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**Is industrial development an effective
local economic development strategy?**

The Case of Port Elizabeth-Uitenhage

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Executive summary

Reflecting global trends, the South African economy is characterised by a diminishing manufacturing sector and a growing services sector. While strong manufacturing sector performance in the 1960s and 1970s contributed to high rates of economic growth in the country, this was dampened until 1993. Since then it has grown strongly, largely due to export demand rather than domestic demand. However, in response to global pressure the restructuring of the industrial sector has been necessary and, coupled with “overstaffing”, the sector has been unable to generate employment. Some have referred to this phenomenon as “jobless growth”. New trade and industrial policies implemented by national government have encouraged an export-led industrialisation path, despite cautionary evidence from the highly successful newly industrialising countries that a mix of inward and outward-looking policies is conducive to growth.

The global trend is to consider the new role that the city plays in the local economic development (LED) process, and to consider the mix of strategic approaches that foster LED, i.e. (1) traditional LED (i.e. business attraction through incentives) (2) small business development (i.e. retention/expansion of existing and creation of new SMMEs) (3) human resource development (4) entrepreneurial approach (i.e. cities investing in business ventures) and (5) community-based approaches (i.e. self-help oriented schemes). The traditional LED and small business development approaches are important components of LED as the attraction, creation, or retention of business activities is often considered the best method of establishing or maintaining a sound local economy. This is evident in the case study of Port Elizabeth-Uitenhage, where most of the local economic initiatives and strategies since 1994 have been in line with this approach. One leading example is that of the Coega Industrial Development Zone (IDZ) and port which is part of the Fish River Spatial Development Initiative (SDI) formulated by national government in order to promote regional development. This IDZ relies largely on the opportunity that has been created in terms of Port Elizabeth-Uitenhage’s location in following an export-led growth path. As has traditionally been the case in this city, industrial development will play a role in the development of the local economy. However, the tourism sector has been growing strongly in the last couple of years, and the current view is that an integrated strategy is preferable, i.e. the promotion and development of the Coega IDZ and the Greater Addo Elephant National Park. The role of the small business sector, particularly amongst the marginalised sectors of the local community, will need clarification, as will the mix of approaches or mechanisms to LED.

With the industrial sector contributing in the region of one-third of both output and employment, it plays an important role in the economy of Port Elizabeth-Uitenhage. The potential conflicts - and opportunity costs - involved in pursuing this option as part of the overall LED plan for the city will need to be dealt with in more detail so that scarce resources are used efficiently, and the plan is sustainable. Further, greater consensus will need to be reached about the objectives and processes of LED amongst the various stakeholder groups. It will be the responsibility of the city’s leaders to create an enabling environment for both local and foreign investors and visitors. The leaders will also need to co-ordinate the efforts in strategizing for sustainable LED, and to ensure that the mechanisms are in place to measure the impact that is made on a regular basis.

For this report, interviews with sixteen community leaders involved in developing the local economy of Port Elizabeth-Uitenhage were conducted. The results show that the institutional sectors perceived to be the *most responsible* for economic development were organised business and local government. However, local government is perceived to be *most effective*. The particular institution considered to be the *most effective* in promoting economic development in the city was the Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI). A high number of respondents indicated that they perceived the greatest competitive advantage of the city to be its export potential, while the sound infrastructural base and efficient and financially

sound local government also play an important role. The primary barriers to economic growth and development are considered to be a lack of finance, relevant skills and an attitude of inferiority. A SWOT analysis undertaken of the city showed that the main strength is perceived to be a good technical infrastructure, while a number of weaknesses were mentioned, viz. negative attitude, poverty and unemployment, competing interests and lack of experience. The current main opportunity is considered to be the Coega IDZ and harbour, and the tourism industry. The main threats are global competition and the negativity/apathy of the local inhabitants.

The most commonly mentioned example of effective local economic development cited was that of increased export activity and the performance of the automotive industry in this regard. The chief current LED strategy is considered to be the Coega IDZ. A number of projects were mentioned that were considered to have considerable opportunity for further development. The economic sector that was perceived as the most promising LED strategy in terms of potential for success is tourism. The Coega IDZ and industrial development was also considered important largely due to the limitations in terms of time and resources and the need to capitalise on the synergy that already exists. Some of the other strategies that were mentioned included:- attraction of investment, skills transfer, automotive industrial cluster, promotion of the city, SMME support and development, promotion of exports, needs-based strategy, skills-based strategy, housing and infrastructure development and transport and agriculture.

Job creation is considered to be the main objective of industrial development in the city. The main potential conflicts in promoting industrial development rated by the highest number of respondents were labour and environmental issues. All (except for two) of the respondents felt that the Coega IDZ could lead the way in terms of developing the local economy. Some of the main reasons (in order of priority) as to why there was support for this development include the momentum that would be created, downstream opportunities, stature, export base, investment attraction, attitude, job creation and integration into the local economy. The main advantage of the Coega IDZ was perceived to be job creation, and main disadvantage environmental effects.

Although the Coega IDZ and port is considered to be the main LED strategy in the city, stakeholders will need to take care in considering how this opportunity is realised. The city must take responsibility for ensuring that this strategy is to the benefit of the city as a whole, and show that it takes itself seriously in developing its own economy and achieving the twin objectives of job creation and poverty alleviation. Further, an integrated approach to LED, not only in terms of economic sector, but also in terms of institutional stakeholders and mechanisms, will need to be carefully included and designed. Although it is important for the strategies adopted by the city to fit into the national policy framework, it is also critical for the city to get things in order and respond creatively to the challenges ahead. More work will need to go into solving the possible conflicts that may arise in pursuing an industrial development strategy in the city, particularly labour and environmental issues. Moreover, the city will need to fight for its voice to be heard in localising nationally formulated industrial policy such as government incentives, export promotion, SDIs and LED policy – and the city will need to take responsibility for the implementation of such policies. With the success of a number of local economic initiatives under its belt – and the effectiveness of local government and organised business (PERCCI in particular) in promoting LED - the city of Port Elizabeth-Uitenhage is well on its way to achieving local economic development.

Comments from the following individuals are fully appreciated:

Glen Robbins (Durban Metro), Stephen Hosking (University of Port Elizabeth) and Bernard Pakes.

Introduction

While the South African industrial sector has recently begun to recover from a long period of stagnation since 1980, it has failed to create employment. This is ascribed to the restructuring process in this sector and “over-staffed” firms. While there are lessons to be learned from the Latin American and East Asian newly industrialising countries, it is misleading to explain the success of these countries simply in terms of export-orientation. Instead, a mix of both inward and outward-looking paths of industrialisation have been used. This should be taken into account in developing LED policy in each city. In terms of industrial policy more generally, differences between national, regional and local interventions should be assessed in each city, and the local community needs to make its voice heard if there are conflicting processes or objectives.

Although only 8% of national manufacturing value added is produced in the Eastern Cape, the city of Port Elizabeth-Uitenhage produces 60% of all final goods and services in the province. With the city of Port Elizabeth-Uitenhage being regarded as the “hope for growth” in the Eastern Cape Province, it will be important to develop an effective LED strategy. In selecting a local economic development strategy that will work successfully, the objectives need to be kept in mind. In Port Elizabeth-Uitenhage the relatively high unemployment rate and indications of a critical poverty gap are serious problems that need to be addressed, as well as the need for improved growth. In line with government thinking at national level, and the findings of the qualitative survey that was undertaken for the purposes of this study, the achievement of local economic development objectives such as job creation and poverty alleviation are paramount.

This paper attempts to assess the potential for industrial development as a local economic development option in the city of Port Elizabeth-Uitenhage. After looking more broadly at industrial development as a job machine in the country as a whole (**Chapter 1**), the various approaches to promote industrial development at a local level are discussed (**Chapter 2**). The case study of Port Elizabeth-Uitenhage is then presented (**Chapter 3**) which looks at the history and status quo of economic and social development, the current role of the industrial sector and the various options for LED in the future development of the city. A number of leaders in the city were interviewed and their perceptions of the future development of the city’s economy are recorded. The final chapter (**Chapter 4**) makes concluding remarks and offers a number of recommendations relating to the development of the city’s economy.

1 Industrial development – job machine for South Africa?

1.1 Global trends in industrialisation

In the **OECD countries**¹ there has been a shift from industrial to “knowledge-based economies”, i.e. ones which are directly based on the production, distribution and use of knowledge and information. Globalisation, increased competition and rapid technological change impact on the environment all the time, putting pressure on industry to adapt, but also providing opportunities for growth and efficiency gains. OECD countries in the past developed policies to expand industrial production in specific sectors in order to further economic development, create employment, improve the balance of payments, or stimulate technological innovation. However, since the period of low economic growth that began in the mid-1970s, this traditional approach was abandoned in favour of policies that improve the environment in which business functions, that remove impediments to trade and investment, and that deregulate or regulate more effectively. So the focus of industrial support policies has shifted to a large degree, with sectoral support giving way to economy-wide measures, such as support for research and development, environmental protection, and start-up and growth of new businesses. Support has increasingly been targeted to intangible investment in assets that help to drive firm performance, such as technology, knowledge and skills, business organisation, and software¹.

The **industrialised countries’ manufacturing sector** undergoes considerable restructuring as these economies move to higher-value-added activities. With wages having increased, this has encouraged employers to look for ways of displacing expensive labour by using cheaper machines. And as greater capital intensity results in greater productivity this can result in what is sometimes referred to as “jobless growth”ⁱⁱ. As a consequence, employment in the manufacturing sector of industrialised countries has declined.

The **Newly Industrialising Countries** (NICs) on the other hand succeeded in significantly expanding their global share in the production and export of manufactured goods, which allowed them to penetrate key markets in the advanced industrial countries and compete with the manufacturers in these core nations. They are especially prominent in Latin America and East Asia. Since the 1960s, East Asia’s “Four Tigers” - South Korea, Taiwan, Hong Kong, and Singapore – have achieved remarkable success in pursuing outward-led industrialisation based on manufactured exports. The Latin American NICs aimed to deepen their industrialisation in the 1950s by attracting direct foreign investment (DFI) from the United States, Western Europe, and Japan. This post-war DFI emphasised import-substituting investments in advanced manufacturing industries whose output was aimed mainly at the relatively large domestic markets in Latin Americaⁱⁱⁱ.

The NICs in Latin America and East Asia have some striking commonalities. They have achieved high levels of economic growth, industrial diversification, prominence as exporters (particularly manufactured goods). However, these countries have had different experiences in terms of their timing and trajectories of their industrialisation efforts, but also in the way that they are linked to the global system. Manufacturing has been the cornerstone of development – in 1987 this sector’s share of GDP was 22% in Hong Kong, and ranged between 25% and 31% in Mexico, Brazil, Argentina, Singapore, and South Korea; and it reached a peak of 39% in Taiwan.

The East Asian countries have been able to sustain their growth momentum from the mid-1960s into the 1980s, a better performance than the Latin American NICs. Real GDP grew in South Korea and Taiwan at an average rate of 9% between 1965 and 1987, while Brazil’s growth rate during the same period was 7.2% and Mexico’s was 4.6%^{iv}. South Korea, Taiwan, Hong Kong, Singapore and Brazil, all achieved annual GDP growth rates (constant prices) of between 8% and 11% over the 1965-78 period. Their manufactured

¹ Please note that roman numerals are used to make further comment on an issue discussed on the same page while all other footnotes indicate references listed at the back of the document. The original 20 members of the Organisation for Economic Co-operation and Development (OECD) are located in the Western countries of Europe and North America. Next came Japan, Australia, New Zealand and Finland. Since then, Mexico, the Czech Republic, Hungary, Poland and Korea have joined.

exports grew between 20% and 40% per annum. Furthermore, manufacturing employment during that same period increased by between four and eight percent each year – leading in some cases to labour shortages and real wage increases^v. Unlike the Latin American countries, the performance of the East Asian countries led to more scope for the growth of small businesses, which was an important factor in reducing the income equality of these economies^{vi}.

1.2 Import substitution vs. export-led growth

In response to a decline in global markets for primary products and growing balance of payments deficits on their current accounts during the 1950s and 1960s, the developing countries turned to an **import substitution** (IS) strategy of industrial development. This IS activity is protected by high tariffs and quotas on imports. The long-run benefits of IS are advocated to be greater domestic industrial diversification or “balanced growth”, as well as being able to end up exporting “previously protected manufactured goods as economies of scale, low labor costs, and the positive externalities of learning by doing cause domestic prices to become competitive with world prices”^{vii}.

The other trade-related development strategy, that of **export promotion** (EP) of both primary and manufactured goods, is argued to offer efficiency and growth benefits of free trade and competition. It also broadens the market from narrow domestic markets to the large global market, avoids the distortions caused by protection on prices and costs, and has proven to be highly successful in the East Asian export-led growth economies of South Korea, Taiwan, Singapore, and Hong Kong. Since the 1950s there has been extensive debate over the merits of these outward-looking development policies, which is promoted by the free traders, and that of inward-looking development policies, advocated by the protectionists^{viii}.

