by the interview with SACTWU's Mark Bennet, (24.05.2000) and was supported by the analysis of a business survey conducted in the area.

Hart (2002:168) argues that these networks derive their legitimacy and attractions from certain cultural predispositions, most of which are traceable to Confucian values. The success of these networks has been encouraged by a number of cultural influences. For example patriarchal authority patterns have given great organisational influence to key individuals. Ethnic trustworthiness provides discipline and moral justifications to the system. The practice of reciprocation releases other forms of efficiency that can be explained technically in terms of low transaction cost, strategic flexibility and a capacity for innovation, all of which facilitate a continuation of the successful recipe in the future.

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<sup>20</sup> This study was undertaken by the now defunct KwaZulu-Natal Marketing Initiative, the provincial investment promotion arm of the Ithala Development Corporation.

### 7.4.3. THE FORMATION OF CHINESE INDUSTRIAL CLUSTERS

The concept of the cluster in this research is not unique to economics, but refers to a general meaning, which can simply be defined as a ‘close group of things’. In the study area, the cluster simply refers to the close grouping of Chinese owned clothing and textile operations in activities such as dye houses, knitwear, garments manufacturing and yarn spinning.

Thus, the synonymous notions of ‘density’, or ‘relative nearness’, and ‘similarity’ lie at the very heart of this concept. *A priori*, ‘closeness’ or ‘similarity’ in the study area was well captured by Hart (2002:167) when he termed it as:

...flexible production networks in which small-and medium sized firms linked to one another through subcontracting and a variety of inter-firm linkages, as well as large acrylic yarn producing firms in these areas.

Also stated by Peneder (2001: 140), the cluster concept refers to a further step from the literal meaning of density, which states that:

The geographic proximity of related economic activities may cause improved technological and economic performance.

Much work has been done by Krugman, (1991) and Michael Porter (1990) on industrial clusters. As noticed from such ‘consequential clustering’, which can largely be attributed to the former government’s industrial decentralized strategy, this thesis argued that such a pattern has become similar to a ‘*river that digs its own bed deeper*’. A pattern of industrial clustering, established during the apartheid era, has induced relative productivity changes that have strengthened the forces preserving that apartheid legacy in the decentralized nodes.

The unintended ‘industrial clustering’ in the decentralized nodes has resulted from the decision by Chinese investors to locate closer to one another and establish neighbourhoods of firms belonging to related industries. This phenomenon is identified by Hart, as ‘cultural networks’. However, such a clustering or geographic proximity of related clothing and textile industries did not lead to improved technological and economic performance of such industries. Whilst more and more Chinese confidence has developed in these areas, as they were mainly linked to the clothing and textile supply chain, no new technologically driven

productive assets were introduced in the area, as the Chinese continued to import outdated technology and machinery from their homelands.

However, the specialization patterns observed, especially in Dundee, additionally indicates the importance of other causes, such as:

- The existence of location specific pools of Far-East Asian technological knowledge
- Marketing skills generated and amplified by the interplay of historical circumstances.

From the above discussion it is clear that the Chinese and Taiwanese have exploited, amongst other factors, location advantages in developing their businesses.

#### **7.4.4. LABOUR MARKET ELASTICITY**

Despite the existence of the Chinese networks that controlled the clothing and textile supply chain, labour market conditions deteriorated and were the focus of much research<sup>21</sup>. This research found that Chinese industries chose their current locations in the Coal Rim because they were able to control the supply chain. Despite the widely publicised reports of what the media termed ‘sweat shops’ or what Hart (2002:168) identified as “bad Chinese, who are greedy, opportunistic and lacking in social conscience”, and despite them being labelled by Sheperd Mdladlane<sup>22</sup> as worst employers, local municipalities have continued to view them as the sole providers of employment in the context of firms migration.

The success of the Chinese investments in these areas was brought about by what Hart (2002:172) referred to as “famiastic collectivism, harmony among themselves and their timeless tradition of hard work”.

Due to the ‘clustered nature’ of the clothing and textile networks, mainly in the former government ‘decentralisation’ nodes, people in these areas made use of the advantages offered by this cluster network and were able to follow the same skilled trades they had previously learnt in neighbouring industries.

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<sup>21</sup> Such as the Early Warning Systems Study conducted by the University of Natal, 2003.

<sup>22</sup> National Minister of Labour



An additional factor making the area attractive to the Chinese in the clothing and textile supply chain was a cluster of industrial complexes which comprises of industrial properties mainly owned by Ithala Development Finance Corporation.

The concentration of Chinese firms in the area could not be explained using the conventional economic theory, which attributes industrial concentration to what Peneder (2001:142) defined as “exogenous competitive advantages or internal economies of scale” respectively, to explain specialization and the concentration of economic activities. This thesis argued that the relative closeness of clothing and textile networks in the area could largely be attributed to the following reasons:

- Geographically pooled labour markets’ which evolved from the apartheid era of industrial decentralization, and where similar firms relied on the same labour pool. Krugman (1991), writing on the significance of a ‘pooled labour market’ in industrial clustering, provides a theoretical explanation for industrial clustering, namely that similar firms rely on the same labour pool. However, his model only captures the phenomenon of geographical agglomeration, but does not include ‘sectoral specialisation’. The following treatment of locational choice and sectoral distribution of production is almost entirely based on Krugman’s initial set of equations but tries to integrate the aspect of sectoral specialisation.
  
- Apart from the technical details, two characteristics are pertinent in the analysis of the area. First of all, there is evidence that points to the fact that ‘monopolistic competition’ characterizes the relationships in the Chinese Networks in the study areas. Though they have survived and continue to pour into these areas, each of the Chinese firms faces an individual, downward - sloping curve for their products or services (Mr. Albert, Economic Development Director of Newcastle Municipality, in charge of investment promotion in the area, interview, 9.30.2002). Secondly, all companies that were in these areas for a period of between 8 to 10 years, have assumed specific and uncorrelated demand shocks, which incite them to remain in the area because of the large pools of labour skills that are particularly required for their activities.

Both these characteristics are part of the original model by Paul Krugman. However, in order to include sectoral specialization, this research introduced the critical factor of a ‘uniform wage rate’. Although this factor may appear somewhat peculiar at first, it is necessary to

explain this pattern in order to integrate sectoral specialization within a unified framework of this location model.

COSATU describes the wage currently offered by the Chinese companies as 'pathetic' (interview with Ibrahim Patel, 11/2000). To avoid compliance with local wage determinations, Chinese investors have brought in large numbers of Chinese labourers from Taiwan, mainland China, Thailand, Singapore or Vietnam. Though little cultural integration has taken place between the locals and the foreigners, there exists a large labour pool in these areas.

Local labour, mainly drawn from adjacent townships and labour reserves, automatically chose to cooperate with the Chinese industry, despite being offered worse salaries than those offered during the apartheid era. Given the otherwise perfect symmetry of the industries, these areas have seen an equalization of wage levels between the two labour pools: local labour and foreigners drawn from the Far East Asian countries.

In conclusion, the integration of sectoral specialization into Krugman's model of industrial agglomeration suggests two general conclusions of relevance to policies directed at industrial and regional development, as they have occurred in these areas, namely:

- Ezakheni and Madadeni are the two most prominent industrial locations that are competing for Chinese investors in terms of local government plans to raise employment and income.
- However, this competition between locations for industrial location of particular industries only makes sense during times of unstable equilibrium or economic decline in which, for example, new industries have not yet been identified.

#### **7.4.6. TECHNOLOGICAL CHANGES AND THE RESULTANT CAPITAL MOBILITY**

Located within the framework of economic geography, this thesis suggest that the basic postulate of the information age is that information technology (IT) is eliminating the effects of distance, and that this, in turn, will have profound implications on the spatial organization of society.

As a result, the thesis argued that this new technology system will create an even more spatially dispersed and footloose economy, which in turn will cause small towns to be larger, more dispersed, and less densely populated. In contrast, this thesis also argued that technological change is reinforcing the position of cities as “nodes” on the information superhighway.

The above postulate was tested in this case study. It was found that most of the Chinese investors were using second hand, mostly outdated technology, imported from Mainland China to carry out production. This was largely due to aggregated similar utilization of technology of the same kind by industries, within the same industrial spatial unit, even though no substantial capital was brought into these areas<sup>24</sup>. According to Trade and Investment KZN (2001<sup>25</sup>), 80% of all Chinese investors located in the region invested between R5 and 10 million as initial capital.

This research found that subsidiary industries devoting themselves to small branches of the production process, and working for a greater number of their many comrades, were able to invest in and maintain machinery of the most highly specialized character, at less expense, even though its original cost may have been high and its rate of depreciation very rapid. This view was also confirmed by the TIK Study on ‘Early Warning Systems, 2002.

In conclusion, this thesis found no data at this stage to disprove the fact that Chinese companies located in KwaSithembe, Ezakheni and Madadeni were mainly using outdated machinery imported from China. However, specialized inputs and services from ‘supportive industries’ were readily available from their Chinese counterparts.

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<sup>24</sup> The KwaZulu-Natal Marketing Initiative (KMI) IMPACT STUDY, 2000/1).

<sup>25</sup> Trade and Investment KZN, provincial profile, 2002. Paper presented to a number of investment promotion conferences in KZN).

## 7.5. CASE STUDY 4: HOWICK AND THE NATAL MIDLANDS<sup>26</sup>

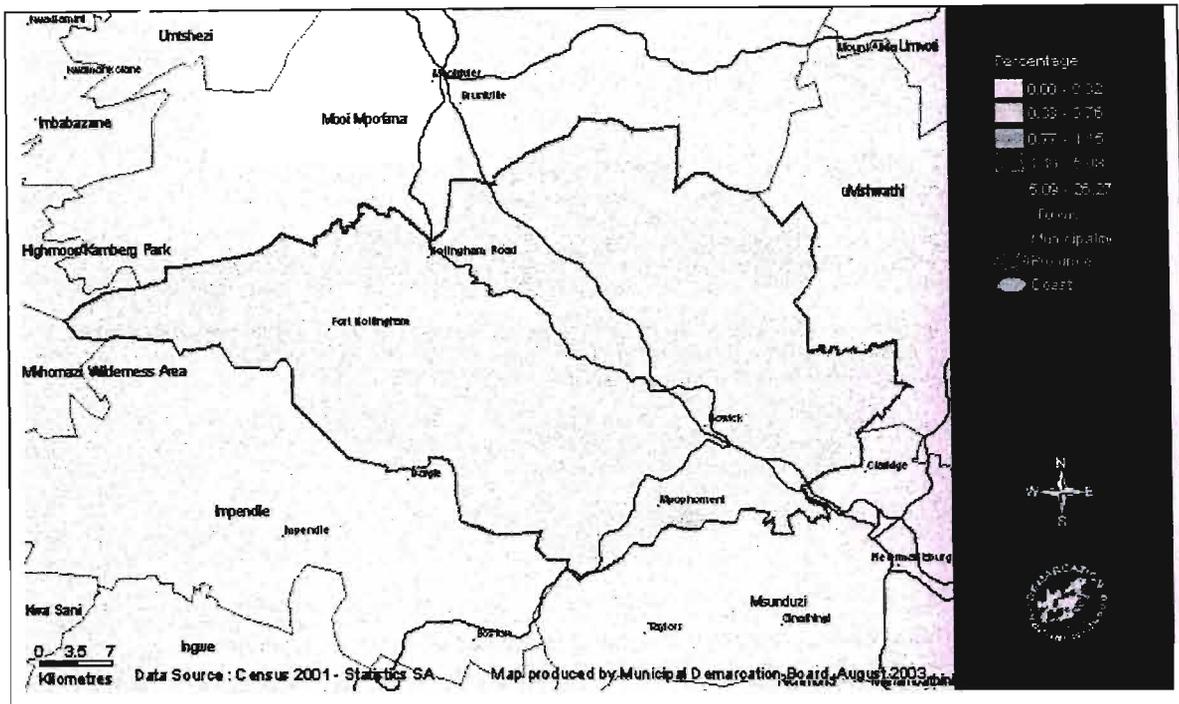


Figure 7.4: Map Showing the Howick Area

### 7.5.1 SOCIO-ECONOMIC OUTLOOK OF THE AREA

Howick is located 20km north of Pietermaritzburg. It is easily accessible from the N3 national highway. The town falls within Umgungundlovu District Municipality, which is dominated by the economy of Pietermaritzburg. Pietermaritzburg serves as the main regional centre and plays an important role in the economies of the surrounding small towns, including Howick, Mooi River and Escourt. Howick is categorised by the draft Sub-regional Development Plan (2000) as a small urban town. It shares similar characteristics with Mooi River and Escourt.

For the purpose of this thesis, it was not possible to analyze Howick outside the broader regional economic development framework within which the area is located. Howick forms part of the Lion's River magisterial district and this analysis focused on the contribution and growth of the Lion's River magisterial district in relation to the region.

<sup>26</sup> The midlands include the towns of Howick, Mooi River and Escourt. The focus of this study was both Howick and Mooi River.

Howick, Mooi River and Pietermaritzburg areas collectively form the core of the uMngungundlovu regional economy. Pietermaritzburg is the main contributor to the region's gross geographic product (GGP)<sup>27</sup>. The GGP is the final value of all goods and services produced in an area.

The N3 logistical route is one of the most important links between the Durban metropolitan area and Gauteng. The importance of Durban harbour should not be underestimated in this respect. Changes in transportation economics have had a direct impact on the economic viability of Howick.

Howick lies on the Inland Development Corridor of the KwaZulu-Natal Provincial Spatial Development Framework. The Inland Corridor stretches from Durban, through Pietermaritzburg, Howick and Mooi River, to Estcourt. The main focus of the corridor between Durban and Pietermaritzburg is on industrial development while the core focus of the corridor between Pietermaritzburg and Mooi River is on agro-tourism.

Howick is known for its tourist attractions, which includes the Howick Falls, a national heritage site. Howick also forms a core component of the Midlands Meander tourism route. The Meander attracts both national and international tourists. Tourism, however, is not the only economic growth sector of the region. Howick has evolved a diverse economy.

With regards to industry, the location of the Howick area in relation to the metropolitan areas of Durban and Pietermaritzburg is the most important spatial economic influence on industrial development in the area. Howick is easily accessible from the N3 national route and attracts substantial numbers of national and international investors who travel through the area.

Howick also forms part of the Midlands Meander and is a centre of attraction on this tourist route. Other tourism linkages impacting on the Howick area include the strong road network to the west leading to the Drakensberg mountain range and its surrounding resorts. Albert Falls, located to the northeast of Howick, also influences tourist activities in the area. Strong linkages exist between the two areas. The Midmar Dam, located in close proximity to the Howick area, attracts many visitors every year and influences the tourist trade within Howick.

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<sup>27</sup> Sub-region Two also incorporates the districts of Vulindlela and Mpumalanga. These districts are, however, not included in the analysis in this section because they are too far away, lying to the south of Pietermaritzburg.

### **7.5.2. LOCAL INDUSTRIAL DEVELOPMENT INTERVENTIONS**

The Midlands case study shows significant differences from studies of other peripheral towns in that it revealed more opportunities for growth. This research focused on local interventions attempted to regenerate the local economy.

Data that emerged from the interviews with local business and political leadership, suggest that various economic interventions were undertaken by local government. This research focuses only on the few that were identified, namely:

- The promotion of local economic growth and development by making use of local resource endowments;
- The delivery of housing, infrastructure and social facilities to meet backlogs and raise the standard of living of the local people and
- The sustainable development and management of the spatial structure and environmental resource base.

The first element involved the development of an industrial base that linked into the macro-level initiatives that were developed by local authorities in the Midlands. The second element concerned the development of small businesses, particularly those that could meet local consumer needs. The third element concerned the development of a tourism policy, drawing on the conventional regional tourist trade as well as on latent markets in the historically neglected lower income recreation and tourism sector.

This thesis found that the performance of the Midland's formal industrial economy was closely tied to that of Pietermaritzburg. To a large extent, therefore, the region's industrial performance was dependent upon factors that lay outside of the sphere of influence of the regional economy, such as macro economic policy and regional industrial policies. This reality, however, did not prevent local government from looking for ways to position the region as favourably as possible, in order to take advantage of potential opportunities and minimise potential threats to the economy.

Recent initiatives within the Midlands spearheaded by the Department of Economic Development and the KwaZulu-Natal Economic Council and the Midlands Investment

Initiative began to define a pathway for economic growth and development in the region. The potential consequences of these initiatives for the regional economy were far reaching. They promoted locally driven and managed local economic development and growth that favoured both the promotion of wealth generation 'lead' industries, and the creation of employment intensive industries.

### **7.5.3. PROMOTION OF LEAD INDUSTRIES**

Lead industries selected were those that appeared to be dynamic and able to compete in the international market. They were able to produce wealth, but did not necessarily employ many people. Three such sectors were already well established in the area and continued to have an important bearing on the area's future industrial development.

- **The Food and Beverage Sector:**

The economic regeneration study conducted by the former Howick TLC suggests that this sector was well developed as a consequence of agricultural processing activities that were supported by the breeding of livestock and cultivation of food crops. As stated above, this sector was also largely dependent on Pietermaritzburg as a supply base.

- **The Chemical Sector:**

This sector was well established in Howick as a result of the production of rubber, plastic, fertilizers and pesticides. These were supplied to other manufacturing sectors and agriculture.

- **The Wood and Furniture Sector:**

Although these sectors were present in Howick, they were not as well developed as the previous two sectors. Nevertheless, they had expansion potential due to Howick's proximity to the Midlands forest belt.

### **7.5.4. PROMOTION OF EMPLOYMENT INTENSIVE INDUSTRIES**

The analysis of data obtained during fieldwork suggests that Howick was increasingly becoming dominated by 'small-scale' capital-intensive industries that were unable to absorb labour. Employment intensive industries that were known for creating employment were

relatively underdeveloped in Howick, although they were more evident in other parts of the Midlands, notably Pietermaritzburg.

- Textiles, Clothing and Footwear:

These sectors had upstream links to certain agricultural activities such as cotton, wool and tanneries that were not very prominent in the Lions River district.

- Construction:

This research found that this sector showed important growth potential in view of the need for housing and infrastructure in Howick, which was needed to address backlogs. The advantage of this sector was that it had upstream linkages to sectors like the wood and chemical industries that were present in Howick. It also possessed the potential to forge links with the small business sector.

#### **7.5.5. SMME DEVELOPMENT INTERVENTIONS IN HOWICK**

Whereas the formal industrial sector was largely influenced by market forces beyond the geographic influence of Howick, the small business sector was more readily influenced by the availability of local resources and markets found within the Howick and Lions River areas.

Two aspects of small business development warranted further discussion, namely, the development of latent markets and the creation of an environment conducive for SMME development. The first aspect of small business development concerned the identification of sectors in which there were existing or latent markets for the types of goods and services that SMME's could supply. Three sectors seem to fulfil these conditions.

The first sector was the market, especially among lower income people, for consumable and durable items, such as fruit, vegetables and clothing items. Demand for these kinds of goods tended to be most acute where large numbers of people who lacked mobility lived in relatively isolated places. Such conditions existed in Mpophomeni, where latent demand had already led to the emergence of vegetable gardens and women's sewing and knitting groups, which were started as a result of local economic development initiatives.

The second sector was small manufacturing activities. This sector had responded to the latent demand in lower income areas for construction materials and engineering services, such as block making, carpentry, panel-beating, welding and metal works promoted through LED's. Through the RDP Urban Renewal Programme, and in conjunction with the Howick municipality, the communities of KwaMevana and Mpophomeni had initiated programmes for the establishment of small business centres aimed at providing training and premises for small entrepreneurs.

The third sector, the market for crafts and handiwork, associated with the tourist industry, was very popular due to the drive by the Midlands Meander Association and the Midlands Investment Initiative. The Midlands Integrated Development Plan initiative identified the tourism sector as one of the sub-region's potential growth sectors.

As data for this thesis showed, there was good reason to believe that Howick was better placed than most Midlands towns to attract industrial development, unlike its devastated neighbours such as Mooi River and Escourt. The area possessed regionally important recreation and environmental resources in the form of the Midmar Dam and the Umgeni River complex. It was situated on the main transport routes to other tourist attractions such as the Southern Drakensberg and the Midlands Meander. Craft industries easily lend themselves to small-scale production. Weekly craft markets have become noteworthy attractions near the Howick Falls.

The second aspect of small business development identified above is the creation of environments that support the formation of SMME's. This aspect concerns the need to make the requisite support infrastructure available so that these activities can emerge. The Small Business Survey conducted by the University of Natal Pmb in 2000 found that SMME's operate with minimal overhead costs and narrow profit margins and are consequently cost sensitive.

This research found that there were a number of actions undertaken on the part of the local authority to provide an environment that contains the pre-conditions for the formation of SMME's. The first focuses on the need to recognise that SMME's emerge in locations where they have ready access to markets and suppliers. These often occur in and around places where large numbers of people converge, such as public transport facilities, schools and

clinics. This fact has important design implications, because it points to the reality that the existence of SMME's hinges around their geographical proximity to transport routes and community facilities.

The second consideration relates to the need to recognise that non-spatial factors, such as access to entrepreneurial training, market information and credit facilities, also have an influence on the viability of SMME's. The Midlands Integrated Development Plan initiative recognises the centrality of accessible small business support and advice centres as mechanisms for facilitating the establishment of SMME's.

A third consideration relates to the requirement for flexibility. SMME's are sensitive to changes and variations in the markets they serve and to regulations affecting their operations. SMME's operate best under conditions in which minimal restrictions are placed upon them, notably in terms of land use controls. In an environment like that of the study of Howick, SMME's are able to interact with the other activities whose market they share, in competitive or complementary ways.

#### **7.5.6. LABOUR MARKET ELASTICITY**

All statistics analysed on the employment profile of the area indicate that only approximately 28% of the residents within the Lion River area can be classified as formally employed. This figure, however, is higher than the formally employed figures for Mooi River (25.92%) and Pietermaritzburg (24.46%) (*Indlovu Sub-regional Report, 1999*). The unemployment figures contained in this research are based on an extended definition of unemployment that incorporates people looking for work as well as those not looking for work.

The unemployment figures accordingly indicate that the Lion's River Magisterial District has the lowest unemployment percentage within the region. The broad unemployment figure for the Mooi River (74.08%) and Pietermaritzburg (75.54%) areas is marginally higher than for the Lion's River area with Umgungundlovu measuring an unemployment rate of 81.62% (*Indlovu Sub-regional Report, 1999*).

**Table 7.3: Comparative Employment Indicators of the Midlands Region**

<b>EMPLOYMENT</b>	<b>LION'S RIVER</b>		<b>MOOI RIVER</b>		<b>PIETERMARITZBURG</b>	
	<b>NUMBER</b>	<b>%</b>	<b>NUMBER</b>	<b>%</b>	<b>NUMBER</b>	<b>%</b>
Employed	15274	28.66	5848	25.92	140344	24.46
Unemployed	38016	71.34	16715	74.08	433498	75.54
<b>Total</b>	<b>53290</b>	<b>100.00</b>	<b>22563</b>	<b>100.00</b>	<b>573842</b>	<b>100.00</b>

Source: Indlovu Sub-regional Report

Statistics analyzed for this study show that fifteen percent of the residents of Lion's River earn less than R 500 per month (CSS: 1996). There are, however, far fewer people without an income in Lion's River than in Mooi River.

The average monthly income per household for the economically active population residing in the Lions River area is estimated at R 2565 (CSS: 1996). This figure is just below the average monthly income per household for the Pietermaritzburg area, which is measured at R 2604. The Howick average monthly income per household is, however, much higher than that of the Mooi River area and relatively higher than that of the provincial average of R2 153.

#### **7.5.7. TECHNOLOGICAL CHANGES AND THEIR IMPACT IN THE LOCAL ECONOMY**

The report conducted as part of the Howick Local Economic Regeneration Studies found that a number of technological changes were experienced by the agricultural sector in the area. The most significant impacts were brought about by greater emphasis on the needs of consumers, in the form of demand side economics, than on the production of historically profitable produce. The transition from a primary focus on agricultural production to the establishment of an agri-business environment is accompanied by a number of further innovations. These are listed in the table below.

