AN EVALUATIVE ANALYSIS OF INDUSTRIAL DEVELOPMENT ZONES AND EXPORT PROCESSING ZONES WITH REFERENCE TO THE COEGA INDUSTRIAL DEVELOPMENT ZONE

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DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

04/11/2002

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ABSTRACT

South Africa is experiencing similar problems as those occurring in other developing countries. Such problems include: large scale poverty; unequal regional development; inefficient policies; fragmented transport systems. The list goes on. This is largely due to apartheid policies that were implemented.

After 1994 a series of new policies and programmes was implemented. Their aim was to eradicate apartheid planning; to provide equal and fair development for everyone and to stimulate and boost the economy. The Reconstruction and Development Programme (RDP) was the first policy of its kind, followed by the Growth, Employment and Redistribution programme (GEAR). The aim of these two policies was to stimulate the economy, especially in areas where there is a need for an economic boost. This ultimately led to programmes such as the Spatial Development Initiative (SDI); Local Economic Development and Export Processing Zones or as they are better known in South Africa, Industrial Development Zones. Programmes or initiative such as these were aimed at boosting the economy, providing employment and utilising resources in a region. This is the shift that has taken place in development planning, from traditional regional policies towards incentive driven policies that try to attract investment into under-developed regions.

Programmes such as Industrial Development Zones however have a long history, not all of it positive. These zones have been known as sweatshops and that they use child labour. The largest problem of these zones is that labour legislation is almost non-existent.

In 2001 South Africa declared Coega the first Industrial Development Zone in the country. The zone will link to the Spatial Development Initiative programme that was implemented in 1996. An uproar followed when labour organisations such as COSATU learned that the government is going to use Industrial Development Zones, which are similar to Export Processing Zones, to stimulate the economy and to solve the problem of unemployment in specific areas of the country.

However the labour legislation of South Africa will be applied in the Industrial Development Zones. That just leaves the problem of efficiency and effectiveness. Will these zones really address and solve the employment problems in South Africa? Zones such as those in Mauritius have been a success, but there are cases where the zones did not create employment and more money was spend on putting in the infrastructure and services in the zones, than was made in the zone. Time will be the judge in the case of Coega Industrial Development Zone.

OPSOMMING

Suid-Afrika ondervind basies dieselfde probleme as wat ander onderontwikkelde lande ondervind. Die probleme sluit in: grootskaalse armoede; ongelyke streekontwikkeling; ondoeltreffende beleide. Die probleem spruit grootliks uit die apartheidsbeleide.

Na 1994 is daar egter 'n reeks van nuwe beleide en programme geïmplementeer. Die beleide moes apartheidsbeplanning uitwis; moes gelyke ontwikkeling aan almal voorsien en die ekonomie stimuleer. Die Heropbou- en Ontwikkelingsprogram was een van die eerste beleide, en is gevolg deur die "Growth, Employment and Redistribution" program. Die twee beleide se doel was om die ekonomie te stimuleer, veral in gebiede waar daar 'n behoefte aan ekonomiese groei is. Dit het dan ook gelei tot programme soos "Spatial Development Initiatives", "Local Economic Development" and "Export Processing Zones" of soos wat dit in Suid-Afrika bekend staan "Industrial Development Zones". Programme of inisiatiewe soos die se doel is om die ekonomie van 'n streek te versterk, om werksgeleenthede te skep en om gebruik te maak van die hulpbronne in die spesifieke streek. Die programme het 'n groot verandering in ontwikkelingsbeplanning meegebring, vanaf tradisionele streekbeleide tot inisiatief-gedrewe beleide wat poog om beleggings in onderontwikkelde streke te versterk.

Programme soos "Industrial Development Zones" het 'n lang geskiedenis, en nie almal is posititief nie. Hierdie sones het 'n algemene naam van "sweatshops" gekry waar kinderarbeid gebruik word. Die grootste probleem van hierdie sones is dat arbeidwetgewing gewoonlik nie toegepas word binne die sones nie. In 2001 is Coega as die eerste "Industrial Development Zone" verklaar in Suid Afrika. Die sone is verbind tot die "Spatial Development Initiative" programme wat geïmplementeerd is in 1996. Dit is egter sterk deur die arbeidsorganisasie COSATU veroordeel, toe hulle hoor dat die regering nou "Industrial Development Zones", wat basies dieselfde is as "Export Processing Zones", gaan gebruik om die ekonomie te stimuleer en die hoë werkloosheid in die land te verminder.

Maar, in hierdie sones sal arbeid wetgewing toegepas word. Dit los net die probleem van effektiewiteit en doeltreffendheid. Gaan hierdie sones die werkloosheids probleem van Suid Afrika oplos? Sones soos in Mauritius was suksesvol, maar daar is egter talle ander wat nie werkgeleenthed geskep het nie en die uitgawes wat gemaak is om infrastruktuur en dienste in die sones te voorsien is veel hoër as die profyt wat gemaak is op die einde. Tyd sal leer in die Coega "Industrial Development Zone'.

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CHAPTER 1

INTRODUCTION AND STATEMENT OF PROBLEM

1.1. Introduction and background

As socialism grew stronger in the 20th century, the awareness of the government's role towards reducing poverty became more prominent. The problem of poverty touched many towns and areas in need of social and economic development. Many such areas were created by policies of the past that were focused on preventing or blocking black workers from migrating to cities and white areas, thus creating black areas. Today these are the poor areas.

With the democratising of South Africa, the government started implementing several economic incentives. This was done in order to make the South African market more export oriented and competitive in the international market, but also to start addressing the great levels of poverty in the country. In 1996 about 39% of the population lived in poverty and 75% of these lived in rural areas (Parliamentary Bulletin 1996).

These incentives have been given descriptive names such as Enterprise Zone, Export Processing Zones and Industrial Development Zones. These incentives have a common purpose of improving the economy of a specific area, zone and region. These incentives have a long history as the "Barcelona zone has been highly successful since the early 1900's" (ILO 1999), and the Shannon Free Zone in Ireland, was set up in 1959. The World Bank sees this zone as one of the first export zones. But the "big boom" came in the 1970's and with an estimated "850 zones in the world employing about 27 million people" (ILO 1999) one realises that these incentives are not new.

Export zones have been known to have different names in different regions of the world. In Lesotho they are called "Pioneer Industries", in Liberia they are called "Industrial Free zones", in Mexico they are "Maquilandoras" and in Sri Lanka they are called "Investment Promotion zones" (Timotheüs 1997:iv). Export zones have been successful in several countries, especially countries in the Far East such as South Korea, Indonesia, India, Philippines, Singapore and Taiwan.

Namibia joined other African countries such as Mozambique and Mauritius in this new regime of economic incentives, with the promulgation of its Export Processing Zone Act of 1995. The reason for the establishment of Export Processing Zones in Namibia is the same as those of other countries, that is to create jobs, "transfer of skills and technologies, training for workers, linkages with local companies and the establishment of new export industries" (Timotheüs 1997:15).

Industrial development zones as they are known in South Africa are a "variant" of export processing zones. "South African development has previously been focused on import substitution, making location close to the major consumer markets, most suitable" (Hosking and Jauch 1997). As the industrial zones are export focused, logically it will be located on the coast such as in the case of Coega.

This, the Coega Industrial Development zone is the most talked about incentive, mostly because of the strong opposition that it received from labour organizations such as Cosatu. The reason for this is that generally export zones and other variants ignore labour legislation. However in the case of industrial zones in South Africa, labour legislation will apply to firms as "organized labour has been an extremely important participant in the Nedlac arrangement (involving government, business and organized labour) and has been a key alliance partner of the ruling African National Congress" (Naude and Harmse 1998:13).

The Industrial Development Zone strategy is partly modelled on aspects of the experience of the "Asian Tigers" that is, growth through the promotion of manufactured goods for export. In 1996 the Spatial Development Initiative programme was started as a new industrial strategy and alongside this programme the national Department of Trade and Industry brought to life Industrial Development Zones as a type of spatial development initiatives.

South Africa has a population of approximately 42 million people while Namibia has a population of approximately 2 million. Except for this difference these two countries have much in common such as:

- Apartheid legacy;
- High unemployment numbers;
- High proportions of agriculture; and
- Import substitution economies.

In order for these countries to become globally competitive it is necessary to adopt certain strategies and policies. In Namibia it is called Export Zones and in South Africa, Industrial Zones.

1.2. Aim

The aim of this report is to analyze the industrial strategies of South Africa with reference to the Industrial Development Zone at Coega, and Export Processing Zones in Namibia.

1.3. Research method

The report will be based on a literature study. It will start with a historical overview of regional industrial policies in South Africa and Namibia. This will contain the laws and regulations and, major events taking place from 1940 onwards. Chapter three explains the regional theories explaining inequity and the unequal spatial development in regions. This will be followed by a description of industrial development zones and export processing zones, how they are managed and why they are established. Chapter five deals with local economic development and what it consists of, why local development emerged and strategies and policies. Chapter six will deal with a case study of Coega in the Eastern Cape. Chapter seven will conclude this study with some concluding remark and referring to some success and failure factors in the management and establishment of an export zone and industrial zone.

1.4. **Definitions**

Table 1.1 gives the definitions of the various terms that will be used in this document. Although all of these terms are basically the same, there are some differences. This is also to act as a guide if substitute terms or abbreviations are used for some of the terms. Table 1.2 lists the incentives schemes of several countries. As said before these terms are basically the same, and the naming of the zones will depend on the country in which it was established.

Free trade zones: is "an isolated, enclosed and policed areas in or adjacent to a port of entry, without a resident population, within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without the payment of duties and without the intervention of customs officials" (Cellar as in Christian and Schulze 1998:3).

Export Processing Zones: "delineated, enclosed and policed area of a country which has an industrial estate specialising in the production of manufactured goods for export" (Proctor and Markman 1995:7). There are however many other definitions which will be addressed later.