The stereotype suggesting that the Latin American and East Asian NICs are characterised by their pursuit of inward-looking or outward-looking paths of industrialisation is misleading. The success of these countries has been largely due to the interplay and synergy between the two approaches^{ix}. However, the East Asian experience is being studied all over the world, and there appears to be increasing widespread recognition that IS together with strong government backing is unlikely to promote economic growth. There is evidence that many countries are replacing IS policies with new outward-looking policies and an increasing reliance on private initiatives^x.

1.3 The role and performance of the industrial sector in South Africa

“Industrialisation has been the hallmark of national development in the twentieth century”^{xi}. This has, of course, also been the case in South Africa. The country’s industrial performance was strong during the 1960s and 1970s, with output, employment, investment and productivity all rising rapidly. However, since then performance in this sector has abated, with low output and employment growth, and low rates of export growth^{xii}.

In terms of its contribution to output, the manufacturing sector in South Africa is large and relatively diversified. Since 1993 it has grown strongly, but this was dampened slightly in 1997^{xiii}. In terms of contribution to GDP, there have been important structural shifts in the economy since 1970. Between 1970 and 1997 the primary sector’s share of GDP fell, but the share of GDP in the secondary sector did not change that much. While manufacturing makes up the base of the economy with the largest contribution to national income compared to all the other sectors at 23%, it is clear that the structural change in the economy has been characterised by a move away from both manufacturing and primary production. Instead there has been a greater emphasis on output in the services sector. This trend echoes global trends, and points to the opportunities for growth in the sector that is growing more quickly than any other on a global basis^{xiv}.

If we look at the location of manufacturing establishments we find that out of almost 22,400 manufacturing establishments in 1993, the highest contribution to gross output in this sector was in the Gauteng province, followed by KwaZulu-Natal, the Western Cape and the Eastern Cape Province. The salaries, wages and employment figures in each province are presented in **Table 1**^{xv}.

Table 1: Principal statistics by province, 1993 ^{xvi}										
	RSA	Gauteng	Kwa-zulu Natal	Western Cape	Eastern Cape	North-West	Free State	Northern Province	Mpu ma -langa	North ern Cape
Number of establishments	22 386	9 654	4 383	4 146	1 267	535	848	508	747	266
Total employment	1347 883	508 196	318 091	236 109	105 205	28 189	45 791	27 926	66 054	8 505
Salaries and wages (R mill.)	40 073	17 898	8 134	6 168	3 162	788	1 178	433	2 092	171
Gross output (R mill.)	211 077	86 725	45 104	31 235	16 300	4 366	8 091	2 806	14 121	1 023

In terms of **job creation**, the South African economy failed to perform well between 1980-97. In the late 1980s and early 1990s the performance of the economy was particularly sluggish. The manufacturing sector is the second-largest contributor to total formal employment - 26% of all those in formal jobs were employed by this sector in December 1997. However, between the end of 1994 and the end of 1997 there was a drop in number of people employed in this sector from 1.49-million to 1.36-million. Although it may be argued that the South African economy has experienced the phenomenon of "jobless growth", the Department of Trade and Industry is sceptical. Instead, it ascribes the lack of employment creation to the fact that many manufacturers are over-staffed and that the economy would need to grow substantially

before new employment would be created. Further, the industrial restructuring that has resulted from tariff liberalisation has involved an adjustment period during which significant job losses have occurred in some industries (while the opposite has occurred in others). In this instance, the DTI "believes that job creation through the success of South African exports will follow shortly"^{xvii}.

Since 1982 the country's **investment levels** (overall and in the manufacturing sector) have been poor compared to competitors, and the gap has been increasing. Over the 1985-88 period, manufacturing investment was negative. However, investment in manufacturing has not been as low as in other sectors^{xviii}. While there was a slight fall in domestic investment in 1997, foreign direct investment (FDI) remained relatively strong. On the domestic front, investment has been driven strongly by a number of mega-projects² as well as a variety of small and medium-sized investment in the manufacturing sector. Interestingly, Gross Domestic Fixed Investment (GDFI) has been led by the private sector for the first time in decades^{xix}.

The **trade performance** of manufacturing production grew strongly due to export demand after sanctions were lifted in 1993-94^{xx}. However, towards the end of 1997 export performance was dampened, largely due to the events in East Asia beginning to impact on global markets. In terms of import levels, there was only a marginal increase in 1997 and this resulted in a slight improvement in the trade balance. However, this remains in deficit and improvements are necessary. The process of restructuring tariff protection that began in 1995 has not impacted the manufacturing sector as severely as predicted by some, perhaps due to the careful segmentation and sequencing of the reform^{xxi}.

Concerning **productivity in manufacturing**, Government reports indicate that industrialists in South Africa have not managed to make efficient use of the factories, equipment and labour that are used in the production process. Using the 'total factor productivity growth', the data shows that productivity growth in the manufacturing sector has been continuously low and is declining over time, and is lower than in almost all of the OECD countries.

2 Industrial development on a local level

2.1 Industrialisation-based LED strategies vs. other LED strategies

The main **objectives** of local economic development (LED)³ are to build quality jobs for the current population, to achieve local economic stability, and to build a diverse economic and employment base.

In selecting an **approach** to the development of a local economy, the following should be considered:- (1) traditional LED (i.e. business attraction through incentives) (2) small business development (i.e. retention/expansion of existing and creation of new SMMEs) (3) human resource development (4) entrepreneurial approach (i.e. cities investing in business ventures) and (5) community-based approaches (i.e. self-help oriented schemes)^{xxii}. Each of these major approaches is part of the combination of plans the community develops to create a local economic development strategy. Each city or locality has economic problems that result from a mixture of people needing jobs, firms closing or leaving, and factors that attract or produce more jobs. Strategies that are selected are thus unique in their development and their application^{xxiii}.

Traditional and small business development are important components of LED as the attraction, creation, or retention of business activities is the best method of establishing or maintaining a sound local

² Such as the Saldanha Steel project, the Majuba Power Station, and Telkom's Vision 2000 project.

³ There are many definitions for LED. In order to simplify, a broad meaning for LED is used here:- "including initiatives designed both to promote growing local economies and address poverty alleviation" (Department of Constitutional Development, 1998:7).

economy. There are at least twelve basic tools that are normally considered as useful in promoting business development, and the choice of these tools depends on the local business development strategy. These kind of strategies can have one or more of four basic objectives: to encourage new business start-ups, to attract new firms to the area, to sustain and expand existing businesses in the area, and to increase innovation and entrepreneurship within the community. Matching business development tools and objectives is important. **Table 2** shows how the 12 tools emphasise the different dimensions:

Table 2: Matching Business Development Tools and Objectives^{xxiv}				
Tool	Objective			
	Business Start-Ups	Business Attraction	Business Expansion/Retention	Nurturing Innovation & Entrepreneurship
One-stop centre	X	X	X	
Start-up and venture financing company	X	X	X	
Small business assistance centre	X		X	X
Group marketing system	X		X	X
Promotion and tourism programming	X	X	X	
Research and development				X
Incubation centre	X			X
Technology and business park	X	X	X	
Enterprise zone	X	X	X	
Entrepreneurship development activity	X			X
Women's enterprise	X			X
Micro-enterprise	X		X	X

Most communities use a combination of the tools integrated into a local or community economic development strategy^{xxv}. There has been success in various parts of the world in terms of each of these tools. The use of industrial development as a LED strategy is dependent on the success of the business development tools. For this reason the kinds of regulatory and policy tools which facilitate business development for the types of firms that use the localities asset base (such as harbour, university, supplier etc) need to be worked out^{xxvi}.

On a local⁴ or city level, the international trend has been a declining manufacturing sector and a growing services sector. However, it is clear that "**manufacturing matters**" if a city is to become a global competitor. This sector plays an important role in determining the position of a country in the global hierarchy, and for this reason industrial policy is important as it sets "the terms of the new competition and the context in which the new technology will evolve"(xiii-xiv)^{xxvii}. The manufacturing sector is also important in terms of its output and linkages to other sectors.

While industrial development has traditionally been the main sector leading the development of the economy, the new trend has been to consider the **city as a whole** rather than emphasising a few key sectors and protecting and restoring the old industrial economy in order to create employment opportunities. New growth coalitions with different interest groups have emerged, and they have shown interest in the future of the city. It has been realised that it is important to know about comparative strengths and weaknesses in order to shape the destiny of the city^{xxviii}. In this context, the role of government has changed to become more market-based or entrepreneurial in order to respond to the new thinking that "cities matter", i.e. place specific differences can create competitive advantages^{xxix}.

⁴ *Local and regional* are used interchangeably to refer to a geographic area composed of a group of local government authorities that generally share a common economic base and are close enough together to allow residents to travel between them for employment, recreation or shopping.

Tourism has been hailed by some as the “world’s largest market”, and touted as one of the “largest, fastest-growing sectors of the global economy – directly and indirectly driving more than 10 percent of GDP, jobs and investment. Acting as a catalyst for construction, agriculture and retail, business travellers promote trade while leisure travellers encourage investment, craft and community based entrepreneurship”^{xxx}. Internationally, there are a number of industrial cities that, after experiencing decline, have regained a measure of prosperity by reclaiming and promoting their cultural and architectural heritage to attract small business investment and tourism^{xxxii}. The phenomenon of tourism in older industrial cities has been termed “urban tourism”, and its success can be seen in the attendance figures at attractions and convention centres which demonstrate that cities have been successful at drawing in visitors. Although not all cities have been successful, this form of LED can bring in new jobs and income. The sector is highly competitive and changes constantly, and for this reason, continued promotion and investment is essential. Furthermore, the promotion of tourism is “inextricably bound up with growth strategies, image and making a city a good place to live in, as well as the obvious one of increasing the number of visitors”^{xxxiii}. However, although an asset to a locality, tourism should not be promoted on its own as the solution for most of the regional or urban areas currently in a state of no-growth or decline. This is because local demand for goods and services is more important than visitor demand, and explains why city authorities should rather emphasise the attraction of permanent residents than tourists in aiming at economic and employment development. Tourism is thus best seen as only one component of an economic development strategy rather than as the entire strategy itself^{xxxiii}.

2.2 Different LED approaches

Below, some of the most common LED strategies to encourage industrial development are discussed. One of the economic development models most widely used by all communities is the **traditional or incentive-based approach** (“smokestack chasing”). This model assumes that a community can improve its market position with industrialists by offering incentives and subsidies. The argument is that new activity will generate taxes and increased economic wealth to replace the initial public and private subsidies. This model has proven that community promotion works and that it is important for communities to “package” themselves for marketing purposes. While location theory suggests that localities can market themselves and offer incentives that give a competitive advantage over other areas with similar resource endowments, there is some debate as to the extent to which such efforts cancel one another out or provide firms with unnecessary and costly incentives^{xxxiv}.

It is important that communities are careful with the type of investment they encourage. The community needs to link economic and employment objectives to the types of firms in the locality. For this reason, it is important for communities to be knowledgeable about the area’s assets and to develop the correct attitudes and infrastructure to support the firm. One of the most important activities that should be undertaken by the community is to build soft infrastructure such as information and finance, in order to make the community attractive to the enterprise^{xxxv}.

The main policies aimed at reallocating capital towards depressed areas are fiscal incentives (i.e. taxes and subsidies) and schemes to improve the access of firms to finance. Other policies are labour subsidies and controls on the location of industry. However, there is some controversy as to whether regional/local policy should aim to be more industrially selective. Although it may seem superficially attractive to be more selective, one of the main problems that arises in the development of a more industry-specific policy lies in deciding *which* industries should be induced to expand in the assisted areas. Some have argued that those industries that are best able to generate job opportunities should be given the most encouragement, while others point out that growth-pole policy argues that key industries need to be established in specially selected locations. Yet others suggest a policy of diversifying the industrial base of depressed areas in order to increase the growth potential in these areas. There are difficulties in using any of these approaches, and while these policy strategies are distinct from each other, they are often incompatible^{xxxvi}.

There is some evidence of a shift towards a market-oriented or **entrepreneurial approach** to local economic development in cities around the world. It has been suggested that “subnational economic

development policy has undergone a recent shift from an almost exclusive reliance on supply-side location incentives to stimulate investment to an approach that increasingly emphasizes demand factors in the market as a guide to the design or invention of policy. The mastery of demand factors requires a sensitivity by the state to the structure and possibilities of the market, an entrepreneurial sensibility^{xxxvii}. Although there has been more emphasis placed on state entrepreneurialism, this does not mean that supply-side strategies have been displaced. See **Table 3** for some of the differences between the supply-side traditional approach to development and the demand-oriented entrepreneurial approach.