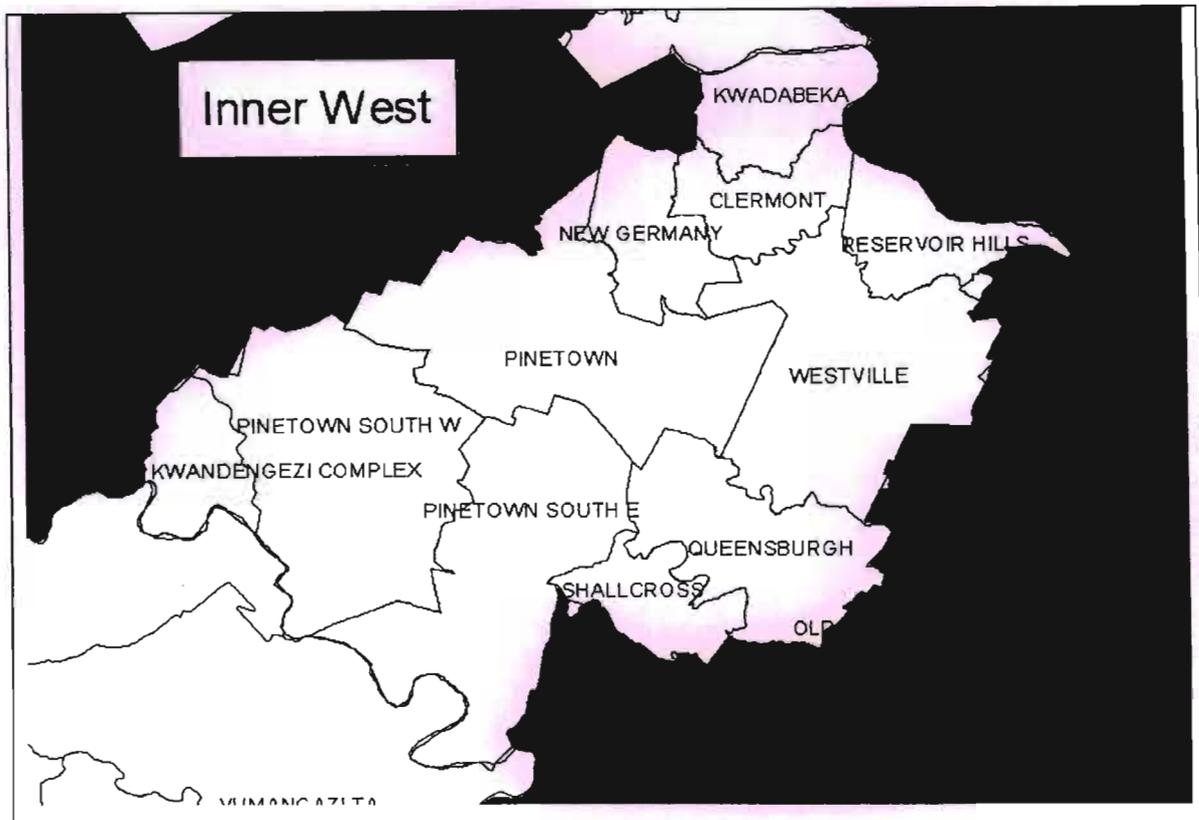
**Table 7.4: Changes in the Agricultural Sector**

<b>OLD CONCEPT</b>	<b>NEW CONCEPT</b>
Cultivate commodities	Specific characteristics/differentiated primary products
Accumulation of products	Modern / niche products / differentiated accumulation
Hard assets are the key to strategic competitiveness	Soft assets are the key to strategic competitiveness
Geographically centralized production area	Geographically decentralized production area
Capital/finance/assets is the primary source of power and control	Information is the primary source of power and control
Impersonal markets	Personal markets with negotiation
Antagonistic relationships with input suppliers and buyers	Partnership with input suppliers and buyers
Volume production can lead to a price advantage	Unique characteristics of products guarantee markets
Technical skills critical for success	People/personal
Agriculture is about farming	Agricultural is about the production of food and the distribution thereof
USA is the world's primary supplier	Many suppliers world-wide

The development of the agricultural sector within South Africa will depend on the following factors:

- A greater focus on the identification of niche markets;
- A continued analysis of demand and the prediction of future changes in demand;
- A shift of focus away from production to product distribution; and
- The establishment of a cluster to ensure proper integration of the value chain.

## 7.6. CASE STUDY 5: PINETOWN AND THE INNER WEST OF DURBAN



**Figure 7.5: Map of the Inner West**

### 7.6.1. INTRODUCTION

Industrial migration in this thesis was mainly been presented as a consequence of global economic factors beyond the control of all municipalities. The focus was primarily on negative impact of these phenomena.

This thesis found that there was however another perspective on industrial migration, namely positive vertical mobility of firms, the end result of which was increased job opportunities. Pinetown proved to be an important case in the vindication of the '*export-led economic growth*' hypotheses. Due to its location, which is close in proximity to the east coast logistics platform and the port of Durban, it managed to attract both global economic players who

understand the global demands for international trade, as well as it managed to growth local businesses who were export to global trade flows and integration.

This chapter of the thesis looks at positive effects of industrial mobility, drawing from the findings of the Pinetown study.

#### **7.6.2. THE NATURE OF INDUSTRIAL MOBILITY AND BUSINESS GROWTH PATTERNS**

This thesis argued that the global marketplace and the liberalization of international trade had placed increased pressure on local firms to become more efficient and competitive in order to capitalize on profit opportunities. Evidence emerging from the Pinetown case study shows that firms in this area had taken up this challenge and they increased their strategic competitiveness. In so doing, they managed to increase market access and created job opportunities for their citizens. This thesis found that 40 to 80 percent of all new jobs are created by existing firms rather than by attracting new firms to communities.

Pinetown's urban competitiveness was characterized by its ability to produce and market a set of products (goods and services) that represent good value (not necessarily lowest price) in relation to comparable products of other urban regions. Non-tradeables, e.g., local services were part of the competitiveness equation. Pinetown's economy was able to produce goods and services for local people of high value relative to price, and supported the export economy of the city, making it more competitive, as well as directly raising the quality of life and standard of living for people living in the urban region.

This research found some optimism demonstrated by businesses in the Pinetown study area. Despite constraints on business growth, and increased competition, the majority of the companies sampled (at least 23%) had experienced some growth.

The only reasons why such growth did not have impact in terms of job creation was that:

- A high proportion of companies (23%) had undertaken capital-intensive growth, by putting new technology. (Technological capability enhancement)

- A growing number of companies (15%) were down-scaling or ‘right-sizing’ their operations and outsourcing certain aspects of their business processes (Business Process Outsourcing)

This thesis therefore identified a need for local government to develop policy interventions to translate the reported economic growth into new employment opportunities. One such policy intervention could have been an integrated local economic development, which is dealt with later in this thesis.

### **7.6.3. LABOUR MARKET ELASTICITY**

The area enjoyed positive migration as there was an increase in medium sized industries locating in the area, mainly in the area of transportation and logistics. However, this phenomenon was not significant in terms of employment due to the lack of access to capital for business expansions, which were necessary to deal with volumes. Industries tended to employ less than 10% of the economically active population.

Companies preferred to engage in the more modern sectors of the economy such as the information technology and other knowledge-based sectors. They used relatively capital-intensive methods of production. They also required more skilled and highly sophisticated labour.

The analysis of data from this survey suggests that the majority of the companies surveyed had some opportunities for highly skilled labour in areas of research and product development. The demand for unskilled labour was therefore low. This is an indication that their contributions to employment creation, and more generally to human development, remained modest. Therefore the capital that came into the area had only made marginal contributions to the resource base and job creation. It can therefore be concluded that the labour market in small towns is not elastic.

It has been stated at the beginning of this chapter that Pinetown has experienced jobless growth. This survey found that, of the 60 companies sampled, at least 38% of them employed less than 50 people. There are a number of factors that can account for this:

- The majority of the companies that have taken up location in the area are capital and technology intensive
- There is little room for expansion, due to limited growth space
- Rent, combined with exorbitant rates, is charged by both the municipality and landlord (Ithala)

However, it needs to be stated that some of the companies in the area are still involved in 'smokestack' environmentally hazardous manufacturing industries, which are employing over 100 people. These are mainly located in New Germany and are labour intensive in nature.

It is therefore appropriate to conclude that, local stakeholders need to develop a strategy to attract 'large', smokestack, labour intensive industries, in order to turn 'jobless' economic growth into that which will create employment opportunities, thereby improving quality of life.

#### **7.6.4. THE LOCAL REAL WAGE BILL**

Hickson & Oldham's 1999 report, commissioned by the University of Natal's Department of Economics, defines the concept of 'The Real Wage Bill' (RWB), as a combination of the number of people employed and the average real wage rate. They also describe the 'Real Wage Rate' as the money that is 'wage rate' deflated by the consumer price index. Growth in the real wage bill could be caused by an increased in employment, a rise in average real wages or a combination of both. The Real Wage Bill is also a useful indicator of GGP, which is a measure of the value added in the production of goods and services.

Pinetown will not experience any growth in real wage bill, since 43% of respondents are not expecting any new changes in the structure of the work-force. This is an indication of the lack of elasticity of the economy, despite an increase in economic activities.

#### **7.6.5. LOCAL ECONOMIC INTERVENTIONS IN PINETOWN AND THE EMERGENCE OF LOCAL GROWTH PARTNERSHIPS**

Local growth coalition comprising community, labour, the religious community, government, local business and other key players who have a material interest in a healthy local economy,

is one of the noticeable features of Durban Metro's response to development. They are able to accomplish the tasks of promoting the area to potential investors, through their participation in the provincial investment marketing initiatives, and have the skills, the commitment, and the responsibility to protect and develop the local economy.

One of the outcomes of the local growth coalition has been the implementation of the early warning system, aimed at proactively identifying potential economic problems and addressing those problems before they could affect the productivity of the local business people.

During the implementation of the system, information on local companies was published, in the form of annual reports, databases, trade journals, the business press, and public records. Information came from people with first-hand knowledge of the companies, including:

- Employees
- Customers
- Residents
- Service providers
- Local development officials
- Local government officials

The reason for using these people was that they were better placed to see signs of trouble without knowing how to recognise or interpret them. The process of educating the workers, community residents and others to read the signs, provided critical information that allowed for effective intervention and assistance.

Some of the Early Warning signs are:

- An aging owner with no apparent successor
- Layoffs
- Decline in machine maintenance
- Contracting out work
- Outdated technology and production techniques
- Equipment removal
- No new product lines
- Cosmetic improvements and unidentified visitors
- Management instability

- Loss of customers

Through the early warning systems, problems or opportunities are able to be identified and a plan of action can be developed. With both published and unpublished information, it is possible to do the following:

- Identification of potential problems or opportunities at a company,
- Development of an analysis of the particular problem and opportunity,
- Verification of the information,
- Development of the course of action to encourage and assist a company to keep its doors open or expand.

This kind of systematic approach to local companies results in as much as two years' notice of potential problems that, if unrecognised, could result in a crisis at the company and a potential closure.

#### **7.6.6. CHANGING PERCEPTIONS ON THE ROLE OF LABOUR.**

At the heart of the Early Warning System was labour. This thesis found that labour is the key source of information about the problems and opportunities inside the firm, and information was crucial to developing effective policy. Workers, whether organised or unorganised, provided the best source of non-public information about a company, by virtue of the fact that they:

- Spent 40 to 80 hours a week there
- Observed or participated in all aspects of operations in every department
- May had years of experience and perspective in evaluating the significance or insignificance of any change in the company
- Have a long-term vested interest in the success and continued operations of the company.

Workers often do not know the significance of the information around them, nor what to do with it, or how it can and should be used. Traditional relations of production discourage workers from becoming aware of the centrality of their role or the benefits that might come from analysing what is going on. Neither unions, managers, local government departments, development corporations nor others in the community reach out routinely to employees as a source of information, yet their information is critical.

The Early Warning System is a new strategy for development and needs to be part of the foundation of effective action at the firm, community, or macro level of the economy.

There were two benefits to workers gathering information. The first related to the information itself and the second relates to the resulting change in the consciousness of the worker.

- The information gathered is critically important not only to prevent a possible closing of the company, but also to prepare the union to be more effective in fighting for improved wages and benefits, and to strengthen their organisation within the company.
  
- There is also a powerful impact on the individual worker who begins to gather this information. The worker begins to see him/herself as more than just a person working for a wage but as someone who can play a key role in determining the future of the company and building the strength of labour as required by the global markets.

## **CHAPTER EIGHT: HOW COMPETITIVE ARE SMALL TOWNS? :**

### **COMPARATIVE ANALYSIS OF COMPETITIVENESS OF SMALL TOWNS**

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#### **8.1. INTRODUCTION**

One dominant value proposition of this thesis is that, if globalization continues, as seems likely to happen, the power of the state will be further eroded. The real impact of globalization does, of course, extend well beyond the negative or the positive impact on economic growth. Growth statistics are of no direct benefit to small towns. Neither can growth be the Holy Grail that it is so often assumed to be when it is achieved at the expense of economic decline and neglect of the needs of a large proportion of the small town communities.

Of course, at any given moment different states will have different capabilities. Some will clearly be able to influence economic events more than others, as is advocated by many of the demand side economists linked to the Keynesian hypothesis, which attributes economic decline in small towns to the lack of demand for the goods produced in those towns.

In the South African post-apartheid context, there has been a heavy reliance on Keynesian analysis to explain the situation in small towns given the widespread intent of the post-apartheid state to design interventionist strategies to try and stimulate local demand where possible. The use of the Keynesian approach in the analysis of small towns' economic trajectories is based on the dominant discourse on the role of the state in the promotion of local economic development. A neoliberal analysis which attributes globalization to technological changes, and which calls for the drastic restriction of the role of the state, is not the appropriate approach in the context, given the market distortion of the apartheid state.

One form of Keynesian argument used by this thesis, also argued by Perrin (2000:89) is that state intervention is necessary not only to raise the demand but also to raise the competitiveness of the local economy. Reliance on the private sector to grow the economy has proven to be an enormous task, given that private sector investments have not gone towards either technological innovations, or even towards human capital investments. From the analysis of data for this thesis, and from the evidence in the case studies presented above, the

dominance of the Keynesian perspective is indicated by the municipalities working fairly hard to be innovative in their attempts to deal with the impact of economic decline in their areas.

There are at least two implications of all this for small towns. Firstly, as evidence has shown, globalization has been accompanied by the gradual emergence of a truly international labour market. Human resources located in one region are able to move to another. Localities that incur the costs of human capital formation do not necessarily reap the full benefits of this easy movement. In small towns, and particularly in the case of professional and technical workers, public expenditure on education and other forms of human development is being wasted because of the emigration of skilled labour. Governments are then faced with the challenge to either deal with the movement of skilled labour or to under-invest in human development.

Secondly, globalization implies increased competition and a consequent imperative to cut costs whenever possible. In general, competition is highly desirable and few analysts would want to encourage monopoly, but if governments respond to competitive pressures in a shortsighted manner, there is a danger that they will reduce expenditure on human development. In the short-term, expenditures on human development are viewed as a cost, occasionally a rather high cost, and these costs are financed with taxation funds. There is always a temptation to reduce spending on human development in order to reduce costs and become more competitive. In the longer term, however, spending money on human development pays off handsomely. Indeed the returns on investment in people are often higher than the returns on investment in physical assets. Properly viewed, expenditure on human development is not an obstacle to greater competitiveness but is a way for a country to increase its ability to compete in the global economy.

Globalization, in other words, creates temptations to cut costs on human development expenditure in order not to lose resources through the brain drain and to run a low-wage, low-human development economy in order to keep costs low and international competitors at bay. Both temptations however should be resisted, for it has become evident that small towns such as Pinetown that gave a high priority to human development have prospered during the era of globalization whereas those that neglected human development, such as Dundee, have tended to lag behind.

Therefore, one of the key assumptions of this thesis was that human resource development and innovation is the main requirement for local economic development. Lacking in many of the small towns is an ability to harness human development as a means of solving local economic problems. For the purposes of this thesis, a framework has been developed to compare the competitiveness of the case study areas and their ability to attract industries.

The competitiveness index can be defined as a proxy or an indicator of locational competitiveness. It has been developed in order to provide a clear picture of the ability of each of the municipalities to attract industries and deal with negative industrial migration. It is also important to state that competitiveness, in this case, relates to the ability of the municipality to improve the standard of living of its community through job creation. The analytical framework presented below is aimed at providing a full picture of the competitive nature of KwaZulu-Natal municipalities, as a determinant of future success, and the ability to deliver their mandate of developmental local government.

## 8.2 COMPETITIVENESS ANALYSIS

The issue of competitiveness has been a concern of economists for the past two centuries, since Adam Smith and David Ricardo<sup>28</sup> first pressed the argument in favour of free trade and demonstrated its positive impacts on economic efficiency and standards of living. Since the last encounter with prohibitive trade barriers in the 1930's, nations have struggled with the conflict between the efficiency gains of freer trade and the adjustment burdens, which have had powerful impacts on selected regions and industries. But it must be recognized that recent decades have witnessed a remarkable reduction in the constraints on the international movement of goods and services.

The cumulative effect of events of the past two decades and the demise of the 'nation state' has, however, called this focus on the nation into question. For some analysts the firm has emerged as the primary actor, while for the purpose of this thesis, the focus is on the small town. In this section of the thesis, the focus will be on the legitimacy of putting the nation, and the city, at the centre of an examination of competitiveness.

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<sup>28</sup> Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations* (1776), Friedrich List, *The National System of Political Economy* (1848) and Michael Porter, *The Competitive Advantage of Nations* (1990).

In the earlier chapters of this thesis, it was stated that globalization has dramatically altered the relative places of nations and sub-national entities in the global economy. As a result, national governments accept constraints on their ability to intervene in their own economies. All of this amounts to a substantial constraint on the ability of nations to intervene to redress grievances of domestic industries, regions and factors in economic difficulty.

It was also mentioned that technologies of production, transportation and communication have radically altered the economic spaces in which economic activity is conducted. Huge concentrations of industrial activity in big metropolitan areas have given way to global sourcing, product mandating and other new approaches to production.

The dramatic transformation in communication technology has made it possible to monitor and to control production processes from great distances and to locate decision-making and production activities according to criteria suitable to each function, rather than to locate them in close proximity to each other. As a result, many of the accepted notions of the importance of the fundamental concepts of location theory, such as centre, periphery, and economies of scale and of agglomeration, have been thoroughly reconsidered.

It has also been stated that, due to globalization, nations have somewhat diminished their capacity to intervene economically, therefore allowing cities to emerge as increasingly important economic actors. Indeed in Porter's widely discussed 'diamond of competitive advantage' local authorities have a key, if not the primary, influence on two of the four determinants: 'factor conditions' and 'related and supporting industries.'

Nonetheless, whereas Porter still gives the impression that his primary emphasis is on the nation as a sum of the strength of its regions and cities, the emphasis of this thesis is on the strength or weakness of the individual cities and on their capacity to function as economic actors in the international economy.

In assessing the state of the urban economy, urban competitiveness or the ability of small towns to produce and market products when competing with comparable products from other regions is important. The concept of 'competitiveness' is relevant to this thesis given the fact that Local Economic Development is attributed to the 'New Competitiveness,' or the value proposition that cities need to develop their own LED strategies to prepare for the benefits and potential negative economic impacts of opening/accessing their markets to the world markets.

The value judgment implicit in this argument is that the key reason for increasing urban competitiveness is to raise the standard of living of people who live in these small towns. By increasing the economic productivity of an area and marketing its most productive goods and services, the community can develop and grow at its greatest potential. Economic investment, well targeted and strategically focused, is a proven method for improving the vitality of a community. Given that strong export economies make the city more competitive, it is beneficial for the city to support the export economy of the city. Moreover, if a city increases its competitiveness, the standard of living for the people in the urban region will rise

It was the purpose of this study:

- To examine the concept of ‘the competitiveness of cities’ and design an index to measure the competitiveness of cities,
- To make this concept operational in the context of small towns
- To use what has been learnt to evaluate both the conditions of the case study areas and the strategic planning for their economic future in an international economy that is highly driven by competitive forces.

Competitiveness is measured through various lenses. Each measurement indicates different facts about the area’s ability to attract investments. The table that follows provides a broad analysis of the strategic competitiveness of the selected case study areas. From the analysis of data obtained from this study, it is clear that none of these towns were successful in enhancing their international competitiveness. It is for that reason that this thesis is calling for national government to observe specific changes in the characteristics of small towns’ economies.

### 8.3 Competitiveness Index

**Table 8.1: Comparative Analysis of Strategic Competitiveness**

INDICATOR	COMPETITIVE REQUIREMENTS	CASE STUDY PERFORMANCE
Growth competitiveness indicators	The set of institutions, policies and structures in place to sustain local economic growth.  Efficient utilization of resource allocation.	<ul style="list-style-type: none"> <li>◆ Local economic development forums, government and business structures participated in LED forums in the Coal Rim area (Dundee), KwaDukuza and Howick.</li> <li>◆ Local policy framework through IDP and a series of government legislation on municipalities.</li> <li>◆ Unclear use of local budget: there was large utilisation of consultants.</li> <li>◆ Issues of corruption in the Coal Rim.</li> </ul>
Micro-economic competitiveness	Macro-economic institutions and economic policy supportive of LED.	No local growth plans in Ixopo, Glencoe or Vryheid. IDP's were not linked to budget priorities
Technological index	Technological innovations, manufacturing activities.	Few manufacturing and value adding, as most case studies were dependent on raw material. One example is forestry in the case of Ixopo and sugarcane in the case of KwaDukuza. Neither of those products was processed in the area.
Public Institutions Index	Quality institutions Resource allocation efficiency Good public expenditure Export orientation	Local government transformed, with democratic elections in all of them Financial control on project finance was relatively stable and legislation forced responsible budget expenditure. No export orientation in any of them.
Macro-economic environment index	Industrial development initiatives LED initiatives Spatial economic framework	Confusion between LED, SMME, IDP in all of them. Ineffective LED processes
Nature of local responses: Project quality index	Business retention and expansions Early Warning Systems Investment and trade promotion	BRE attempted in KwaDukuza, Dundee. No early warning systems for potential economic crisis. Lack of understanding of trade and investment promotion.

Despite several projects attempted to stimulate the local economy, small towns lack the following attributes in relation to competitiveness or successful effort to achieve it:

- Extensive linkages to the rest of the world.
- A highly educated labour force.
- A full selection of business and professional services.
- A superior transportation and communication infrastructure.

- A complex of research institutions appropriate to the city's competitive advantage.
- Large continentally- or internationally-engaged firms.
- An environment that is conducive to formation of a dynamic set of small- and medium-sized firms.
- Adequate access to venture capital and to finance.
- Attractive industrial sites and office spaces.
- A supportive regulatory environment.
- Effective government.
- Effective linkages between the public and private sectors.

In conclusion, it is clear that, as small towns move with slow but sure steps toward the sidelines, they will become both more significant as economic actors and more aware of the increased burden on them to strategically plan for their economic futures in an environment in which they are increasingly exposed to challenges on existing economic activities and to opportunities for growth into new areas emanating from the international economy.

It is clear that each of these areas have their competitive advantages and disadvantages. Both Dundee and Ixopo are very low on the competitiveness scale and would therefore be unable, in the very near future, to attract job-creating industries. Both Howick and KwaDukuza have positive indicators and are likely to attract industries, which will create local economic growth, but not increased job opportunities.

## **CHAPTER NINE: FACTORS AFFECTING INDUSTRIAL MIGRATION - SOME KEY FINDINGS**

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### **9.1. INTRODUCTION**

The previous chapter detailing with the status quo in each of the study areas shows that the principal responsibility for stemming industrial migration inevitably falls on local government structures in terms of the mandate given to them by the 2004 Municipal Systems Act. It has also been shown that economic decline and industrial migration have mainly emanated from their inadequate local economic development policies.

Having provided a detailed analysis of locational competitiveness of each of the study areas, and using the competitiveness index as a measure of competitiveness, this chapter focuses on the factors that have encouraged industries to look for alternative locations for their investments.

The notable findings from this thesis were that economic decline and industrial migration are two sides of the same coin. Economic decline has a causal link to industrial migration. As industries migrate, the impact of such migration is felt on the local economy. By the same token, industries inevitably migrate to other regions if the economies in which they are located are not flexible enough to attract new industries, which are linked in the value chain.

This thesis focuses on factors such as technological changes, industrial closures, industrial relocations, as well as mergers and acquisitions and their immediate impact on the local economies. Causes for each of these factors are discussed and corrective local economic responses by local government in the study area are suggested.

### **9.2. TECHNOLOGICAL CHANGE AND INDUSTRIAL MIGRATION.**

Technological changes are one of the major causes of industrial flight, which automatically leads to economic decline in the area. From whatever perspective technological changes are looked at, one important assumption that informs this thesis is that the phenomena leads to

economic dislocations of some kind. For instance, an important aspect of the Marxian theory of economic development and institutional change is the idea that economic efficiency, innovation rate and ultimately productivity levels are the key factors that decide the outcome of the competition between different forms of organisation of economic activity (Gomulka, 1990)

The aim of this thesis is not merely to repeat the previous finding in trying to investigate what technological changes have occurred in various industries. The idea of company technological growth has been an attractive concept for some time. It is not surprising therefore, that much has been published about this subject. The focus rather, is on impact assessment.