Industrial Development Zones: "purposely built industrial estates linked to an international port or airport containing a controlled duty free area" (www.sdi.org.za).

Free trade area: "an area formed by reciprocal multilateral agreements whereby two or more nations agree to limit or eliminate all import tariffs and duties between them" (Christian and Schulze 1998: 2).

Table 1.1 Definitions of Incentives and Substitute terms

Term	Definition	Abbre-viation	Substitute term
Industrial Development Zone	Industrial development zones are purpose-built industrial estates providing facilities and services tailored for export-oriented industries (Offshore-Onshore).	IDZ	Industrial zone
Export Processing Zone	Is an industrial estate, usually a fenced-in area of 10 to 300 ha, that specializes in manufacturing for export. It offers firm's free trade conditions and a liberal regulatory environment (Mudani 1992).	EPZ	Export zone
Regional Industrial Development Programme	Programme that identified certain growth points and deconcentration points.	RIDP	Regional Development Programme
Reconstruction and Development Programme	Instrument that should transform both the systems of the government and society and which should address the inequalities between people and regions and make sure that development is equal and fair.	RDP	
Growth, Employment and Redistribution	A macro-economic strategy to help the South African economy to compete on the international market.	GEAR	
Local Economic Development	Stimulate local employment opportunities in sectors that improve the community, thus to stimulate or maintain business activity.	LED	
Spatial Development Initiatives	Facilitates economic growth and job-creation by promoting investment in South Africa's internationally competitive industries.	SDI	
Small, Medium and Micro Enterprises		SMME	Small enterprises
Enterprise Zone	To prevent businesses from moving away, and to attract business to declining areas. Try and rehabilitate the area.	EZ	
Customs Secure Area	A designated area within an industrial development zone that is subject to special customs legislation.	CSA	Customs Area
Industries and Services Corridor	A corridor of industrial or office parks that are occupied by service providers to the Customs Secure Area.	ISC	
Coega Development Corporation	A private company that is developing the Coega Industrial Zone.	CDC	Coega Corporation

Table 1.2: Terms synonymous with Export Processing Zones (EPZs)

Term	Examples of countries where used
Free zones	Costa Rica, Honduras, Ireland, Trinidad and Tobago, Turkey, United Arab Emirates, Uruguay, Venezuela
Maquiladoras / maquiladora (in-bond) enterprises	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Panama
Special economic zones	China
Industrial free zones	Cameroon, Colombia, Ghana, Madagascar, Syrian Arab Republic and Jordan
Industrial free zones for goods and services	Colombia
Free trade zones	Bulgaria, Chile
Export free zones	Jamaica
Free trade and industrial zones	Islamic Republic of Iran
Special export processing zones	Philippines
Export processing free zones	Togo
Tax free factories	Fiji
Bonded zone	Indonesia
Free zones and special processing zones	Peru
Free economic zones	Russian Federation
Industrial estates	Thailand
"Points francs" (special industrial free zones)	Cameroon

(Source: Romero www.transnationale.org.)

CHAPTER 2
HISTORICAL OVERVIEW OF INDUSTRIAL/REGIONAL DEVELOPMENT IN SOUTH AFRICA AND NAMIBIA

2.1 INTRODUCTION

The aim of traditional regional policies was to create a "more balanced distribution of economic activities" and to promote "economic development in or around the independent and national black states" (McCharthy 1998:18). The objective was to prevent black workers from migrating to cities and white areas by creating an economic base in these areas. These policies were unsuccessful and industrial areas such as Atlantis in the Western Cape and others were/are under utilised.

Regional policies are the cornerstones of development in a country. If regional inequality persists, overall development will be slow. Over the years the regional policies of South Africa have been awash by inequity between regions, especially in former homelands.

From 1919 until 1989 Namibia or South West Africa was a mandate of South Africa. Thus until the independence of Namibia the laws of South Africa were the laws of Namibia. The historical overview below will consist of the regional policies established by South Africa and implemented in both South Africa and Namibia, until independence when the Namibian and South African governments followed different paths. Table 2.1 on (page 17) show a timeframe of the history.

2.2. 1924 – 1933

Before 1924, the manufacturing industry was still overshadowed by the mining (particularly gold) and agriculture. The first signs towards manufacturing were in the First World War. However at the end of the war the competition by foreign countries increased and industrialisation slackened. This period was characterised by the poor white problem and widespread labour unrest at the mines. In 1924 the South African Party was defeated by the National Party/Labour Party coalition. The so-called pact government had to give attention to three issues (McCharthy and du Plessis 1998:16):

1. "Situation in the agricultural sector
2. industrialisation so as to create-

- job opportunities for poor whites in urban areas,
- greater (economic) nationalism; a well as
- an alternative to the gold mining sector; and

3. The protection of white labour in mining and industries."

The government then adopted the strategy of inward industrialisation, which led to increased tariff protection for South African industries. This higher tariff "walls after 1925, the establishment of the South African Iron and Steel Industrial Corporation in 1928, and a higher gold price" (Bell, 1973:40) contributed to a rapid expansion in the manufacturing activity.

2.3. <u>**1940-1960**</u>

Early in the 1940's the Social and Economic Planning Council was established. The functions of this Council was to advise the government on issues concerning integrated economic and social policy, the black reserves, black labour in white urban areas, as well as the industrialisation of the reserves (Pretorius et al. 1986:46). "The Council listed what it considered ideal conditions, such as quality of opportunity and greater inequality of income, minimum standards of living, conservation of land and other natural resources, and full employment at the highest level of productivity" (Claassen, 1999:106).

It was then in one of these reports, Report No 5 (1944) that the Council brought forth the aspect of controlling land use by the Union of South Africa. "The State can best influence the pattern of the economy and the way in which the population is spread over the country by exercising control over the use of land-the physical base of most human activities" (Report No.5, August 1944). This may have been the beginning of the decentralisation policy in South Africa.

"In 1947 the Council for the Development of Natural Resources (CDNR) was established with the objective of coordination the exploitation and use of natural resources" (Pienaar 2001:1). The function of this Council was to advise and "take initiative in regional planning and the use of natural resources" (McCharthy, 1998:20).

In 1948 the National Party came to power and began to "institute a policy of racial segregation (apartheid). The policy was given important economic content, with the adoption of the industrial decentralisation policy in the 1960s" (McCharthy and du Plessis 1998:18). The policy of segregation was motivated further by the migration of black people to metropolitan areas.

This then led to the appointment of the Tomlinson Commission, and others, to stop the migration. According to Bell (1973:45) the Commission regarded the survival of the white civilisation as the main objective, and the only way to achieve this was by dividing the territories into black and white areas. The commission also laid emphasis on the need for industrialisation in order to absorb the unemployed population in the Reserves. In 1958 the Commission released a report in which they proposed that "attempts should be made to bring the work opportunities to the people in the rural areas rather than the other way around" (Pienaar 2001:1). The government however did not accept this proposal and the concept of Border Area Development and Black Homelands emerged. Rather than encouraging the development of industries within the reserves, they should be developed on the areas bordering the reserves. This led to an incentive programme "for the decentralisation of industries" (Pienaar 2001:1) and the Border Industry Programme was introduced in 1960 (Hartzenberg, 2000:6).

2.4. **1961 – 1980**

Led by the Permanent Committee, which was the "first government agency empowered to coordinate industrial development on a geographical basis" (Botha: 1990:49) this border development was applied. However the reason given by the government for this industrial development was not purely for socio-economic reasons but was also driven by political ideology.

In 1964 the Department of Planning was established and the "Physical Planning and Utilisation of Resources Act (No 88 of 1967) was promulgated to give this department powers of development control" (Claassen 1999:107). Its main objective was to control industrial development by placing restrictions on zoning and subdivision of land and to restrict the employment of black people in metropolitan areas. In 1968 there was a shift in the policy and it became possible for whites to invest in homelands. "Incentives including tax concessions were offered to further encourage location of business in these areas" (Hartzenberg, 2000:7).

The Government however realised that the decentralisation programme for industries could not solve the migration problem. This and two other reports by the Pretorius Committee and the Niemand Committee led to the first National Physical Development Plan (NPDP) to be drawn up in 1975. The main objectives of this development plan were to "demarcate planning regions for which development strategies were to be stipulated and also to address two other major concerns namely the increasing concentration of people and economic activities in the relatively small metropolitan areas and the fact that the spatial development pattern of the RSA did not reflect the potential and needs of all its inhabitants" (Pienaar 2001:2).

This led to the demarcation of 38 planning regions, but it excluded the metropolitan areas and Black homelands. Points at which growth will take place were identified and the points were based on existing and "planned development axes and on the national hierarchy of towns" (Pienaar 2001:2). The points were then classified into one of the following groups: existing metropolitan areas, planned metropolitan areas, growth poles and growth points and principal towns of the regions. (Pienaar 2001:2) However, unequal development kept on occurring between regions in South Africa.

2.5. **1981 – 2002**

In 1981 the Good Hope Conference was held in Cape Town and the old National Physical Development Plan policy was revised. The results of this revision were that "development subsidies shall now be aimed at those larger core areas with a potential to develop" (Claassen: 1985). The number of regions was also reduced from 38 to nine.

Two other institutions were created in order to help with regional development strategy. They were the Small Business Development Corporation (SBDC) and the Development Bank of Southern Africa (DBSA). The objective of the SBDC was to "promote and help establish small business enterprises in order to create more employment opportunities and thus income" (Pienaar 2001:3). While the DBSA were a joint venture between the South African government and the TBVC states, and its objective was to "finance regional development projects and in that way be instrumental in creating opportunities for the private sector" (Pienaar 2001:3).