However, the increased use of demand-side strategies has meant that there have been substantial changes in the long-established relations between the public and private sectors. Inherent in the demand-side entrepreneurialism is the assumption that growth comes from exploiting new or expanding markets^{xxxviii}.

It is not always appreciated that attempts to promote development in economic sectors other than industry also need to be made. **Integrated approaches** therefore highlight the fact that the sectors are often highly interrelated. Often the successful launching of industrialisation programmes depends on improvements in other sectors such as agriculture, and the extent to which the improvements can be attained can either provide a curb or act as an incentive to the success of the new ventures^{xxxix}. In the development of economies, industrialisation is sometimes regarded as the general panacea in the poor countries of the world. Much of the poverty in the world is due to the under-development of resources, and it is important to understand that economic development is not synonymous with industrialisation alone. Other than the importance of promoting the integration of economic sectors, it is also important in approaching industrial development at a local level by encouraging the integration of different institutional stakeholders, and of ensuring that the appropriate mix of tools or mechanisms are used.

Table 3: Contrasts between Traditional Supply-Side Policy and Demand-Side Entrepreneurial Policy^{xi}	
Supply Side	Demand Side
Growth is promoted by lowering production-factor costs through government subsidies of capital and land through low taxes.	Growth is promoted by discovering, expanding, developing, or creating new markets for local goods and services.
Main focus is on established, potentially mobile capital.	Main focus is on new capital.
Strategies focus on stimulating capital relocation or capital retention.	Strategies focus on new business formation and small business expansion.
Development involves competition with other jurisdictions for the same investment.	Development proceeds by nurturing indigenous resources.
Government supports low-risk undertakings.	Government becomes involved in high-risk enterprises and activities.
Any employer is a suitable target for development assistance.	Development assistance is offered selectively according to strategic criteria.
Government's role is to follow and support private-sector decisions about where to invest, what business will be profitable, and what products will sell.	Government's role is to help identify investment opportunities that the private sector may either have overlooked or be reluctant to pursue, including opportunities in new markets, new products, and new industries.

3 Reviving industrial development as a LED strategy: the case of Port Elizabeth-Uitenhage

3.1 History and status quo of economic and social development in Port Elizabeth-Uitenhage

With a population of over one million people, the city of Port Elizabeth-Uitenhage is the third largest in the country. It is located in the Eastern Cape Province – the third largest province^{xlii}- and is one of the main manufacturing centres in the country, explaining why it is regarded by some as a “hope for growth” in this province. In fact, a total of 60% of all final goods and services produced in the Eastern Cape are manufactured in the Port Elizabeth area^{xlii}.

Since the 1920s the growth of Port Elizabeth has been largely influenced by the automotive and component sub-sector. Prior to this, the city was a growing centre of commercial activity and primary production, with strong links around the wool and mohair industry. Despite certain disadvantages experienced by the town, aggressive efforts by the local elite in the 1920s to promote industrial development resulted in success – often at the expense of the marginalised communities. The investment of international firms shifted the importance of the town from a raw material export centre to a production site that would be tied to the dynamics of the global automotive industry. Port Elizabeth became known in the 19th century as the “Liverpool of the Cape”, and in more recent times the “Detroit of South Africa”^{xliii}.

There were three main industrial development phases in the city, the first (beginning in 1924) being characterised by the assembly of parts made elsewhere and the production of basic consumer goods. The second phase (beginning in the 1960s) involved a shift to consumer durables and capital goods, and this was influenced by the growth in the automotive manufacturing industry under the local content programme. The third phase appears to be one in which import substitution seems to have run its course^{xliv}.

Over time, the protectionist and industrial decentralisation policies of national government led to a massive economic crisis in the automotive industry and in the region. Further, the concentration of automotive and component industries in the city left behind an undiversified economy that responded with difficulty to recessions and inappropriate macroeconomic policies^{xlv}. By the mid-1980s, the area’s share of national automobile production had dropped to around 30% from nearly 60% in 1965. The structural changes in the industry at a national level led to this decline which had a serious ripple effect on a number of other local component manufacturing industries^{xlvi}. Certain sectors such as the primary sector, the construction sector and the manufacturing sector were particularly affected. The overall result was a long-term period of stagnation for the city during the 1970s and a decline in the 1980s.

Since then there have been some changes in the national and global market-place which have resulted in the creation of new opportunities for the city. While in the 1970s and 1980s the industrial development policies of national government meant that Port Elizabeth’s location was a significant disadvantage in terms of distance from the main markets, there was limited export potential, and the close ties with the automotive industry were a hindrance. However, the new industrial policies that have been introduced since 1994 emphasise the importance of export-orientated growth and of competing in global markets, and the location of the city on the coast has become a significant advantage. The manufacturing sector and the services sector are the two largest sectors in terms of contribution to gross geographic product (GGP) and employment^{xlvii}. Between 1970 and 1994 the community and general government and trade and catering sector grew the most in terms of contribution to GGP and employment. The finance and real estate and construction sectors also recorded employment growth^{xlviii}. Despite the serious impact expected in the Eastern Cape with the reduction in tariffs in some of its most dominant industries such as automotive and components, clothing, rubber products, textiles and footwear, there have been positive signs of adjustment to the shift in national trade and industry policy^{xlix}.

On the social front, there is a relatively well developed infrastructure in place to cater for the demands of the population with regard to education and training, health and welfare, housing, transport, water and electricity, communication services, fire protection and crime. Although the less privileged areas have in

more recent years received more attention from the local authorities, the non-payment of services remains a serious issue. There are various plans that have been developed or are currently in the process of being developed that will improve the quality of life of the inhabitants of the city.

In line with new legislation, there has been a change in the role of local government. Rather than simply providing services, facilities and other social benefits, there has been a shift in focus towards the promotion of business growth, attraction of investment and employment creationⁱ. The investment in general social infrastructure in the city that has been made is intended to improve the quality of life for the inhabitants of the city, and tourists, and to facilitate trade.

Despite this trend, some of the indicators of social development present a relatively bleak picture. In 1991 the human development index in the city of Port Elizabeth was higher than that of the Eastern Cape Province, but a little lower than the national average. In the absence of recent (and reliable) official unemployment figures for the city, local surveys indicated that there was a 32.8% unemployment rate in 1993 – a total of 175,685 unemployed persons. In 1994 the unemployment rate was estimated at 40% - an increase from 16% in 1980ⁱⁱ. Further, the disparity in household income between different race groups is significantⁱⁱⁱ.

3.2 Current role of the industrial sector in Port Elizabeth's economy

The statistics for Port Elizabeth-Uitenhage record a total of 698 manufacturing establishments that were officially registered. In 1993 this represented 55% of all manufacturing establishments officially recorded in the census in the Eastern Cape Province, and just over 3% of all those in South Africa. The employment breakdown was skewed towards the small and medium size of enterprise i.e. employing less than 200 workers. In fact, around 85% of all firms fell into an employment size of less than 100 workersⁱⁱⁱⁱ.

In 1994 the manufacturing sector contributed about one third of the total contribution to GGP, a fall from 40% in 1968. However, despite this decline the sector remains the largest sector in the city in terms of contribution to GGP. It also employed 32% of the formally employed in the city in 1991. The formal manufacturing sector employed a total of around 66,000 people in 1993 – a drop from 69,000 in 1988. The 1988 Census shows that within the industrial sector, the greatest concentration of workers was in the automotive sub-sector (18,319 people). The other manufacturing sub-sectors that employed a relatively large number of people were the textile, rubber products, food, and electrical machinery sectors. The greatest number of manufacturing establishments in 1993 could be found in the fabricated metal products industry, followed by the machinery (except electrical) sector and the sector that manufactures parts and accessories for motor vehicles and their engines^{lv}. It is thus not surprising that almost one-third of all manufacturing firms in the city require steel in some form or other in their production process^{lv}.

The most significant industry in the city of Port Elizabeth in terms of recent investment, backward and forward linkages, contribution to production output, and number of employees, is the automotive and components industry. This sector is well represented in the city, with three of the seven assembly firms in the country including Volkswagen SA, Delta Motor Corporation, and Samcor being located there. There are in the region of 100 component producers in Port Elizabeth. This industry is fairly concentrated in South Africa with nearly 50% of total employment and an even greater percentage of output being employed by fourteen large firms that employ over 1,000 workers^{lvi}. The changing trade and industrial policy environment, and the introduction of the Motor Industry Development Programme (MIDP) has resulted in an annual national rate of increase in exports of 47% from 1988 to 1996. Despite the increasing pressure from reduced protection in this sector, it seems to have risen to the challenge and is performing well. There has been an increase in foreign direct investment in both the assembly and component industry.

Export orders that have been secured in the motor industry during the course of 1998 involve the creation of at least 1,350 new employment opportunities in the city^{lvii}. Although there has been some success in terms of increasing exports, the most recent evidence from local surveys suggests that in 1996 little outsourcing was taking place in the industrial sector. Only 5% of the 160 industrialists that were

interviewed were involved in such activities, although almost 40% suggested various kinds of outsourcing opportunities. The dominant opportunities mentioned included cleaning, engineering and maintenance. The same survey indicated that there were a number of skills shortages – blue collar skills in particular – artisan, technical, supervisory, machine-operating, basic literacy and spray-painting skills^{lviii}.

Besides being considered to have a relative advantage in the production of certain motor components for both the local and export markets in the mid-1980s, Port Elizabeth was also deemed to have an advantage in terms of the manufacture of hides and skins due to the existence of backward and forward linkages, electrical machinery due to its multiplier effect on income and employment in the local economy, and the processing of various food products such as canning, preserving and confectionery^{lix}. In more recent times, the government has identified and targeted four manufacturing sub-sectors as having growth potential. Besides the automotive and components sector, the textile, wool and mohair; leather and footwear; and food processing sectors have been targeted. In the past, the other sectors that have had a strong presence in the area include the chemical; metal, metal products and machinery; textile and clothing and food and beverages industries.

In terms of government's plans to stimulate industrial development in the Eastern Cape, there are currently Spatial Development Initiatives (SDIs) and an Industrial Development Zone (IDZ) that are being developed. The Fish River SDI is focused on industrial development^{lx}. This SDI is aimed at promoting the growth of industrial nodes between the coastal cities of Port Elizabeth and East London in the Eastern Cape Province. It is one of the ten trade and industry department programmes throughout the country, with some 130 potential investment projects to give momentum to investment^{lxi}.

The Coega Industrial Development Zone, located 20 kilometers from Port Elizabeth, is linked to the Fish River Spatial Development Initiative. The Industrial Development Zones (IDZs) are planned to provide a further mechanism to facilitate investment in manufacturing. The linkages between SDIs and IDZs are considered important by government, and for this reason the IDZs are designed to fall within the SDI areas that are marketed to foreign direct investors for export oriented manufacturing production. The reasons for the creation of IDZs are based on the need for industrial concentration in order to respond effectively to global markets, as well as evidence in other countries that it has become important to provide incentives in order to attract foreign direct investment in manufacturing production. The IDZs, different from the traditional export processing zone concept, will not allow labour conditions to be relaxed, but will offer various incentives that are attractive to foreign investors including:- an institutional framework, administrative support, regulatory mechanisms, physical zone qualities, and other attributes specific to the particular location^{lxii}. While plans were approved by cabinet in March 1999 guiding the creation of IDZs, there are no firm details as to the nature of the financial (and tariff) incentives that will be offered in the zones. The cabinet decided on the formation of a task team made up of senior officials from the government and manufacturing development board to draft guidelines for the creation of IDZs, and this would include research regarding various kinds of incentives^{lxiii}.

Prospects for economic growth in the city seem to depend heavily on the Coega IDZ. It is unclear at this stage as to exactly what kind of industries will locate in the Coega IDZ, but there are indications that local commerce and industry – particularly the primary and construction sectors, some manufacturing sub-sectors (engineering, electrical machinery, metal products), and some service sectors^{lxiv} - are relying heavily on the realisation of the zone in terms of stimulating growth and development in the city. Many of the city's inhabitants view the Coega IDZ as the answer to the serious unemployment problem; however, there are some that fear that the development may generate few jobs, damage the environment, and impact negatively on human health^{lxv}.

The IDZ covers an area more than five times the size of the existing land allocated for industrial development use (see **Map 1** and **Map 2** in **Appendix A**). The maps show that most industrial development in the city has tended to develop in a north-easterly and north-westerly direction. Without major investment in the city (such as that envisaged for the IDZ), manufacturing activity is unlikely to be a significant source of employment growth in the future unless it occurs in sub-sectors that are expanding, such as components in the automotive industry.

3.3 Towards a new LED strategy for Port Elizabeth

As in other cities around the world, the city of Port Elizabeth is faced with the choice of a number of different local economic development options. In the past industrial development has been the most significant economic sector in terms of contribution to output and employment. Although the contribution to output has dropped over the last 25 years, in 1994 it remained the highest sectoral contributor at one third of total output in the city. The need for reviving industrial development in the city is perhaps one of the main reasons for the concept of an IDZ being mooted at Coega. The **Coega IDZ** and port is regarded by many as the main LED strategy in the city⁵ although development has not yet actually started on the ground and thus remains a concept.