For this thesis, it is a simple matter to define technological change in terms of changes in the characteristic of an abstract technology. This applies to growth both through technology replacement and substitution. Though the topic of automation is a wide field on its own, and warrants separate research, technological expansion is understood to mean company growth by input from outside the company. This can be in the form of new machinery that is able to vastly increase production without an increase in the number of employment opportunities.

However, this interest does not mean that the whole external growth problem has received systematic and closely reasoned treatment in the available literature. Most organisations that may be characterised as growth companies are, as a result of their continuous efforts towards technological innovations, replacing old machinery and reducing the number of jobs at the same time.

The Pinetown survey, for instance, found that technological replacements that were taking place in many of the sampled industries, was one reason for job losses. Though technological innovations are expected to create more efficiency and increase productivity in many industries, this thesis found that they are, in actual fact, job killers.

This study also found that, prior to the closure of coalmines in Dundee and Hlobane, there were no efforts by the mining industry in the area to engage in technological innovations, as a way of adding value to the local coal industry. All their activities were directed towards 'rejuvenating' the outdated production activities and of supplying coal to their conventional

markets. The lack of these activities meant regression, loss of market share and less financial capacity to provide for future investments.

The most extreme and, at the same time the most complete, forms of external development is in the form of take-overs or acquisitions. This was the case with Mooi River Textiles, when it was taken over by Da Gama Textiles. The take-over of Mooi River Textiles, a company that formerly exercised its company functions independently, is a straightforward external development that led to job losses. This phenomenon was also predicted by Hovers (1973:3) as having a devastating effect on the local economy. Instead of the production of the company increasing and the market share enlarging, Da Gama decided to close down the Mooi River operation, because the original objective of the takeover was not to increase production, but to kill the competitors.

Closures, such as those of Mooi River Textiles and the mining operations in the Coal Rim area of Dundee, have become a depressingly commonplace feature of industrial life in small towns. Millions of people, especially those in the regions away from major cities, are affected directly or indirectly as a consequence of such closures. However, it needs to be stated that the experience of closure is not new, as it has been felt by regions throughout the world as a recurrent feature of the capitalist economy. As new technologies and new investment patterns lead to closures, outdated technologies and less profitable plants are being closed down. Whereas in the past closures were followed by the introduction of new technology and new innovative plans and new jobs, nowadays, closures and job losses are no longer counter-acted by new plant openings and job gains.

This study found that the closure of Mooi River Textiles unleashed two types of multiplier effects to the area:

- All businesses that were supplying equipment and material, together with those parts of the public sector responsible for services such as fuel, water, transport and maintenance disappeared.
- The purchasing power of local consumers was drastically reduced and the revenue base of the local authority was heavily impacted. One can conclude that the closure of one firm has also threatened the jobs of the others who are employed by the related industries. The local economy has been significantly undermined.

The full effect of large-scale closure is therefore not experienced by the regions, but by localities, where they occur. Though the effect of the closure of this company may not have been felt across the region, the localities of Mooi River, Escourt and Howick felt the impact. In addition, knock-on effects of major closure such as this one have spread to all areas in the neighbouring localities.

Such closures have destroyed the economic and social fabric of Mooi River to such an extent that the area has been condemned to a slow and lingering decline. The principal victim, aside from the individual workers and their families has been the community at large. In places such as Durban, the closure of a single large plant may not be felt the same as those in small towns. The size and the degree to which the local economy is dependent on the single industry determine the extent of the impact. However, the resilience of the retail and financial sector has had to offset the effects of the decline of the manufacturing sector to some extent.

It is therefore appropriate to conclude that the closure as it happened in Mooi River is not only a temporary setback, which may rectify itself once the market has rectified itself, but is part of a fundamental change with long term consequences. Industrial restructuring, the movement of capital from one sector to the other, is taking place at the expense of communities in small towns. The closure of Mooi River Textiles and the massive loss of jobs in the textile industry were accompanied by major shifts in location preference of that industry. As a result, the Mooi River local authority has failed to attract this industry back in the area.

This study also found that closures, as experienced in Mooi River, threatened not only the position of the industry in the area, but also the prospect for new jobs. A low level of demand, as a consequence of high unemployment, has diminished the market for new disposable income.

### **9.3. THE ROLE OF BUSINESS MERGERS IN INDUSTRIAL MIGRATION**

Industrial mobility has been attributed to what business circles have referred to as ‘business mergers’. When two firms coalesce or unite, the result is usually described as ‘absorption, amalgamation, fusion, merger or take-over’. In the South African context, the meaning for such terms has been given legal status.

For the purposes of this thesis, amalgamation or mergers are defined as a blending of two or more existing undertakings into one undertaking, with the share holders of each blending company becoming substantially the shareholders in the new company. This thesis chose to use the concept of 'mergers' instead of 'amalgamations' because the former seems better suited to embrace the wide range of means and ways by which the nation may pursue it.

Business mergers that have taken place in the study areas have tended to be in the form of the transfer of two or more undertakings to a new company or an existing company<sup>29</sup>. During this process, some form of business re-engineering impacted on the labour market elasticity of the clothing and textile industry since large numbers of workers in this industry were laid off and the operation was transferred from Mooi River to East London.

This thesis argues that mergers and acquisitions are very similar. In the context of small towns, such a strategy became a quick way of growing from a small to a large-scale operation. Large business units for mass production were built up more speedily than would have happened if the company had relied on natural growth. Explaining the dichotomy that exists between the two concepts, mergers and acquisitions, Moon (1971) states that:

... the truth of the matter is that one cannot hope for a pragmatic rule in this moment of time, so long as the two concepts are in a state of flux, particularly with regard to changing the purchasing power value of money.

Data from the Pinetown early warning system's survey conducted over sixty companies suggest that there are three clearly definable patterns that mergers followed, namely, vertical integration, horizontal integration and conglomerate mergers.

Vertical integration was noticeable in mainly manufacturing firms at different stages of production or distribution. Many firms that fell into this category were in the Midlands areas such as Dargle Timber in Howick, and were centred mainly around wood processing and milling. For instance, the chairperson of the Howick Chamber attributes such mergers to the fact that:

... in the period of globalization, where competition has intensified, any firm that wants to survive should ensure for itself uninterrupted supplies of the right quality in the required quantities and in right time. (Interview, 12 October 2000)

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<sup>29</sup> The case of Mooi River Textiles and the take-over by Da Gama Textiles attest to that fact.

Also identified in Pinetown was that a number of manufacturing firms were beginning to buy out their suppliers. Jervis (1971) terms this behaviour 'backward integration', which he juxtaposes to 'forward integration' where a firm decides to buy another which is its customer, and decides to sell directly to the consumers. This was particularly the case with medium-sized enterprises, mainly located in industrial complexes in New Germany. In an interview with a shoe manufacturing company based in Pinetown, the general manager justified such a move as:

A move to secure a foothold in the marketing of its product and often the right to determine the eventual selling price.

The trend was that firms were linking a series of manufacturing operations from raw material to the finished product. It also needs to be emphasised that mergers did not just happen. Innovation and entrepreneurship infusion triggered some business re-engineering and re-orientation, which led to job losses.

Horizontal integration on the other hand indicates that firms doing the very same thing are linked together. This study found that clothing and textile companies in the Coal Rim were experiencing this phenomenon. Horizontal mergers occurred mainly between small manufacturing firms with the same type of product, trade and the same customer base. Horizontal mergers also tended to require some business reorientation that resulted in job losses, particularly because they were not driven correctly, as bigger businesses took over the smaller ones.

Lastly, conglomerate mergers are the most powerful mergers. Examples are those that were directly governed by the Competition Commission. KZN has not seen much of this type of merger, because they occurred in national circles where major investment companies, increasingly led by the former comrades of the liberation struggle, were taking over a number of key industry positions. They have tended to take over companies in the name of black economic empowerment.

The main economic advantages that were identified during the study, from the merged companies selected by the survey, were in the field of:

- Marketing

- Management
- Risk bearing
- Finance

In addition, evidence from the Pinetown survey suggests that mergers took place as a result of white management shareholders wishing to retire and having no understudies capable of continuing the business profitability. Another reason was the expansion of business to the point where there was a need for substantial additional financing and existing shareholders were not willing to assume added responsibility. Mergers were also precipitated by the prospect of technology and marketing changes adversely affecting the future operation of the company, as well as large companies wooing small ones, with attractive purchase or exchange offers, often with the promise of principals that will have executive positions in the combined enterprise.

#### **9.4. MERGERS AND ACQUISITIONS IN KWAZULU-NATAL<sup>30</sup>:**

##### **CASE OVERVIEW**

During the 2001/2002 financial years the Competition Commission adjudicated in a number of important cases in sectors ranging from agriculture to petroleum products and media industries. While the table below illustrates the extent to which the Commission met its mandate in terms of Chapter 3 of the Competition Act, they do not detail the level of complexity of the issues raised by each case nor the often difficult choices the Commission had to make when recommending a merger's approval, conditional approval or prohibition. According to Adv. Menzi Simelane, the Commission has met the challenge of being impartial and of promoting competition in South Africa, while remaining ever mindful of the public interest issues which may arise (Interview, Adv. Menzi Simelane, Competition Commission, 10 April 2002).

Though no data was available to understand in detail, the phenomena in the study areas, the study was able to gather some data from the Commission. In an interview with Advocate Menzi Simelane<sup>31</sup>, it was mentioned the commission had been notified of 220 mergers, of which 46 were large, 169 intermediate and 5 small. The Competition Commission Report,

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<sup>30</sup> Data presented in this case was obtained from the Competition Commission.

<sup>31</sup> Interview, 20<sup>th</sup> November 2001, Royal Hotel, Durban.

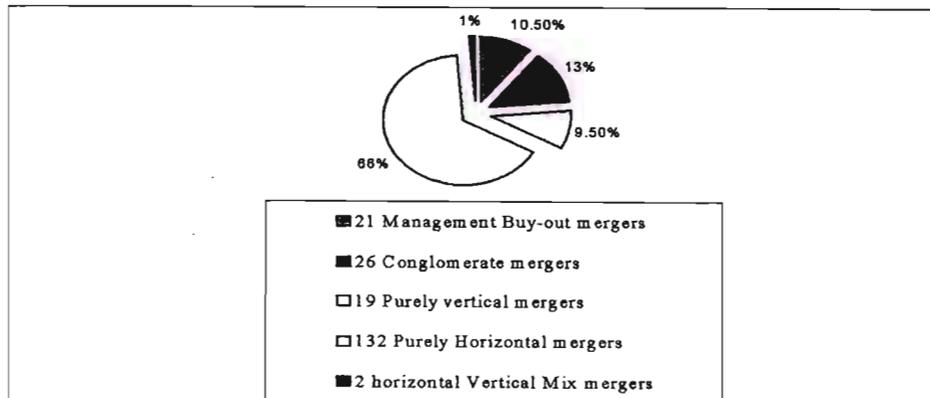
2002, also confirmed this. The table below illustrates the number of those cases received and finalised during the period, compared to the previous two periods.

**Table 9.1: Comparative Statistics: Mergers and Acquisitions: 1999/2000 and 2001/2002**

	1999/00	2000/01	2001/02
<b>Total number of cases notified</b>	<b>331</b>	<b>407</b>	<b>220</b>
Large	20	16	46
Intermediate	175	375	169
Small	N/A	16	5
Transitional	136	N/A	N/A
<b>Total Number of Cases Finalised</b>	<b>236</b>	<b>414</b>	<b>225</b>
Large	12	24	42
Intermediate	91	387	179
Small	N/A	3	4
Transitional	133	N/A	N/A

Source: Competition Commission Annual Report.

The merger activity shown in the table above is an indication only of those that were reported to the commission. In the context of small towns, where business activity is hardly regulated, a number of such activities took place unrecorded, and the outcome was job losses. Despite detailed investigation into whether the acquisition of Mooi River Textiles by Da Gama Textiles was captured by the Competition Commission, no data was available in this regard. A logical conclusion that can be drawn from this is that activities that were happening in small towns were not being regulated.



**Figure 9.1: Number of Cases by Merger**

As can be seen from the graph above, the 65% horizontal merger activity reported by the Competition Commission is the reflection of industrial consolidation. This is due to the fact that South Africa's capital has become increasingly attracted to global investment

opportunities and there is increased market access for South African products in the global markets.

In addition, with the increase in trade agreements<sup>32</sup> and the proliferation of trade regions where the country is involved, South African companies have had to consolidate in order to meet the demands of the global markets, and to achieve economies of scale.

### 9.5 TYPE OF MERGERS FROM APRIL 2001 – MARCH 2002

The table below compares the results from a sample study of merger cases from September 1999 to March 2002.

**Table 9.2: Comparing Merger Activity with Previous Years**

Sector	% Of Total (September 1999 – March 2000)	% Of Total (April 2000 – February 2001)*	% Of Total (April 2001 – March 2002)
Mining & construction	6%	4%	8%
Financial services	13%	6%	12%
Transport	10%	4%	4%
Manufacturing	22%	33%	28.5%
Food & beverages	5%	2%	5.5%
Chemicals	5%	4%	4%
Electrical equipment	2.5%	3%	2%
Paper & packaging	2.5%	2%	1.5%
Building materials	4%	1%	1.5%
Printing and publishing	2.5%	1%	2%
Equipment & machinery	-	5%	1.5%
Metal products	-	3.5%	4.5%
Other manufacturing	-	5%	3.5%
Services	13%	11%	6%
Real estate	4%	8%	13.5%
Wholesale	-	12%	4.5%
Retail	-	6%	8%

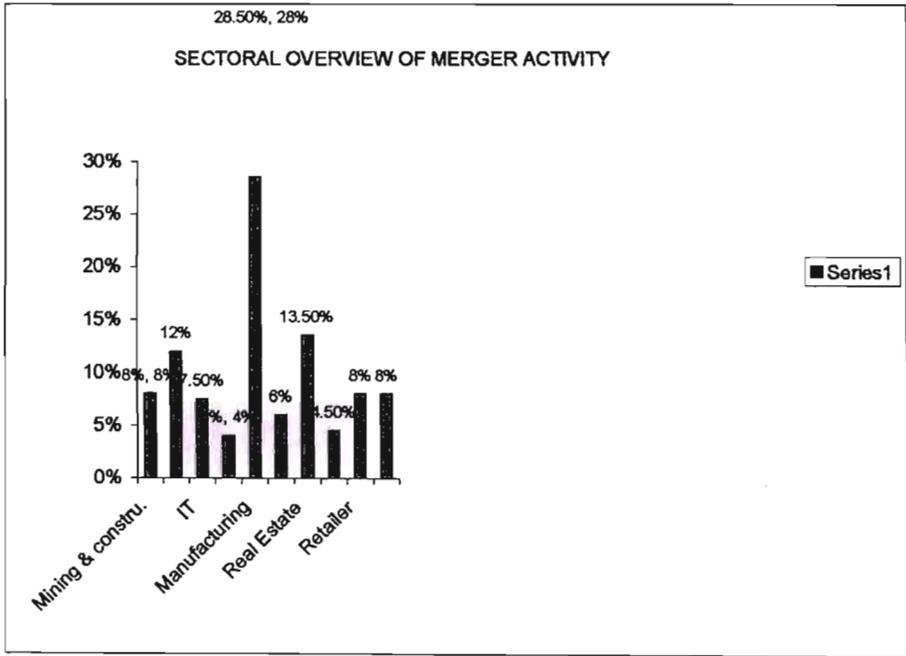
*Source: Competition Commission South Africa Annual Report 2002 Book 2*

The table shows that merger activity occurred mainly in the manufacturing sector. This trend is similar to the previous period reviewed. Within the manufacturing sector, merger activity occurred mainly in the food and beverage sub-sector followed by metal products and the

<sup>32</sup> Some of these trade agreements were discussed in the earlier chapters of this thesis.

chemical manufacturing sub-sectors. Merger activity peaked in the equipment and machinery sub-sector, followed by the other manufacturing sub-sectors and the chemical sub-sectors. Only the chemical sector has continued to demonstrate the trend of high merger activity. Statistics also show that it was in these sectors that jobs were lost through industrial closures.

There were increases in mergers in the food and beverages, building material, printing and publishing, and metal products sub-sectors. However, none of these sub-sectors experienced a significant increase in activity. Merger activity increased significantly in the financial services sector, followed by the real estate sector and the mining and construction sector. On the other hand, there was a significant decrease in activity in the wholesale, and IT sectors. The health care, featured under other services, experienced several mergers, which was uncommon in previous years.



**Figure 9.2: Sectoral overview of merger activity**

## **9.6. CASES OVERVIEW**

During the period under review the Commission dealt with 225 cases of which 213 matters were approved, 2 prohibited and in 10 cases the Commission had no jurisdiction. Of the two prohibited transactions, one was a large merger and one an intermediate merger. Some of the most important merger and acquisition cases are described below.

### **9.6.1. THE CASE OF BASFOUR 2488 (PTY) LTD AND KWAZULU TRANSPORT (PTY) LTD**

The Commission approved the merger between the companies unconditionally. KwaZulu Transport was a provider of subsidised transport that was granted a licence by the Department of Transport. KwaZulu Transport was placed under liquidation on 29 August 2001. In terms of the provisional liquidation order of the High Court, the joint provisional liquidators were permitted to operate the business until 16 November 2001. An initial public tender process was unsuccessful. The proposed merger was the result of subsequent private arrangement and involved a consortium of transport companies. Basfour was to facilitate the acquisition of the assets of KwaZulu Transport and dispose of the assets, as soon as was reasonably practical, to the shareholders.

In evaluating the transaction, the Commission had to consider a complaint that alleged that the merged entity would monopolise the transport market, and also raised concerns of the employees of KwaZulu Transport that their conditions of service would change after the merger. The Commission examined both the subsidised transport market and the private hire transport market. In both the narrow and the broader market definition, it was found that the post merger market share would be a negligible figure of less than 15%, and thus no competition concerns arose from the transaction.

In terms of the overall effect of the merger on employment, the Commission was of the view that KwaZulu Transport was a failing firm which would exit the market if approval was not granted. All 756 jobs provided would therefore be lost. The Commission was also of the view that issues relating to the conditions of employment were regulated by the Labour Relations Act, and thus should not form part of the Commission's evaluation.

The merging parties anticipated a retrenchment figure of less than 10% of staff at management level and various head offices. There would be no need for head offices because each depot would be operated independently by the shareholder of the acquiring firm. The Commission's conclusion was therefore, that the transaction did not raise competition concerns and that the proposed transaction would minimise job losses.

### **9.6.2 THE CASE OF MONDI (LTD) AND KOHLER CORES & TUBES**

The Commission recommended a prohibition of the merger between the companies before the Competition Tribunal.

Mondi Limited, a wholly owned subsidiary of Anglo American, notified the commission of its intent to acquire Kohler Cores & Tubes as an alternative to starting its own cores and tubes manufacturing business. An objection from Diversified Core & Tubes was subsequently lodged in terms of which it was claimed that the merger would be financially detrimental to its business. Following an investigation, the Commission recommended a prohibition of the merger because the transaction would have given rise to only a vertically integrated entity in the cores and tubes manufacturing industry.

The Commission found that the merger entity's dual position as supplier of paper and core board, and as a competitor in the cores and tubes arena, would be likely to create a channel of conflict in the market. Using its strong market position as supplier of raw material, the merger entity might have been able to raise the manufacturing costs of cores and tubes, and this may have marginalized their market position as suppliers of cores and tubes in the higher end of the market.

Furthermore, the Commission found that the merger would result in foreclosing existing and potential suppliers' paper and core board. The Commission was also concerned that the proposed merger would facilitate collusive behaviour as far as the supply of paper and core board was concerned. Both the upstream (supply of paper in this case) and downstream (cores and tubes industry) markets had to be conducive to the exercise of market power. The Commission concluded that both markets were highly concentrated and, as stated, the merger might have created a structure that could give rise to both the foreclosure and raising of rivals'

costs. The fundamental problem with the merger, therefore, would have been structural and its foreclosure would have effects on the customers of both parties.

The Commission found that potential job losses would not have been sufficient to raise significant public interest concerns.

### **9.6.3 THE CASE OF UNILEVER SOUTH AFRICA AND ROBERTSON'S FOODS**

The Commission recommended the conditional approval of the large merger between Unifoods, a division of Unilever SA, and Robertsons Foods. The recommendation was subject to the approval of the Competition Tribunal.

Key Unilever brands within the processed food industry include, amongst others, Royco (soup, sauces, mixed.) and Oxo (black spreads). Robertsons, also in the processed food market, has amongst its key brands Knorr (soups, sauces) and Marmite and Bovril (black spreads).

The competition analysis identified serious competition concerns in a number of product markets, for example packet soup, soya mince, seshebo mixes, salad dressing, recipe mixes and dry marinades. It revealed that there was a very high level of concentration within these product markets because in all markets one of the two brands, either Royco or Knorr, is dominant. An exception was black spreads, which are branded differently. The serious levels of concentration would not be offset by any pro-competitive gains, including significant countervailing. Furthermore, significant barriers to entry existed in the form of access to retailers, distribution and merchandising, branding, and the portfolio of products.

The Commission concluded, therefore, that given the high combined market shares and/or dominance of the parties in the nine relevant markets identified by the Commission, together with the fact that barriers to entry were high and countervailing power was not sufficient to promote competition outcomes, the merger, as proposed, would lead to a substantial lessening or prevention of competition in the market.

The Commission further considered whether any alternatives could be imposed that would alleviate the competition concerns. The parties made certain proposals to the Commission with

the view to lessening the competitive effects of the transaction. After receiving the proposal, the Commission was not satisfied that the anti-competition effects or concerns would be resolved. Unifoods would retain dominance in all of the processed foods markets. As a result, agreement on the recommendations was not reached between the parties and the Commission. The Commission therefore recommended the following:

- Unifoods was to divest itself of the whole product portfolio currently marketed under the Royco and Oxo brands, including the sub-brands.
- The divestiture was to be to a viable third party, approved by the Commission.
- The divestiture was to take place within six months of the Tribunal's decision if the merger were approved.

The Tribunal approved the agreement between the Commission and the parties involved.

### 10.1. INTRODUCTION

It has been stated in this thesis that globalization has introduced many challenges to small towns. To operate successfully in the new global economic system, they have had to plan new strategies to promote regional economic growth and development and the community's role in the process. This has been undertaken through a process that has come to be known as Local Economic Development (LED).

From the review of literature on LED, it was found that there are many definitions of LED. It was not the intention of this thesis to get involved in a debate over the definition of concepts, but rather to outline the process of practicing LED. Therefore, for the purpose of this thesis, the concept of LED refers to strategic planning through partnerships between local government, the business community and civil society. The objectives of LED are to stimulate investments that will promote sustained high economic growth in a local community.

Within this context, the focus was on the region's potential. Specific stakeholders were identified as well as their role in ensuring their local community reaches its potential. Case studies were included to provide a picture of a small town's comparative advantages, identified new or existing market opportunities for businesses, as well as obstacles to business expansion and creation. A conclusion that was drawn from the case studies was that LED can only succeed if it brings together resources from within and outside the community to address these challenges and to promote economic growth in a systematic and organized manner at the local level.

Employment growth should be the primary local economic development goal of most small towns. More jobs generally mean more spending at local businesses and more tax revenues for local governments. Thus job growth permits the expansion and improvement of public goods and services, leading to an improved local quality of life and enhanced prospects for future employment growth. In addition, a vibrant job market provides an incentive for small towns to

continue to create local employment opportunities. An expanding job market encourages local workers to upgrade their skills in order to qualify for available higher wage jobs. Sustained job growth stimulates improvements in the education and skills of the local labour force, making the community a more attractive location for businesses in the future.

Small towns are well aware of the immediate and long term benefits resulting from employment growth. As such, most of them have developed economic development plans aimed at stimulating or attracting new economic activity. Much of the economic development efforts of small towns are focused on attracting manufacturing facilities.

Yet employment growth and local economic development have resulted from alternative strategies, such as local business retention and expansion, entrepreneurship and small business development, expansion of non-traditional agricultural activities, development of local service and trade businesses, and attraction of tourism activities.

The purpose of this chapter is to analyse local development initiatives in the study areas, focusing particularly on employment generation strategies. The discussion of this chapter is organized as follows:

- Firstly, two theories of local economic development will be presented to provide a theoretical framework for LED analysis in small towns. The theoretical framework provides insight into the causes and effects of local employment change.
- Secondly, the concept of LED in the context of globalization will be explored to provide a firm basis for understanding what LED is and as background to the analysis of LED initiatives undertaken in the study areas.
- Thirdly, different approaches to local development in the study areas will be outlined.
- Fourthly, the impact of the local economic initiatives in the study areas will be critically examined.