In 1982 the Regional Industrial Development Programme (RIDP) was implemented. This programme identified certain "growth points and deconcentration points" (Hartzenberg 2000:7). The deconcentration points were located close to the metropolitan areas and they had to reduce the concentration in the metropolitan areas by "encouraging a sprawl of economic activities around the cities" (Hartzenberg 2000:7). This is based on the same concepts as that of Perroux's growth pole theory. In total 51 growth points were identified and in these areas "numerous incentives such as tax concessions, labour, rental and interest subsidies, transport and electricity rebates, were offered to encourage location of economic activity in these areas" (Hartzenberg 2000:7).

Once again the result was failure. This was because of too many growth points and by having too many points it was difficult to acquire the agglomeration advantages one usually would have found. This once again forced the Government to revise the policy. In 1989 a Panel of Experts revised the 1982 Regional Industrial Development Programme and the revised version was launched in 1991. This revised 1991

Regional Development Programme was an attempt to implement "performance-linked incentives and to move away from location-specific incentives to more general incentives" (Hartzenberg 2000:8). The underlying objective of this policy was so that a firm's decisions of location are primarily determined by market and cost consideration. In 1993 the Regional Development Programme was extended to include a "Simplified Regional Industrial Development Programme (SRIDP) that was an attempt to encourage the development of small business.

After 1994 the top-down approach of the former government was replaced with a bottom-up approach where people at grassroots level got first priority. There was a shift towards a people-centred approach. The Reconstruction and Development Programme (RDP) displayed the goals and objectives of the ANC. For the new government this was an instrument that should transform both the systems of government and society that should address the inequalities between people and regions and make sure that development is equal and fair.

The Reconstruction and Development Programme is an integrated programme that has the following components (McCharthy and du Plessis 1998:19):

- "meeting basic needs
- including rural and urban development
- developing human resources
- building the economy and
- Democratising the state, society and their institutions."

"In 1995 the RDP office released a draft proposal for a National Spatial Development Framework" (Hosking and Jauch 1997). The aim of this framework was to "bring together planning for economic growth with spatial strategies to maximize the impact of public and private investment and to eradicate the Apartheid development patterns" (Hosking and Jauch 1997). They also proposed certain key strategies, according to Hosking and Jauch, and they are:

- Urban nodes in major metropolitan areas and in secondary cities;
- Rural clusters in rural districts with potential for economic growth;

- Sectoral strategies to target certain sectors with major growth potential such as the tourism sector;
- Industrial clusters to look at the process within and between industrial sectors;
- Economic spines to direct public investment to targeted areas;
- Development corridors to cluster public investment in a range of sectors such as land, housing, small and medium enterprises, agriculture and water. These corridors are to be linked by nodes of development.

The Reconstruction and Development Programme office also identified three types of corridors (Hosking and Jauch 1997):

- "Metropolitan/district corridors to facilitate urban integration of Apartheid settlements.
- Provincial corridors to link urban nodes along major transport routes.
- Regional corridors linking production and port, e.g. Mpumalanga-Maputo corridor."

However in June 1996 South Africa adopted a macro-economic strategy namely the Growth, Employment and Redistribution (GEAR). This announced a shift in policy "from demand-side measures to supply-side measures" (Hartzenberg 2000:8). This macro-economic strategy was introduced in order to help the South African economy to compete on the international market. GEAR introduced a wide range of policies that can be grouped into three categories (McCharthy 1998:28):

1. "Sustaining macro-economic stability through inter alia budget reforms and a tight fiscal and monetary stance.
2. Enhancing international competitiveness in a more open economy through inter alia the faster reduction of tariffs and introduction of investment incentives.
3. Reconfiguring the private and public sectors through privatisation and rapid infrastructure expansion."

GEAR strategy also suggested that the "current Regional Industrial Development Programme will be replaced by a tax holiday available to completely new pre-approved projects initiated during a window of three years" (GEAR 1996:13). This led to the introduction of the Tax Holiday Scheme (THS) in 1996 and implementation of it in 1999. Tax exemptions were determined by three factors: "regional location, job creation and priority industries" (Hartzenberg 2000:8).

All these changes led to the realisation that South Africa once again needed a new approach to spatial development. This led to the formation of the Spatial Development Initiatives programme in 1996, which replaced the Regional Industrial Development Programme. This was an initiative to promote and stimulate Local Economic Development (LED). This was aimed at "unlocking the inherent and under-utilised economic potential of specific geographic points or areas" (McCarthy and du Plessis 1998:24). Five types of Spatial Development Initiatives can promote this (DTI: 1996):

1. "Regional industrial SDI's
2. Agro-Tourism SDI's
3. Agro-Industrial SDI's
4. Mixed SDI's
5. Metropolitan Corridors."

Local Economic Development or "new localism" surfaced as a result of three factors in the 1990's (Rogerson 1994:111):

1. "Initiatives for local and subregional development planning grew in the context of the transition towards democracy, greater development of political power and decentralized decision making.
2. The retreat of the state from a top-down regional policy, and
3. Because greater emphasis on local economic development initiatives in South Africa refracted international trends in the 1980's and 1990's."

By focusing on Local Economic Development, other initiatives were brought forward, one of these are Industrial Development Zones. This was the latest programme/initiative by the Government to promote industrial growth and regional growth together with other fiscal incentives such as the Small & Medium Enterprise Development Programme (SMEDP) and others incentives offered by the Industrial

Development Corporation. These "local economic initiatives are active place marketing designed to attract new investors or recast the images of certain places" (Rogerson 1994:112). This included programmes such as Small, Medium and Micro Enterprises, Export zones/Industrial zones, technology parks and the revitalisation of tourism areas. This is all contained in the Spatial Development Initiative programme whose aim is to boost local economic development.

2.6. **Namibia**

In 1990 Namibia became independent. Much of the legislation that Namibia inherited from South Africa was outdated or unsuitable. Since independence a number of new laws have been passed and this led to the Namibian government to take a more activist approach to the economy. The Government adopted a five-year plan (1996-2000) that was aimed at attracting foreign and domestic capital and Export Zones was one of the ways in which they proposed to do it. An initiative that is linked with the South African Spatial Development Programme is the Walvis Bay-Botswana-Gauteng-Maputo Development Corridor, of which the Trans-Kalahari highway forms an integral part. This is why Walvis Bay forms a beginning/end point and is such a good point to establish an Export Zone.

With independence Namibia become a member of several affiliations and formed several partnerships in order to boost the overall economy of the country. They are:

- In 1990 Namibia became a member of the Southern African Customs Union (SACU).
- With independence Namibia became "the tenth member of SADC" (Timotheüs 1997:16).
- 1993 Namibia became part of the Common Market for Eastern and Southern Africa.
- 1993 Namibia and Zimbabwe signed the first free trade agreement with a neighbouring country.

2.7. Summary

The former Government began implementing spatial development policies to economically stimulate underdeveloped areas and politically to prevent the black urbanisation process. They implemented the decentralisation programme that consisted of giving subsidies and other benefits to stimulate the industries at certain selected growth points, mostly in homelands. These programmes were more for political gain than economic reasons. This ideology of exclusion and separation continued until in the early 1990's.

This however changed with the independence of South Africa and Namibia. In both countries initiatives were implemented to stimulate local economic development. Such programmes were only recently being implemented with the Spatial Development Programme in 1996, the Export zone programme in 1995 and the Industrial zone programme in 2000. These initiatives encourage foreign investment and make the South African and Namibian market economy more competitive on the international market.

Table 2.1: Timeframe of the history of economic incentives

Date	Event	Description
1924	Poor white problem and labour unrest	Immensely poor white problem
1928	South African Iron and Steel Industrial Corporation (ISCOR)	Played a role in industrial development.
1944	Social and Economic Planning Council	Led to Report No.5 of 1944. Aim was to control land use.
1947	Council for Development of Natural Resources (CDNR)	Aim was to control the natural resources.
1948	National Party	Institute a policy of racial segregation.
1950	Tomlinson commission	Stop migration and take industries to the people and not vice versa.
1960	Decentralisation	First decentralisation programme and led to the concepts of Border Area Development and Black homelands.
1960	Border Industry Programme	Decentralisation of industries
1960	Permanent Committee	Government agency that co-ordinate industrial development on a geographical basis.
1964	Department of Planning established.	Aim was to control development
1967	Physical Planning and Utilisation of Resources Act (No.88 of 1967)	Main objective was to control industrial development by placing restrictions on zoning and subdivision of land and restrict employment of black people in metropolitan areas. Later becoming the first National Physical Development Plan in 1975 (No 73 of 1975)
1975	National Physical Development Plan (No.73 of 1975)	Main objective was to demarcate planning regions and each region will have its own development strategies.
1981	Good Hope Conference	Revising the National Physical Development Plan and decide that development should not only be focused on regions, but also on metropolitan areas.
1982	Regional Industrial Development Programme (RIDP)	Programme identified certain growth points and deconcentration points. Various incentives were offered to encourage location of economic activity in areas.
1990	Local economic development	This was aimed at stimulating local economies, generating employment in certain areas and to empower poor communities.
1990-1992	South African Special Economic Zones Association	This Association did studies on Export processing zones and the Export Processing Council of the Department of Trade and Industry put together a draft document on the establishment of Export zones. This was approved by the Apartheid government, but 1994 it was rejected.
1991	Revised RIDP	Attempt to move away from location specific incentives towards more general incentives.