Until late 1998 it was envisaged that Billiton would become the main **anchor tenant** as it had committed itself to invest some R2.7-billion in a zinc smelter. However, since Billiton's technical partner, Mitsui, backed off from the deal, it has been unable to find another technical partner. The third partner, the South African Industrial Development Corporation was also interested in staying involved in the development. The only other tenants were Portnet and Pretoria Portland Cement (PPC)⁶. Then in July 1999, Germany's stainless steel group Ferrostaal emerged as a new potential anchor tenant. Government indicated last year that it planned to use industrial offsets from its pending multibillion-Rand counter-trade deal arms order to revive the plans for the IDZ. In May, government and a German consortium signed a draft agreement for SA to buy three submarines for R4,5bn in return for a R19bn stainless steel plant investment. Once this deal has been signed, Ferrostaal will go ahead with plans for this project^{lxvi}. Other than these core tenants, there have apparently been a number of inquiries from potentially interested investors.

At the national **Jobs Summit** in Johannesburg (October 1998), the Eastern Cape was a major focus of interest. One of the three main focus areas in the province was the Greater Algoa initiative, centered around the Coega IDZ and port. In this respect there were five projects presented which focused on agriculture, the motor industry, metals processing, tourism and small, medium and micro-enterprise (SMME) development^{lxvii}.

There has been significant **debate** on the local level about the appropriateness of the development at Coega. Questions have been raised about the role of the government in promoting development of this kind. Further, there have been various interest groups that have, at some stage or another, indicated some distress concerning the IDZ. In particular, the labour unions, the citrus farmers and the environmentalists, as well as some other smaller groupings have suggested that money would be better spent elsewhere. Besides these concerns, arguments have been made for making alternative use of the land and natural resources – particularly energy and water. The viability of another port in the country is another point that has been raised – with two deep-water ports already in existence in Richards' Bay and Saldanha Bay. On a more fundamental note, it has been stated that the Coega IDZ has been marketed as a "top-down" local economic development strategy, with few direct benefits to the local people^{lxviii}. A "top-down" approach to development means that decisions about development and actions initiated are made outside of the demarcated area. In the instance of the IDZ at Coega, there is an opportunity to kick-start growth in the local economy largely through the attraction and promotion of large-scale investments in industry or "big business". Many of the decisions and actions of those outside of the city are thus critical to the success of the IDZ – as pointed out by the chief executive of the Coega Implementing Authority, "80 to 90 per cent of the decisions about Coega are actually taken outside this province."^{lxix} Although there have been a number of concerns, there seems to have been widespread support for this development strategy to be realised since the Coega concept was introduced in 1996^{lxx}. There is support amongst the business sector in particular^{lxxi}.

Some of the main **challenges** faced by the Coega Implementing Authority⁷ - an institution created to "fast-track" the Coega - include the lack of sufficient transport infrastructure, the concerns of the labour

⁵ The current preferred option is a parallel approach (1) focus on the IDZ (Coega) and (2) focus on tourism (Greater Addo Elephant National Park) (personal communication with Errol Heynes).

⁶ PPC was already a local firm and has relocated from Loerie to the Coega area as it was in need of renewal and further upgrading.

⁷ The Coega Implementing Authority is now known as the Coega Development Corporation.

movement, the ecological challenges, incentives, linkages with the local economy, and the credibility of the industrial cluster concept. The global economic crisis that has affected commodity prices, including zinc, is something that has had some impact on investor sentiment and could affect the timing of the project^{lxxii}. Some of the expected negative externalities associated with industrialisation at Coega include the damage that may be caused to the fishing industry, ecotourism, agriculture, and human health^{lxxiii} – a total of R114-million has been estimated as income losses due to the negative impact caused by the IDZ and port. Other opportunity costs include the existing saltworks at the mouth of the Coega River, an abalone farm and recreational facilities such as the racetrack and holiday resort in the area. The task of those managing this process will be tested in finding ways to complement existing economic activity in the area, and to keep these costs down^{lxxiv}.

Moving away from the Coega IDZ, there have been other local economic development initiatives that have been undertaken in the city, and that have had some success. With regard to industrial initiatives, the **motor industry cluster** is “up and running” as part of the Fish River Spatial Development Initiative. Its vision is “(t)o establish a viable, local and internationally competitive industry, capable of achieving both continuous growth and sustainable job creation”^{lxxv}, and it is located within the geographical demarcation of the Fish River Spatial Development Initiative. This regional cluster facilitates the collaboration of business, national and provincial government and labour to enable enterprises within the sector to compete internationally^{lxxvi}. The planning is reported to be progressing well in the Port Elizabeth-Uitenhage and Coega area, and has reached an advanced stage in East London^{lxxvii}.

There have also been a number of success stories amongst individual firms within the **automotive and component firms**, particularly in terms of lucrative export orders and employment creation. As pointed out in the media recently, “After almost 15 years of strife, struggle and oppression, Port Elizabeth is leading an industrial revolution in the country’s poorest province”^{lxxviii} (p21). Besides the announcement of Portnet’s commitment and readiness to invest R1.2-billion in the development of a port at Coega, the year of 1998 heralded Volkswagen South Africa’s (VWSA) announcement of a R5-billion export order. The VWSA order involves the creation of 1,000 new jobs over an eighteen month period and an increase of production to 116,000 (double the existing quantity)^{lxxix}. This was extended later in the year to involve ongoing orders to export 60,000 cars per annum for at least four more years and an injection of R5-billion a year. Local component manufacturers would be used to complete these orders. One of the spin-offs of such an investment is the skills transfer that would take place, and the feeling was that this would “boost plans for the establishment of an automotive cluster in the Coega Industrial Development Zone”^{lxxx} (p2). A further major investment was that of the South African Motor Corporation (Samcor) committing to spend R146-million to gear up its Port Elizabeth plant after securing a R1.6-billion export order contract with Ford Motor Company^{lxxxi}. This contract involves the export of 55,000 new-generation Ford engines a year for the next eight years, and the creation of some 350 new jobs.

Tourism has grown at a rapid pace during the 1990s and shows a lot of potential in the city. This echoes the consistent growth in tourism at national level since 1994, the huge tourism potential in the Eastern Cape, and the suggestion that “no other sector of the economy has equalled this performance”^{lxxxii}. Tourism is often referred to as the sector with the most potential in the city – perhaps reflected in the rising trade and catering official statistics - and it has been argued that it is important for the Eastern Cape to develop and market a “cohesive, strong branding or image for the region as a whole”^{lxxxiii}. For this reason, the concept of the “Sunshine Coast” has been developed, and a committee was formed in 1997 comprising the relevant tourist associations along the route⁸, and a website and marketing arm has been developed^{lxxxiv}. The Port Elizabeth airport received international status in April 1998, and has plans to invest R38-million in extending its runway once it proves financially viable^{lxxxv}. There are also plans to relocate the petroleum tanks and manganese ore dumps from their harbour location to Coega so that the harbour can be redeveloped into a “waterfront” tourist attraction. Initiatives such as the planned extension of the Addo Elephant National Park are also important for the growth of the city. There is a vision to amalgamate the

⁸ The proposed route comprises the Western Region of the Eastern Cape, i.e. the Sundays River Valley, Humansdorp, Kenton/Bushmans, Port Elizabeth and the Tsitsikamma as well as the Central Region of East London. However, the exact area has not yet been clarified. It runs for over 200 kilometers between the two industrial centres of Port Elizabeth and East London.

existing Addo Elephant National Park and the Woody Cape Nature Reserve. This development will be the third largest in the country and create one of the most diverse conservation areas in the world with a unique combination of six biomes (forest to karoo). This proposed park, an hour away from Port Elizabeth, will provide significant opportunities for eco-tourism as well as socio-economic benefits for the local community, and for the city of Port Elizabeth^{lxxxvi}. Another development that will impact on the tourism industry is the casino which recently won the bid for a license - Emfuleni Resorts – and which is likely to invest in the region of R500-million^{lxxxvii}.

Small business development has also received much attention from interest groups in Port Elizabeth-Uitenhage. The local authorities have developed a database of small businesses in efforts to support the implementation of the municipal Procurement Policy that has recently been adopted by Council. The deputy-mayor, who chairs the Economic Development and Tourism Task Team, also heads up the largest local business service centre in the city, the Community Self Employment Centre (COMSEC). The establishment by the City Council of the Economic Development Unit that is envisaged to be operational early in 1999, is undertaking a pilot project aimed at stimulating and supporting small, micro and medium enterprise (SMME) development. While there are four local business service centres (LBSCs) in the city, the first manufacturing advisory centre (PERMAC) was launched in Port Elizabeth in 1997 as a pilot - planned to provide support and assistance to small manufacturing enterprises. In the same year, the Port Elizabeth Regional Chamber of Commerce and Industry set up a Small Business Task Team, aimed at dealing with small business issues, and the new Chief Executive Officer has prioritised the development of this sector as one of his main goals. More recently, five retail finance intermediaries (RFIs) were established to deal with micro-lending requirements. In line with the goals of national government, the evidence at this local level suggests that support institutions are beginning to create a supporting environment for small enterprises, particularly those that were previously disadvantaged by apartheid policies^{lxxxviii}.

3.4 Pros and cons of industrial development as a LED strategy in Port Elizabeth

There are a number of disadvantages, as well as advantages, involved in pursuing industrial development as a strategy in the city. Some of these include the issues of employment and income effects, investment requirements, questions concerning the primary beneficiaries of such development, and environmental considerations, each of which is addressed in this section. It is important to consider each of these in the context of the city as a whole, rather than only within the proposed Coega Industrial Development Zone.

In terms of the **employment and income effects**, income in the Port Elizabeth-Uitenhage area is expected to be heavily impacted by the growth of industry resulting from the policies advocated by the DTI. Some estimates (which assume average annual growth of 2.6% for the period 1998-2001 in South Africa), predict that in the Eastern Cape GGP is expected to grow by 2.3% per annum. In this province, there are a variety of industrial development plans, ranging from export-driven heavy industry to rural industries^{lxxxix}. It is expected that growth in the Eastern Cape will be sustained by the growth of the automotive sector, largely due to significant foreign export orders. The construction of the Development Zone at Coega is expected to impact positively on the construction sector. However by the turn of the century the Coega Development Zone is expected to have gained momentum, and the zinc refinery will have reached full production by the year 2001. In the new millenium it is anticipated that there will be a take-off in non-ferrous basic metal production^{xc}.

At the beginning of 1997, it was expected that the construction phase⁹ (18-36 months) of the development at Coega will result in temporary employment opportunities for between 24,117 and 33,842 people¹⁰ in Port Elizabeth-Uitenhage, and income of between R3472-million and R6240-million. The operational phase¹¹ (maximum lifetime of 40 years) was estimated to generate between 2,840 and 9,304 permanent jobs, and income of between R228-million and R1290-million. The income effects that have been estimated for the construction stage are significant, accounting for between 34 and 60% of total GGP in Port Elizabeth-Uitenhage; similarly, employment would account for between 12 and 17% of employment in the area. On the other hand, the effects of the operational phase on income and employment in the city are between 2.2 and 12.4% of GGP, and between 2 and 5% of employment, respectively^{xci}. It is difficult at this stage to say how this would have changed since early 1997¹², but it is envisaged that many new jobs will be created in terms of additional anchor tenants that may show interest in locating to the IDZ, and in downstream industries. On the other hand, there are sources suggesting that the job creation estimates are much lower than the 1997 figures^{13 xcii}.

The employment estimates, and permanent direct income of between R191-million and R1087-million^{xciii} generated by the Coega IDZ and port in the Eastern Cape are expected to be far more significant once others begin to invest in the development zone. This is particularly the case in light of the strong development trajectory as experienced at Saldanha and Richards' Bay. In terms of the expectations that have been created amongst the people of Port Elizabeth-Uitenhage around the Coega IDZ, it is important that this development "takes off". In the instance that the development at Coega does not take place as envisaged, the employment and income effects are expected to be far more conservative in both the city of Port Elizabeth-Uitenhage, and the Eastern Cape Province as a whole. The size of the project enables it to "kick-start" the local economy and create the infrastructure and productive capacity to support an ongoing higher economic growth rate. Growth scenarios show that Eastern Cape GGP in the year 2010 could be 8% higher than it would be without the project^{xciv}.

One of the main objectives of industrialisation policies is to provide employment for growing populations. In Port Elizabeth-Uitenhage the relatively high unemployment figures and the critical poverty gap point to the need for policies that can solve these problems. For this reason, there is support for industrial development of the nature proposed at the Coega IDZ. However, there are some **reservations about the nature of the jobs** that will be created in the short-term. There are indications that industrial development will be capital-intensive and require largely skilled labour, which will probably mean that some labour will need to be brought in from outside the region. Although the downstream activities at the development zone are expected to include SMMEs and other more labour-intensive industry, there is no certainty as to the exact extent and nature of this kind of investment.