## **10.2. THEORETICAL FRAMEWORK FOR LED ANALYSIS**

Two theoretical explanations of LED have been utilised in the analysis of the case studies. Though neither of these theories has been used exclusively, both of them provide a basis for understanding local economic responses by small towns facing economic decline. These

theoretical frameworks are the Economic Base Theory and the Comparative Advantage Theory. These theories are summarized below.

### **10.2.1. The Economic Base Theory (Demand Side Approach).**

Economic base or export base theory focuses on the principal demand-related factors responsible for the growth or decline of a local economy. This theory proposes that economic activity in a region can be divided into basic or export activities and non-basic or local activities<sup>33</sup>.

Using this approach, firms serving markets outside small towns were interviewed. The assumption was that they were bringing outside money into these towns. Small scale manufacturers that export to non local markets in Pinetown, as well as local tourism activities in Howick that attract outside visitors to these towns, were the focus of this thesis.

Using the economic base theory, this thesis was able to identify the cause and effect relationships in local economic development. Through the analysis of the economic base of the selected small towns, prime movers and stimulators of growth in the local economy were identified. Income levels of these towns were analysed with the intention of understanding local economic growth indicators.

This theoretical framework also informed the selection of BRE as a non-basic activity aimed at the development of local trade and service through the promotion of the purchase of local goods by local individuals. This is aimed at increasing community income, as money traded circulates within the community.

The main assumption that accompanies this theoretical framework is that for every dollar generated by exports, part remains in the local economy creating additional employment, and part leaks out. An interesting facet of the economic base theory is that each dollar of basic income generates more than one dollar of total community income. This is referred to by Barkley (2001) as the 'multiplier effect'. This therefore means that the total income and

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<sup>33</sup> David L. Barkley, (2001) *Employment generation strategies for small towns: an overview of alternatives*. REDRL *Research Report*, Regional Economic Development Research Laboratory, Clemson University, Clemson, sc 29634-0355

employment generated is directly related to the amount of spending that remains in the local economy for the next round. With each round, some of the income received by households and local businesses is spent on goods and services acquired outside the local economy.

The economic base model is an appropriate tool for analyzing local economic development problems and potentials. Declining employment and incomes in small towns is generally attributable to a declining export sector, for example, the closing of the local textile operation in places such as Mooi River. Therefore, to stimulate local growth and development, using the economic base theoretical framework, small towns need to focus on increasing export activity, and/or decreasing the proportion of income leaking from these towns. Thus, the economic base theory is the justification for development programmes such as investment promotion, small business development, and expansion of the local service sector.

#### **10.2.2. Local Comparative Advantage (Supply-Side Approach).**

Another key assumption that has informed this thesis is the belief that, to focus only on the economic base theoretical framework is too narrow, since it focuses only on the activities of exporting firms. The model provided by the economic base theory provides insight into why firms decide to migrate from small towns. The question of what small towns have to offer to attract economic activity is the supply side of the LED process which complements the demand side emphasis of the economic base theory.

A supply-driven model makes local economic activity dependent on the availability of resources for the production of goods and services. Accordingly, the starting point in the development process is the availability and quality of labour, capital, markets, transportation facilities, government goods and services, industrial sites, and imported inputs. This theory emphasizes that economic activity in a community will develop according to local comparative advantage, and each community will specialize in the activities which it can produce more efficiently than other regions.

The theory of comparative advantage provides much insight into factors contributing to the decline of many rural communities. Quite simply, communities stagnate or decline because conditions have changed such that these areas are no longer competitive in the provision of

goods and services. For example, in America mill towns have declined because the best location for textile manufacturing has shifted from the rural South to Mexico and the Far East. Rural service centres have declined because interstate highways whisk potential customers to nearby metro shopping centres. Agriculturally based communities have declined because fewer farmers are needed to feed and clothe the nation.

The economic development implications of the comparative advantage theory are fairly straightforward. Rural communities must improve the quality and/or availability of local inputs if they are to compete successfully for new industry. Three general strategies have been used by small towns to enhance their comparative advantages.

First, improvements in public education and the provision of labour training are long-run programmes aimed at improving the quality of the local labour force and, as a result, increasing the community's chances in attracting high-skilled and high-wage employers. In addition, improvements in the local quality of life enhance a community's ability to encourage skilled labour to move to the area to take advantage of employment opportunities.

Second, infrastructure investment (sewage and water systems, roads, etc.) is undertaken to insure that local public services are similar to those available in competing areas. Finally, financial incentives programmes (loans, tax forgiveness, and free land) are provided to overcome the cost difference associated with locating in a small town versus a lower cost urban location. The cost of these educational, infrastructure, and financial incentive programmes will vary greatly depending on the characteristics of the community and the competition for the industry.

### **10.3. LED IN THE CONTEXT OF GLOBALIZATION**

The growing focus on the concept of LED is based on the growing impotence of local government to assert control through microeconomic interventions. This phenomenon has cut across ideological divisions and political divides. It is universal and reflects a reaction by policy makers to the diminished efficacy of national macro-economic policies, a diminution caused by the process of globalization. This process is known as local economic development (LED). LED is about turning the picture around and creating conditions that allow economic development from the grass roots or community level.

Since macro-economic measures are no longer as effective as they once were, national policy makers have shifted their attention to microeconomic measures. In the South African context, the rise to prominence of numerous sub-regional, metropolitan and urban development negotiation and development forums in the 1990's heralded a new era of co-operation. This contributed significantly towards the search for sub-regional and local development initiatives (Harrison, 1993; Nel, 1993a). Local economic development remains one of the key micro-economic responses to the problems of globalization.

LED signifies a new area of planning and co-operation and the search for appropriate solutions to local development problems. The former, coupled with the socially responsive programmes of the government-led Reconstruction and Development Programme (RDP), appears to have the potential to offer moral and material support to the endeavours of individual communities.

In an earlier study undertaken by the author of this thesis, it was revealed that local initiatives, often referred to as self-reliance strategies, were gaining momentum in small towns. It was apparent that these various approaches have the potential to provide development alternatives for South Africa's urban centres and rural areas, particularly those that have experienced economic decline due to industrial migration.

Critical to the undertaking of this thesis is the need to clearly identify what local economic interventions have emerged. The concept of Local Economic Development, as an approach to local economic decline, is widely used as a tool to analyse such local initiatives. It is an endogenous economic development, where communities are active shapers of their own economic destinies. Local actions could serve to regenerate the economy of an area.

This thesis is mindful of the view that such a process 'in which local governments and or community-based groups attempted to manage their existing resources' in partnership arrangements with the private sector, may lead to corporate control of community assets (Ngcobo, 2000). Data that emerged from the analysis of LED processes in the study areas suggest that LED is process-oriented and it involves the formation of new institutions, the development of new alternative industries, and an improvement in the capacity of the existing employers to produce better products and the identification of new markets.

The majority of scholars on LED agree that there are two main preconditions to be observed in the LED process. First and foremost, the process should be initiated by an organisation or a group of institutions responsible for implementation or, at least, co-ordination of such implementation. Secondly, they agree that LED should be initiated by a partnership between labour, business and government.

Harrison and Todes (1996), as well as Nel (1999) support Blakely on the need for multi-stakeholder participation in the implementation of LED. Partnership, according to Bennet (1991), is a concept used to argue that, not only the factors of production, but the actors involved in managing each factor, have to be brought together into a mechanism to ensure successful and sustained LED.

Blakely (ibid) further emphasises the need for an early agreement on the economic development area of concern or economic development zone. Such an agreement should be implemented, irrespective of any political considerations and boundaries. LED does not have neighbourhood or city boundaries. It must be a regional enterprise, involving all communities sharing a common economic zone. Labour market conditions or common economic problems or a common resource base should be the determining factors.

This thesis found that LED is based in the host community and seeks to improve local conditions and encourage the area's entrepreneurs. It is clear that this approach developed from the specific historical context during which there was increased recognition given to localities as economic units. Some of the associated economic concerns were to create jobs, locate jobs in localities where they were needed the most and enhance the local tax base to allow money to circulate within an area.

As Harrison (1996) points out, LED initiatives are not new. For many decades city governments around the world have tried to attract business activities from outside to locate in their city – the so-called 'traditional approach' to LED. More recently however, a range of new LED strategies has emerged. Instead of relying on attracting business from outside, the new strategies emphasise indigenous economic growth from within their city. Both approaches – attracting industry from outside and building the economy from within - are important for LED.

Towns and cities are exploring both strategies. For smaller towns that may have fewer benefits to offer large industries, more emphasis might need to be placed on indigenous growth. For larger cities, the attraction of industry may be more important. These strategies require local stakeholders, both local government and business communities, to adopt somewhat different approaches and roles to those that have been followed in the past. In particular they raise major considerations and opportunities for South Africa's new local governments.

Bennett's writings help to refine the focus. According to the former, LED is a "sub-national action, usually sub-state and sub-regional, taking place within the context of a local labour market" (Bennett, 1990:222). This thesis was able to identify two criteria for recognising LED, namely initiative and entrepreneurship, which can occur in both urban and rural areas. Any economic activities, ranging from farming and sustainable rural development to city-based development strategies can fall within the broad parameters of the concept of LED. This is provided that the action is locally based, mobilises local resources and skills, promotes economic diversification, training and new forms of organisational development.

It is important to note that in areas lacking in skills and capacity, external facilitation and support of local development by government or non-governmental organisations is an accepted norm and has become local government policy (Bennett, 1991). These considerations are deemed to be particularly pertinent in South Africa, as the case studies have revealed.

Evidence that emerged from this thesis enables the researcher to conclude that LED has the following additional features, which are particularly pertinent to the South African context, namely that LED should focus on:

- a package of local interventions,
- economic development which is a catalyst impacting on broader development,
- consultation with the affected communities,
- participatory management and empowerment, and
- the need to integrate policy and poverty interventions.

The intention of this thesis is to provide further clarity on the meaning of LED, its different features and the ways in which to conceptualise it. LED is clearly associated with attempts to promote the satisfaction of basic needs, to bring about 'empowerment' and to allow for greater local-level self-determination and self-reliance.

This thesis argues that LED initiatives are able to generate improved methods of popular involvement and enhance community responsibility. The thesis found that LED includes local initiatives using mainly local control for predominantly local benefit. It is therefore possible to conclude that LED is a process, the products of which are 'Local Economic Initiatives'.

LED is a process, which involves a combination of activities geared towards the mobilisation and development of local resources to tackle economic problems. These initiatives are heterogeneous and diverse in character. LED should be led by local authorities and enjoy the support of the private sector, a characteristic that is missing in almost all of the case studies.

Initiatives frequently involve public-private partnerships, which can draw in local and regional governments, business, unions, community based organisations and non-governmental organisations. Given the wide diversity of strategies employed, ranging from formal business support and place-marketing to community economic development and self-reliance, the term LED can be regarded as a catch-all term to describe localised economic activity initiated by a local community, local authority, external agency or non-governmental organisation in a rural or urban area.

It needs to be pointed out that, according to the literature, the term 'local' or 'locality' in which LED can occur does not have a rigid definition. According to Cooke (1989:3) "localities ... are a descriptive term for the place where people live out their daily working live." Localities are also defined as areas in which local social and labour processes occur and the area delimited by a group of people with a common accord. In the research which was undertaken, these principles were used as guidelines to identify 'localities' within which LED was taking place. The term 'community' appears to occasion considerable definitional difficulties. In this study it is simply taken to refer to the inhabitants of a particular locality in which LED is occurring.

Although LED differs around the province because of political differences, this does not alter its basic nature and focus. In the 1980's LED focussed on job creation and business support and has since broadened out to encompass social, cultural and organisational issues and general encouragement for entrepreneurship.

Strategies applied vary according to differing theoretical views. Right wing or neo-classical writers and politicians have focussed on the development of the free market, while those on the left or populist writers and politicians have, in addition, supported broader social and cultural issues within the development process. LED also shares much in common with the notions of 'development from below', 'development from within', 'endogenous development', 'self-reliance' (Burkey, 1993) and the 'internal combustion' theories.

The broad definitional statements above are used in this study to denote what LED is and were also used in the field to identify evidence of the phenomenon. Different categories of LED are detailed in the next section and typical LED strategies employed are outlined.

#### **10.4. APPROACHES TO LOCAL ECONOMIC DEVELOPMENT**

In parallel with locality-based development initiatives in other parts of the world, numerous similar endeavours emerged in the study areas. LED initiatives in Dundee have sprung from local economic crises due to the decline of the mining industry in the area. A number of initiatives by local leaders and the communities have led to a proliferation of local economic development projects being initiated.

At present, no clear distinction appears to be made in South Africa to identify and differentiate between different categories of LED. This situation does not appear to be unique to the country. In order to provide a clearer focus for this study and to overcome obvious definitional differences regarding LED, which are evident in published South African literature on the topic (Nel, 1999), the determination of defined categories of LED is deemed to be appropriate. The following typology is suggested for use in the South African context and this also serves as a theoretical assertion that was evaluated in the field. Places or localities where this phenomenon is being experienced include, Howick, Pinetown and, to a lesser extent, Mandeni.

The current application of LED by local-level actors in South Africa reflects two different approaches, namely 'authority based' and 'community based' LED which parallel the phenomena in other countries.

An example of the authority-based initiative can be seen in the study areas of KwaDukuza and Dundee. Both KwaDukuza and Dundee were recipients of LED funding from the RDP fund, which was administered by the former KZN Economic Council. The programme was administered directly by the provincial government. The role of the local municipality was to coordinate events. The provincial government authority dictated the nature of the process and it was driven directly from the province. Such an initiative is the best illustration of the authority-based application of LED process.

In the authority based application, in which local authorities act with little or no consultation with key stakeholders and sometimes with the host community, unilateral decisions taken by the province yield absolutely no results. An example of such an application is evident in the publicity campaigns, place-marketing initiatives by provincial government undertaken in KwaDukuza, through the Dolphin Coast Development Company, and in Dundee in what came to be known as the Coal Rim Cluster. These strategies are conventionally referred to as 'boosterist' strategies as they focus on boosting the image of the locality to potential investors.

It should be noted that such an approach is a 'top-down' one, as it entails direct control by provincial government. It encompasses the introduction of LED and its facilitation and is encouraged in a community by an external agency such as a Provincial Government Department<sup>34</sup>, who tries to impose from the 'top' Nel (1999). Community-based or 'true', 'bottom-up' initiatives tend to be more common in smaller centres and focused on community business and local employment strategies. These generally develop from within a community under the leadership of a local, non-governmental organisation or community group. This approach has been evident in the study area of Howick.

Calling on external agencies for support is not uncommon. It should be noted that both forms meet the criteria of LED as defined above. Whereas the authority-based approach approximates the experience of many cities in KZN and some in the Eastern Cape, the community-based approach approximates the small town or neighbourhood initiatives and

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<sup>34</sup> Such as Departments of Economic Development, Local Government and Housing.

self-reliance strategies. In terms of actual strategies pursued, both have an economic and job-creation focus, varying in terms of having either a big business or a community orientation respectively.

#### **10.5 CRITICAL ANALYSIS OF THE IMPACT OF LED IN SMALL TOWNS: THE 'GLOOMY' PERSPECTIVE**

Given the considerable time, effort and capital which has been invested in LED, it is not surprising that various evaluation techniques were developed and applied to assess the impact of LED in a number of municipalities. This was a condition attached to funding of LED initiatives, such as those where grant funding was obtained from international donor agencies such as the European Union and the World Bank

The inflation of the impact measurement was particularly common in the Coal Rim area, since large sums of money were poured into the area during the pullout of the mining houses in the region. This phenomenon was also reported in the United Kingdom where many essentially locally based strategies, experienced high degrees of central state intervention, funding and control and hence have been subject to strict control. Evaluation techniques vary considerably. Those advocated by international financial institutions focus on the economic rate of return and the number of jobs created.

Within larger municipalities, such as Durban, a need was identified for either reviews of administrative effectiveness, financial efficiency or social accounting. A range of techniques to measure the impacts of government and local authority-sponsored job creation and industrial promotion schemes has also been developed.

The above measures are naturally critical from a purely fiscal perspective, but they cannot capture the broader dimensions of empowerment, training, innovation and processes of community reconciliation, which are often implicit features of LED. Almost without exception the projects examined in this thesis fall into this category and as such, standardised evaluation measures, which focus only on economic scores, are seen as being of limited relevance

While admitting that LED strategies have achieved impressive successes in numerous localities such as in Pinetown and the Urban Agricultural Initiatives in Dundee, it was also apparent that they often appeared to be ‘shoring-up’ strategies, which could only partially counter economic crises, such as in the Coal Rim crisis. With the exception of LED initiatives in places like Howick and Pinetown, LED approaches did not seem to be able to enable localities or broader regions to aspire to the forefront of economic growth and activity.

In areas with limited economic prospects, such as Mooi River, however, they did restore lost employment opportunities and provided initiatives which were often more sustainable than government intervention was. A good example of this was the endeavour to create local jobs through business support strategies and community co-operatives, following the collapse of the mining industry in Dundee.

Given the limited or often non-existent alternatives that exist in the poorest areas of various countries, such as South Africa, LED does merit further consideration as a current and future strategy. These considerations are regarded as important in this particular thesis.

Evidence emerging from this thesis suggests that it is not a clear-cut case that LED always succeeds and several interviewees raised questions over the sustainability of many LED initiatives. As was explained earlier in this thesis, the success or failure varied on a case-by-case basis and current strategies to promote development do not differ from previous development strategies in terms of their success or their negative side-effects. Political fragmentation, competing ideologies, a shortage of funds and a focus on any available alternative distorted the process and inhibited success in many LED projects.

The most common drawbacks associated with LED include:

- the limited prospects of growth diffusing from the areas of adaptation,
- the failure to truly tap into macro-level resources, and
- the reality that only centres with the greatest pool of physical and human resources are likely to prosper.

The relative differences in the success of LED in Howick support such a conclusion. In addition, the poorest areas such as Ixopo and the Coal Rim continued to require a level of state

support. Other limitations with LED included the narrow range of business activities that were generally adopted and the frequent reliance on external or government revenue.

The table below is an illustration of the impact of typical LED activities that were witnessed in the study areas.

**Table 10.1: Typical LED Activities in the Study Areas**

<i>Area</i>	<i>LED activities</i>	<i>Impact</i>
KwaDukuza	Urban agriculture Sewing and knitting in the Albert Luthuli Centre Establishment of a craft centre	These were survivalist activities with limited impact. No sustainable jobs were created All projects collapsed due to the lack of government grant funding
Howick	Economic regeneration study Informal trade Community-based tourism	Studies were undertaken and recommendations were made but never pursued.
Ixopo	Urban agriculture Sewing and knitting Community tourism Trading stalls	All projects collapsed due to lack of government grant funding.
Dundee	Urban agriculture Small-scale coal mining Welding	There was a lack of government grant funding, coupled with politicisation of project management
Pinetown	Early warning systems Industrial development Place marketing	Sustainable development was achieved. There was an increase in industries in the logistics and warehousing sector

Capital scarcity and the inherent conflict that exists between running a business venture, while trying to organise socially responsive programmes with community participation in the process, were both factors limiting the overall effectiveness of LED. On a more positive note, although LED's often relied on costly trial-and-error methods, it was precisely through the implementation of such processes in an unconstrained environment that creativity could triumph and resourceful strategies could be identified.

This thesis found that local development often had only short-term impacts unless there were key development projects in terms of human capital. In an interesting analysis of the effects of LED, Feiock (1991) established that LED does have a positive effect on industrial

development and capital investment, but very little on employment creation. This was borne out by this thesis.

The reliance of LED on community-based processes was more appropriate than previous approaches. This was because development 'from below' was based primarily on maximum mobilisation of each area's natural, human, and institutional resources with the primary objective being the satisfaction of the basic needs of the inhabitants of the area.

The positive and fundamental link, which exists between small centres and rural development processes in their hinterlands, should not be ignored in relevant cases as this serves to promote synergy and focuses endeavours. In order to succeed, any local initiative cannot develop in isolation from the outside world and must take cognisance of broader developments.

This thesis was able to conclude that attempts which focused solely on the local economy and which ignored changes in its broader market, economy and production areas were fraught with problems. These notions were important in the case studies in this study where LED sought to link urban and rural areas together for their mutual benefit.

Given the requirement for high levels of skilled and dynamic leadership, it was obvious that the opportunities for successful LED initiatives in the study areas were limited. Despite this gloomy prognosis, desperate situations, such as exist in Dundee's economically deprived areas, often necessitate a consideration of all possible alternatives which could include outside facilitation of local initiatives.

The successful application of LED strategies in some municipalities, however, did lend hope in the context of economic decline, as they were all participating in that new arena which never existed before. While the implementation of LED does not ensure success, it does offer hope to deprived areas given the unlikely prospect of major external investment occurring within them, the reality of job loss in former industrial development points and the limited benefits which current state policies in local government can offer.

One of the most interesting and insightful comments on local initiatives and how to achieve successful implementation comes from the writing of Simon (1992). This work suggests ways to blend the successes and compensate for the weaknesses of 'top-down' and 'bottom-up'

planning. He calls for planners to become more intimately involved with communities and to see the need to integrate development theory and spatial planning more adequately. In his view, the way forward is the formulation of multifaceted, integrated policies, which are sensitive to different group and local, needs and which embody the most positive elements of both ‘top-down’ and ‘bottom-up’ planning.

In contemporary South Africa, neither of these polar opposite approaches alone will achieve the desired results. This thesis adopts the view that these standpoints and perspectives are complementary, informing, challenging, and reinforcing one another. Sengenberger (1993) also regards the most appropriate way forward as the search for a blend of approaches in which initiatives at the local level complement national ones in order to ensure the local relevance of development strategies and to maximise the chances of success. It is important to note that the popularity of the notion of ‘development from below’ is used as an opposite of ‘development from above’.

The table below provides the contextualisation of the ‘gloomy’ perspective, specifically to the LED programmes that were investigated in the thesis.

**Table 10.2: Cost Contextualisation**

<i>Cost</i>	<i>Case study analysis</i>
Failure to promote economic development strategies leading to negative side effects.	In all the case studies, LED strategies were not linked to the broader transformation agenda
Political fragmentation	The Coal Rim cluster LED project had to be stopped because of power struggles between the ANC and the IFP.
Competing ideologies	In Pinetown, LED was driven as a local investment strategy, unlike in Ixopo where it was based on socialist notions of self-help.
Shortage of funds	In all the case studies, once the projects were identified, there were no funds to take them forward into bankable projects.
Limited prospects of growth diffusing from the areas of adaptation	LED was sometimes not linked, or deliberately delinked from local growth plans.

<i>Cost</i>	<i>Case study analysis</i>
The failure to truly tap into macro-level	LED was not linked to the country's industrial strategy, because South Africa had no such strategy in place during the course of this study.
Still continue to require a level of state support	Dependency syndrome in all LED programmes because they failed to become local government priorities, therefore they were not linked to the local government budget cycle.
Only centres with the greatest pool of physical and human resources were likely to prosper.	No evidence of LED success in Mooi River, mainly due to a lack of economic development infrastructure and labour migration reported to neighbouring localities, that took place with the closure of Mooi River Textiles
Lack of resource	LED's were characterised by a once-off grant funding from government, with no contribution from the private sector.
Narrow range of business activities	Almost all the studied LED's did not result in any labour-intensive, large-scale job creation, but only yielded to small-scale self help initiatives such as sewing and knitting projects.
Capital scarcity limiting the overall effectiveness of LED.	LED remains subdued to IDP. It has no budget of its own.
The inherent conflict which exists between running a business venture, while trying to organise socially responsive programmes with community participation in the process.	In many cases, LED processes continued to be run by politicians, with no business or entrepreneurial acumen.
Local development often has only short-term impacts unless there are key developments in terms of human capital	Almost all the LED processes studied had a one year life span and collapsed thereafter, because they were driven by private consultants.
Inappropriate institutional frameworks to drive the implementation	LED projects were mainly driven by planning technicians with no economic development or investment promotion background.
Proliferation of Section 21 Companies	Each local municipality was busy forming its own LED institutions that quite often posed strong opposition to elected local councillors.

In conclusion, it is clear from the analysis that local initiatives need to be supplemented with well-conceived, carefully implemented national strategies of development. There is a clear challenge to local governments, development planners, local authorities, traditional authorities, all structures and organs of civil society who participated in the development of local solutions to local problems, organised business formations, community leaders and academics to seek such a convergence in policies and strategies. These ideas serve to influence the overall policy recommendations made in the thesis's conclusion and serve as a guide in identifying optimal growth options.

## **CHAPTER ELEVEN: PATTERNS OF LOCAL ECONOMIC INTERVENTIONS**

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### **11.1. INTRODUCTION**

It has been argued in this thesis that LED is based on an assumption that it is not only the factors of production that form part of the economic base, but also the actors involved in managing each factor. LED is a micro-economic intervention where these are brought together into a mechanism to ensure successful and sustained development at the local level. It is a regional enterprise, involving all communities that share a common economic zone. Labour market conditions or common economic problems or a common resource base should be the determining factors.