1993	Simplified Regional Industrial Development Programme	This was aimed at encouraging development of small business.
1994	Reconstruction and Development Programme	Programme aimed at addressing the inequalities between people and regions and encouraging fair and equal development.
1995	Draft Proposal for a National Spatial Development Framework	The aim was to bring together planning for economic growth and eradicated apartheid development patterns and identify certain key strategies.
1996	Growth, Employment and Redistribution (GEAR)	The programme was aimed at helping the South African economy become more competitive on the International market. Also suggested that the RIDP be replaced by a tax holiday.
1996	Tax Holiday Scheme	The RIDP gave way for the Tax Holiday Scheme and the aim was to give tax exemptions, in order to attract investment. This was the start of Industrial Development Zones.
1996	Spatial Development Initiatives	Programmes that were aimed at identifying key areas that could be the focus for economic development and thus ensuring investment in that area.
1999	National Development Zone Authority	Responsible for the regulation, facilitation and administration of Industrial Development Zones.
2001	Coega Industrial Development Zone	Coega Industrial Development Zone becomes the first in the country.

CHAPTER 3

THEORIES ON REGIONAL DEVELOPMENT

3.1. INTRODUCTION

South Africa has great inequality between its regions. There are regions that have many resources, but the regions are underdeveloped and under-utilised. Some of these regions have little infrastructure and with large pockets of poverty. South Africa however is not the only country that experienced unequal regional development. In order to explain and prevent these inequalities, theories about regional development originated.

Unequal development can take place on international level, between developed nations and underdeveloped nations or at national level, between regions and in regions. Here the objective will be to reduce poverty and unemployment as well as inequality between people.

In the next section a definition of what a region is will be given. Then the different theories on regional development will be addressed in two parts, those theories that focus on regional planning and national planning. The aim of this Chapter is to present the reader with theories that had an impact on our regional planning and some that had not, but may have been used in other countries. This is done in order to give the reader perspective of what the differences are between the theories and to take note of these theories for future planning and to prevent the occurrence of previous mistakes.

3.2. What is a region

Generally there are two views on what a region is. The one is a subjective view, which according to Glasson (1978:35) view a region as only a means to an end, meaning that it is just an idea. While the objective view see the region as an "entity that can be identified and mapped" (Glassson 1978:35). In the late 1970s the subjective view was accepted, resulting in a view that sees the regions a "method of classification, where one can demarcate areas with the help of certain criteria" (Glasson 1978:35).

There is however also two phases through which a region can go. This is the formal region, which is defined as a "geographical area which is uniform or homogeneous in terms of selected criteria" (Glasson 1978:37). These criteria can be physical, economical, social and political criteria. The other phase is a functional region which "is a geographical area which displays a certain functional coherence, and interdependence of parts, when defined on the basis of certain criteria" (Glasson 1978:38). These regions are sometimes referred to as polarised regions with town/cities that are interrelated.

However according to Glasson there is a third type of region, namely the planning region. This will be geographical regions that are suitable for designing and implementing of development plans, in order to deal with regional problems, such as increasing population and urbanisation, increasing mobility of the population and problems with under-utilised or depressed regions. There are also two types of regional planning. Firstly is intra-regional planning which refers to regional planning which is directed towards resource allocation within regions. The aim of this planning is to "achieve a satisfactory relationship between people, jobs and the environment within regions" (Glasson 1978:27). It also focuses more on specific objectives such as:

- Social: which is the provision of housing, social, cultural and recreational facilities.
- Economic: which refers to the distribution of new investment; control of diseconomies of congested cities.
- Environment: refers to the quality of urban form; prevention of urban sprawl.

Theories that deal with regional planning is:

- Growth pole theory
- Core-periphery model

- Industrial location theory
- Central place theory.

Secondly there is inter-regional planning that focuses on inter-regional relationships and is national planning. It is concerned with "the allocation of resources between regions" (Glasson 1978:28). The aim is to focus more on the economy, and "relating to the achievement of a satisfactory relationship between people and jobs" (Glasson 1978:28). The specific objectives of it are:

- To focus more on the national economic objectives of economic growth. This will include the efficient use of resources in order to achieve a higher rate of output. By ensuring investment in regions with high levels of unemployment and under-utilised resources, it may cause economic growth in these regions.
- Full employment
- Social equity.

The last two are also related in the sense that full employment will lead to social equity. This is planning on national level that focuses on creating an overall satisfying environment for the people. This planning will seek certain strategies and incentives that can ensure full employment, social equity and national economic stability. These strategies include Export zones; Industrial zone; Tax Free Holiday Schemes; Small, Medium and Micro Enterprise Programmes; Spatial Development Initiatives etc. Some of these concepts will be addressed in Chapter four.

Theories that deal with National Planning is:

- Economic base theory
- Inter-regional trade multipliers
- Regional input-output analysis
- Sector theory
- Stages theory
- Export base theory.

3.3. **National Planning**

3.3.1. Economic base theory

According to Smith (1971) the economic base theory is based on making a distinction between industries producing for the population of the city itself and those producing for an external market. This can be divided into two sectors:

- Basic activities/industries are those that produce for export, and they export these goods and services to the outside of the economic boundary of the region.
- Non-basic activities/industries are those that serve the local market.

According to Glasson (1978) the cause and effect relationship make up the export base theory. This refers to the fact that an increase in basic activities (export) within the region will increase the flow of income into the region and therefore increase the demand for goods and services within the region. This will lead to an increase in non-basic (needs of people in region) activities. However a decrease in basic activity can cause a fall in income coming into the region, thus causing a decline in demand for products of the non-basic sector.

The economic base multiplier can be calculated in terms of employment and is shown as:

$$\frac{\text{Total employment in basic and non-basic activities}}{\text{Total employment in basic activities}}$$

3.3.2. Regional input-output analysis

According to Glasson (1978) this method can be used in the analysis and prediction of short run changes in a regional economy. This method provides an industry-by-industry breakdown of a regions economy and also place emphasis on inter-industry relationships. The method for example can be used to estimate income and employment multipliers for each industrial sector, or to discover the impact of a sudden population boom on a region.

Over time other research has been done into ways and means of including other aspects into this approach. These include spatial land implications and the environmental impacts of growth and change. Thus, it could be used to understand and predict "short-run regional change" (Glasson 1978:98).

3.3.3. Inter-regional trade multipliers

This approach, according to Glasson, is much more sophisticated than the economic base theory and also more realistic. This approach accepts that regions receive imports from other regions and that they are affected by national economic factors, such as the levels of direct and indirect taxation. The approach is calculated on money terms, instead of employment.

The approach is based on the fact that an investment of a certain amount of money into a regions economy will increase the regional income and thus lead to an increase in consumer spending. Though these amounts spend will be less than the investment made. The money that is spent will however become someone else's income. These people will then again spend some of this money. The money will continue through several stages. However, the multiplier does have an end, because of leakages that will influence the process. These leakages are:

- Savings. People tend to save some of their income, instead of spending it.
- Taxation. This can take the form of income tax or tax on purchased goods.
- Imports. A substantial amount of the regions income is spent on goods that are produced outside a region.

The regional multiplier can be shown as:

$$K = \frac{\text{Initial injection}}{\Sigma\ (\text{leakages})}$$

3.3.4. Sector theory

"The sector theory is one of the simplest theories of regional growth" (Glasson: 103). The focus point of this theory is when there is a rise in per capita income in different areas at different times; this will be accompanied by a resource reallocation. This will result in a decline in the proportion of people employed in primary activities (agriculture). This will lead to a rise in secondary (manufacturing) and then in tertiary (services) activities. This shift can be explained by the fact that when income rises, the demand for goods and services provided by the secondary and tertiary sector becomes more preferable than those of the primary sector. These shifts are seen as providing " the main dynamic of regional growth" (Glasson 1978:103).

3.3.5. Stages theory

The stages theory is an extension on the sector theory and is known to many as Rostow's theory. This theory suggest that economic growth in a capitalistic society occur in five stages and according to Glasson (1978) this theory suggest that regional development is primarily an internal evolutionary process that consist of the following stages (Glasson) (Stabler in ed. Mckee et al 1970):

a. Self-sufficient subsistence economy. The inhabitants of the region mainly focus on providing necessities for survival. They have little investment or trade with other regions. The population is also distributed at place where there are natural resources. This is the stage in which some of African countries still find themselves. Living is based on strong traditions.
b. Pre-industrial stage. By improving the transportation network the costs of transfers are lowered and trade become possible with other areas. The villages then start developing industries that can provide farming infrastructure. This however led to a reduction in traditional lifestyles and many of the old traditions are lost. It is however not clear when South Africa reached this stage as some people think it happened when British settlers brought new ideas and knowledge into the country, others think it was when diamonds was discovered, which led to the stimulation of infrastructure such as extensive railway lines. (Kallmeyer 1997:8)
c. Take-off stage. This is the stage in which an increase in per capita is seen. This increase will stimulate some local industries and there is increasing inter-regional trade. This led the region through a series of agricultural evolutions, from extensive grazing to cereals to intensive dairying and fruit growing. According to Kallmeyer (1997:9) South Africa reached this stage in 1933,

when the country broke away from the depression. The de-evaluation of the pound led to an increase in gold prices and stimulated foreign investment.

d. Drive to maturity stage. This is the stage where the region is forced to industrialise, because of increasing population numbers and diminishing agricultural returns. The secondary industries will develop first, by processing primary products and they will also become more specialised. "A failure to industrialise will lead to population pressures, a fall in living standards and general stagnation and decay" (Glasson 1978:104). Kallmeyer (1997:10) feels that South Africa reached this stage in 1945 and is still in this stage. The reason why South Africa did not reach the last stage is because of political and economic uncertainty.
e. Mass consumption stage. This is the stage where the tertiary sectors and industries develop by producing for export. These exports will include capital, skills, and socialised services to less advanced regions.

All these stages cause change in location and settlement patterns within a region. There is an overall movement of people from smaller to bigger areas and from the rural to the urban areas and the "non-industrialised region is drained of its younger, more energetic population" (Stabler 1970:52).