The shortage of certain skills (especially blue-collar skills) in the industrial sector in the city of Port Elizabeth-Uitenhage suggests that the relationship between the education and training institutions and industry is currently relatively weak. Improved planning and development of the human resources in the area needs attention in order to address the mismatch between the supply of and demand for skills. In terms of the Coega IDZ, an assessment in 1997 of the skills that will be required included construction, business management, finance, procurement, human resources and marketing and particularly, engineering. The higher level of skills training that may be lacking in Port Elizabeth-Uitenhage would have to be imported from other cities^{xcv}.

⁹ The construction phase includes the infrastructure to service the area, port construction, the Gencor (now known as Billiton) and Kynoch plants, and Pretoria Portland Cement. Since these figures were published, Kynoch has decided not to go ahead with the investment.

¹⁰ The lower level is referred to in the report as the "conservative scenario" of the Coega IDZ.

¹¹ This includes the port at Coega, and the Gencor (now known as Billiton) and Kynoch operations.

¹² Some recent documentation estimates that permanent direct employment effects will be between 850 and 2,721 (Mncwabeni, L. and Bond, P. (1998). Ibid).

¹³ For instance, the number of temporary construction jobs created in building the Billiton plant are 4,000, with the average number employed during the 2 ½ year construction phase will be 2,100. The permanent jobs in the production phase is down from 620 to 528. The construction of the harbour is expected to generate a peak of 3,000 jobs, and 100 permanent jobs during operation.

The potential cost of **industrial unrest** is a further concern in the city, particularly in the light of past experiences, and is a factor that will play an important role in any attempts to encourage industrialists to invest in the city. However, the Labour Relations Act, introduced in 1996, aims to endorse the basic rights for workers and employers while at the same time responds to the imperatives demanded by world-class manufacturing and the liberalisation of tariffs^{xcvi}. In light of the need to address the apartheid legacy, the appropriate balance between security and flexibility in the labour market to achieve worker welfare and economic efficiency must be reached^{xcvii}.

One of the most serious barriers to industrialisation in many countries – and cities – are the environmental conditions created by man – often referred to as the **industrial investment climate**. These conditions can be changed for the better by a government that gives top priority to creating favourable conditions for economic progress and a move to improve the investment climate is the logical starting point for any locality that embarks on a comprehensive industrial development programme.

One of the key factors holding up the progress of the Coega Implementing Authority is the granting of **investment incentives** by national government. This is because the details of the incentives will guide the decisions made by the private sector as to whether it will be interested in locating in the IDZ. Media reports in 1998^{xcviii} indicated that Mitsui, who played a key role as partner to anchor tenant Billiton in undertaking a feasibility study of the IDZ, pulled out of the process was a cause for concern. Although it has been reported that the reason for withdrawal was due to the financial crisis in Asia, other sources blame the government for the delays in providing the investment incentive details. The legislation governing Industrial Development Zones was planned to be passed in the first quarter of 1999, and it was hoped that this would play a key role in determining the interest of the private sector^{xcix}. However, by the time of writing this report (August 1999) legislation with details of incentives for the zones have not yet been passed.

The Industrial Development Corporation (IDC) has proposed new IDZ specific support measures to supplement existing incentives schemes and support measures. These are presented in **Table 4**.

However, the country’s ability to provide incentives has some limitations, namely fiscal constraints and World Trade Organisation obligations. For this reason, the IDZ incentives that will be made available are likely to involve only marginal adjustments to current national incentives. Proposed new incentives will be restricted to – and will concentrate on – human resource development support, environmental support measures, as well as discounted local rates and taxes. Because the availability of grants, subsidies and exemptions may be limited in comparison with global offerings, it will be important for South Africa to place emphasis on the regulatory support package¹⁴ and infrastructure in the IDZs^c.

The **investment requirements** for the Coega IDZ and port are between R4379-million and R11819-million, while those for the alternative agro-tourism strategy are between R862-million and R1107-million. However, as mentioned with the employment and income estimates, there has been no time-frame attached to the latter strategy, so comparisons are tricky. However, it seems unlikely that the requirements for investing in a world-class

Table 4: A proposed incentive package for South African IDZs^{ci}

Current support measures, with some exceptions will be available to firms locating in IDZs	Amended and new support measures for firms locating in IDZs
Current national support measures:	Amendments to current support measures:
<ul style="list-style-type: none"> • SMMDP • Export incentives (EMIA, Short Term) 	<ul style="list-style-type: none"> • Automatic unrestricted access to duty free inputs;

¹⁴ This includes best-in-practice administrative support, liberalised work permit procedures, customs free movement of goods, elimination of exchange control, provision of world-class infrastructure, and full or partial exemption from public sector monopolies.

<p>Export Finance Guarantees, Market Access Arrangements (i.e. EU, SADC, GSP), zero-rating for VAT on exports, and;</p> <ul style="list-style-type: none"> • Productivity and technology enhancement incentives (i.e. the Competitiveness Fund, SPF, SPII, THRIP, and the MACs Programme); • Policy based development finance (IDC, Khula) • MIDP • Textiles and Clothing DCC Programme • Government procurement preferences 	<ul style="list-style-type: none"> • Preferential tax holiday dispensation; • Adjusted accelerated depreciation allowance; • Exemption of VAT on domestic inputs; • Rebate item 470.03 of the Customs and Excise Act <p>New support measures (being investigated)</p> <ul style="list-style-type: none"> • Subsidised training and training facilities • Environmental support measures; • Possible support at municipal level <ul style="list-style-type: none"> - Discounted local rates and taxes - Supported lease of land and rent of buildings
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industrial development zone and port, as well as the many other downstream industries that are envisaged to locate in the zone, will be lower than those for the development of a strategy that is based on agriculture and tourism.

A further concern lies in the question of **who are the primary beneficiaries** of industrialisation. As in all projects or businesses where risk-taking is paramount, the main beneficiaries of industrial development in the city are sure to be the industrialists themselves. This is particularly the case in the instance that large-scale industry is the target of investment promotion efforts. Although it may be more difficult to promote sustainable SMME development, efforts need to be made to do this so that access to wealth-creating activities is broadened, particularly amongst the marginalised communities. In the instance that there are linkages with the surrounding local economy, upstream and downstream industries will also benefit from the industrialisation process. Other than the large anchor industrialists, and downstream industries, those who are employed in these industries will be assured of a constant income as well as other employment benefits. The city as well as the broader Eastern Cape Province will also benefit in terms of the creation of a critical mass of industry that will then attract more business to the area. In particular, the local authorities will benefit from the income generated by rates and taxes, as well as service charges that will be paid by industrialists.

With regard to **environmental considerations**, in South Africa there has been scant overall analysis of the environmental sustainability of the economy. However, a need to shift industry onto a more sustainable development path has been identified. This path involves in-depth analysis of the use of natural resources that either serve as inputs to industry or receive its waste^{cii}. Although environmental law does exist in South Africa, the role of the state in monitoring the environmental impact of industrial activity and administering and managing environmental quality has been ineffective. This is particularly the case in the instance of smaller industries. However, recent changes introduce a new chapter for environmental management in the country, and industry will be forced to reconsider production processes. Only then will environmental law begin to play an important role in influencing industrial strategy^{ciii}. The Department of Trade and Industry catered for Environmental Impact Assessments in their Spatial Development Initiative Programme long before these became law through the new Environmental

Management Bill¹⁵. Despite these developments, there has been general discord on the part of environmentalists because many of the SDIs have been planned on or near some of the most pristine land in the country. Perhaps one of the main causes for concern is that the SDIs "echo the fast-track development strategies of the Asian Tiger economies. There the agenda was to build up wealth and jobs fast, and the thought was that any damage caused could be fixed later with the money generated"^{civ}. However, there has been an important recommendation that it is important for environmentalists to make sure that their views are heard, and taken into consideration in the development process.

In the case of the Coega IDZ, the environmental issue has been hotly debated. The Strategic Environmental Assessment that was undertaken for the Coega IDZ concluded that there are no environmental "fatal flaws" preventing the development from going ahead^{cv}. Since then it has been reported in the press^{cvi} that the environmental permit allowing the project to proceed has been issued by the Eastern Cape provincial government.

3.5 LED process in Port Elizabeth up to now and the role of local government

Only since the first democratic elections in 1994, and reduced state economic and political intervention, has there been significant evidence of a number of stakeholders from different racial groups working effectively together in promoting local economic development in the city. The introduction of a **Strategic Plan for the City** in December 1996 provided the Port Elizabeth TLC with the direction to develop and adopt a Local Economic Development Policy document in September 1997. This policy provides guidance to the Council in its role as facilitator of local economic development^{cvi}. In the same year, the Economic Development and Tourism Task Team (EDTTT) - consisting of representatives from organised business, organised labour, the TLC and the provincial government¹⁶ - was established by Council under the chairmanship of the deputy-mayor of the city. This Task Team provides the institutional structure through which various interest groups can be included in the economic development process at a local level. The initiatives of the institutions represented on the Task Team are tabled at regular meetings, as are any other economic development initiatives that arise. Other functions of this Task Team are the setting up of a dedicated Economic Development Unit (planned to be established in 1999) within the TLC, and the co-ordination and monitoring of the various economic development initiatives in the city.

As regards the **role of local government**, the Port Elizabeth Local Council has taken a number of important steps. Firstly, it has developed a *Procurement Policy* that is based on the *Ten Point Plan on Public Sector Procurement Reform*. This policy strives at stimulating and encouraging the development of SMMEs through municipal procurement. Secondly, the establishment of a Centralised Information Centre (a kind of One-Stop-Shop) in the City Centre has resulted in an accessible state-of-the-art centralised office dealing with all public information enquiries and complaints, applications and referrals^{cvi}.

Through the Economic Development and Tourism Task Team, the City Council is attempting to formally co-ordinate the activities of those individuals and institutions involved in the development of the local economy. The establishment of an Economic Development Unit is planned to take this a step further, so that there can be a dedicated structure that "champions" the economic development process in the city. Proposals of the establishment of this Unit were formulated and accepted by Council in August 1998. The support of the Swedish International Development Agency (SIDA) has been important in this regard, as has the services to an industrial development specialist who has been contracted to operationalise the Unit by

¹⁵ The process:- after a feasibility study has been completed to make sure the SDI is needed and viable in a certain area, a Strategic Environmental Assessment (SEA) or a Strategic Environmental Management Framework (SEMF) is done. This highlights any potential environmental problems, and it is at this stage that excessively harmful projects are ruled out.

¹⁶ This has since included other stakeholders such as the tertiary institutions.

the first quarter of 1999. In fact this unit is already undertaking a pilot project to stimulate and support SMME development in Walmer Township and Bethelsdorp.

The Executive Committee (EXCO) of Council is playing an active role in the Coega Industrial Development Zone project, particularly in terms of negotiations with national government. Resources and expertise have also been contributed by local government to the Coega project. Furthermore, the creation of international links through the "twinning" of cities has been initiated by Council. This practice, which stimulates interaction between industry, commerce, tourism and the tertiary institutions, is particularly important considering the international isolation this country has experienced in the past. There are currently two such formal twinning agreements:- one with the city of Gottenberg in Sweden, and the other with Lobatsi in Botswana. There have also been formal links made with a number of other cities that have been visited by city officials. The formulation of a Comprehensive Urban Plan was also initiated by the City Council, with the assistance of SIDA. This Plan will guide all future development by the local authorities in the city. There are a number of other institutions represented on the programme. It is planned to be complete early in 1999^{cix}.

3.6 Perception of stakeholder groups towards the industrial development option and how to avoid/overcome possible conflicts

Representatives from a total of sixteen institutions involved in developing the Port Elizabeth-Uitenhage economy were approached and interviewed for the purposes of this study (see **Appendix B** for a list of all interviewees). Two institutions from each of the following groups were selected in a purposive manner:- local government, organised business, organised labour, tertiary institutions, parastatals, and civil society. A further local government representative from the Uitenhage TLC was also included. The remaining three institutions included in the study as sectoral development agency representatives were:- Tourism PE, Coega Implementing Authority, and the Eastern Province Agricultural Union. In the course of November-December 1998, personal interviews were conducted by the author with each of these representatives using structured questionnaires (see **Appendix C**). The information that was collected in this process is essentially qualitative in nature and is thus intended to show insight into current and future LED strategies - including industrial development - in Port Elizabeth-Uitenhage, rather than being scientifically representative of any particular institutional grouping.