This section of the study describes a number of LED approaches developed from the specific historical context where there was increased recognition given to localities as economic units. Three specific notable LED interventions that are focused on are:

- SMME Development
- Business Retention and Expansion programmes
- Place Marketing and Promotion

These are not the only activities that form part of the LED strategies, but were selected because they appear to be popular in all of the study areas. This chapter will focus on small business development and its impact in minimising the effects of economic decline in small towns. Business Retention and Expansion and Place Marketing and Promotion will be discussed in subsequent chapters.

### **11.2. SMALL AND MEDIUM ENTERPRISE (SME) DEVELOPMENT AS AN LED STRATEGY**

The past three decades of planning and policy-making in small towns appear to have been characterized by the understanding that there must be a shift from emphasis on large-scale enterprises toward the small and medium-sized enterprise sector, including micro enterprises.

It is felt that micro, small and medium-sized enterprises are able to contribute to the achievement of national development objectives.

Small business has often been seen as a narrowly defined development activity, with little or no connection to broader development priorities. However, this misrepresents the role this large and dynamic sector can play, and has the effect of limiting the potential contribution of micro and small enterprises to national development objectives. Small businesses are essential actors in the development process. Together with larger enterprises, they play a key role in mobilizing public and private resources and allocating them to productive activities.

They provide the main driving force behind the inter-related flows of trade, investment and technology, on which the strength and dynamism of the economy depends. It is important for government at all levels, as well as for other development organizations, to be clear about the role these businesses can play in development.

Internationally, SME development can be found to contribute to any or all of the following objectives:

- Promoting national and regional economic development goals;
- Promoting employment, particularly in creating new jobs;
- Alleviating poverty and assisting those who are disadvantaged;
- Facilitating the transition to a market economy;
- Promoting equity and addressing uneven development; and
- Promoting democracy and the development of civil society.

The significance of the contribution of SMEs to national development goals is being recognised increasingly in many different countries. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. Of particular importance has been the identification of the important role of the policy, legal and regulatory environment. Sometimes referred to as the 'business environment', there has been much attention given to the policy and legal framework within which SMEs operate, and the regulatory and administrative systems to which they must comply.

It has become recognised that one of the most cost-effective and strategic approaches to SME promotion is to ensure that the growth of small business is adequately supported by the legal

and regulatory environment. Often the SME sector faces a range of legal and regulatory constraints and biases that can limit the capacity of the sector to create new employment opportunities, foster technological innovation, and produce wealth. Furthermore, even when the legal and regulatory instruments themselves are supportive of small business operations, their enforcement and implementation may be inadequate or inefficient, as well as inequitable and not transparent.

The analysis of all IDP's obtained from municipalities in the study area suggests that SMME is the most popular local economic intervention being undertaken by localities and is seen as a way of encouraging business activities in these areas.

Luis Suarez-Villa (cited in M. Giaoutzi, 1988), in her scholarly work on the diffusion of technological innovation in product development, argues that technological preparedness has become one of the major economic characteristics of the modern era. She stresses enterprise size as one of the most significant variables influencing economic development and its impact on the local economy. However, as stated in the preceding chapters, none of the study areas have had the advantages of technological innovations and this appears to be the most serious constraint to the realisation of the SMME development objectives. No data was available during the study to prove that these SMME's were able to use new technological innovations in their business strategies.

In South Africa, the National Small Business Strategy has become a vehicle for both employment creation and diffusion of innovations at local and regional levels, especially in small towns. The analysis of data obtained from the studied municipalities suggests that they have become significant role players in job creation, especially in poor towns such as Dundee and Howick.

This chapter of the thesis will focus on the broader and more significant aspects of entrepreneurial innovations that have emerged in small towns by considering the role of SMME's in industrial development.

### **11.3. SMALL BUSINESS DEVELOPMENT AS AN LED STRATEGY: THE BROAD PERSPECTIVE**

The analysis of literature on technological advancement suggests that technology changes have become synonymous with global changes. Contrary to this analogy, however, is the fact that the significance of such advancement has remained considerably neglected in economic literature. Such neglect can be attributable to the 'orthodox economic paradigms' of Keynesian philosophy, which sees no role for entrepreneurship.

In the study areas, it was very interesting to note that almost all government policies on development plans referred to SMME development. As the discourse shifted from SMME development, towards export promotion and industrialisation, policies have not considered the impact of shortfalls of entrepreneurial skills in the implementation of those strategies.

A number of institutional arrangements were tried in South Africa's small towns, all in the name of SMME development. The concept of local business service centres, which appears in all the study areas, is an example of government institutional attempts to promote and protect SMME's. However, instead of providing a solution to SMME problems, institutional obstacles and frictions that interfere with SMME opportunities have become obstacles that arise because of divorcing innovation from process or product development.

### **11.4. DEFINING ENTREPRENEURSHIP: WHO ARE THE SMME'S?**

Although a precise definition of entrepreneurship has not emerged, Luis Suarez-Villa (1988:23) argues that entrepreneurship involves "capital investment and accumulation, and the inherent risk involved." She argues that this "constitutes the oldest and the most common role ascribed to entrepreneurship." She traces this definition back to 18-century conceptualisation of the entrepreneur, as the bearer of non-insurable risk.

This thesis has found that none of the SMME programmes developed were successful for the following reasons:

- There was no managerial or productive coordination
- The organisation, structure and size of these SMME's was not coordinated

- Strategic planning and decision making never featured in their work plans
- They had no capacity to create and open up new markets and sources of input
- The SMME's were not connected to the district and provincial markets

Comparing the two strategic imperatives for entrepreneurship, Suarez-Villa (1988) states that strategic planning is the most important activity. Because strategic decisions often affect all the other entrepreneurial roles substantially, at least in so far as corporate organisations are concerned, its significance for entrepreneurial innovation and diffusion cannot be underestimated.

Strategic planning is assumed to be more concerned with the enterprise's internal operations and their relationship to demand influences and strategies. Connection with markets, yet another role that has received substantial attention in modern literature, is more related to broader market restructuring efforts that have little to do with the enterprise's internal questions.

#### **11.5. THE EFFECTIVENESS OF SMME'S IN JOB CREATION: FINDINGS**

In all the study areas, SMME's tend to be spatially dispersed and have made a notable contribution to both local and regional development, especially in small towns such as Mooi River, which face an uncertain future. They tend to be labour-intensive and thus have made a significant contribution to both local and national employment, especially because they account for a lion's share of the manufacturing labour force. Recent studies undertaken in KZN by the Department of Trade and Industry (DTI, 1995), have all stressed that SMME's account for a large share of the manufacturing employment in the province. The most common types of SMME's that were observed in the study areas ranged from garment makers to shoemakers, handicraft and crop processing.

The government, through its Department of Public Works community-based initiative, has built small workshops and factories in places like KwaDukuza and Dundee. For instance, this study found that in Dundee, displaced households from the collapsed mining industry were finding their alternative sources of income from SMME's. These groups were found to be most significant in terms of income generation.

This thesis also found that small range of SMME activities were actually being practiced in both rural and urban communities. Wide ranges of activities, both in rural and urban 'informal' small businesses, attest to the very significant employment shares of these industries.

In so far as entrepreneurial roles are concerned, production coordination and inter-market connection has been most important for small household businesses. Their investment capital and infrastructure usually come from family or partners, and the role of institutionalised capital markets, except for some government sponsored lending and grants funding programmes, has become insignificant for these industries.

This study found that strategic planning has not been undertaken, especially from the point of view of micro industries. Some elementary technological experimentation is beginning to occur in, for example the Coal Rim Small Scale community-based coal mining operations. However, through some equipment modernisation and production readjustment, innovation diffusion has happened through strategic business linkages with entrepreneurs from abroad.

The growth of SMME's has become very significant during the transformation era, particularly in the context of local government. Many SMME's have grown in Pinetown, taking advantage of the greater scale economy of Durban in production, management, and technical efficiency. Better productive coordination has been combined with improved access to investment capital and infrastructure and, in many cases, has been linked with government incentives. This has become a powerful incentive for the SMME with efficient entrepreneurial motivation to grow larger. At the same time, taking advantage of increasing demand and larger market niches has required strategic planning to guide SMME's expansion of their marketing efforts.

There is general agreement among development writers that South Africa's recent democratic transformation has introduced and facilitated many significant changes in the structure of our local economy. This, coupled with globalization and its subsequent impact, has introduced a new demand on the local authority, namely the need for the reorganisation and the establishment of new structures to meet the demand of the global world.

## **CHAPTER TWELVE: BUSINESS RETENTION AND EXPANSION INITIATIVES AS A LOCAL RESPONSE TO INDUSTRIAL DECLINE**

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### **12.1. INTRODUCTION**

The analysis of literature for this thesis suggest that actions to retain and promote the expansion of existing business form an important element of the employment creation strategies of several countries. Most notable was the USA where Business Retention and Expansion programmes were in place for over 20 years and where up to 80% of new jobs were created by the growth of existing firms.

As part of their programme to promote investment and business growth, small towns in KwaZulu-Natal adopted this strategy as a way of dealing with economic decline in the province. Pinetown is one particular case in point, where such a strategy was used extensively. This chapter of the thesis will describe how this was done.

It has to be stated, in this thesis, that since each local economy examined had its own unique needs, advantages and opportunities, it was not possible to prescribe or define a simple package or standard formula that could be recommended to policy makers to retain and expand local businesses. Data obtained from those municipalities that piloted BRE programmes suggest that these programmes were implemented with the following aims:

- To identify a range of possible resources to support business.
- To discover the needs and concerns of business through surveys and/or interviews.
- To develop a plan to address these problems and provide links between them to the resources necessary to implement them.

There were two main approaches to BRE i.e. 'expert driven' and 'locally driven'. The essential difference between the approaches lied in who was involved in the surveys and planning and whether the concerns of business are addressed in isolation or in the context of a local economy.

Based on the analysis of Pinetown case, this thesis concluded that the 'expert driven' approach relies on consultants or full time employees of government economic development agencies to conduct the surveys and develop the action plans. It often deals with businesses individually rather than with the business community in a particular town or place. In contrast the 'locally driven' approach involves local stakeholders in the process even to the extent of using local volunteers to conduct the confidential surveys. Although it relies far less on expensive professionals, it does require a trained BRE facilitator to build and support local capacity.

Both approaches work well, but 'locally driven' is more result oriented and was recommended for South African circumstances. Years of international experience in dealing with BRE in this way have been documented by Business Retention and Expansion International<sup>35</sup> (BREI), a non-profit professional association that offers BRE training and accreditation.

## **12.2. BRE AS A STRATEGIC APPROACH TO LOCAL ECONOMIC DEVELOPMENT**

Business Retention and Expansion (BRE), Local Industry Assistance (LIA), Local Industry Development (LID), Local Business Development (LBD), Business Growth or Existing Business Development are some of the terms used to describe structured programmes of action to support the growth of local business. Business Retention and Expansion is probably the most commonly used term and is in widespread use in the USA, Canada, Australia and some parts of Europe.

George Morse (1995:23), regarded by many as an expert on BRE, defines it as follows:

The goal of BRE programs is to stimulate local economic development by helping existing business increase their sales and employment, through a combination of programs that not only increase these firms' competitiveness but also improve the community's quality of life.

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<sup>35</sup> BREI is a non-profit association of BRE practitioners formed to share knowledge through research, publications, and meetings and by training and accrediting practitioners. It has members in most US states and chapters in more than half of them as well as in Canada and Australia.

While government, Business Chambers and a variety of other agencies all aim to support existing business, the concept of a structured, proactive programme for this purpose is not well known in South Africa. Instead, economic and employment creation initiatives have traditionally focussed on investment attraction and small business start up. Programmes to ameliorate the effects of major closures or large scale retrenchments, such as the Social Plan Fund, have done relatively little to prevent them in the first place, or to build on the potential of existing business of all sizes to create new jobs.

In contrast, the value of BRE programmes has long been recognised in the USA and in the last decade or so it has become a valuable component of local economic development strategies in Canada, Australia and New Zealand and on a smaller scale in Norway, Poland, Romania and Morocco. These are not just attempts to re-create old economies but the aim is to help companies and communities to adapt to present realities and usually includes actions to improve the competitiveness of existing local firms.

### **12.3. THE SIGNIFICANCE OF BUSINESS RETENTION AND EXPANSION IN SMALL TOWNS**

This thesis found that BRE was one of the most productive and cost-effective strategies for economic development for the following reasons:

- Over a sustained period the majority - typically 65% - of new jobs created in the Pinetown area were through the growth of existing business.<sup>36</sup>
- The ability of an area to attract new investment is enhanced through the positive attitudes of local business leaders. Evidence of local support for business also plays a part since decision makers are aware that today's new investor soon becomes tomorrow's existing local business.
- Assisting local business to survive and expand usually costs less than attracting new firms from outside or starting new enterprises from scratch. Existing local business does not have to be enticed to the area with expensive marketing efforts and incentives; it is already

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<sup>36</sup> The majority of the companies interviewed during the early warning survey reported new employment opportunities through business growth.

there. Moreover the failure rate of new business start-ups is far higher than for established enterprises. Marketing and incentives for expansion may indeed form part of a BRE programme, but the cost per job created is usually far lower.

As is discussed elsewhere in this thesis, the argument is not that either creating new local businesses or attracting external investment is unimportant. Both strategies should be pursued with vigour. However, BRE has the potential to save existing jobs and to create new ones that might not otherwise be created at all. As such, it deserves a more prominent place in South African economic development strategies.

#### **12.4. THE MODUS OPERANDI OF BRE**

An analysis of the thesis data, drawing mainly from the case studies, provides evidence of both 'expert driven' as well as 'locally driven' approaches to business retention and expansion being used in the study areas.

##### *EXPERT DRIVEN BRE*

BRE programmes in KwaDukuza, Howick, and Mooi River and in the Coal Rim were variations of the expert driven approach. Typically specialists or consultants, employed by local government, conducted local economic regeneration studies as well as systematic surveys of businesses area by area. In most cases this was done by visiting the business and interviewing the owner or manager. Postal surveys were also employed.

The information collected was used to:

- refer individual business to appropriate sources of assistance;
- monitor trends and highlight the need for urgent interventions;
- refine and adapt existing support services and incentives.

For example, according to the Umngeni Local Municipality Municipal Manager (Interview, 1999) the aim was to call on each business once a year and record the results of its 'annual sales visits' on a state-wide database. This was used to monitor the outcome of referrals and to tailor the services provided by local economic development (LED) professionals to the

specific needs of a particular area. The programme was meant to run on a continuous basis but more often it was conducted area by area over a period of time.

### *LOCALLY DRIVEN BRE*

This approach has hardly been used in the South African context. Data at the disposal of this thesis suggest that, given the conditions in small towns, which are the result of the legacy of separate development and apartheid coupled to the incomplete transformation process, it is unlikely that such an approach would suit these small towns. Since in the locally driven BRE approach, management and implementation are centred in the community in which it takes place, such an approach is problematic in divided communities.

However, this approach proved to be successful in Pinetown where the services of a BRE facilitator and a small task team of credible local public and private sector leaders designed, prepared and promoted the programme. They appointed a local co-ordinator who, after training, managed the details of a confidential survey of local businesses.

Local volunteers were trained by the co-ordinator to interview business owners or managers to pinpoint business needs, concerns and development opportunities using a pre-tested survey form. Survey results were reviewed to identify issues that required immediate response. In cases such as these, the results are analysed in detail by the economic development agency, BRE consultant or, particularly in the case of Howick, by an academic institution (University of Natal, Pietermaritzburg).

The Pinetown local task team used the analysis to:

- Develop a community-based strategic action plan to improve the local economy
- Present the findings and recommendations at a public meeting
- Establish local implementation teams to put the strategy into action
- Develop a programme of ongoing support, information and referrals for local business.

The programme was supported throughout by the BRE facilitator and other local economic development professionals.

## 12.5. COMPARISON OF THE TWO BRE APPROACHES

Although many programmes combined features of both broad approaches, the key distinctions between them were:

- whether the surveys were managed locally or by a state/provincial economic development agency
- whether the surveys were conducted by local people or by outside professionals
- whether the plan of action based on the results was developed locally or externally
- whether primary responsibility for initiating this was in local hands or lay with an external agency.

Based on the above distinctions, the following table provides a comparison between the two approaches highlighting the advantages and disadvantages of each

**Table 12.1: Comparative Analysis of BRE Approaches**

<b>Expert driven</b>		<b>Locally Driven</b>	
<i>Features</i>	<i>Advantages/Disadvantages</i>	<i>Features</i>	<i>Advantages/Disadvantages</i>
Managed externally	Controlled by trained full time professionals Independent of local politics and personalities Limited understanding of local priorities and circumstances	Managed locally	Managed by part time leaders supported by trained professional Slower process May be influenced by local politics and personalities Familiar with local circumstances
Professionals conduct survey	Consistent quality of results Higher cost Greater risk of misinterpretation Low risk of breach of confidentiality Will take longer or involve fewer businesses Builds relationship between business and economic development agency	Local people trained to conduct survey	Possible variation in quality Low cost Some risk of misinterpretation Higher risk of breach of confidentiality Capable of reaching more businesses in short time Builds relationship between local business and community
Action plan developed by agency	Fully professional plan Could be driven by agency priorities and existing solutions Risk of 'boilerplate' solutions No local buy in Risk of dependency	Action plan developed locally	Developed in conjunction with professional but may still be influenced by local personalities and politics Develops local ownership and buy in Broader range of possibilities likely Better fit with local priorities Encourages local initiative
External responsibility for initiating action	Part of full time job Lower incentive to follow through Good understanding of resources and opportunities Can influence policy and support programmes Require high quality follow up system Generally limited to referrals	Local responsibility for initiating action	In own interests to act Undertaken by part-timers, which restricts capacity to act Access to resources and opportunities more difficult Requires follow up support Very limited influence on policy and support programmes

## 12.6. THE IMPACT OF BRE PROGRAMMES IN DECLINING LOCALITIES

The range of possible outcomes of BRE programmes is considerable. It is by no means limited to the provision of cost reduction measures such as financial incentives, particularly in the case of the locally driven approach. In small towns, the emphasis is more on saving existing jobs and creating new ones. In the more prosperous urban centres, such as Pinetown, productivity and profitability assume greater importance.

All BRE programmes are essentially aimed at helping companies overcome problems by linking them to sources of help and creating an environment which enables them to prosper and grow. A range of strategies can be used to achieve this. The strategies outlined below proved to be popular as part of the BRE interventions. Many of the strategies outlined below were detailed by JobsBrain, a BRE resource for the State of Texas. The examples used to illustrate them come from a much wider range of sources.

This list of possibilities is by no means exhaustive as each community and each business has its own unique set of needs and concerns at a given point in time. Nor will they remain constant. A company that needs access to markets today may become one that faces difficulties in expanding tomorrow. There is much more to a provincial BRE strategy than a simple package of incentives and support measures. What is required is a responsive and efficient means of accessing a wide range of support measures and of initiating collective action to overcome problems which are best tackled locally.

### *Incentives*

Following the closure of Mooi River Textiles, the local municipality in the area became instrumental in facilitating access to existing national, provincial or local incentives or, in some cases, designing new ones tailored to address specific local needs. These incentives are aimed at attracting all potential investors who want to locate in the area.

### *Government Contract and Export Assistance*

Smaller firms worldwide have difficulty accessing markets and would often benefit from a proactive approach. This strategy helps them to secure contracts with government or large firms and to access markets in other regions or countries. This approach was attempted in Howick, as it came as a recommendation from the business survey that was conducted by the University of Natal.

### *Promotion of Local Purchasing*

Opportunities for local sales can easily be lost as buyers are often unaware of what could be purchased locally. Local producers are equally unaware of their needs. In Pinetown, this was addressed through newsletters and media reports featuring local producers as well as by local business directories produced by the Chamber of Business. Products were showcased at presentations to company buyers, through trade fairs or even permanent exhibitions.

### *Local Websites*

Though this is an important technological support to local business, none of the studied BRE interventions have created local websites. The business chambers have tried to address business needs by linking their websites to those of their members. Local websites are aimed at external customers. They also have the potential to serve as a business directory, to host online discussions, facilitate email enquiries and diarise or promote events. In some parts of the world firms can even list themselves on a state-wide directory such as the Texas Marketplace website.

### *Education and Training*

Government, through the Department of Labour and the National Social Plan programme, have attempted to offer a wide array of free or subsidised education and training designed to encourage the creation of new jobs, protect existing jobs by introducing new skills, facilitate the employment of disadvantaged work-seekers and encourage investment in new technology or products. The National Social Plan facilitates links between business and education and training institutions in KZN in order to improve the availability of particular courses or to align training and education more closely to local needs.

### *Information on Business Assistance*

An easily accessible database of the wide range of public and private sector resources available to assist business was an essential part of the BRE programme in Pinetown and has been kept up to date on an ongoing basis.

### *Site Development*

Expansion opportunities and sometimes-entire plants were lost through lack of available sites. In some cases BRE programmes have become active in site development. Often it is sufficient to merely maintain a database of potential sites. For instance, the Smith Manufacturing expansion in Pinetown would not have been possible, if the former Inner West Municipality was unable to assist in this regard. After the adjacent site had been identified, the municipality made sure that this was ready for further development.

### *Regulations and Permits*

Difficulties with the regulatory environment are by no means unique to the case studies. The interview with the managing director of Smith Manufacturing in Pinetown suggests that the company nearly abandoned plans to expand and were contemplating relocating because of cumbersome procedures and difficulty in the interpretation of regulations and by-laws. Through the BRE programme, the local municipality was able to change local town planning policies or regulations by streamlining procedures and providing resources to make compliance simpler, quicker and less time consuming. Thus, the company was able to apply for all the necessary local government permits, and also make sure that necessary information reached all the relevant agencies.

### *Business Environment*

In many communities there are issues and difficulties which affect business in general. Examples include infrastructure, reliability of power supplies or telecommunications, or the regulatory environment. For instance, of the 60 interviews conducted with local businesses located in the Pinetown area, about 80% of all those that were planning business expansions complained about the process of Environmental Impact Assessment which companies need to conduct before any expansions can be undertaken. A BRE programme allows business to articulate these concerns clearly and put them firmly on the local agenda.

### *Improving Industrial Relations*

It is certainly not in the interest of trade unions to see expansions deferred, plants shut down or workers replaced by machines, yet many business decisions are strongly influenced by what is seen as union hostility. Very often this is the result of poor industrial relations practice resulting from a lack of skill on the part of management and/or employee representatives. BRE programmes often have a component to improve the IR climate in a community, sector or individual business.

### *Quality of Life*

The influence that quality of life considerations have on investment decisions is well known. They are equally applicable to expansion or disinvestment decisions. What appears to be growth or new industry in one community may be no more than migration from another - a situation all too familiar in KZN. Collective action to improve the quality of life and to headhunt specific services or facilities plays an important part in a local BRE strategy.

## **12.7 CRITICAL SUCCESS FACTORS FOR BRE**

As can be seen from the above, the key ingredients for a BRE strategy are as follows:

- a wide range of possible resources and support measures;
- a mechanism for discovering the concerns and needs of existing business;
- a means of analysing data and developing action plans to respond to these concerns;
- effective procedures for linking appropriate resources to support these plans;
- a follow up system to ensure action is taken;
- a means of feeding back findings into the development of policy and refining or adapting existing support measures;
- measures to develop BRE competence and skills;
- an institutional home for the programme.

### **12.7.1. RESOURCES AND SUPPORT MEASURES**

A wide range of possible resources already exists in South Africa, many of which are under-utilised. They include the more obvious possibilities such as the DTI incentive schemes, international trade agreements, provincial and local government incentives or programmes and

the assistance offered by parastatals such as IDC, DBSA, CSIR, Ithala, Business Partners and Eskom amongst others. There are, in addition, various private sector initiatives such as the Tourism Enterprise Fund, the Private Sector Initiative, various business linkage or business development centres as well as a host of useful projects initiated by individual companies. The donor community from the World Bank and its subsidiary organisations to the European Union and individual countries offer a range of schemes and assistance. NGO's can be a valuable resource, especially to smaller enterprises, and fair trade organisations, for example, offer favourable access to international markets.

There is therefore little need to develop new measures until a great deal more is known about what business actually needs to survive and grow. The difficulty faced by most businesses and community initiatives is to find appropriate resources and having done so to comply with the necessary procedures before waiting or following up until a conclusion is reached.

#### **12.7.2. DISCOVERING BUSINESS NEEDS AND CONCERNS**

Of the two main possibilities for surveying business needs and concerns, the expert driven approach is not feasible in KZN both for reasons of cost and the number of skilled professionals it would require. This leaves the locally driven option and in this respect Peter Kenyon<sup>37</sup>, who has worked with both approaches in Australia, says that while both of them can succeed, in his experience the locally driven approach is far more likely to result in positive action. A locally driven approach is also consistent with the government policy of managing development as far as possible at local level and with the role of local government in local economic development.