3.3.6. Export base theory

Douglass North developed the export base theory in reaction to the stages theory. According to North there are certain areas such as in North America that did not follow the pattern described by the stages theory. This theory is based on the fact that a region is not in a vacuum and that regions are open to external demands for " the regions resources or products" (Stabler 1970:52). "It states that a regions growth is determined by the exploitation of natural advantages and the growth of the regional export base which are in turn largely influenced by the level of external demand from other regions and countries" (Glasson 1978:107).

3.4. **Regional theories**

3.4.1. Growth pole theory

Perroux believed development, spatial and industrial, growth does not appear everywhere and all at once. Development occur in points or development pole, "with variable intensities; it spreads along diverse channels and with varying terminal effects to the whole economy" (Glasson 1978:171). Boudeville defines a regional growth pole as a "set of expanding industries located in an urban area and inducing further development of economic activity throughout its zone of influence" (Glasson 1978:172).

Perroux focused on the development of growth poles in the economic space. According to Smith associated with these growth poles are the basic concepts of this theory:

- Propulsive firms and leading industries are characterised by large size and a dependency to dominate other industries. These industries also have a high degree of interconnectivity with other industries and are known to have a relatively rapid growth. The location of these industries are due to several factors such as the availability of natural resources, availability of man made activities, such as infrastructure and labour supply.
- Spread effect is the process that occurs when the dynamic propulsive qualities of a growth pole spread outwards into the surrounding areas, this may happen due to a demand in goods from the periphery. There is an overall trickling down of goods and services.
- Polarisation effect occurs when "the rapid growth of the leading industries induces the polarisation of other economic units into the pole of growth" (Glasson 1978:173). Associated with the polarisation effect are the various agglomeration economies. This economic polarisation will lead to a geographical polarisation resulting in the flow of resources and economic activity to a number of centres within the region.

According to Kallmeyer (1997:32) the growth pole theory was used when the National Physical Development Plan (NPDP) of 1975 was drawn up, as referred to in Chapter 2. This plan also supported a hierarchy of growth centres.

3.4.2. Core-periphery model

Friedmann changed Rostow's model of development into spatial terms. The term space economy refers to the "geographic or spatial pattern of economic development or the manner in which the economy is manifested spatially" (Fair 1982:8). The space economy according to Fair consists of three aspects.

a. Nodes. The nodes are arranged in hierarchy from larger to smaller centres.
b. Networks. The networks of communication and movement interconnect the nodes.
c. Surfaces. This is the area of organisation, such as trade areas.

Friedmann believed that some areas experienced rapid growth while others stagnated or decline. This polarisation process, which is influenced by external and internal aspects, gives rise to a "pattern comprising a core or centre and a periphery or hinterland" (Fair 1982:11). The centre tends to dominate the periphery on economic, political and social aspects and the periphery then becomes dependent on the centre.

According to Fair (1982:12), there are two major flows of resources and transactions between the core and periphery. Either it is mostly from the core to the periphery in what is called *spread effects*, or it can be mostly from the periphery to the core and is called the *backwash effect* or *polarising effect*. Friedman believed that the government must interfere in the split between the core and periphery and must "counteract the effects of backwash or polarisation before the imbalance becomes intolerable economically and politically" (Fair 1982:13).

In later years Friedmann expanded on his core-periphery theory. The new one included the "diffusion of not only economic activity, but also of socio-cultural and political modernisation from core to peripheral areas" (Fair 1982:15). The core is the place from where innovation is spread outwards to affect economic activity and settlement patterns, as well "as socio-cultural and political structures in the periphery" (Fair 1982:15).

3.4.3. <u>Industrial location theory</u>

Different people contributed to the industrial location theory, some from a geographical viewpoint and others from an economic viewpoint. From the economic viewpoint, Weber, Phalander, Lösch, Hoover, Isard and Smith focused more on the formal, abstract or deductive theoretical approach with a relatively small empirical content.

According to Glasson they assumed that an industry locality would relate to the source of the inputs and the markets for the output. Factors of production such as land, labour, capital, enterprise and market factor will be the primary determinants of location.

There are three approaches to industrial location theory. The least cost approach, the market area analysis and the profit maximising Approach.

a. *Least Cost Approach of Weber:*

Weber made three basic assumptions according to Smith (1971:80) Firstly that the geographical basis of material is given, thus raw materials are found in same localities. Secondly, that the size and situation of places of consumption are given. Thirdly, that there are several fixed labour locations with labour immobile and in unlimited supply at a given wage rate.

His basic principle was that a person would choose a location where his cost is the lowest. He believed that three factors influenced industrial location and the decision a person make. The factors are: Transport costs, labour costs and agglomerative and deglomerative forces (Glasson 1978:120).

b. *Market area analysis of Lösch*

He focused more on placing emphasis on demand or market factors. He realised that the best location is the place with the maximum profit, where revenue exceeds costs by the largest amount. He saw the market as being the variable, and the market may therefore be a major location determinant (Glasson 1978 & Smith 1971).

c. *Profit maximising approach of Isard and Greenhut*

Isard and Greenhut saw the previous two as being one-sided. In practice, "both costs and revenue vary with location and the optimum location is the one which yields the greatest profit" (Glasson 1978:134). In a situation like this the best, profit-maximising location may be neither the least cost nor the maximum revenue location. But there may be problems in finding this profit-maximising location. These problems include, locational interdependence; difficulty of evaluation the relevant variables; impact of large modern corporations, and the fact that behavioral factors are neglected.

3.4.4. <u>Central place theory</u>

The central place theory of Christaller also made a major contribution to the location theory. His aim was to "find out whether there might be laws that determine the number, size and distribution of towns and cities" (Smith 1971:98). They also looked at the relation between a central place and their hinterlands. These central places gave services to their hinterlands.

According to Glasson, there is a hierarchy of service activities, some with a low order service, which can found in every city and town. While others had a high order service, which will only be found in major centres. This will result in major towns/cities having more services. Each of these service activities will also have a threshold population and market range.

Threshold population refers to the minimum population that is necessary in order to support the service activity. The market range is the distance that people are willing to travel in order to reach a service.

3.5 Conclusion

Since the Second World War industrialisation had a great impact on regional development and socio-economic development in South Africa. South Africa followed many of the theories mentioned in this Chapter, for example, Rostow's theory. The development of South Africa experience and followed the phases of Rostow's theory. Even the core-periphery theory of Friedmann was followed, but this did not work as anticipated. The South African spatial economy are still characterised by one dominant core with a fragmented economy of elite consumers inside this core, and a large population living on the periphery. This is a typical characteristic of our cities and towns today. Large population live on the periphery, either as squatters or low-income housing tenants. They live in poverty and cannot share the same mass consumption as the elite. These are just two examples of theories that can explain the economic and spatial development situation that South Africa is currently facing.

CHAPTER 4

INDUSTRIAL DEVELOPMENT ZONES AND EXPORT ZONES

4.1. INTRODUCTION

The National Development Zone Authority (NDSA) was established in March 1999 and is responsible for the regulation, facilitation and administration of development zones. The development and management of zones will be carried out by the private sector. The South African macro-economic policy provides for the establishment of Industrial zones, in terms of the Manufacturing Development Act no 187 of 1994.

Industrial Zones are just another variant of Export Processing Zones, but there are differences and a reason why the South African government decided to implement the Industrial Zone initiative. South Africa followed with three versions of Export Zones namely: Eleven Spatial Development Initiatives; Industrial zones; and Development Corridors. The implementation of this initiative together with the Spatial Development Initiative programme was to boost economic development in under-utilised regions whose potential is not fully used or developed.

This is the same concept as that of Enterprise Zones (EZ) and "new towns" in Britain (Claassen 1999:102). "Enterprise zones are designated for a period of ten years. During this time, the need to obtain planning permission is waived and building regulations are streamlined" (Claassen 1999:102). These include exemption of development land tax and property tax. The aim of enterprise zones was either to prevent business from moving away or to attract business to declining areas, in other words to try and "rehabilitate" the area. "New towns" were towns that were established in a region in order to attract industries and create employment. The aims of new towns were to regenerate employment in regions that were declining.

4.2. Definition of Industrial development zone

"Industrial Development Zones (IDZs) are purpose-built industrial estates providing facilities and services tailored for export-oriented industries" (Offshore-Onshore).

They are linked to an international port or airport, for example Coega Industrial Zone. According to McCarthy (1998:50) an "IDZ can be defined as a specialised industrial area within a SDI, which aims to establish an environment beneficial to predominantly export production and attractive to international as well as local investors." Development zones are also seen as a "vehicle" for the development of "strategic resource intensive industries as well as clustering of related industries so those are able to benefit from common services" (Spatial development initiatives).

4.3. **Zones of operation and incentives offered in Industrial Zones**

Industrial Zones in South Africa consist of two zones:

1. Customs Secure Area (CSA), which is a "designated area within an industrial development zone (IDZ) subject to special customs legislation" (SAPOA 2000).
2. Industries and Services Corridor, which is an industrial or office park that is occupied by service providers to the Customs Area firms.

In an attempt to help industrial zone firms to encourage human development the Department of Labour has the following services to offer (Hartzenberg 2000:11):

- "Learnership programmes tailored to the need for skills at each stage in the establishment of IDZs and the construction and operation stages of IDZ firms, and
- Various human resource development programmes including skills audits, recruitment selection and training."

By offering these services the Government makes sure that not only the firms benefit from the incentives, but also the employees. So even if a firm fails at least the employees would have gained experience and knowledge from it.

Together with these services an established development zones will have the following key features that will be of advantage for investors (Smith 2000):

- Linked to international port or airport
- Support from Enterprise South Africa
- World-class infrastructure

- Suited to export-oriented production
- Human Resource development
- Approved environmental standards
- Dedicated customs office to expedite excise inspection and clearing
- EDI based clearance procedures
- A unique customs regime offering:
  - Duty-free import of production-related materials and inputs
  - Zero rate on VAT for supplies procured from SA
  - Finished goods deemed imports when selling into SA.