3.6.1 Institutional factors

Certain functions of institutions were presented in the questionnaire to each representative and they were requested to select the main two functions in order of priority. The most common was representing interests of members, followed by training and capacity-building. The perception of the sixteen representatives about the main institutional constraints across the board in developing the economy at present was lack of experience. Other important institutional logjams included insufficient finance and lack of transformation.

Eight different categories of institutions (organised business, local government, provincial government, national government, parastatals, civil society, tertiary institutions and organised labour) were presented to the respondents and they were requested to rate them on a 5-point scale, according to certain variables impacting on the promotion of LED in the city¹⁷. The sectors considered to be *most responsible* by the majority of respondents were organised business and then local government; *least responsible*, organised labour and then civil society. In terms of *effectiveness in promoting LED*, local government scored the highest mean rating, followed by organised business; in this instance the lowest mean ratings were once again for organised labour and civil society. Ratings showed that *the best attitude towards LED* was perceived to be displayed by organised business, followed by local government, while parastatals and organised labour had the *worst attitude*. Some of the other types of institutions (not included in the questionnaire) suggested as responsible, effective and having a positive attitude towards LED included sectoral development agencies, religious groups, research and technology institutions, and financial institutions.

The eight institutions were again listed and the respondents were requested to rate these in order of priority as to which is most **effective in promoting economic development** in the city, adding any that may be more effective. In terms of particular institutions, the weighted results show that the Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI) is considered to have been *most effective*. The other *effective institutions* (in order of priority) included local government (includes the Economic Development and Tourism Task Team) and the Coega Implementing Authority. The only other institutions (not listed in the questionnaire) suggested as *effective* included the Delta Foundation and radio stations - although neither was rated *most effective* by the respective respondent.

A variety of reasons were given for why the institution considered *most effective* was selected. In the case of each, the following reasons were given (and exact quotes are presented):-

- **Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI)**
 - Their organisational capacity in terms of lobbying local and provincial government in the sense of marketing and presenting the case for PE
 - Made people aware of a lot of things
 - Visible in their support for business development
 - Have uncovered new and creative initiatives like Coega
 - Have an understanding of the challenges of globalisation
 - Been very aggressive eg. Coega on the map
 - Always in the news
 - Successful in creating public awareness and keeping public debate alive
 - Profiling itself and attracting interest in economic development
 - Has started achieving a positive image
 - Very specific in issues it took up
 - Has infrastructure and culture to deliver and the constituency it services is results-oriented

¹⁷ Responsibility for, effectiveness in, and attitude towards the promotion of LED in the city of Port Elizabeth were the variables to be rated.

- Because of results - focus and achieve results which provide economic empowerment eg Coega, rail tariffs. This has made the difference to opportunity for LED.
- **Local government**
 - Addresses the issue of demographics and is inclusive
 - Looks at finding ways of improving its service capacity - improving economy by making service provision more effective
 - The PEM (Marketing) office pro-actively markets the city, through the internet, follow-up communication with past foreign delegations etc. The City Council has in recent years also become more pro-active, eg twinning.
 - Pro-active and starting to make a difference
 - Playing the greatest role in terms of being a catalyst, initiating projects and co-ordinating key stakeholders
- **Coega Implementing Authority**
 - Aimed at a delivery process and a defined deliverable
 - The Coega IA has moved in "leaps and bounds" to achieve its objectives
 - Coega is big and will have large-scale impact
 - Been able to negotiate although it has not been easy to get commitments from government

3.6.2 Strengths, weaknesses, opportunities and threats of the city

The main **competitive advantage** of the city of Port Elizabeth-Uitenhage is considered by the greatest number of respondents to be the export potential of the city. The weighted results show that the sound infrastructural base and the efficient and financially sound government are also very important. These are closely followed by the tourism potential and the quality of life in the city. On the other hand, the primary barriers to economic growth and development are considered primarily to be finance, but also the lack of relevant skills and an attitude of inferiority. An assessment of the strengths, weaknesses, opportunities and threats of the city that impact on economic development are presented in **Table 5**, with the number of mentions shown in brackets. In each case the exact words of the interviewees are presented.

Table 5: SWOT analysis of the city and impact on economic development	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Good technical infrastructure (6) • Lifestyle (2) • Economic stability (1) • Institutional capacity (1) • Manageable size (1) • Politically stable environment (1) • Tourism potential (1) • Proactive/integrative (networked) (1) • Wonderful co-operation between different groups (1) • Government structure which wants to take people aboard with LED (1) • Location (1) • Established automotive industry (1) 	<ul style="list-style-type: none"> • Negative attitude (2) • Poverty and unemployment (2) • Competing interests between main social partners/lack of collective effort (2) • Lack of experience (2) • Lack of co-ordination in different levels of government (1) • "Small-town" mentality (1) • Lack of investment (1) • Vision (1) • Poor economy (1) • To rely on becoming globally competitive i.e. need to seek out other strategies (1) • Lack of tourism marketing (1) • Lack of work ethic (1) • Lack of law and order (1)
Opportunities	Threats
<ul style="list-style-type: none"> • Coega IDZ and harbour (8) • Tourism (7) • Automotive industry (3) • Well located for export opportunities (2) • Untapped potential of human resources (1) • Friendliness (1) • Coastal city (1) • Political (many provincial representatives are from PE) (1) • Joint ventures (1) • Casino (1) • Can fast-track economy by targeting what we need and aim at achieving this (1) • Investment is always available (1) • Marketing the potential of the city • SMME sector (1) • Khulani Corridor (1) • Red Location (1) • Unlimited - multi-sectoral (1) • To become a transport hub (1) • Agro-tourism (1) 	<ul style="list-style-type: none"> • Global dynamics/competitiveness (3) • Negativity/apathy of PEU inhabitants (3) • Inflexible labour and Labour Relations Act (2) • Overflow of immigrants to PE (1) • Finance (1) • Allocation of resources by provincial government (PE is seen as a "developed" area) (1) • Lack of promoting the city (1) • Pollution (1) • Unemployment (1) • Local competition between sectors/ too slow to react and/or deliver (1) • Unclear investment agendas which create high expectations in terms of job creation (1) • Outside perceptions (1) • A collapsing provincial and local authority (due to skills exodus) (1) • Political power of organised labour (1)

3.6.3 Local economic development options

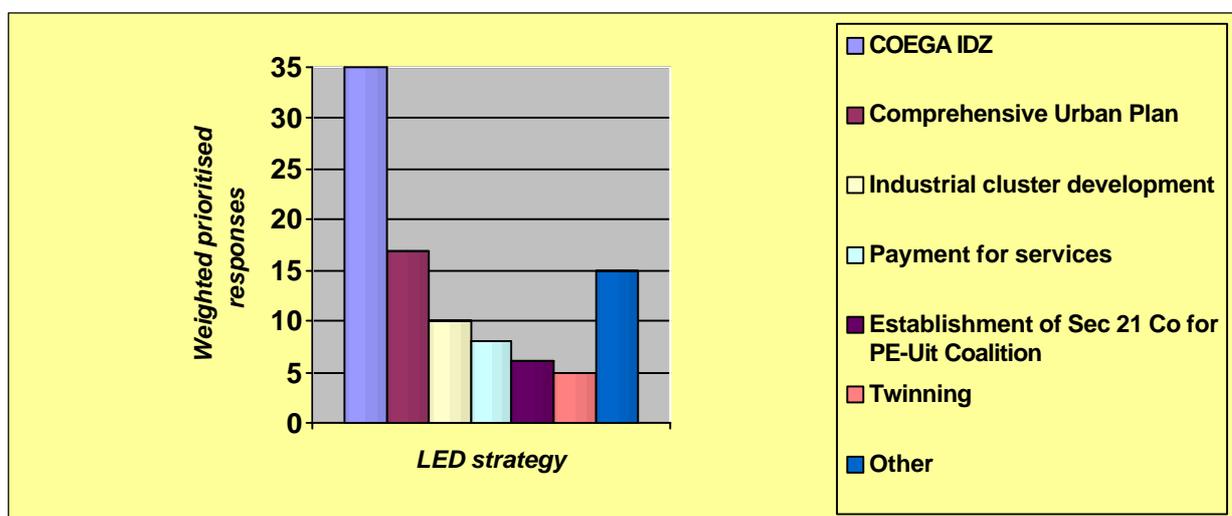
Of the six **objectives of LED** presented to the respondents, the most highly rated was job creation, followed by poverty alleviation and then long-term sustainability. A number of examples of effective LED in the city were cited by the respondents, and are listed in **Table 6**. The most commonly mentioned example was that of increased export activity. The performance of the automotive industry, particularly in terms of increasing exports and investment, also seems to be perceived as a good example of effective LED. There were two respondents reporting that they did not feel that there had been any examples of this

nature; reasons given were that:- (1) there is an absence of an LED framework for the city and (2) the government is focussing on already-developed areas, prioritising some areas for development over others.

Table 6: Examples of effective LED in Port Elizabeth-Uitenhage		
		n=22
1	Exports Recent export drive Exports in motor industry	5 2 3
2	Automotive Sector Automotive industry - success in attracting investors to the city Automotive industry growth	3 1 2
3	Coega Industrial Development Zone and Port The Coega Initiative Section 21 Company that did pre-feasibility study - from all sectors of society	3 2 1
4	SMME Development Comsec increased GDP contribution and no of new businesses created SMME focus in PE Support and growth of SMME sector	3 1 1 1
5	Other Tourism growth Investment Development of commercial nodes despite resistance Development of LED framework for future Transforming to become globally competitive Self-help housing	6 1 1 1 1 1 1

The respondents were requested to list three of the **chief current LED strategies** in the city of Port Elizabeth in order of priority. The weighted results (see **Figure 1**) show that of the six that were listed in the questionnaire, the Coega Industrial Development Zone was considered to be *most important* by the highest percentage of the respondents. The next most important was the Comprehensive Urban Plan for the city. The following LED strategies were not listed but were mentioned as important:- establishment of the Economic Development Unit, the creation of an LED policy for the city, the Khulani Development Corridor, the SMME development model, an industrial and tourism cluster, and eco-tourism development.

Figure 1: Chief current LED strategy in Port Elizabeth-Uitenhage



Four specific projects that are regarded to present **opportunities** or that justify further evaluation were listed. They included the casino development, harbour waterfront, Greater Addo Elephant National Park, and the establishment of the Port Elizabeth Economic Development Unit. The project considered by far the most important was the Greater Addo Elephant National Park, followed by the harbour waterfront. Some of the other projects mentioned are listed in **Table 7**.

Table 7: Other projects considered to present opportunities or justify further evaluation	
1	Other smaller game reserves
2	Integration of business chambers - identification of business opportunities and sharing of infrastructure
3	Harbour waterfront and casino together on beachfront
4	Partnership between civil society, private sector and government
6	Natural attributes in the city eg beaches
7	Linkages between smaller and larger businesses
8	City tourism product development plan (for city as a totality)
9	Urban agriculture (as we are not a 1st World society)
10	Coega
11	Revitalisation of the CBD and waterfront development
12	Co-ordination of LED initiatives
13	"Environmentally-friendly" jobs i.e. quality of jobs is important
14	Agro-based tourism
15	Becoming the automotive hub of Africa
16	PEU SMME development/support programme
17	Local industrial parks
18	Technopark (linked to tertiary institutions)
19	Staggered private sector growth i.e. there is a lack of transparency with regard to what is being done with capital investment
20	Manufacturing in terms of textiles and tourism related activities

Of the three **economic sectors**, viz tourism, industrial development and government services, the local economic development strategy considered to be *most promising* for the city in terms of potential for success by the highest percentage of respondents is that of tourism. The weighted results of the ratings on a 5-point scale indicate that this is followed by the government services sector. However, there are certain kinds of industrial development in the form of the Coega IDZ and new industry development that scored higher ratings than the government services sector. Of the six types of industrial development listed, the following weighted scores in favour of potential for success were found:

- Coega IDZ (58)
- New industry development (52)
- Development based on past success eg automotive industry (44)
- Cluster development (39)
- Incentive-based development (22)
- Labour-intensive industry (17)

The **size of business** most favoured in terms of potential for success is small enterprise development (10-50 employees). This is closely followed by micro-enterprise development (< 10 employees). Medium-sized enterprise development (51-200 employees) and large enterprise development (> 200 employees) were less favoured.

There were five main categories of LED **mechanisms** listed. The one that proved to show greatest potential for success in the city by the highest percentage of respondents was that of training and employment. This

was followed by information and marketing assistance, new planning and organisational structures, land and infrastructure development, and finally financial support. However, a breakdown of these main categories revealed that the highest number of respondents saw greatest potential in export promotion, closely followed by marketing the city to potential visitors and industrial development zones.

Each of the respondents were asked to state the LED strategy that they would consider the “most deserving of investment in terms of potential for success in the city”, and to give a reason. A variety of strategies were given. While most of the respondents (n=11) suggested a single strategy, five of them presented a multi-faceted strategy. There were a total of four respondents who mentioned **tourism** as part of or as their main strategy, mainly due to the fact that there is a lot of potential for development in this sector.