For a number of reasons, using volunteers to conduct the surveys might be expected to be more difficult in South Africa than elsewhere. This was certainly a concern before the start of the Pietermaritzburg BRE programme in 1999. However their experience that it was a great deal easier than expected encourages the belief that it could be replicated in other centres. On the other hand prudence suggests that a degree of flexibility in the use of volunteers may be necessary, especially in communities with limited experience of business. Note should also be taken of the recommendations from the award winning Newfoundland and Labrador BRE programme which stresses the importance of ensuring that volunteers are thoroughly trained.

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<sup>37</sup> Interview (July, 2001)

### **12.7.3. DATA ANALYSIS AND ACTION PLANS**

The analysis of data has traditionally been the responsibility of economic development agencies or academic institutions but in recent years the process has been greatly simplified by the development of software for this purpose. Capturing and processing the data is done locally but turning it into workable action plans is another matter. Here, the BRE facilitator plays an indispensable role and has to draft initial proposals which have to be ‘work-shopped’ intensively with the local task team before being submitted to a wider stakeholder group.

### **12.7.4. LINKING RESOURCES TO PLANS**

Clearly the BRE facilitator had some part to play in linking plans to resources in the initial stages but there is also a need for ongoing support as BRE becomes an integral part of local economic development strategies in the study areas, especially in KwaDukuza. There is therefore a need for a central point to which reference can be made at any time for information and proactive assistance to access the most appropriate resources to overcome a particular problem. The person providing this service requires a degree of expertise which includes the ability to establish contacts in different resource agencies in order to obtain supplementary information and expedite applications.

### **12.7.5. FOLLOW UPS**

A critical weakness of many local development initiatives is the inability to turn plans into action. An important part of the problem is the difficulty in accessing resources and the time it takes to do so. The result of these delays is that enthusiasm dwindles and other priorities intervene. It is therefore not sufficient for the provincial clearing house to merely act as a referral agency with little interest in the outcome. If it is to be effective it needs to build in follow-up mechanisms, which ensure that action is taken if referrals are unsuccessful or a response is unduly delayed.

### **12.7.6. DEVELOPMENT OF POLICY AND SUPPORT MEASURES**

The results of the BRE surveys, discussed in the next chapter, the local action plans and the clearing house all provide valuable information about the needs and concerns of KZN business

and the extent to which they are being addressed. Trends are monitored and the impact of changes assessed. This enhances the credibility of recommendations for policy changes and for modifying existing support measures or introducing new ones.

## **12.8. LESSONS FROM THE CASE STUDIES**

Since each local economy has its own unique needs, advantages and opportunities, there is no simple formula or package that can be applied to stimulate the retention and growth of existing local business. What is therefore required is a dynamic six element strategic framework which can be applied throughout the province to:

- identify and pre-package a range of possible resources from different agencies,
- create local awareness and capacity,
- facilitate and support local business visitation programmes and action planning,
- link actions to appropriate resources for implementation,
- monitor and analyse trends,
- develop, recommend and influence policy.

## **12.9. PRE-PACKAGED RESOURCES**

This involves researching and maintaining information on a wide range of potential sources of specialist advice, technical assistance, training, incentives and grants. It is necessary to develop personal contacts, familiarity with application procedures and a good understanding of the applicability and limitations of each resource. These can then be pre-packaged in order to be able to respond quickly when the need for them arises. It also includes the development and maintenance of BRE materials such as manuals, guidelines, brochures, standard surveys and software.

## **12.10. LOCAL BRE CAPACITY BUILDING IN KWADUKUZA AND PINETOWN**

By being aware of trends in the province and by anticipating the impact of national and international economic developments, local interventions in need of assistance or facing potential difficulty were identified. A process of awareness-raising was followed by an assessment of readiness and capacity. Thereafter, local stakeholders were prepared and

trained to conduct a locally driven BRE Visitation Programme. It also became necessary to maintain a small pool of trained BRE facilitators who were to be called on to support BRE Programmes in different parts of the localities.

## **CHAPTER THIRTEEN: THE EARLY WARNING SYSTEMS AS A PROACTIVE RESPONSE TO ECONOMIC DECLINE: LESSONS FROM THE PINETOWN SURVEY**

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### **13.1. INTRODUCTION AND BACKGROUND**

The development of early warning systems and other rapid response measures are an important strategy for retaining existing business activity in any locality. The two main objectives of an EW system are:

- Identification
- Response

To meet the first objective, the early warning system helps identify problems facing businesses that are relocating, commonly known as pullouts. The strategy is the best mechanism to stop capital flight and industrial migration, both of which are phenomena facing the Durban Metropolitan Municipality<sup>38</sup>. Through this strategy, local companies are able to galvanize support from government, which is facing increasing pressure to create job opportunities and improve the quality of life of its citizens.

To develop an early warning system is to formalise and strengthen the communication about potential economic catastrophes, which are hazardous to the existence of local government structures. Local government is in a position to learn, in time, about possible changes in local business activities and to develop strategies to minimise the impact.

The formation of the Durban Growth Coalition in 2001, as a partnership between government and the private sector, has been strengthened, as local economic development structures are able to be informed fast about the early rumours of a local company leaving. This is not a form of unethical business information gathering. It is an effort to keep vulnerable companies from falling through the cracks. Through the programme, local government and others are able to assist local companies in time to avert the loss of employment. Many companies have only a short window of opportunity for moving operations or expanding. After the community has

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<sup>38</sup> Economic decline in the Durban Metro area was identified as one of the key challenges facing local government.

pre-planned the expedited communication and coordination that is necessary to keep the company operating or expanding in the same community, it is possible to prevent the loss of existing or potential jobs. EW systems therefore augment a local government's planning by opening another line of communication with local industry and creating another route for resolving urgent needs that develop.

In conclusion, the programme is able to:

- Provide assistance to companies in need of resources or skills or exert pressure through union or government action;
- Identify opportunities for increasing a corporations' performance and stability and
- Improve productivity through cooperation with local government

### **13.2. THE ROLE OF LABOUR IN THE DEVELOPMENT OF EARLY WARNING SYSTEMS**

This model is a starting point for a whole new approach to building the local economy that combines social values and priorities with business sophistication. It helps shatter the illusion that labour and community must remain powerless in the face of the inevitable shifts in the global economy; that labour and community must only be in a position to react to traditional management initiatives in the local economy, and that there is no alternative in the face of the continuing increase in poverty whether in the rural or metropolitan areas.

Though data analysis is not complete as yet, evidence at our disposal suggests that there are several specific benefits of initiating Early Warning Business Development Systems in the Inner West:

- It creates an opportunity for an effective entry point of popular labour and community organisations into economic development and the manufacturing economy. To retain a manufacturing company has a significant positive ripple effect on the rest of the local economy. Experience in retaining companies is an excellent training ground for learning how to start-up a company.
- It creates an opportunity for genuine and effective partnerships between labour, local business, government, and the broader community and serves as a practical reflection of a stakeholder vision of the economy. Labour organisations are in the best position to initiate,

lead, and benefit from this approach because they are at the place where work is done. In leading this work, labour unions can demonstrate their commitment and capacity to act in the interests of the whole society, not just for the benefit of their members.

- It creates a practical opportunity for labour and community-based organisations to go beyond a sole focus on redistribution of wealth and take responsibility for protecting and building the country's productive capacity and leading in the creation of wealth. Taking full responsibility for the creation of wealth lies at the heart of transforming a society from the old to the new. In an era when larger segments of the traditional business community are turning to business strategies that are destroying local economies, labour cannot only be reactive or oppositional.

### **13.3. METHODOLOGY OF EARLY WARNING SYSTEMS DEVELOPMENT**

The discussion below outlines the methodology used when the early warning system was implemented in Pinetown.

A Task Team comprising the Durban Chamber, the provincial Department of Economic Development and Tourism, as well as the national Department of Local and Provincial Government was formed. Local leaders with the capacity to think strategically, work in partnership and commit themselves to about 6-8 meetings over a 3-4 month period were selected to serve on this Task Team.

A local co-ordinator was selected and trained. The co-ordinator was able to recruit and train a sufficient number of local volunteers to conduct a confidential survey of local business using a standard survey form. Working in pairs, the volunteers visited between 2-6 firms and were reimbursed for defined out-of-pocket expenses such as travel and parking. The co-ordinator was responsible for data capture and identifying any instances where immediate actions were needed.

The results of all BRE surveys and the final report is presented in this thesis in order to show some of the issues pertaining to business concerns, as was picked up during the quantitative survey. The results of the analysis proved to be a valuable source of input, not only for

provincial economic policy makers but also for national, provincial and local support agencies.

#### **13.4. KEY FINDINGS FROM PINETOWN**

##### **13.4.1. SUSTAINABLE ECONOMIC GROWTH INDICATORS**

One of the critical conclusions from the survey is that Pinetown has the characteristic of a 'growing economy'. Sustainable economic growth indicators that the study shows are:

- A strong SMME sector
- Strong export orientation of the local economy
- Strong ITC infrastructure

During the past decade, the area has managed to retain its businesses, despite the opening up of global markets, which brought new global opportunities for businesses located in the area. However, one of the worrying factors is that Pinetown's economic growth has hardly yielded any new job opportunities. The area is suffering from 'jobless growth'.

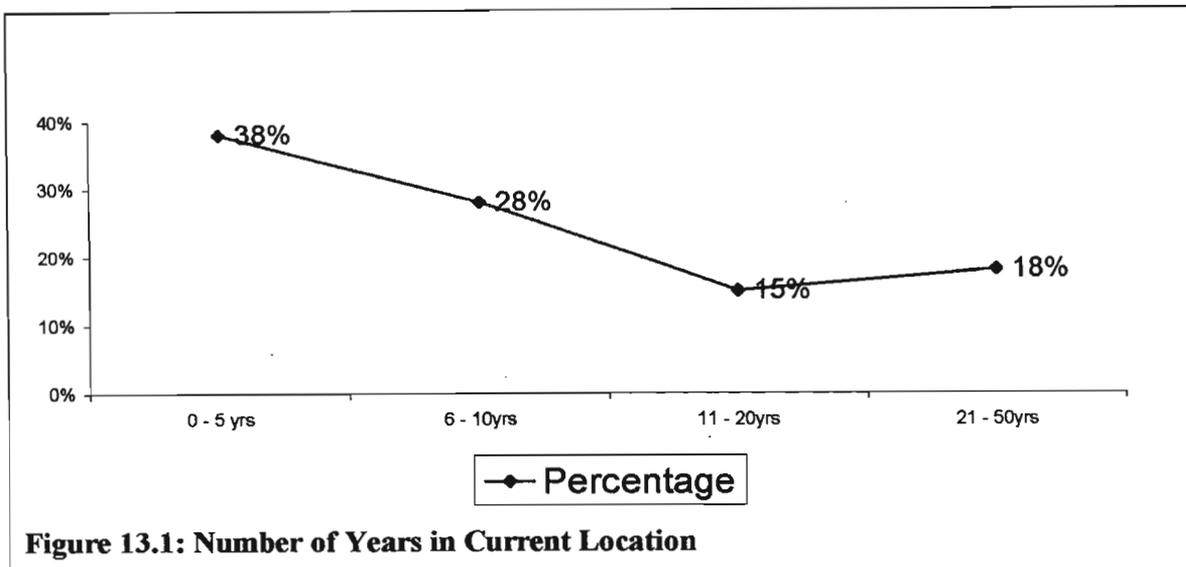
However, the area has managed to attract new medium sized investment, estimated at 39%, from businesses who have largely been in the area for a period of 1 to 5 years and 28% of whom were in the area for 10 years.

The area is therefore characterised by:

- A strong SME sector
- A growing IT sector
- A well managed economic infrastructure

##### **13.4.2. SECURITY OF TENURE IN THE LOCAL ECONOMY**

The length of time spent by economic players in a spatially defined economic zone is the best determinant of the performance of the local economy. As can be seen from the graph below, the majority of companies and business enterprises located in the Pinetown area are relatively new: 39% falls in the category between 0 – 5 years.



It is therefore appropriate to conclude that the area has a growing economy and is thus vulnerable to a wide range of economic pressures. It is therefore important for role-players in such local economic system to proactively develop a set of interventions aimed at dealing with economic vulnerability, with visible signs of global fragility.

### 13.4.3. DISCOVERING BUSINESS CONCERNS ABOUT THE AREA

Unlike Mooi River and other localities within the coal rim area of Dundee, Pinetown had no signs of large-scale relocations, as the area managed to pick up major business threats and any anti-competitive behaviour, which may have lead to relocations if they were to be ignored by government. These concerns were categorised as follows:

- Economic vulnerability
- Economic fragility
- Perceptions of crime
- Lack of local government support to the local economy
- Lack of cooperation among economic role players.

#### 13.4.4. BUSINESS STATUS OF FIRMS LOCATED IN THE AREA

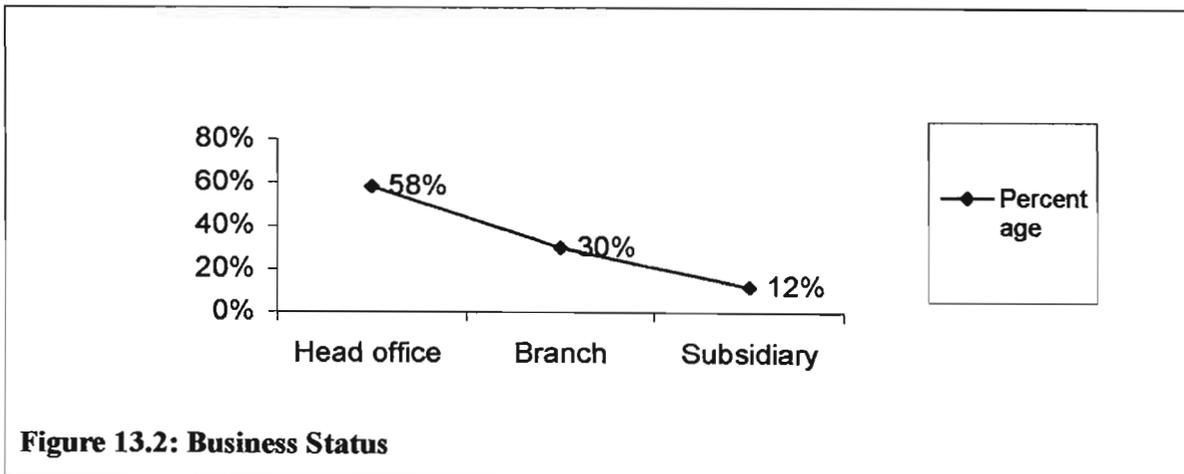
Recent reports undertaken in KZN indicate that Durban will need to work very hard to attract business head offices to relocate to the city; particularly those, which are involved in, export trade. One of the positive outcomes of the study was to learn that the area is increasingly becoming a preferred destination for company 'head offices'.

A number of reasons were cited for the emergence of such a trend, which were categorised as follows:

- Closer proximity to the port of Durban
- Closure proximity to the national route, the N3 highway
- Efficient transportation infrastructure
- Excellent IT infrastructure
- Responsive and dynamic logistics industry

The 58% of companies surveyed (whose head offices are in Pinetown) are comprised of:

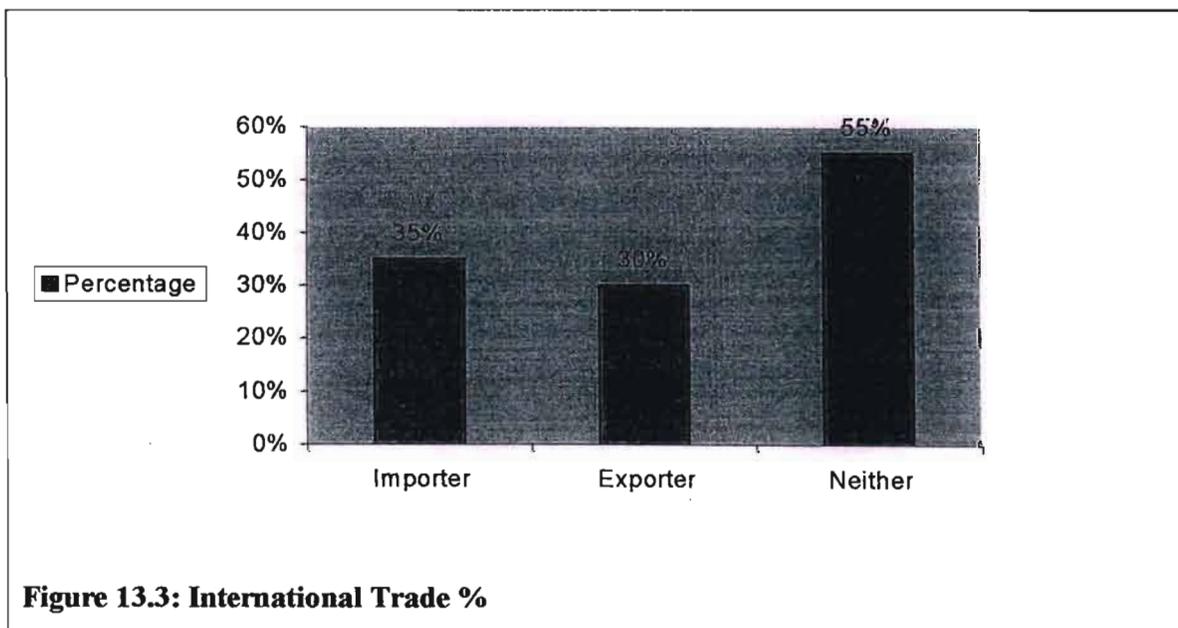
- Freight clearing and forwarding companies,
- Storage and warehousing companies,
- Distribution and logistics firms (mainly in the Westmead area),
- A number of business service providers.



A strategy to improve business status is based on three elements. The first element revolves around the development of an industrial base that links into macro-level initiatives presently being developed by the provincial and national government. The second element concerns the need to develop small businesses, particularly those that could meet local consumer needs. Thirdly is the need to develop a policy with regard to export promotion of resources that can draw upon the conventional regional export trade as well as markets for the exporters located in the study area

#### 13.4.5. PINETOWN AS A HUB FOR EXPORT RELATED BUSINESSES

Data analysed during the study also suggests that Pinetown is becoming more and more ‘an ideal location’ for companies who are active in international trade. The 30% of manufacturing businesses, who were surveyed, export their products to the EU region and to North America.



The picture shown in the graph above is likely to change in the next ten years if the proposed relocation of the Durban International Airport to Durban North (La Mercy) and the establishment of the ‘free trade IDZ’ adjacent to La Mercy, as the area will benefit directly, as it is likely to attract more warehousing companies, or expand the existing ones, whose goods may only go to La Mercy for freight handling.

However, though the relocation of the Durban International Airport to La Mercy will have beneficial spin-offs to current export/import trading companies in the area, the design, development and implementation of a comprehensive business retention and expansion programme in industrial Pinetown will ensure that the designation of the IDZ in La Mercy will have positive spin-offs for Pinetown, as opportunities will be created through the expansion of production levels and bigger storage capacities in the IDZ, thus creating impetus for investment opportunities in the area.

More and more companies might relocate to the North Central area, thereby impacting negatively on the local economy. The first group of such companies who might relocate are those who are located in closer proximity to human settlement areas, such as Emshinini and Marianhill, who were experiencing problems related to land claims by displaced communities during the time of the study.

#### **13.4.6. PRODUCTIVITY AND COMPETITIVENESS OF LOCAL FIRMS**

Improved productivity is the best indicator of the area's stability and growth. 40% of the companies surveyed reported high productivity levels and a high quality of their products. These were probably the only reasons they have remained competitive, despite increased competition, due to opening up of global markets.

Globalization has introduced flexibility, with regard to technological systems. This has enabled many companies to select target markets around the world, in an endlessly variable geometry of value searching. Short-term profit making is no longer the correct indicator of value. In this survey, the following factors were identified, as being the main reasons for surviving global competition and unfriendly market conditions:

**Table 13.1: Competitiveness Indicators**

Quality of product and service	40%
Pricing	8%
Market share / leader	8%
Product design	8%

Business attraction efforts are less likely to be successful if the existing business owners are unhappy. The survey found the following as being major business concerns and the reasons for wanting to relocate:

**Table 13.2: Business Concerns and Reasons for Wanting to Relocate**

Access to finance and bad investment environment	45%
Land and building (space)	17%
Demand / Market decline	23%
Competition	5%
Labour regulations	7%
Crime	7%
High Exchange Rates	8%
None	20%

The design of BRE strategies and the institutionalisation of BRE will assist the Metro’s efforts to attract new investments in the following ways:

- By solving immediate short-term problems faced by the existing investors who are considering relocations
- By demonstrating community support for local businesses
- By increasing competitiveness of local businesses

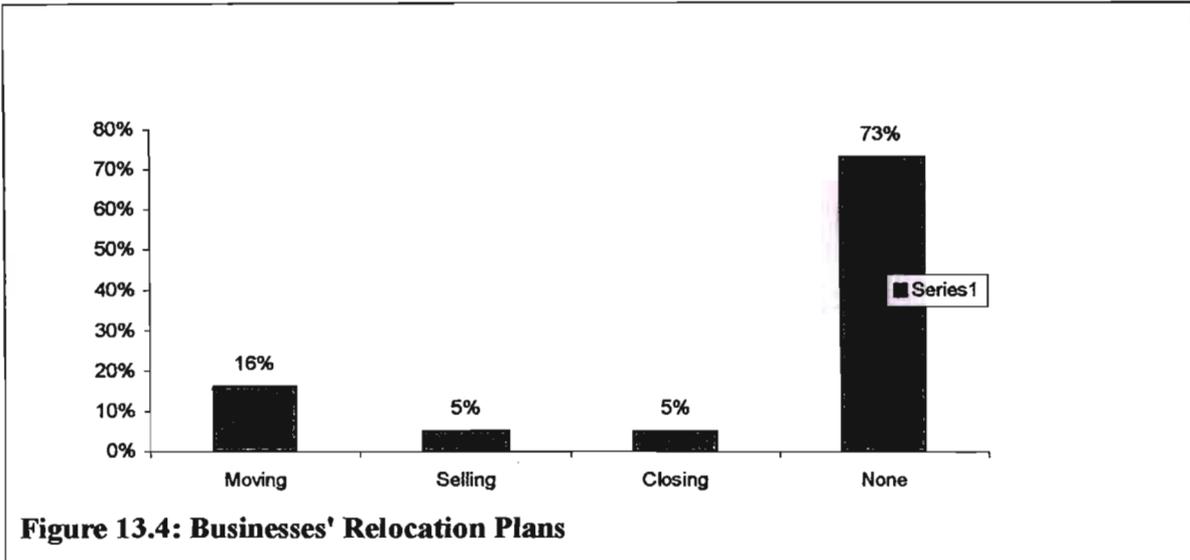
To measure such perceptions, respondents were asked to identify the advantages of being located in the area. Responses analysed suggest the following picture:

**Table 13.3: Locational Advantages and Disadvantages**

Location (harbour, DBN infrastructure etc)	52%	Rent, water and electricity	10%
Access to suppliers and customers	23%	High crime rate (theft, highjacking etc.)	45%
Transportation route/ N3 factor	38%	Heavy rates and taxes	10%
Availability of labour	13%	Skilled labour not available	2%
Industry and market	7%	Small local economy and market	5%
Affordable Rent	5%	Poor Services (garbage collection, parking)	12%

### 13.4.7. ENVISAGED RELOCATION PLANS

The thesis found that there were no major industrial migration threats to Pinetown. This was indicated by the 74% response of the surveyed companies having no plans to move their operations to alternative localities. However, the only worrying factor was the 10% potential closures, all of which were attributed to global economic pressures.



**Figure 13.4: Businesses' Relocation Plans**

Unlike other depressed inland areas such as Dundee, positive economic growth through business expansions was widespread. The analysis of the survey responses suggests that the majority of businesses in Pinetown had plans to expand their business in the immediate future. However, such plans were not yet ready for implementation, and thus required some stimulus from government.

Government has developed a local economic development plan aimed at stimulating business growth through the BRE programme. The implementation of a coordinated BRE strategy is seen as a strategy for business growth realisation.