In addition to the national investment incentives offered, the local government of each area can also grant special incentives such as subsidised water, electricity or land. Companies can also benefit from "infrastructure provided by government, such as road, harbours and railway lines" (Jauch:2002).

4.4. <u>**What is an Export Zone**</u>

Export Processing Zones could have many definitions, all depending on the country in which it is implemented. The International Labour Organization defines an "Export Zone" as "industrial zones with special incentives to attract foreign investors, in which imported materials undergo some degree of processing before being exported again" (ILO 2002). While others go into more detail such as Romero (1996:1) that define an Export Zone as a "delimited geographical area in any part of the country, which benefits from special investment-promotion incentives, including exemptions from customs duties and preferential treatment with respect to various fiscal and finance regulations."

Lastly Mudani (1999) defined an export processing zone as "an industrial estate usually a fenced-in area of 10 to 300 ha, that specializes in manufacturing for export. It offers firms free trade conditions and a liberal regulatory environment" (Mudani 1999). The definitions of Export Zones are endless and criss-crossed with other confusing terminology, but one similarity arises from all of this, that Export Zone is a zone with incentives to attract investment. However several countries experience problems with this "enclave zones" and they then establish Export Processing Units

(EPUs) that can be defined as "single firms operating under EPZ status" (Endresen and Jauch 2001:1). Export Processing Unit status can be given to an enterprise or factory that produces exclusively or mainly for export purpose. This is what Namibia also declared in certain areas of the country such as Walvis Bay (Western Namibia) and Oshikango (Northern Namibia).

4.5. Why adopt an Export Zone or Industrial Zone strategy?

Countries are increasingly adopting export-led growth to replace inward looking development strategies. Policies such as import substitution are being replaced by export promotion and export substitution strategies. Countries adopting these strategies are usually characterized by aspects such as high unemployment rates and "hidden under-employment in the informal sectors" (Hosking and Jauch 1997). These countries also have high percentage of their populations engaged in agriculture and they have heavy "national dependence on primary exports" (Hosking & Jauch, 1997).

These countries also have "low levels of foreign investment and declining incomes from unprocessed primary commodity exports, dwindling foreign exchange reserves and low levels of technological know-how and general economic stagnation" (Jauch, Keet, Pretorius:1996). By implementing these new strategies countries will gain advantages that will be described in the following section.

4.6. Benefits of introducing an Export Zone or Industrial Zone

Countries introduce an Export Zone or Industrial Zone in order to create employment, to boost their economy, to boost the economy of the region and to stimulate investment. Some governments such as Namibia introduced Export Zones as a specific measure targeted at promoting growth, development and job creation. Another reason for establishing Export Zones or Industrial Zones is to stimulate the transfer of technology and skills to the people of a country. The International Labour Organization also lists reasons why countries would establish and accept these strategies. These are (ILO):

- "earn foreign exchange
- boost the export sector, particularly non-traditional exports

- raise the standard of local industry
- Attract investors into specific activities regarded as strategically important to the economy e.g. Electronics, information technology, R&D, tourism, infrastructure and human resource development.
- Develop backward regions,
- And even to kick-start the economy as a whole."

One of the main problems of African countries is education. The reasons being that the people are too poor to send their children to school and that the governments of the countries are too poor to subsidise education. One positive aspect of these strategies is that skills and knowledge will be transferred from the firms that establish there. So not only will the rich benefit from this strategy, but also the poor.

By establishing an Export Zone or Industrial Zone a country can achieve two types of benefits. Direct benefits and indirect benefits or spill over benefits. Direct benefits will be the foreign investments gained by the investments, employment creation and foreign exchange earnings. The indirect or spill over benefits will include (Timotheüs 1997:28):

- "Technology and skills acquisition by local employees
- Increased export awareness amongst local firms
- Increased awareness of and interest in the host country by foreign investors and buyers
- Improved performance by local firms in order to supply EPZ industries in competition with imports."

4.7. <u>Principles of Export Zones and Industrial Zones</u>

By investing in an export zone and Industrial Zone there are advantages and incentives that an investor will receive such as tax holidays or tax exemptions, abundant cheap labour with low wage rates and (Hosking and Jauch 1997):

- "developed infrastructure such as roads, transport and telecommunications
- various subsidies especially on services provision such as water and electricity
- import and export duty exemptions

- unrestricted profit repatriation rights
- modifications, or what is termed 'flexibility' in working conditions and workers rights
- Restrictions on trade union activities."
- "no import duties and restrictions on raw materials, intermediate goods, components and capital equipment
- streamline and simplified administrative procedures for import and export trade
- economies of scale in infrastructural and logistical support
- Subsidised rates for electricity and water and often also land and building costs."

4.8. **Social, labour and economic issues in the zones**

According to Jauch (2002) studies were being done on Export Zones in order to find out if it really works and if it is an economic strategy for countries. However, according to Jauch the expected advantages of zones such as Export Zones and Industrial Zones are not as great as it seems. The World Bank sees Export Zones as just a first step towards greater economic transition and liberalisation and as an instrument to integrate the countries into world markets. This Export Processing Zone development is linked to the increasing acceptance of globalisation and neo-liberal policies across the regions of Africa. However at fist sight it seems that Export Zones create a significant number of jobs. This might be the case in some countries, but a closer examination showed that jobs created through Export Zones are often not cost-effective and of poor quality.

Countries can incur two types of cost when establishing an Export Zone. Direct cost which accounts for the establishing Export Zone infrastructure and subsidised services. Indirect cost that is in the form of foregone government revenue and national income as a result of exemption from taxes, import and export duties and other incentives from the government. The Kenyan government spent 40 billion shillings (circa R5 billion) on establishing Export Zones, but only about 2000 new jobs have been created. Some say that they rather could have used the money to boost small scale manufacturing sector (Jauch:2002).

The overall employment creation of these zones was not as significant as they were made out to be. Some Export Zone countries are successful in bringing down their unemployment rate such as Mauritius that reduced the level of unemployment from "23% in 1979 to 2% in the early 1990s" (Hosking and Jauch 1997). Other countries are not so lucky and in most countries Export Zones account for "1.5% or less of total employment" (Rosier in Mulder and Osch 1995:78). Sometimes these new jobs created are at the expense of existing jobs outside the zones. What happens is that employment in manufacturing industries shift towards the Export Zone sector, without increasing the total number of jobs. However, as each country differs, one Export Zone will differ from another, and also the success rates of each.

According to Jauch (2002) the same problem can occur with the transfer of skills. Usually low skilled jobs are filled with the local people, while the highly skilled and highly paid jobs are filled with imported persons. Once again it will depend on the country and the laws that it implemented together with the zone regulations. Some countries will not allow foreign people to work in these areas, and the governments insist that their own people be used in the zones. Still only a few people will be trained for key positions and have little or no opportunities for promotion. These zones usually hire mainly women for they are seen "as docile and cheap workers with nimble fingers" (Jauch 2002). The wages of these women are low and there is an overall lack of job security and low levels of skill transfer. Another problem is that although there are workers unions, men dominate this and they give little attention to the issues of women.

Foreign exchange is another reason why countries establish an Export Zone or Industrial Zone, but according to Sherbourne (1993:2) "only 3.5% of global exports from developing countries were attributed to EPZs in 1988." While imported goods tend to attribute to 60% or more especially in the electronic and textile industries. What this shows is that the strategies are unlikely to lead the country to sustainable economic development. Jauch (2002) states that instead they "are deepening developing countries dependency on foreign capital and can have detrimental effect on national industries." African countries also compete for foreign investment, in this process of attracting investment, rather than working together.

The problem is that with the new countries entering into the world market they have to compete with a highly competitive market and highly industrialised and developed countries, with the necessary technological and economic skills to compete on this market. What then happens is that there is an immediate unequal competition and it is not difficult to see which country will be favoured. Another thing about Export Zones or other free trade zones, is that it can distort development, meaning that special incentives can cause the normal welfare advantages to be undermined and that such incentives may lead to "relocations rather than additional industry. Instead of creating jobs, industries may simply relocate to reap the new benefits" (Hosking and Jauch 1997).

Labour standards and relations are still disputable subjects in these zones. These zones are still characterized by low productivity and labour unrest. The pay in these areas is sometime higher than outside the zones, but the pressure on the workers to be more productive is very high. This can lead to high levels of stress and fatigue and labour unrest.

Another issue is labour law. Most of the Export Zone investors are hostile towards trade unions and in some Export Zone countries they forbid union strikes and worker strikes. Some countries however make sure that labour laws are passed with reference to Export Zone workers, such as in Namibia, where the Labour Act will apply in the zone, but "strikes and lockout would be outlawed for a period of 5 years" (The Namibian 23 August 1995).

Table 4.1 THE APPLICATION OF LABOUR LAWS IN EXPORT ZONES

Fully Applied	Partially Applied	Suspended
Dominican Republic	Kenya	Bangladesh
Haiti	Mauritius	India
Jamaica	Malaysia	Pakistan
Korea	Philippines	Sri Lanka
Mexico		Togo
Mozambique		Zimbabwe
Namibia		
Thailand		
Tunisia		

Source: Bond (2002)

Other issues that also arise in Export Zones and other zones are that of child labour, sexual harassment and health issues. All over the world, especially in developing countries, children are being used for child labour. The main reason for this is because of poverty and the lack of educational facilities. These children are tempted by the thought of money and urged on by their parents, because of the abject poverty in which some of them live.

In many export zones the workers consist of women. These women are young and do not know, or have little knowledge of, trade unions and they are being used for cheap labour with no rights. Rarely do they get opportunities for promotion or does transfer of skills take place. They do not always know their rights and in some cases they work in unfavourable conditions where their health is at risk. "In May 1993 fire broke out at the jointly owned Thai-Hong Kong-Taiwanese Kader toy factory, claiming the lives of 188 workers and injuring 469. In November of that same year, 87 persons died and 40 sustained injuries when fire engulfed the Zhili toy factory - a Hong Kong-China joint venture at Shenzhen" (Romero 1996:7). Illegal practices such as blocking emergency exits because of lack of storage space or to prevent theft have been known to occur in Export Zones.