The Coega IDZ and **industrial development** was listed by three of the respondents, largely due to the limitations in terms of time and resources and the need to capitalise on the synergy that exists. Further, it is perceived that the IDZ will lead to the development of downstream industries and job creation. Industrial development is seen as being at the "heart" of the city as can be seen from existing and new infrastructure; all that is required is to expand and exploit these advantages. Three of the respondents pointed to the need for a plan that accommodates both tourism and industrial development.

There were also three respondents mentioning the **attraction of investment** as the most favoured LED strategy, either by creating "investor-friendly" infrastructure that is supportive or by creating the necessary planning and regulatory framework so that "things can happen quickly not only for investors but also for local residents". The reason for this is because investment is fundamental as the economy will not grow without it. A continuous cycle of growth is important, and for this reason the right environment needs to be created.

Skills transfer was considered by two of the respondents as a key strategy. This is largely due to the fact that it emphasises self-sustainability and that training people for the future is very important. The **automotive industrial cluster** was also considered by two respondents as the main strategy that they would select, the reason being that the required expert skills are available in management and in labour, that there is good infrastructure and a strong link to Coega. There are existing markets and growth potential, and the automotive industry "is tried and tested and we can build on this".

The **promotion of the city**, as a broad-based strategy or in a more focused way in terms of promoting the lifestyle of the city, was suggested as the most deserving strategy by two further respondents. They cited their reason as "perception is everything" and that the "major barrier is perception of PE as a city, which prevents tourists and investors coming in". **SMME support and development** was also mentioned by two of the respondents as their main LED strategy, the reason being that small and medium businesses need support so that they can grow and create new jobs and wealth.

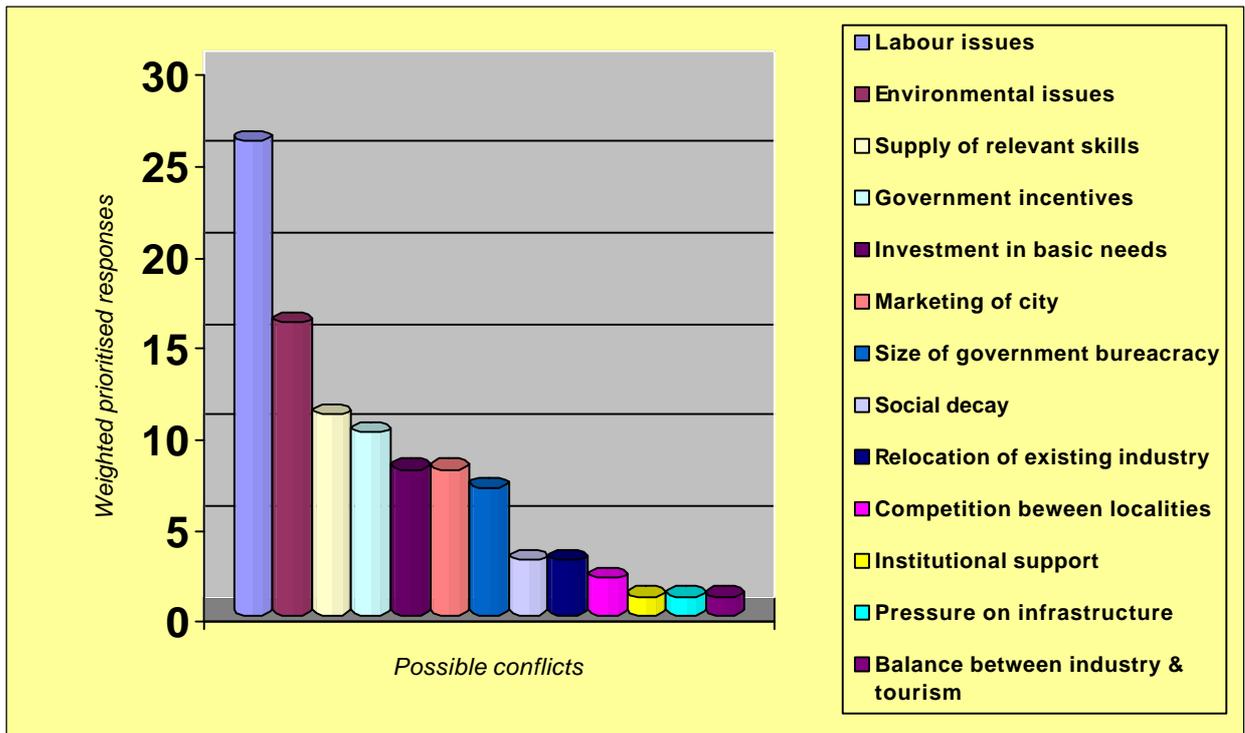
Other strategies mentioned included the promotion of exports, a state-driven and interventionist strategy based on the needs of the people and with growth as an immediate priority, a strategy based on the existing skills of the local people through a bottom-up as opposed to a top-down strategy, housing and infrastructure development, and transport and agriculture.

3.6.4 Industrial development as an option

Economic development is a broad term that includes many options to develop the local economy. Industrial development is only one of the routes that a local economic development strategy may follow. The main **objective of industrial development** as perceived by the highest number of respondents was job creation. Of the other five objectives listed, the weighted results indicated that this was followed by increased exports, the attraction of outside investment and increased productivity. The main possible conflict rated by the highest percentage of respondents as most significant was labour issues. In this respect, the main points of concern were the:- (1) possible compromise of labour standards and laws, (2) limited creation of new jobs for local unskilled people, (3) importation of skilled labour instead of the utilisation and/or skills

training of local labour, and (4) concentration of wealth amongst a few wealthy industrialists instead of addressing basic needs amongst the majority of the local population. The weighted ratings of the other main possible conflicts that were listed in the questionnaire are shown in **Figure 2**. Other possible conflicts (not listed in the questionnaire) mentioned by the respondents included the social decay of the city (including environmental, social, town planning), the relocation of existing industry, competition between different localities, pressure on infrastructure, and the balance between industrial and tourism development.

Figure 2: Possible conflicts that may arise in promoting industrial development



- **Labour issues**

The ways in which problematic labour issues may be overcome or avoided that were mentioned by the respondents (in their own words) were

- To encourage greater co-operation between business and labour, to contextualise interests of both parties against scarce resource constraints within the context of transparency (need to understand each other better)
- By ensuring that the process of industrial development in the city attempts to avoid narrow and selfish sectoral interests that the social partners might be representing - rather look at industrial development for the benefit of all i.e. manage competing interests
- Need a better legislative framework
- By the creation of jobs
- Labour organisations need to become more involved in the structures of LED organisations.
- NEDLAC needs to make the LRA more conducive to job creation - the disadvantaged must be given skills development and training
- Basic needs must be provided
- Cannot get away from the fact that labour-related conflict feeds on many sources. While political objectives used to be the most important, the source is now socio-economic in nature and thus will have to proceed by experimentation in economic wealth redistribution - got to reduce socio-economic reasons for using labour as means to hurt those who are perceived and are privileged (this will take a long-term solution tied up with economic prosperity)

- **Environmental issues**

- Proactive actions
- Get experts involved from the start in order to make wise investments in the early stage

- **Issues pertaining to government incentives**

- Serious lobbying with national government - need to back this up with a comprehensive development plan that shows returns on investments and other spin-offs
- Call for consistency from government - the type of incentives we should qualify for should be more favourable due to the concentration of wealth and past neglect

Although the supply of relevant skills achieved a relatively high weighted score in terms of ratings by the respondents, none of them rated it as their "number one" potential conflict, and thus cited no method of avoiding or overcoming this factor.

Two of the sixteen respondents felt that the Coega IDZ could not lead the way in terms of developing the local economy, the main reasons being that it is not sustainable and that the people employed will be technical and will be "imported". All of the other

respondents, however, were in agreement that the IDZ could lead the way, with some of the main reasons being:

- **Momentum** (n=6). Will provide the basic momentum/give a kick-start for new industries to develop, for entrepreneurial skills to be developed and to "stay here and develop things in other areas of the city", to simulate other initiatives such as SMMES, the automotive sector, and the tourism industry and to improve local spending power.
- **Downstream Opportunities** (n=4). Will create spin-offs regionally and for entire Eastern Cape Province. Coega is the "engine of industrial development as a whole because it will have immediate spin-offs, from the moment construction starts until it is up and running in terms of employment, small industries, access to the outside for imports and exports.
- **Stature** (n=3). The development will lead to greater stature and thus impact not only domestically, but globally (eg Subic Bay in the Phillipines). The IDZ will "place the city on the map in terms of its own capabilities".
- **Export Base** (n=3). Export/import processing could become one of the most important parts of our economy and the development at Coega will "provide the opportunity for the harbour to become an export base - this should improve the utilisation of our rail service which is dying at the moment". Further, "the container industry will become more important and we can become one of the main distribution points".
- **Investment Attraction** (n=2). The development at Coega will lead to massive investment which is the "key thing" and the area will become an investment destination.
- **Attitude** (n=2). It will open up a new thinking regarding our approach to post-industrial society and promote a "can-do" attitude.
- **Job Creation** (n=1).
- **Integration into the local economy** (n=1).

Some reservations were expressed about the fact that the IDZ should not become an Export Processing Zone, and should not consist of only one, or only a few large industries. Further, care should be taken that the IDZ does not benefit only a few in terms of jobs and profits.

The main advantage of the Coega IDZ, as perceived by the respondents, is that it will create jobs. Some of the other advantages mentioned included the removal of the petroleum tanks and ore dump from the existing harbour, the promotion of investment, the creation of downstream opportunities for SMMEs and other businesses, economic development and growth. Only one respondent felt that there is no advantage to be gained from the development. The main disadvantage is considered to be the environmental effects/pollution. Two of the respondents indicated that they felt there are no disadvantages to the development. All of the advantages and disadvantages mentioned are listed in direct quote form in **Table 8**.

Table 8: Advantages and disadvantages of the Coega IDZ

Advantages (n=30)		Disadvantages (n=27)	
Job creation	9	Environmental effects/pollution	11
Removal of petroleum tanks and ore dumps from the existing harbour	3	No disadvantage	2
Promotion of investment	2	Influx of people and impact on urbanisation	2
Creation of downstream opportunities for SMMEs and other businesses	2	High expectations regarding employment	1
Basis for transport hub	1	Stand-alone "island of wealth" with not many benefits - breeds resentment	1
Unlock resources	1	Long-term sustainability	1
Introduces new land patterns	1	Potential to create sustainable jobs	1
Can generate a broader sector-specific industry around the IDZ	1	Promotes "skewed" development which perpetuates what is already happening	1
Can raise the profile of PE if done well	1	The mental thing - we will not have succeeded with Coega!	1
Different options	1	Constant environmental monitoring	1
Stimulate/catalyst for different industry development	1	Might impact on business in same sectors	1
Will bring in high tech industries	1	Opportunity costs in terms of the surrounding islands	1
Input to industrialisation of city itself	1	Socially - as has happened in Mossel Bay	1
Can lift the city out of "loser" mentality	1	Aesthetic impact	1
Industrial advancement	1	More crime due to there being more people	1
No advantage	1	"Dumping ground" for 1st World industrialists looking for cheap labour	1