### 13.4.8. AVAILABILITY OF RAW MATERIAL

The availability of raw material is one of the factors that attract FDI's. As can be seen from the graph below, 63% of the companies surveyed reported a level of confidence in the availability of raw material and the suppliers of the material. It is therefore logical to conclude

that the area has the potential to attract new businesses. The area therefore possesses a lot of business growth potential and therefore some form of interventions are required to attract more FDIs, on the basis that raw material suppliers are available in the area

**13.4.9. NATURE OF ASSISTANCE REQUESTED FROM LOCAL GOVERNMENT**

The following is the list of concerns that the respondents identified, which requires urgent attention on the part of local government:

**Table 13.4: Business Service Requirements**

Services (garbage removal, tel. parking etc.)	15%
Reduce rent, rates and crime	27%
SMME's incentives	15%
Training	12%
Market related information	18%
Financial assistance	13%

It is clear from the above discussion that the Early Warning Survey is a response to problems facing local business. In the case of Pinetown, the system was able to detect whether a local company was interested in leaving the area or in expanding.

A rapid response programme includes pre-planned procedures that are implemented to remedy whatever problems are causing a local company's interest in leaving or expanding. A rapid response programme implies procedures that are planned and prepared ahead of time so that they can be implemented immediately when they are needed.

Many companies have only a short window of opportunity for moving operations or expanding. If a community has pre-planned, the communication and coordination that is necessary to keep the company operating or expanding in the same community is ready to implement. The final goal of the system is to resolve issues causing a local company to consider leaving the area or selecting another city for expansion. Taking action is the key.

## **CHAPTER FOURTEEN: PLACE MARKETING AND INVESTMENT PROMOTION A RESPONSE THE PROBLEM OF INDUSTRIAL MIGRATION IN THE CONTENT OF SMALL TOWNS**

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### **14.1. INTRODUCTION**

The institutional reconfigurations triggered by the end of apartheid has led to most municipalities establishing economic development institutions, as part of their LED strategies to create jobs. This chapter does not to evaluate the effectiveness of such institutions since that is an area for further study. It describes the activities undertaken in promoting these areas.

This thesis moves from an assumption that industrial flows are broadly a function of the quality of the localities within the business environment, as well as the existence of genuine opportunities. This assumption is based on the premise that if governments work hard to build good investment climates, investors will automatically seek out the best investment opportunities.

Yet place-marketing proponents, such as Philip Harrison<sup>39</sup>, argue that this is often not enough. They emphasise the market failure due to lack of information or perceptions of the investment climate in a particular country and advocate that place marketing efforts can actually play a minimal role in influencing industrial development.

Before discussing the concept in detail, it is worth mentioning that, over the past twenty years, place marketing has begun to play an increasingly important role in the economic development of a large number of localities. It is widely recognised that it can offer important advantages for the recipient economy. In addition, it can lead to transfers of technology and know-how, improve the access to international markets and spur competition.

However, industry inflows cannot be taken for granted. As localities continue to liberalise, industries are attracted to locations that offer the most appropriate conditions. Moreover, with an expected downturn in global flows in the coming years from a record level of \$1.3 billion

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<sup>39</sup> Interview with Professor Philip Harrison, July 2002, Wits University.

in 2000 (Business Map. 2002, FDI Review), the competition among various locations for industries is likely to intensify further.

Municipalities are likely to step up their efforts to attract industry in the coming years. For example, further efforts will be made to liberalise industry entry into localities by opening new sectors to industry and by having more proactive place marketing measures.

This thesis examined the organisational structures and operational institutions that deal with industrial marketing, commonly known as Local Economic Development Initiatives (LEDI's). LEDI's come in many forms and sizes. The thesis attempted to find a common denominator and will look at the different practices of LEDI's in place marketing.

#### 14.2. ORGANISATIONAL STRUCTURES OF LEDI'S

As part of the policies implemented to attract increased flows of industries, municipalities have established new institutions and rehabilitated old ones. Some have enacted laws setting up new agencies, while others have graduated offices or re-oriented regulatory branches within local councils into more marketing oriented and independent agencies.

**Table 14.1: Examples of LEDI's established**

<b>LEDI</b>	<b>Area / locality and the nature of LEDI</b>
The Midlands Investment Initiative	Operating in the areas of Mooi River, Howick and Estcourt, this is a partnership between municipalities, organised business and civil society established to deal with economic decline and attract industries to these areas
The Durban Investment Promotion Agency (focusing on investment facilitation and marketing)	Established by the Ethekewini Municipality, to attract and retain businesses in the area
Ixopo Local Economic Development Forum	Established by the Ixopo Municipality to attract businesses to the area
KwaDukuza Local Economic Development Forum	Established by the KwaDukuza – Stanger Municipality to attract businesses to the area
The Coal Rim Cluster Economic Development Forum	Established by the municipalities of Dundee, Glencoe and Hattingspruit, aimed at identifying alternative economic development activities and to deal with the collapse of the coal mining sector

### 14.3. INSTITUTIONALISATION OF LED STRUCTURES

Place marketing is a relatively new concept, which grew rapidly in the 1980's and 1990's, in conjunction with the opening up of the world economy and the remarkable growth of industrial marketing worldwide. A considerable number of LEDI's are still relatively young, especially in small town economies.

Important factors behind the increased number of LEDI's, especially in the 1990's, were the opening up of new markets for South African products and the lifting of international sanctions. There has also been a continuous increase of LEDI's in municipalities, especially at the sub-national level.

The founding in 1995 of WAIPA<sup>40</sup> reflects the growing importance of place marketing as a global phenomena and the significance that many governments assign to improving their LEDI's through the exchange of best practices. This is especially the case for localities and economies in transition, which make up more than 80% of the WAIPA membership.

In most localities, such as in Dundee and KwaDukuza, place marketing is considered a necessity and therefore is part of government strategy. However, because of the special nature of place marketing, many LEDI's have pleaded for more independence from their home municipalities. An independent status has given agencies the chance to create corporate office cultures and to attract staff from the private sector by offering competitive salaries.

In the South African context, LEDI's usually fall under and are included in the responsibilities of the municipal economic development departments. These municipalities allocate the agencies' budgets. Heads of LEDI's report to the respective municipalities and budgetary changes are at the municipality's sole discretion. Most LEDI's are financed through public funds.

There are however, agencies that have managed to supplement their incomes from the proceeds of services and from contributions by other parties. International aid is another big source of income for LEDI's. For a selected group of agencies in economies in transition and

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<sup>40</sup> World Association of Investment Promotion Agencies, Geneva, Switzerland.

developing countries, such assistance has been of great importance, especially in the first years after establishment.

#### **14.4 SUB-NATIONAL AND OVERSEAS OFFICES AND THEIR CORE FUNCTIONS**

In promoting specific locations to foreign investors, it is important to have a solid knowledge of proposed sites in a particular location and the key factors that may influence investment decisions. In South Africa, this has often led to the development of networks of sub-national LEDI's, which promote regions, provinces or states within a country. This is because South Africa is a country with a centralised government system and is increasingly involving local governments in the promotion of its respective regions. This is often a direct result of new policies on decentralisation and regional development.

The marketing activities of foreign offices include activities such as image building, which is usually of a general nature and not focussed on a special audience or activities, nor targeted at specific countries, sectors, industries or even companies. In South Africa, especially KwaZulu-Natal, the core functions of LEDI's analysed are:

- Promotion of domestic investment
- Investment policy formulation and advice aftercare programme
- Promotion of tourism
- Granting incentives
- Investor targeting
- Foreign investment registration and foreign investment licensing
- Promotion of privatisation
- Consulting services

#### **14.5 TECHNIQUES AND TOOLS USED IN PLACE MARKETING**

In this section, techniques used by LEDI's to promote their respective locations will be reviewed. The section below will focus on how LEDI's target their efforts, the service they provide and the promotional tools that are used.

#### **14.5.1. INVESTOR TARGETING BY REGION AND INDUSTRY**

Instead of trying to promote investment from all parts of the world and of all kinds, LEDI's are applying different ways of narrowing the scope for their promotional efforts. Investor targeting activities involve selecting a focus in terms of target region and industry.

The focus of the LEDI's in KwaZulu-Natal mirrors the importance of the region as a source of inward investment. Western Europe, North America and Asia are by far the most important geographic areas for LEDI's promotional agencies to target.

The types of industries that are most often targeted by LEDI's vary considerably. The most commonly identified industries that KwaZulu-Natal LEDI's target belong to the broad category of basic manufacturing, which includes such diverse activities as textiles, clothing and automotive industries. The second most targeted industry group comprises more advanced manufacturing with high technology, electronics and biotechnology as an important sub-industry. The reason may be that, in most cases the manufacturing industry has a great potential for employment creation, for example, the manufacturing sector is the largest employer in Durban compared to other sectors and contributes about 27% of the Durban economy (Durban at Crossroad, 2000).

#### **14.5.2. INVESTOR TARGETING BY TYPE OF INVESTMENT**

Most LEDI's have specialised programmes to target specific investors. In South Africa, the total investment promotion effort is placed on SMME's rather than large TNCs. One reason for this may be that large corporations more often have sufficient resources to find the information they need without assistance from LEDI's. Secondly, many large corporations are technologically intensive and are creating fewer jobs than expected as compared to the growing medium-sized corporations.

The strategies of LEDI's, furthermore, differ in how desirable different modes of entry are perceived to be. In South Africa, the two main methods of entry that LEDI's prefer are joint ventures, strategic alliances and Greenfield investments i.e. development of new facilities. Indeed, KwaZulu-Natal encourages joint ventures as a mode for entering its markets.

### **14.5.3. SERVICES PROVIDED TO INVESTORS**

LEDI's differ in the kind of services they offer to potential and existing investors. The range of services can be divided into pre- and post-investment decision services. LEDI's in KwaZulu-Natal are currently offering the following pre-investment decision services:

- Business matchmaking services
- The provision of domestic market information
- Advice on local employment conditions
- Sustainable site and infrastructure
- Feasibility studies
- Foreign market information
- Environmental impact assessment

The post-investment decision services currently offered by LEDI's in KwaZulu-Natal are:

- Assistance with registration and licensing
- Assistance with work permits
- Customs assistance
- Legal assistance
- Power and water supply assistance

### **14.5.4. PROMOTIONAL TOOLS**

After having determined what countries, sectors and types of investment to target, LEDI's utilise many different tools to communicate investment opportunities to prospective investors. The preferred methods vary between agencies.

In KwaZulu-Natal, LEDI's place a great emphasis on the importance of personal contact for investment promotion. Such personal contact can be achieved in various ways, including through international conferences and trade fairs, by hosting visiting missions for foreign investors, by organising meetings and seminars, as well as conducting place marketing missions to other countries.

Although less common than the above mentioned methods, a number of non-personal promotional techniques are prominent in KwaZulu-Natal. Direct mailing and advertising in foreign media are relatively popular in the province. General promotional brochures and investment guides as well as web sites are the most frequently used marketing materials and are also considered to be relatively effective.

All the above place-marketing tools are widely known for their effectiveness and are currently adopted by institutions such as KwaZulu-Natal Marketing Initiative (KMI), KwaZulu-Natal Tourism Authority (KZNTA), Trade and Investment KwaZulu-Natal (TIK), Spatial Development Initiatives (SDI), Durban Investment Promotion Agency (DIPA) and other local governments in their promotional efforts.

#### **14.6 THE EFFECTIVENESS OF LED ORIENTED INVESTMENT PROMOTION INSTITUTIONS: LESSONS FROM THE CASE STUDIES**

The purpose of this section of the thesis is the evaluation of whether these structures have achieved their objectives in creating jobs through investment promotions in all their localities. This chapter presents the broad findings. It does not deal with the important issues that make promotion especially effective or ineffective or what promotion activities seems to matter the most for foreign investment. Neither does this study aim to justify the theoretical underpinnings of adopting investment promotion policies to attract FDI. The overall findings, however, strongly support the fact that promotion does make a difference.

In most countries, the effectiveness of LEDI's is measured by their capacity to attract foreign private investors. At the outset it was noted that some sophisticated LEDI's tried to do more. Some aimed at increasing not only the quantity but also the quality of industries, where quality could be measured by their impact in terms of job creation, export or technology transfers. Nonetheless, all developing countries were first and foremost interested in attracting a higher amount of industries, suggesting that the LEDI's performance could be evaluated on the basis of this shared goal.

In the next chapter, the specific institutional vehicles that were formed to drive the implementation of the prioritised projects will be analysed. Secondly, key actions for setting up the institutional framework will be discussed.

### **15.1. INTRODUCTION**

It has been mentioned earlier that LED requires the introduction of new local institutions, as well as the reconfiguration of existing ones, enabling them to deliver the responsibility of facilitating economic changes in a locality. This section of this report describes various institutional frameworks that were followed in the study areas, as vehicles for LED implementation.

Based on the analysis of literature and the international best practice on LED institutions (Rogerson, 1994; DPLG, 1999), this study found that there are two levels at which the institutional frameworks were developed. These are:

- Programme based (generic) and
- Project specific institutional arrangement.

Both these options require the establishment of structures and formations, which may either be led by a local authority structure (LC led) or by a multi-stakeholder, partnership-based structure made up of the following stakeholders:

- Organised business in the form of business chambers and farmers unions,
- Organised labour in the form of trade unions
- Civil society
- Local government - preferably a councillor or a senior official

### **15.2 INSTITUTIONAL ARRANGEMENTS**

Programme-based institutions focus on the co-ordination of the economic development programme as a whole. An institution of this nature may adopt a programme comprising a number of project activities, which are interrelated in their implementation. The role of such an institution may be to co-ordinate each step in the implementation of the economic development processes and may mobilise the resources necessary for strategic planning and the implementation of each and every project.

Programme-based institutions focus on overall programme coordination. It may be a plenary session, where all project steering committees come together quarterly or annually to develop a framework from which economic development can evolve. The interview with officials of the Department of Economic Development in KZN, also echoed by the leadership of the Midlands Investment Initiative, suggests that the Midlands Cluster Forum is another example of a programme-based formation, although the agenda is a programme of projects with regional significance. For Ian Outram, the chairperson of the MII, the cluster has various working groups, each with its own agenda and strategic focus and with specific mandates. The council is another illustration of a programme-based institution, where the council is the highest decision-making body that only takes decisions on matters referred to it from various committees.

Evidence suggests that programme-based institutions may be an unnecessary bureaucracy and may suffer problems of red-tape and paper shuffling, since they may be huge institutions with various committees where consensus building may be hard to achieve.

At the level of implementation of specific projects within the economic development programme, specific structures, for example project steering committees, may be set up to manage specific projects and deliver results. These have a limited life span and, on completion of the implementation of the project, may come to an end. Council officials form them alone or in partnership with various stakeholders of the projects.

### **15.3 BUILDING BLOCKS FOR A SUCCESSFUL LED INSTITUTION**

In the context where local government is in the process of transformation, which may be characterised by a lack of capacity, appropriate institutional arrangements are established to co-ordinate and facilitate the implementation of the identified projects. Such institutional vehicles are able to manage the implementation process in a consistent manner for extended periods of time. These institutions have the following characteristics:

#### *Authority*

International best-practice on LED institutions suggest that an effective and efficient LED institution needs to have legitimate powers to act on behalf of local government, community, labour, business and other stakeholders in the area. It should be the voice of partnership

between organised labour, business, civil society and government.

#### *Resources*

Such an institution will also need to have its own staff, access to finance and sufficient technological support to undertake its tasks.

#### *Presentation*

It is important for LED institutions to have cross-political, economic and social divisions within both the public and private sector. In order to successfully achieve this, and retain legitimacy and credibility in the eyes of the stakeholders, the institution needs to be inclusive and have a mandate. The institution must bring together all local stakeholders both from the public and private sector interest groups. It must be able to mobilise the necessary resources, human, physical and financial, to achieve economic development.

### **15.4 STAKEHOLDER PARTICIPATION FRAMEWORK AND THE ROLE OF LOCAL GOVERNMENT**

International best practices and evidence on the subject suggest that economic development is a process that can succeed provided it is all-inclusive and involves all stakeholders in a spatially demarcated area. The Welsh Development Agency in the United Kingdom, National Economic Development and Labour Council (Nedlac) of South Africa and Scottish Trade International are examples of participatory institutional vehicles relevant for this analysis. Nedlac, for example is a body that comprises organised labour, organised business, civil society structures, as well as government.

Such a framework was appropriate for LED interventions, because of the nature of projects that were packaged most of which are dependent on effective participation by all the stakeholders from both the public and private sector formations.

The framework described in this thesis was very popular in a number of LED initiatives in almost all the study areas and is a model supported by national government. There are two critical role players, who drive these projects. These are the chamber of commerce and municipalities. Other provincial government departments and other relevant support agencies may participate on the level of providing project support.

The municipality's role in LED is provided for by Section 152 of the South African constitution, which defines one of the objects of local government as that of the promotion of social and economic development. Section 153 requires municipalities to structure and manage themselves to give priority to basic needs, promote social and economic development of their communities and participate in national and provincial economic development programmes.

In fulfilling such a constitutional mandate, the municipality will need to ensure that:

- Senior officials and political leadership play a role in 80% of the projects
- Project life cycles are linked to that of budgeting
- The IDP Process needs to be integrated to that of LED Planning, but must remain separate on project management for monitoring purposes

Section 56 of the Municipal Systems Act requires municipalities to establish and organise their administration in a manner that enables administrative function to be the most operationally effective with appropriate structures and mechanisms. In the study areas, such mechanisms included:

- Departments
- Functional units
- Business units
- Business enterprises
- Service agencies
- Inter-agency coordinating units
- Participatory and advisory forums for staff
- Residents or stakeholders

This allows a great deal of flexibility in the selection of institutional arrangements within municipalities for the developmental activities. The review of the institutional landscape within the study areas suggests that it was not quite clear as to which office or authority within the municipalities were responsible for which projects.

There are a number of options available for a municipality with regard to the implementation of projects. One of the most widely reported vehicles for this purpose is a municipality's own

LED Unit. Municipalities establish their own Economic Development Departments, with their own budgets and human resources. Such a department can be directly accountable to the office of the municipal manager and the economic development committee. The only problem with this option is the fact that, as much as LED is supported, it is regarded as an “unfunded” mandate. A significant amount of resources are spent on infrastructure and council salaries. A second option available is that the function is performed by the restructured planning department. Projects are implemented as part of the IDP process.

It needs to be stated that an appropriate location of the municipal LED unit seems to be the problem for many of the studied municipalities. There are different views about where such a unit should be located within the municipality.

The first view suggests that such a unit should be located at the ‘centre’ of the municipal administration, meaning within the office of the municipal manager. This carries the advantage that such an arrangement would have the backing of the senior municipality management and officials. Another view is that such a unit should be located within the line department, but focusing on a specific set of services and project activities. With such an arrangement, the unit can concentrate on operational projects.

There is yet another view, which says that LED should be located within the planning and development department. This perspective holds the view that LED would be located within the municipality’s planning agenda through the integrated development planning process. Proponents of this approach argue that if LED is located within the planning department, it will be able to combine policy and implementation function.

The following are the specific roles local municipalities played in terms of their LED:

- *Coordinator*

Acting as coordinating body, the council proposed strategies, led the planning and coordination of services. Collaboration with other government departments, businesses and organs of civil society in the formulation of development strategies was also a common feature.

- *Facilitator*

Local government tried to improve the investment environment in the town, by streamlining the development process, improving planning procedures and zoning regulations and issuing statements that supported industrial development.

- *Stimulator*

Local municipalities also tried to stimulate the creation and expansion of new businesses, using brochures on local investment opportunities, promoting a particular tourism theme, building an industrial estate or manufacturing workshops and providing premises at reduced costs to small businesses.

- *Entrepreneur*

Some local municipalities also tried to take full responsibility for developing SMME and hawker-friendly regulations that stimulated small business activity.

There are both advantages and disadvantages for a local government driven and managed led programme. For instance, the close connection with the local political system may provide access to local, provincial and national political resources, which are required to resource, such initiatives. However, the main disadvantage is that the bureaucratic environment in which such arrangements have to operate, may be a fatal flaw in certain strategies, where speed is essential

## CHAPTER SIXTEEN: CONCLUSION

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This study has shown that industrial migration or industry flight will remain the biggest challenge for the post-apartheid South African economy. The issue also raises questions about the relationship between South Africa's economic policies and the role of foreign direct investments and depositaries on their capital exports. In the South African context, very few studies have been conducted on the issue of industrial migration and its implication to the existence of the developmental state. Though there has not been much research undertaken on the subject, this thesis acknowledges a number of attempts made to introduce the concept as part of local government transformation debate. (Department of Provincial and Local government LED policy studies, 1999 – 2001).

Though industrial migration has been enormously damaging to the economies of vulnerable small towns, a new growth model that has come to be known as local economic development has emerged as the key responses problems associated with industrial migration. Local economic development strategies will enable local government to restore social cohesion, which has been broken down by factors of globalization.

It needs to be stated that literature on spatial distribution of economic activity suggests that industrial migration is not new. A body of literature already exists on location theory and was reviewed for this thesis. Because the migration of industries could not be considered without a close examination of factors such as their location and closure, it was imperative for this thesis to test some of the assumptions held by general location theory, namely conventional classical theory, as well as the behaviourist theory of industrial migration.

In line with the classical perspective on the phenomena of industrial flight, this thesis found that the situation in small towns is inevitable as is the factor of globalization. In other words, one can therefore assume that small towns' industries are migrating because they are free to compete for raw materials, labour and the market. As a result, they are merely trying to achieve a minimum level of production costs, by relocating to those areas where it is possible to do so. All data analysed for this thesis proved this fact to be a global phenomena that is being experienced throughout the world.

In addition, the thesis argued that many formerly unfortunate regions around the world are nowadays witnessing the implausible outcomes of what once was believed a sure recipe for disaster: that of accepting the embrace of transnationalisation. The ongoing age of globalization continues to emerge as a scenario of surprise, opportunity, danger and dilemma. The new global order depends heavily on 'Capitalist Economic Processes', which are characterised by the following fundamental features:

- Productivity and competitiveness
- Knowledge of generating and information processing
- Firms and territories are organised in a network of production, management, and distribution
- Core economic activities are global

Strategically crucial activities, and economic actors, are networked around a global system of inputs and outputs. The new 'global market' has emerged, and most of our local industries have set their sights on international opportunities brought about by global processes. The case of Pinetown below emphasizes how industrial mobility has occurred as a result of new international markets.

Though globalization has been hailed as an era of high productivity and competitiveness, the phenomena has had a devastating effect on the economies of small towns. They have been unable to survive in the global economic systems. As a result, they have failed to raise their productivity to the levels required for them to compete in the global markets. Small towns have failed to attract productive and competitive industries capable of infusing technological innovations in the manufacturing processes, which is a prerequisite for global competitiveness.

It is not possible to understand all the challenges facing small towns without understanding the historical context from which they have emerged. It was for this reason that a chapter was dedicated to discussing the apartheid state industrial decentralisation strategy and its impact on small towns. Apartheid industrial development policies sought to encourage industries to locate in homelands and what was called 'self governing states'. Industries located in small towns chose their current location by default as a result of the industrial policies of the apartheid state, and have failed to take up the opportunities that came with globalization. This is due to the fact that global economic integration has resulted in massive industrial migration

that has had devastating effects on the economies of small towns. It was concluded that there remains a need for the restructuring of the apartheid state industrialisation policies before any major policies of global economic integration can be initiated.

Moreover, deregulation and liberalization of international trade through multilateral trade agreements such as the World Trade Organisation, capital mobility and the global flow of foreign direct investments to new regions have become a factor of globalization. Such mobility did not benefit small towns or underdeveloped regions, as industries tended to choose those regions where they were able to make maximum profit, where both the political and the business environment allowed them to operate at minimum cost.

Another blow to the economies of small towns has been attributed to the introduction of new information technology. The increase in 'quasi-instantaneous trading', through the use of e-commerce and e-trade has meant that industries located in small towns are faced with the challenge of developing new institutional frameworks for managing the new complexities brought in by deregulation. They have failed to do so, as they were not prepared to deal with global economic pressures.

The process was further complicated by the economic ingenuity provided for by the post-apartheid state, through the introduction of GEAR as its economic strategy. This policy has sought to grow the economy and was based on neo-liberal principles. The unworkable industrial strategy of the apartheid state has not been entirely reworked and the South African government still do not have an integrated industrial strategy that is able to describe the direction of the state, in the context of globalization.

The process of global economic integration and the reintegration of South Africa into the global economy have meant that the country has had to deregulate its trade policies and allow the inflow of capital from abroad. More multinational corporations are penetrating the country. The global inflow of capital into South Africa has also been stimulated by the government privatisation policies and perception of opportunities from the privatisation of state owned assets.

Having identified a number of global economic challenges and pressures facing localities, a theoretical framework was developed, as a mind map, for understanding industrial migration as small towns are experiencing it. Classical location theories such as those of Von Thunen and Alfred Weber were discussed and their relevance to the analysis of the situation of small towns provided.

It was argued that, though many of these theories provided the basis for the development of the current location theory, their relevance was diminishing, since the majority of them looked at transportation and logistics as the main factors for a location decision.