4.9. Spatial Development Initiatives (SDI)

The historical development of Industrial Zones and Export Zones and other relevant policies such as Spatial Development Initiatives are addressed in Chapter 2. Therefore as Industrial Zones and Export Zones are an integral part of the Spatial Development Initiative programme, the objectives and key aspects of the programme will be discussed so as to give the reader an idea where it all fits in.

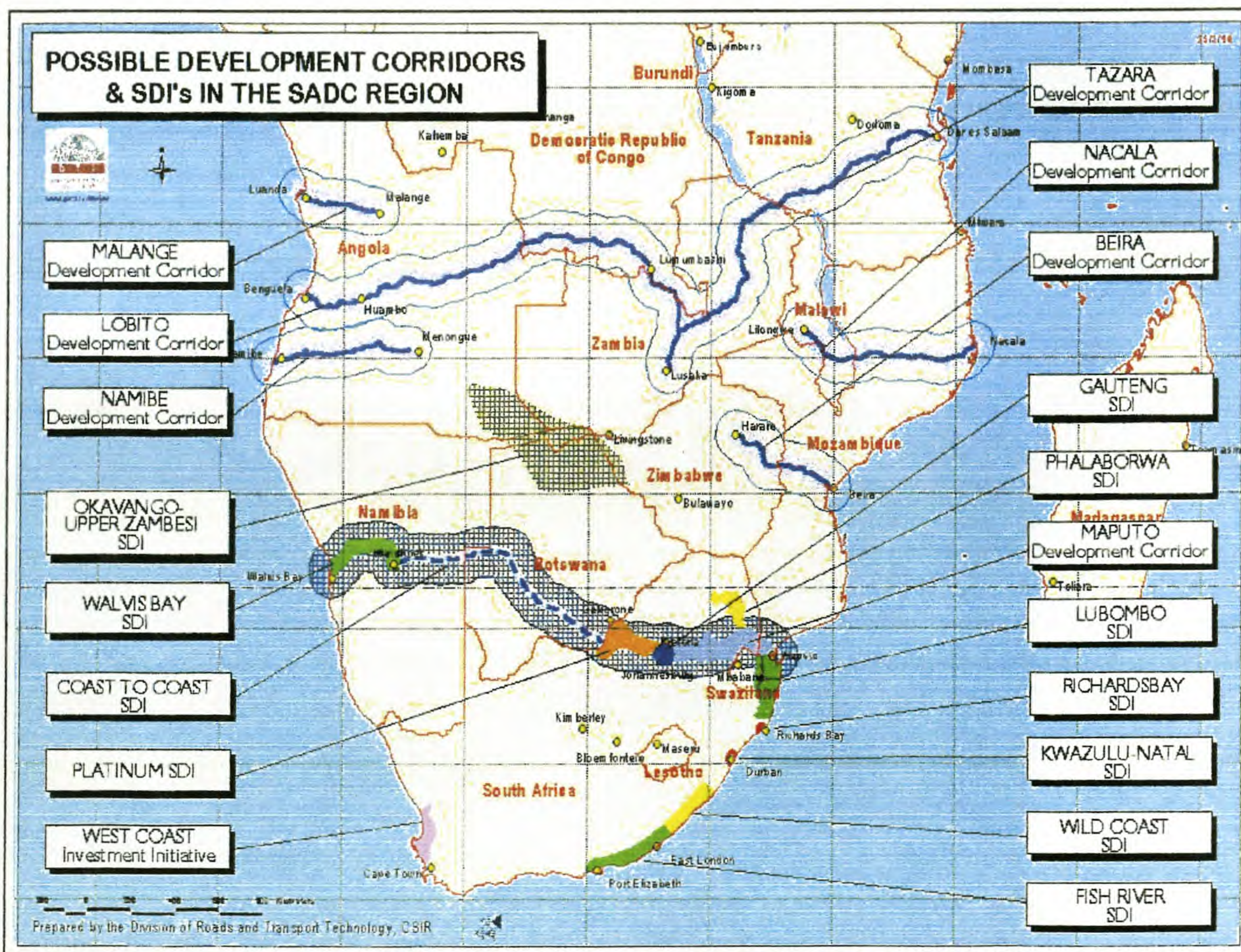
The Export Zone concept is not a new one in South Africa. According to Jauch (2002) South Africa introduced a number of policies in the 1980s that resembled export processing zones. These were (Jauch, 2002): "deregulation laws to allow the government to declare certain areas free from national laws governing conditions in the workplace,

- liberalisation programmes introduced from 1988 to reduce tariffs for inputs into textile clothing and motor vehicle industries;
- Industrial decentralisation regulations which enabled the government to grant various concessions and subsidies to companies which were prepared to invest in designated areas, especially in the Bantustan homelands." (see Table 2.1.)

These encourage foreign as well as national investment in the homelands. These policies however were designed to create jobs and prevent migration of black workers to white areas. In the early 1990's the South African Special Economic Zones Association was established. In 1992 a number of studies on Export Zones were completed and the Export Processing Zone Council of the Department of Trade and Industry put together a draft document "Policy and Regulatory Framework for the Establishment of Export Processing Zones (EPZs) in South Africa". This led to the approval of the principle of export zones by the apartheid government and the first Export Zone would have been established in 1994, but was prevented by the democratising of South Africa.

The Spatial Development Initiative Programme is an important break from the regional planning and initiatives of the Apartheid government. These initiatives were more readily based on political reasons than economic reasons and this led to areas being underdeveloped and under-utilised (see Chapter 2.5 for history of the policy). That is why in 1996 the new government adopted a macro-economic strategy in order to boost the economy and make it more competitive on the international market and create more employment. They started focusing on local economic development and the Spatial Development Initiative Programme became a "pillar for South Africa's new macro-economic programme" (Hirsch and Hanival as in Rogerson 2000: 326b). Figure 4.1. show the Spatial Development Initiatives and Industrial Zones in South Africa.

Figure 4.1.: Spatial Development Initiatives and Development Corridors in Southern Africa



Source: Kaombwe (1998)

The "spatial development initiative programme, led by the Department of Trade and Industry, facilitates economic growth and job-creation by promoting investment in South Africa's internationally competitive industries" (DTI:1999). Together with tax incentives, such as the Tax Holiday Scheme, where investors can have a six year tax holiday, a "three year accelerated depreciation allowance, as well as a foreign location cash grant, the SDI programme is intended to create a conducive environment for investors, thereby stimulating direct domestic and international investment" (Jourdan 1998:717).

4.9.1. **Objectives of the Spatial Development Initiative programme**

As Industrial Zones policy is part of Spatial Development Initiatives, the objectives of this overarching policy will be addressed. As explained in Jourdan *et al* (1996:2) the *first* objective of spatial development initiative is to generate economic growth and development in relatively underdeveloped areas, *second* to generate long term and sustainable employment for local inhabitants who live in the Spatial Development Initiative area and for the whole nation. *Third*, to maximise the extent to which private sector investment and lending can be mobilised into the Spatial Development Initiative area, thus lessening the demand on government for providing funds for projects. *Fourth*, to exploit the spin-off opportunities that are generated from the crowding-in of private and public sector investment and to use it for the development of Small, medium and micro enterprises (SMME's) and also for the empowerment of local communities. *Finally*, exploit the under-utilised locational and economic advantage of SDI areas to use for export oriented growth. This continuation of emphasis on promoting investment led to the launch of the export-oriented Industrial Development Zones programme in 1999.

While Industrial Zones have the same objectives they focus more on the provision of incentives to encourage investment, either foreign or local, in order to boost the economy of a region or country, especially underdeveloped areas, and thus create employment.

4.9.2. **Key strategies of the Spatial Development Initiative programme**

In order to achieve the objectives listed in 4.9.1. It is necessary for the following strategies and principles to be implemented effectively (McCarthy 1998:41):

1. "Crowding-in" and coordination of public and private sector investment in areas. The reason for this partnership between public and private sector is to "improve the government's capital expenditure and thereby crowding-in investment, rather than out" (McCarthy 1998:41).
2. Political support, commitment and buy-in for the Spatial Development Initiative process must be ensured. Absolute commitment to the programme is required by relevant levels of government in order to facilitate a fast and focused programme.
3. Mobilisation of private sector investment and lending is an important aspect of the Spatial Development Initiative programme. The central government does not always have the capacity or time to address all the needs of the people and are no always able to create alternatives and opportunities. That is why it is important to get the private sector involved as they sometimes have more capacity and new ideas.
4. Quicker and more focused planning process is needed. This is needed to speed up delivery of services. South African planning process is usually characterised by being time consuming and duplicative.
5. In order for agglomeration advantages to occur it is important that industries are clustered around key projects. This is to ensure that there are economic advantages for the industries and that there is a spread effect of these advantages to the people.

In an Industrial Zone there are also strategies that are aimed at promoting and attracting investment. Without these incentives a development zone will not be successful as no one would want to invest in an area that is under developed and have poor infrastructure and no other benefits. These strategies will be aspects such as (Offshore-Onshore):

- "Attractive regulatory regime and investment facilitation services provided by zone operators,

- Duty free imports of capital goods and inputs, plus VAT exemption for exports,
- Access to the government's incentive mechanism,
- Effective infrastructure,
- Local government providing incentives such as subsidised water and electricity."