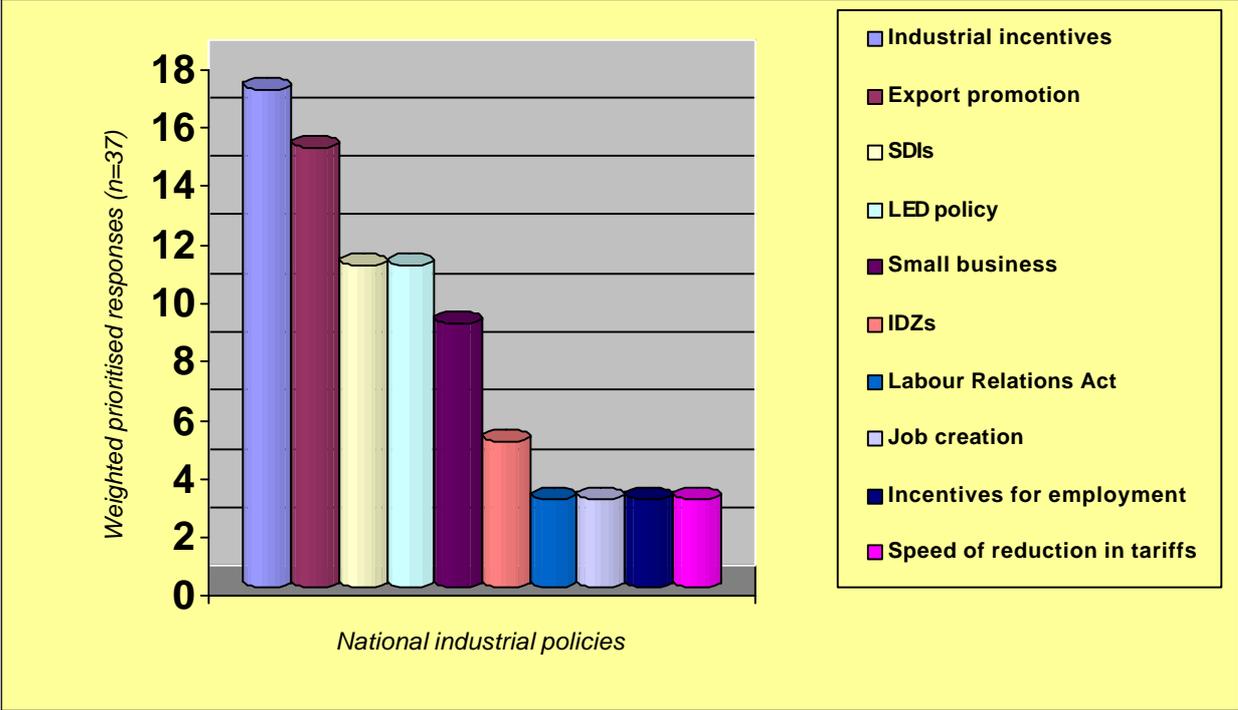
Of the sixteen respondents, seven felt that they were informed to a certain extent about the Coega IDZ (rated themselves a "3" on a five-point scale where 1=Not at all and 5=Exceptionally well). The mean rating on the 5-point scale was 3.37. Three respondents reported that they were exceptionally well informed, and the same number gave themselves a rating of "4". The remaining two respondents rated themselves as "2" on the scale. In terms of suggestions as to how the current Coega IDZ strategic plan should be modified or refined in order to maximise the LED potential of the city, four respondents stated that they did not know enough to comment or that not enough information is available. Two respondents indicated that there are no modifications or refinements necessary. Another two pointed to the environmental issues. The other suggestions included the following (direct quotes from interviewees):

- SMMEs must be well informed and entry points must be identifiable (clarification and specific provision must be made)
- The IDZ is mainly a bulk ore facility at this stage - container and export-import factors need to become part of it.
- A lot needs to be done - like a proper strategic plan in order to get the project off the ground.
- There are other ways of looking at this. Perhaps in staggered fashion (a slower process and ensuring locals get maximum benefits). Other harbours did not have a single anchor tenant initially.
- Metallurgical cluster needs to be refined more and become simplistic for people to understand.

- The Greater Algoa Bay Plan - needs a lot more focus and work in it, as it forms part of the Coega Initiative.
- Constant environmental monitoring.
- As Coega will probably go ahead, it will be important to engage with the process and fight for anything that affects existing jobs, relocation, environment, package of incentives must be looked into, labour relations (must be entitled to the same laws).
- Transparency.
- The structure and composition of the Coega Implementing Authority - at this stage mainly includes government representatives with minimal local involvement. Got to do with the fact that this project left to the city to run would not kick off the ground due to competing interests. There must be a balance between that which becomes successful and ownership by the city and province.
- Need to get bigger picture/global focus.
- Political positioning at national level, for example in regard to incentive programmes.
- Should not only include a few large businesses.
- Must be integrated with the local economy.
- Invest more in communication and training in skills for local leadership to sustain the development.
- Government decision on incentives needs to happen.
- Whatever I have thought of has been passed on to the management team.

A further respondent indicated that "resources should be used in something other than Coega".

Figure 3 Industrial policies that may need to be modified to suit specific needs of the city



The respondents were requested to point out which industrial policies at national level need to be modified to suit the specific needs of the city, and to prioritise them according to those listed in the questionnaire, adding any that they feel need to be modified. The highest weighted rating was for industrial incentives, followed by export promotion, and then spatial development initiatives and local economic development policy (see **Figure 3**).

Three of the respondents revealed that they felt that they do not know enough about industrial policies to comment on how they should be changed to suit local conditions. The ways in which it was suggested by the other respondents (direct quotes) that the following policies should change in order to become more "localised" included:

- **Industrial incentives**

- Incentives should be more flexible to cater for the peculiarities of the area, and in our area, definitely. Need to encourage investment that will create employment. Furthermore, institutional backup is not what it is in other areas. We need a critical mass in order to justify investment here.
- To try and promote industries to move away from the already-built-up PE-Uitenhage area. (avoid overcrowding and pressure on existing infrastructure).
- Maybe there needs to be a more "even-handed" way of distributing incentives eg rail tariffs. Incentives should be granted on merit as this makes business sense.
- Government needs to make decisions to satisfy investors and kickstart the programmes otherwise process gets delayed.
- Incentives are only available for "greenfields" developments at present.

- **Export promotion**

- By putting a specific emphasis on PE and Coega within any strategies that are developed (the midset is currently focused on Durban, Richards' Bay and Saldanha). Need to create and market the city as a "gateway".
- Must be active marketing of products internationally, as well as access to overseas markets.

- **Spatial development initiatives**

- The Fish River spatial development initiative concentrates on East London and NOT Port Elizabeth.

- **LED policy**

- The policy existing is too broad. It is meant to be broad because all cities have different profiles. However, should be more specific and define clearly the setting up and funding (political will, money and infrastructure) of structures within local government.
- LED policy should involve (1) strategy for economic growth that is creating a strong industrial base but at the same time having an emphasis on (2) delivering basic needs to the poor. Currently there is an emphasis that sees economic growth as a panacea to poverty alleviation and employment at the exclusion of delivering basic needs and services to our people.

4 Conclusion and recommendations

4.1 Port Elizabeth-Uitenhage

1. **Integrated strategy. (1) Economic sector.** The option of industrial development as the route to go in Port Elizabeth-Uitenhage seems well supported in the city. As a relatively industrialised city (compared to national averages), it makes sense that it will be important to include industrial development as part of the strategy-mix. The concept of the Coega IDZ and port provides a mechanism in order to achieve this goal. However, the tourism industry has been growing in the city, justifying its inclusion in the city's "grand plan" for LED. **(2) Size of business.** In both of these sectors, it will be important to attract, develop and support new and existing large business. However, particular effort will need to be made to encourage small business development amongst the marginalised communities so that greater impact is made in terms of reducing unemployment and poverty. **(3) Mechanism.** Although most attention is currently focused on demand-side LED mechanisms in the city, supply-side measures (i.e. training and employment strategies) will also need to be carefully crafted. There is support for this from many of those interviewed.
2. **Industrialisation as a LED strategy.** In promoting industrialisation at the city level, one can learn from experiences elsewhere. While there are no general "success models" of regional or local development, the literature reveals some useful insights. The community stakeholders in Port Elizabeth-Uitenhage need to ensure that the type of investment encouraged is matched with economic and employment objectives.
3. **Common vision and leadership.** There needs to be a common vision amongst the different stakeholders in the LED process. It is the responsibility of the leaders in the city to develop a vision and to co-ordinate activity so that there is a clear picture of where the city is going and what success entails. The qualitative survey results show that there is currently a diversity of viewpoints, as well as some entrenched viewpoints amongst stakeholders about the preferred LED process and strategy. This needs to be enmeshed into the city's existing Strategic Plan so that it is a "living document", i.e. updated on a regular basis. The momentum that has been created in the development of the Coega IDZ and port concept, and that manifests itself in other local economic initiatives that have surfaced, should be capitalised upon.
4. **Enabling environment.** The creation of an enabling environment in the city is paramount. This is pointed out in the literature, and is supported by some of the findings of the survey. More needs to be done to market the city as a quality environment for both investors and visitor (local and international) as well as to ensure that mechanisms are in place to deliver on this issue. The development of the Centralised Information Centre is a beginning.
5. **Impact of national industrial and LED policy.** Contrary to the previous government's stance, the shift in industrial and trade policy at national level provides Port Elizabeth-Uitenhage with the opportunity to use its location in the pursuit of export-led industrialisation. The differences between national, regional and local interventions to promote industrial development need attention, however. In other parts of the world, few effective national policy tools assist in generating employment. Thus, the impact of industrial policy in South Africa – which include the regional SDI and IDZ policies – needs to be closely monitored by the local community. The idea of LED as more than what is sometimes referred to as "cabbage-patch" development, needs to be taken seriously. In fact, the literature shows that cities and localities can have considerable impact on economic development. These measures can sometimes be less costly than those driven at national level. For this reason the linkages between industrial and LED policy need to be strengthened.
6. **Measurement.** In terms of LED efforts, it will be important that there are visible projects to quantify. LED is a complex process and the logframe method of analysis provides a way of breaking down the issues into manageable parts. It offers a means of establishing the linkages between different outputs (for example, strategies such as industry, tourism, and human resource development). This 'helicopter' vision is invaluable in the LED planning process. Implicit in the logframe analysis is the identification of the required outputs, activities and inputs and also the overall goal and purpose of the project. Other methods of measuring LED activity should also be established, so that progress can be monitored.

7. **Attitude.** One of the striking aspects of the city of Port Elizabeth-Uitenhage is the attitude of inferiority that is displayed or referred to, and this needs urgent attention. If national government, investors and visitors are to take the city seriously, its image will need to change amongst both residents and others.
8. **Sustainability.** Serious planning of LED strategies needs to account for the sustainability factor. If strategies and projects do not deliver long-term and quantifiable benefits to the people of the city, the impact is questionable. The opportunity costs involved in these strategies and projects need thorough and objective evaluation so that scarce resources are not wasted. In the instance that industrial development is pursued as a strategy in the city, possible conflicts that impact on sustainability need to be identified and addressed.
9. **Research needs.** This reports provides the starting point from which to base one of the scenarios for the way forward. Further empirical research of this nature would be useful in terms of not only validating the findings of this survey, but also to investigate more creative ways of approaching and measuring LED in the city. More work on the strengths, weaknesses, opportunities and threats that impact on the city will help to build a realistic and informed vision for LED.

4.2 General

In any city, mobilising and involving the community at the early stages of the LED process is critical so that solutions are not imposed. Dialogue needs to ensure that the inhabitants of a city see themselves as part of the process and have a common and desirable vision of the future of the city. Further, effort needs to be made to energise, enable and envision the different stakeholders involved in the LED process.

There needs to be a balanced and integrated LED approach, particularly on the part of the public sector, so that co-ordination in order to promote an enabling environment is achieved. Integration of economic sectors, institutional stakeholders and mechanisms should be ensured, as should the measurement of LED efforts so that impact can be assessed.

It is useful to find 'pointers' from other cities and localities. However, every city is unique, and it will be important for the situation in each South African city to be assessed and monitored so that a carefully reasoned strategy may be crafted. It is also important for a realistic vision to be developed with feasible solutions rather than 'pie-in-the-sky' LED options.

Appendix A: Maps of Port Elizabeth-Uitenhage

There are two maps included in this Appendix that have been sourced from the Council for Scientific and Industrial Research (CSIR) – Roads and Transport Technology Division. Map 1 shows the eight existing areas allocated for industrial development opportunities. Map 2 presents a clear idea of the scale envisaged for the planned Coega IDZ and port as compared to the rest of the city of Port Elizabeth-Uitenhage. These maps show that the industrial areas are located to the north-west and north-east of the city, leaving the south coast free of such development.

Appendix B: List of interviewees

List of interviewees	
	Name of person, institution
	Civil society
1	Mr Clive Felix, Urban Services Group
2	Mr Mike Tofile, South African National Civics Organisation (SANCO)
	Organised labour
3	Mr Irvin Jim, COSATU
4	Mr Silumko Nondwangu, NUMSA
	Local and regional government
5	Councillor Errol Heynes, Economic Development and Tourism Task Team (Also Deputy-Mayor)
6	Ms Elizabeth Saunders, Department of Economic Affairs, Environment and Tourism (Western Region)
7	Mr Danny Moodley, Uitenhage TLC
	Parastatals
8	Mr Johan le Roux, Textek, CSIR
9	Mr Nodada, East Cape Development Agency
	Organised business
10	Dr Monwabisi Gantsho, East Cape African Chamber of Commerce
11	Mr Alfred da Costa, Port Elizabeth Regional Chamber of Commerce and Industry
	Tertiary institutions
12	Dr Nikkie Dorfling, Port Elizabeth Technikon
13	Professor Deon Pretorius, Institute for Development Planning and Research, University of Port Elizabeth
	Sectoral development agencies
14	Mr Doug Reed, Coega Implementing Authority
15	Mr Shaun van Eck, Tourism Port Elizabeth
16	Mr J Hendricks, Eastern Province Agricultural Union

Appendix C: Questionnaire

The questionnaire included in this Appendix was used as the basis for sixteen personal interviews that were held with various community leaders in Port Elizabeth-Uitenhage in November-December 1998. As stipulated, the aim of the questionnaire was to determine perceptions with regard to local economic development (LED).

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