The main hypothesis put forward by the thesis, that industrial migration from small towns has had a devastating effect on the local economy, given the absence of new innovative plans and new jobs, has proved to be real. In all the case studies analysed for this thesis, it became obvious that industrial migration unleashed the following types of multiplier effects:

- Due to the collapse of the key economic sectors (such as mining in the case of Dundee) industrial activities linked to these sectors, and who were supplying their trade to them, together with those parts of the public sector responsible for services such as fuel, water, transport and maintenance, disappeared.
- The purchasing power of local consumers was drastically reduced and the revenue base of the local state heavily affected, thus leading to economic decline. One can conclude that the closure of one firm has also threatened the jobs of the others who are employed by the related industries. The local economy has been significantly undermined.
- The study proved that, contrary to the traditional capitalist assertion that economic dislocations are naturally dealt with by the system as it adjusts itself, the local economic systems were unable to adjust themselves because of gross imbalances within the system, which could not allow any form of self-adjustment or self-balancing.
- Due to the poor capacity of small towns to develop their own local industrial promotion policies and clear industrial incentive packages, they have not seen any self-adjustment of their local economies or inflow of capital from rich locations or foreign direct investments. In other words, local established conglomerates are not investing in new locations.

- Capital reinvestment in bigger towns has chiefly taken the form of the replacement of technology and equipment, as a requirement for participation in the global market. No technological innovations or changes have taken place in small towns. The lack of
- Technological innovations or the infusions of technological changes in productive industries have led to industries fleeing those locations to others that can enable them to easily penetrate global networks at a minimal cost. Technical progress and new capital-intensive innovations have decreased the value of labour as a factor of production in these regions.
- Due to labour market elasticity, there has been an increase in labour and skills migration from small towns to growth centres. In pursuit of skilled labour and also in an attempt to avoid any expenditure on skills development, many industries are relocating their investments into growth centres.

In order to prove that industrial migration is taking place in small towns, five case studies were selected, using the random sampling technique. Using the sociological method of participant observation, which required that the researcher spend as much time as possible in each of the identified study areas, a number of interviews were conducted with key respondents drawn from local government, organised businesses and leading academics, who had undertaken related research in these areas.

During the analysis of each of the selected case studies, the following key aspects of the study hypotheses were tested:

- The nature of economic decline and local government responses to it
- Technological changes
- Industrial development incentives
- Labour market elasticity

The thesis was able to prove that industrial migration was happening in almost all of the land-locked case studies due to each of the above phenomena.

Using the old orthodox principle of natural science, which holds that “for every action, there is an equal but opposite reaction”, the thesis contains a great deal of information on Local Economic Development, as a local people-driven response to industrial migration.

It was the argument of this thesis that LED initiatives are not new. For many decades, local governments around the world tried to attract business activities from outside to locate in their towns – the so-called ‘traditional’ approach to LED. More recently, however, ranges of new LED strategies have emerged. Instead of relying on attracting business from outside, the new strategies emphasise indigenous economic growth from within their towns. Both approaches - attracting industry from outside and building the economy from within - are important elements of local economic growth.

This thesis argued that, in the context where the country was deeply divided along racial and class lines, where each of the classes and races were suspicious of each other’s motives, the emergence of the ‘LED movement’ signified a new era of economic co-operation in the search for appropriate solutions to the problems of industrial migration.

An examination of data obtained for this thesis revealed that local initiatives, often referred to as self-reliance strategies, were prevalent in all towns examined. The concept of Local Economic Development, as an approach to local economic decline was widely used as a tool to analyse such local initiatives.

The following definition is advanced by this thesis and is in line with other definitions developed by writers such as Blackely (1994), Zaaiker and Sara (1993), namely that LED:

Is essentially a process in which local governments, along with community- based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area.

The above definition therefore suggest that LED is an endogenous economic development, where communities are active shapers of their own economic destinies and where local actions could serve to regenerate the economy of an area. Moreover, data that emerged from the analysis of LED processes in the study areas, suggests that LED is process-oriented and it involves the formation of new institutions, the development of new alternative industries, an

improvement in the capacity of the existing employers to produce better products and the identification of new markets.

A close analysis of the LED definition suggest that the process has two main preconditions for success:

- Firstly the process should be initiated by an organisation or a group of institutions responsible for implementation or at least co-ordinating such implementation.
- Secondly, LED should be initiated in a partnership between labour, business and government.

The two above-mentioned preconditions suggest the need for a multi-stakeholder participation framework for LED implementation. Such a partnership emphasises that fact that not only the factors of production, but also the actors involved in managing each factor, have to be brought together into a mechanism to ensure successful and sustained local economic intervention.

It was stated somewhere in this thesis that LED is open to different interpretations. It means different things to different people. It therefore requires that the envisaged partnership between different participating stakeholders would need an early agreement on the economic development area of concern or economic development zone. It has become imperative that such an agreement is made, irrespective of any political considerations and boundaries. It must be a regional intervention, involving all communities sharing a common economic zone. Labour market conditions or common economic problems or a common resource base should be the determining factors, as was the case in all the case studies. It is important to note that in areas lacking in skills and capacity, external facilitation and support of local development by government or non-governmental organisations is an accepted norm and has become government policy.

In the South African content, LED initiatives have the following additional features, namely:

- A package of local interventions,
- Economic development which is a catalyst impacting on broader development
- Consultation with the affected communities,
- Participatory management and empowerment, and
- The need to integrate policy and poverty interventions.

Having defined LED, and having looked at different approaches to LED, the following types of LED responses were discussed:

- Small Business Development
- Business retention and expansion and its strategy of early warning systems
- Place marketing and investment promotions

The analysis of all local government policies and programmes, aimed at dealing with the impact of industrial migration and economic decline as outlined in the IDP, LED and LDP documents, suggests that the interventions such as small business development, BRE and place marketing, and investment promotions are taken very seriously by the local state. An area for further study is the question of whether any of these interventions have had any meaningful impact on the local economy or whether they are just wish lists.

Following on from the analysis of LED initiatives undertaken in the study areas, an account was given of some of the key recommendations for future implementation of appropriate and relevant local economic responses, especially in the context of local government.

In concluding this thesis, the following challenges were identified as key to the continued existence of the local state in small towns:

#### *The Prosperity Challenge.*

Small towns will need to arrest the decline in prosperity, which has occurred over the last decade. The decline in prosperity has meant that, on average, the people living in these towns were worse off during the time of this study than they were 10 years ago, prior to the 1994 elections. Average per capita income has declined, compared to 1986 during which time many small town industries enjoyed some form of protectionism through the Industrial Decentralisation Programme of the apartheid state. The prosperity challenge requires that small towns will have to grow their economies in order to deal with the impact of industrial decline.

#### *Sustainable Job Challenge*

Small towns need to double the number of people employed in secure sectors, defined as those sectors with relatively high incomes and sustainable jobs over a longer period of time. The unemployment figures have doubled and more economically active people are unemployed,

with a visible decline in the number of jobs in the manufacturing sector. Unemployment is currently estimated at about 40 – 60%. More precise figures are difficult to come by due to the multiple sources of data and different definitions in use of employment and unemployment. Jobs in the formal sector have not grown over the past decade. To address the problem of rising unemployment levels, economically active people need to be employed in a healthy growing formal sector of the economy.

### *The Skills Challenge*

Peripheral small towns, that were the hardest hit by industrial decline, need to invest in upgrading the skills of their population. They have an exaggerated skills deficiency relative to other small towns on the coast. They have a higher proportion than either city in the province of the category of 'below standard 5 education' and a lower proportion of people with matric or tertiary qualifications. Very few people are classified as 'skilled'. Further compounding this problem in small towns is the acute 'brain drain' problem: skilled individuals tend to leave the towns, take up jobs in other parts of South Africa or in countries abroad. Therefore, investing in upgrading the skills-base should include both the elimination of illiteracy and a reversal in the trend of skills 'leaking' out of the town.

With a few notable exceptions, small towns' industries and local governments have not repositioned themselves to meet the competitive challenges placed on them by globalization and to be able to realise the potential of the current global platform. However, there has been a notably wide-spread and robust response to the competitiveness challenge in the form of local economic development. Localities are increasingly repositioning themselves against a new basis of global competition. This thesis has identified some leading exceptions and there is evidence that some shift has recently occurred towards improving the current situation in small towns.

More and more localities are leveraging their advantages in competing within South Africa, taking advantage of their positions and advantages and growing their share of the South African economy as a whole. For instance, there are few companies, which still have faith in small towns. This suggests a shift away from small towns and a focus on different parts of the country, mainly Durban and Johannesburg.

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## **APPENDICES**

### **APPENDIX ONE:**

#### **SURVEY QUESTIONNAIRE FOR QUANTITATIVE ANALYSIS USED IN THE PINETOWN CASE STUDY (EARLY WARNING SYSTEMS)**

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##### **1. INTRODUCTION**

My Name is Raymond Ngcobo. I am the student from the University of Natal's Centre for Industrial Organisations and Labour Studies. I am conducting research into potential local economic problems local companies are experiencing, that may lead to industrial relocations or closures.

The objectives of this is study to identify actions that may be promoted by the local municipality as part of the process of support local business and retain them in this area.

Your company name has been supplied to me by the Durban Chamber of Commerce and Industry, and was drawn randomly from their database.

Please be assured that anonymity of all respondents in this study has been guaranteed. Information provided by you will be treated in strict confidence. Study results will be published in the report and would be to you, on request.

For further clarity on this regard, please contact Prof Ari Sitas of the University of Natal, at 031-260 1097 or Mr. Collin Butler of the Durban Chambers of Commerce and Industry.

Your cooperation will be greatly appreciated.

Thank you.

**Questionnaire**

**2. COMPANY DETAILS**

<b>2.1 Company name:</b>	..... ..... .....
<b>2.2 Physical address:</b>	..... ..... .....
<b>2.3 Postal Address:</b>	..... .....
<b>2.4 Respondents name:</b>	..... ..... .....
<b>2.5 Position of respondent in the company:</b>	..... ..... .....
<b>2.6 Date of interview:</b>	..... .....
<b>2.7 Place of interview:</b>	..... .....
<b>2.8 Economic sector:</b>	..... .....
<b>2.9 Date since in current location:</b>	..... .....
<b>2.10 Empowerment status:</b>	..... .....
<b>2.11 Importer / Exporter:</b>	..... .....
<b>2.12 Local office (head office or subsidiary):</b>	..... .....
<b>2.13 Number of people employed</b>	..... .....

**3. OPEN-ENDED INTERVIEW QUESTIONS:**

3.1 What is your annual turnover? (Give categories)

.....  
.....  
.....  
.....

3.2 How long has this company been operating?

.....  
.....  
.....  
.....

3.3 Who are your competitors?

.....  
.....  
.....  
.....

3.4 What are your main concerns for locating in this area?

.....  
.....  
.....  
.....

3.5 What do you think should be done to address these concerns?

.....  
.....  
.....  
.....

3.6 Have you ever received any form of support from your municipality?

.....  
.....  
.....  
.....

**3.7 Where are your suppliers located?**

.....  
.....  
.....  
.....

**3.8 Who are your suppliers?**

.....  
.....  
.....  
.....

**3.9 What are your main competitive advantages?**

.....  
.....  
.....  
.....

**3.10 What do you think government should do for you in order to create more job opportunities?**

.....  
.....  
.....  
.....

**3.11 Do you have any plans of growing your business?**

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.....  
.....  
.....

**3.12 What else do you think should be done to retain existing business in this area?**

.....  
.....  
.....  
.....

## APPENDIX TWO:

### LIST OF COMPANIES INTERVIEWED / QUANTITATIVE SURVEY IN PINETOWN

Location	Business Name	Respondent
MaxMead	Riva Canopies	Manager
Westmead	Durban Wire & Plastics	Manager
Westmead	Javlynn Engineering	Manager
Westmead	J.D. Thermal Engineering	Manager
Pinetown	PRG Building Glass	Manager
Ivy Park	Crestpine Pharmacy	Manager
New Germany	JLM Industries	Manager
Pinetown	House of Classics	Manager
Westmead	C. T.M	Manager
Westmead	Jagua Metals	Manager
Ivy Park	Mass Components cc.	Manager
Ivy Park	Tekwini Foods	Manager
Pinetown	Triks Wrough Iron	Manager
Westmead	Lewis Stores	Manager
Westmead	BU Technical Pty Ltd	Manager
New Germany	Precision Belting	Manager
New Germany	RotoTechnik pty	Manager
Pinetown	Shelving Natal	Manager
Stapleton	Abbons Electrical	Manager
Pinetown	Precast Cement	Manager
Pinetown	Main Phamarcy	Manager
Westmead	CSITJ	Manager
Westmead	Federal Tyres	Manager
Westmead	Mr Xhaust Mr Tyre	Manager
Westmead	H.J. Seleton Valve Serv.	Manager
Westmead	Nampak Polyfoil	Manager
Westmead	Nampak Liquid Packaging	Manager
Westmead	Wap Cleanig Systems	Manager
Westmead	KwaZulu Steel	Manager
Westmead	GIR Engineering	Manager
Westmead	Jonesco Trailers	Manager
Westmead	Prisaan Footware	Manager
Westmead	Furas	Manager
Westmead	Kings Removals	Manager
Westmead	Spurnlock	Manager
Pinetown	NDE Group	Manager
Ivy Park	Pinetown Tyre & Exhaust	Manager
Ivy Park	Shotland Packaging	Manager
Ivy Park	Standard Textile	Manager
Pinetown	Shepco Printing	Manager
Ivy Park	PineTown Bolt Engineer	Manager
Ivy Park	Kaytex	Marketing manager

Ivy Park	P.G. Packaging	Manager
Ivy Park	C.J. Petrow Chemicals	Manager
Ivy Park	Forms Elite	Manager
Ivy Park	ProForce Security	Manager
Ivy Park	Profibre Products	Manager
Westmead	Derek Transmission	Manager
Westmead	Zeiss Truck and Bus	Manager
MaxMead	Longatti Textiles	Manager
MaxMead	Wester Mineralien	Manager
MaxMead	Computer Imaging Supplier	Manager
MaxMead	Steers Regional office	Manager
Westmead	Afrox	Manager
Westmead	Genie Garage doors	Manager
Westmead	Motor Winding	Manager
Westmead	Maxe Stainless Steel	Manager
Westmead	Control Technology	Manager
Westmead	Durban Plasma	Manager
Westmead	Prostruct	Manager
MaxMead	Scribante	Manager
MaxMead	Multi Construction	Manager
MaxMead	Auto Components	Manager
MaxMead	Toolequip. & Allied	Manager
MaxMead	Sloha textiles	Manager
MaxMead	Vital Health Food	Manager
MaxMead	Themba Game Viewers	Manager
MaxMead	Trident Steel	Manager
Pinetown	Raflatac SA (pty) Ltd	Manager
New Germany	Siemens SA	Manager
Stapleton	Rocla	Manager
Pinetown	Triumph Printing	Manager
New Germany	Clover SA	Manager
New Germany	Staitek Cotton	Manager
Stapleton	Metal Steel Heating	Manager
New Germany	DD Security	Manager
New Germany	Flemmingo	Manager
New Germany	Distell	Manager
Ivy Park	Duys Engineering	Manager
Southmead	Polystyrene Centre	Manager
Ivy Park	Kohller Flexible	Manager
Pinetown	Kaymac Group	Manager
New Germany	Jem Cutters	Manager
New Germany	Component Technologies	Manager
New Germany	Playtex Factory Shop	Manager
Pinetown	Singlehurst Hydraulics	Manager
WestMead	Edgars	Manager
WestMead	East Coast Board	Manager
WestMead	Moxwood	Manager
WestMead	Federal Mogul	Manager
Pinetown	Gemini Huts	Manager
Pinetown	Style Line	Manager
Westmead	Kobus Jonker	Manager

Pinetown	Crown Business Form	Manager
New Germany	P/town Plastic Components	Manager
New Germany	Arlona Engeneering	Manager
Pinetown	Past Form Technical	Manager
Ivy Park	Ventolite Products	Manager
Westmead	Stoneage	Manager
Ivy Park	Paper Prinners	Manager
New Germany	PG Packaging	Manager
New Germany	Imana	Manager
New Germany	Randell Constructions	Manager
New Germany	Stirling Accessories	Manager
New Germany	Ferroprint	Manager
New Germany	SA Canopy	Manager
New Germany	Sagex (Pty) Ltd	Manager
New Germany	Durban Bricks	Manager
New Germany	A Hurst	Manager
Pinetown	Sharp	Manager
MaxMead	Baruch Goldbatt Tent	Manager
Westmead	Jotun	Manager

## **APPENDIX THREE: SOME INTERNATIONAL TRADE AGREEMENTS PERTINENT<sup>41</sup> TO THIS THESIS AND THAT HAVE INCREASED INDUSTRIAL MOBILITY IN THE CONTEXT OF SOUTHERN AFRICA**

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### **1. WORLD TRADE ORGANISATION (WTO)**

Established on the 1<sup>st</sup> of January 1995 (from the GATT Uruguay Round), it has a membership of 136 countries. The objectives of the WTO are to:

- Raise living standards and income internationally
- Create full employment
- Expand world production
- Optimally use world's resources

The functions of the WTO can be summarised as follows:

- Non-discrimination between the trading partner/products/services
- Trade for liberation
- Predictability of trade environment
- Promotion of competitiveness
- Assisting development in the underdeveloped countries

Because South Africa is a member of the Southern African Customs Union (SACU), its position at the WTO is that of SACU. Some of its positions include the following features:

- Most-favoured-nation (MFN) treatment to all members of the WTO except SADC (the WTO allows a country to grant preferential treatment to partner countries in a free trade or customs union)
- A tariff reduction – maximum duties at the end of the process to be not more than 30% on final products, 20% on intermediate products, 10% on primary products
- Tariff structure simplified
- Tariff reduction schedule

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<sup>41</sup> Drawn from the work of Professor Gavin Marsdorp, undertaken for the KwaZuluNatal Economic Council.

- Longer phase-down period
- Industry requirements, such as footwear and leather, clothing and textiles requirements simplified
- Tariffication of quantitative restrictions, e.g. quotas

## **2. SOUTHERN AFRICAN CUSTOMS UNION (SACU) (1910)**

SACU is the oldest multilateral agency in the world, having been formed in 1910, and consists of five member countries, i.e. South Africa, Botswana, Lesotho, Namibia and Swaziland (BNL countries). It has been under re-negotiation since 1994.

South Africa's oldest international trade agreement is that of SACU. The members of SACU are South Africa and BLNS countries. The current agreement was concluded in 1969, and represents re-negotiations and an elaboration of an earlier agreement of 1910. In 1994, re-negotiations of the agreement commenced; the process has taken longer than intended, but the amendments are not pertinent for the purposes of this study.

A customs union represents the second tier of a four-tier hierarchy in the traditional model of economic integration. The hierarchy SACU depicts provides for duty-free and quota-free trade among its members, and operates a Common External Tariff (CET) against imports from the rest of the world. An interesting point in relation to the hierarchy is that SACU is largely overlain by the Common Monetary Area (CMA) that allows free movement of capital among its members (BLNS countries). Given too, that there is a fair degree of mobility of labour between South Africa and at least Lesotho and Swaziland, these countries are in fact close to fulfilling the conditions for a common market.

The absence of the barriers on intra-SACU trade has meant that BLNS markets are largely captive to South African exporters. South Africa is by far the main supplier to the BLNS countries. The bulk of their imports are of South African origin.

South African products predominate in BLNS not just because of duty-free entry. Other contributory factors are:

- Convenience – short delivery time

- Small domestic market – therefore it is more economic to purchase from South African wholesalers / retailers
  
- Much of the wholesale and retail sectors in BLNS are tied to affiliates of South African companies
- South African subsidiaries of multinationals have exclusive distribution rights for the SACU region, e.g. in motor vehicles.
- Servicing and after-sales backup is provided by South African firms, and hence this reinforces the decision to purchase from SA.

Membership of SACU, with guaranteed access to the entire SACU market, has in fact been one of the main reasons for attracting foreign direct investment in BLNS. However, whilst SACU tariffs have been lowered due to the WTO and SA reducing its tariffs asymmetrically under the SADC free trade agreement, the main impetus to foreign direct investment in BLNS is now from the Africa Growth Opportunity Act of the US as well as from the EU market under the continuing agreement.

### **3. SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) 1992**

On 1 September 2000, the Free Trade Agreement (FTA) as envisaged in the SADC Trade Protocol signed on 9 September 1996, came into being between eleven of the fourteen SADC member countries.

#### *Southern African Development Community Trade Protocol*

The Trade Protocol was ratified by 11 of the 14 SADC countries. The participants in the Trade Protocol were Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, SA, Swaziland, Tanzania, Zambia and Zimbabwe. The Trade Protocol set the scene for a free trade agreement that was officially implemented from 1 September 2000. However, only 9 of the 11 countries have lodged their instruments of the implementation with the SADC secretariat that obliged them to implement the agreement.

The Free Trade Agreement stipulates a free trade area with zero tariffs on intra-SADC trade which should be accomplished within eight years, i.e. by September 2008. There is an asymmetric tariff reduction schedule between the SACU and the non-SACU countries. In terms of this schedule, SA would reduce its tariffs more rapidly than any other country, while the BLNS countries will reduce more rapidly than the non-SACU countries (but not as rapidly as SA).

South Africa agreed to reduce 96.7% of its tariffs within 5 years, with other states dropping tariffs on 97.6% of South African imports within eight years. Sensitive sectors such as clothing and textiles needed two processes to claim SADC origin while provisional concessions to supply in accordance with specific quotas for sugar and wheat are allowed to Tanzania, Zambia and Malawi.

The implications for KZN industries are that there are expanded opportunities in non-SACU markets but, as a corollary, the South African market will be opened to competition from products supplied by non-SACU countries. The agreement concerning trade in sugar undertakes to provide temporary measures to insulate the SADC members against the effects of the distorted market.

Full initial reciprocal liberalization of trade in the sugar sector is planned for 2012 depending on a positive review of conditions prevailing internationally five years after entry into force of the agreement, (depending on the degree of normalization in the world sugar market).

In addition, this liberalization will involve the removal of all Non Tariff Barriers in relation to the SADC sugar trade. Cooperation in the areas of common interest effective from 1 September 2000 will involve harmonizing and standardizing policies and trade within the region until global free trade in sugar is permitted, in order to create a stable regional market in which to operate. The industry would develop and improve efficiencies through training, research and healthy regional competition, which in turn would provide an attractive industry for foreign direct investment.

The FTA presently excludes Angola, the Democratic Republic of Congo and Seychelles. In terms of the Protocol, the five SACU member countries will reduce the customs duties on imports originating in the six SADC member countries as follows:

- Existing customs duties of between 1% and 17 % will be reduced to customs duty free.

- Existing customs duties of between 18% and 24% will be reduced to duty free over three years
- Existing customs duty of 25% and higher will be reduced over a long period. The SACU tariff offer is front-loaded, i.e. SACU member countries will reduce the customs duties on products imported from the non-SACU SADC member countries into the SACU, faster than non-SACU members are obliged to reduce the customs duties on SACU imports into their countries.

#### **4. MERCOSUR / SOUTH AMERICAN FREE TRADE AREA**

SA has been involved in discussions with Mercosur (the trade integration arrangement between Brazil, Uruguay, Argentina and Paraguay), which has now reached the status of customs union. Bolivia and Chile are associate members of Mercosur. The South African government has made it clear that any free trade agreement would have to be entered into between the SACU and Mercosur, but more recently there have been talks on the Free Trade Agreement between SACU and Mercosur. With respect to Brazil, a Memorandum of Understanding (MoU) was signed in December 2000 for both Governments to pursue the negotiations on Free Trade Agreement

#### **5. SOUTH AFRICA-EUROPEAN UNION TRADE DEVELOPMENT COOPERATION AGREEMENT**

This is more than just a trade agreement; it embraces development and cooperation features as well. It was signed in 1999 but implementation, due from the beginning of 2000, was tardily being held up by continuing differences on the wine and spirit agreement as well as disputes over fisheries. In terms of the agreement a free trade area should be established by the EU by the end of 2010 and SA by the end of 2012. The agreement covers approximately 90% of current trade between SA and the EU. The EU in fact plans to have concluded most of its tariff reductions by the end of 2002, whereas SA will implement most of its reductions between 2006–2012.

In terms of the agreement, SA will lift customs duties on 86% of EU exports while the EU will eliminate duties in 95 % of South African Exports. The major exceptions in the agreement are agricultural products and fish.

The EU has agreed to give unrestricted access to 61.5% of South African exports of agricultural products, but will be supplemented by special duty free quotas which list the overall level of liberalization for agricultural products to 74%. The EU is SA's main trading partner, accounting for approximately 44% of SA's foreign trade. SA is heavily dependent on the EU export markets with 38.3% of total exports (42.6% imports) going to the EU with dependence especially strong on commodities.

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