4.10. In conclusion

Industrial Zones and Export Zones are vehicles of development. Industrial Zones are basically the same as Export Zones, it is just a variation that was adapted to fit the situation in South Africa. When the idea of Export Zones was brought forward in South Africa there was much debates and conflict from labour organisations, such as COSATU. The reason being that export zones generally neglect labour laws and do not give the necessary attention to labour relations and management. With this opposition to export zones, it was realised that a model, with the same objectives and goals, should be implemented that fits South Africa and give attention to labour issues.

This model fits in with the macro-economic strategy of the government of which the Spatial Development Initiative Programme plays an integral part. This programme and others are aimed at boosting the economy in neglected areas, such as the Eastern Cape, or where there is under-utilised potential in an area, such as the Maputo Corridor. This is part of the government's strategy to stimulate local economic development and to address the unemployment rates and inequality between regions. This strategy is also aimed at eliminating poverty by boosting the economy in poor regions.

Although the picture may look grim for these zones there are some positive aspects. Employment creation is not as good as it were expected to be, but at least jobs were created. The government however must not be alone in the betterment of social and labour aspects. Non-governmental Organisations and private organisations must assist the government and make sure that these issues are addressed. Governments must not sell their people for economic development, they must rather implement social, health and labour laws that can be enacted in such a zone. It will be of no use if a country does create jobs and receive foreign exchange, but its people are not able to enjoy the benefits, because of poor health and social issues. Thus it is very important that governments place the well-being of their citizens before the foreign exchange that it will receive.

CHAPTER 5
LOCAL ECONOMIC DEVELOPMENT

5.1. Introduction

Local economic development is not a new strategy. Since the 1980's different planning strategies for local economic development were planned while appropriate policies for regional economic development were sought. Over time the responsibility of the national level were shifted down to local level. This is because of the shift from a top-down approach to a bottom-up approach of the government. The growth in local economic development across the country can be because of a weakening of centralized economic management. There has been a "remarkable transformation in urban governance from an era of managerialism, which focused primarily on the local provision of services and facilities, to one of urban entrepreneurialism" (Rogerson 1995: v).

The beginning of local economic development planning was prompted by a necessity to try and resolve local socio-economic problems and to manage the economic restructuring processes. Two related issues have been identified for the emergence of local economic development (Rogerson 1995:v):

- "boosterist desire for local economic growth and
- Regenerative desire to avert local economic decline."

One type of such a local boosterism is export processing zones or any other type of economic zone, such as industrial development zones. These zones are aimed at attracting investment into a region that needs economic development and stimulating under-utilised and under developed regions. This is the aspect on which spatial development initiative programmes are based.

5.2. Definitions of Local Economic Development

Blakely (1994:xvi) defined local economic development as "the process in which local governments or community-based organizations engage to stimulate or maintain business activity and/or employment. The principal goal of local economic development is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural and institutional resources."

Zaaijer and Sara (1993:129) states that local economic development is "essentially a process in which local government and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area." Thus local economic development is basically a process through which communities can be empowered, either with the help of private sector, the government or by doing it on their own. It is a strategy through which these organisations and government try to alleviate poverty and stimulate the economy of poor regions and the whole country.

There are two levels on which local economic development can operate, that is (Nel 2001):

1. "the formal: usually characterised by the involvement of local and higher authority structures and the formal business sectors; and
2. The informal: usually characterised by action at the level of community-based organisations and NGO's; links with spontaneous self-reliance initiatives and the informal sector have been discerned."

5.3. <u>Why Local Economic Development emerged</u>

There are several reasons why a country will adopt a strategy such as local economic development and the programs that accompany it. This strategy is accepted because of inadequate local development, because there is a need for local economic development, a need for stimulating employment opportunities and a need to empower poor communities and above all a need to eradicate poverty. There still exist huge inequalities between regions and people in developing countries. By empowering people in these communities, they can learn to utilise these resources, they can learn how to use opportunities and make a living from it. They can gain self-respect and dignity.

Other reasons mentioned by Nel (2001) is that the "central government seeks to catalyse growth at the local levels and the endeavours of various community development organisations striving to improve economic and social conditions within specific neighbourhoods." There is also the consideration of the debt crisis in which most of the developing countries find themselves; the "effective inability of many states to intervene at the local level; imposed structural adjustment; massive currency devaluation and the series of natural and political shock which continually shake the region" (Nel 2001). The political shocks will refer to the wars that are occurring mostly in developing countries. The natural shocks refer to aspects such as droughts, floods, earthquakes and other natural shocks. Mostly developing countries do not have the power, capital and resources to overcome these shocks and they just find themselves deeper in trouble. So it is necessary for a country to adopt an economic strategy that can improve or help to alleviate the problems in regions.

5.4. Local Economic Development strategies and policies

According to Nel (2001) there are five common local economic development strategies. These are:

1. "Financial support" which will include incentives such as tax incentives, investment packages and overall assistance for investment in order to create jobs and stimulate foreign exchange.
2. "Land and building development" which will include the provision of infrastructure and land; "provision of workshops and small industrial premises; enterprise zones with tax and planning concessions and other assistance."
3. "Information and marketing assistance" which will be the supply of information and advice, export promotion, general marketing and promotion and image reconstruction.
4. "New planning and organisational structures" such as the adoption of comprehensive planning techniques, community development corporation and so on.
5. "Training and employment" which include employment and training strategies and grants, direct employment and social support structures/community organisations.

However, once again there must be a shift in the approach towards local economic development. Bond (2002) said that there must be "support for institutions such as community development trusts and worker or community enterprises such as local credit unions or development corporations is a key feature of this approach." According to Bond (2002) "municipalities must commit to pursuit LED from the bottom-up, through embracing their own capacities, nurturing and sustaining a more genuinely developmental approach to their local economies." The inequalities from the past must be addressed in order to prevent that social, economic, political, cultural, religious and environmental stress become too overwhelming. Community based organisations and NGOs have a key role to play in the stimulation of capacity in areas and the empowerment of the people.

South African laws and policies now instruct local authorities to engage in local economic development. In Sections 152(c) and 153(a) of the Constitution of 1996 it states that the local government must "promote social and economic development" and it must "structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community." Not only does the constitution support local economic development but the following acts also support it:

- The Local Government Municipal Systems Act (32 of 2000) has been designed to "enable municipalities to move progressively towards the social and economic upliftment of communities, and ensure universal access to quality services"
- Urban Development Strategy focuses on the "provision of housing and infrastructure, public works, efficient regulations, mobilisation of investment and the promotion of small businesses" (Nel 2001).
- White Paper on Local Government urges the role that local governments are expected to play in the promotion of local development. "Local Government should be developmental. It should exercise its powers and functions in a way which maximises the social development and economic growth of communities." (Nel 2001) The paper urges the local government to forming strategies such as "marketing the local area, investment support, assistance to small firms, setting

up one-stop shop facilities", which refer to industrial development zones and other incentives.

5.5. **Types of Local Economic Development**

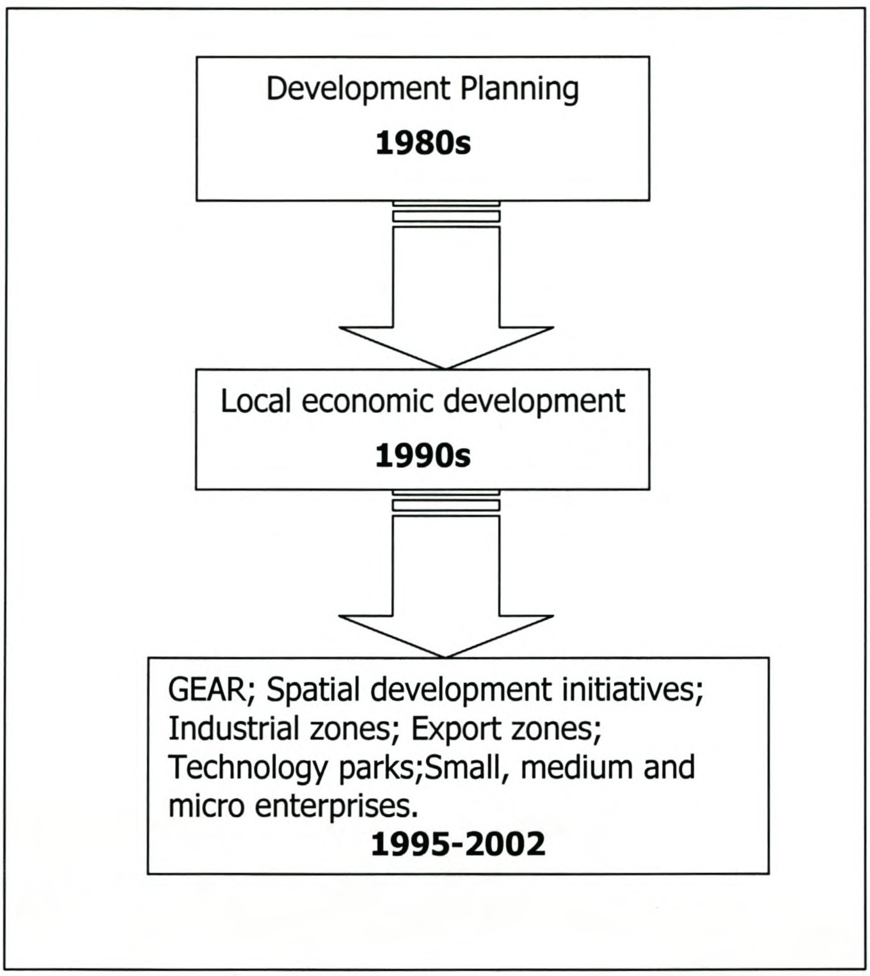
According to Nel (2001) there are mainly four variants of local economic development. These are:

1. "Formal local government initiatives" these are policies which are put in place by government to support communities in order to empower themselves and to stimulate the economic and social growth in areas.
2. "Community-based/small town initiatives": are the initiatives which take place from local level. Community organisations play a key role in the change that can take place in a community. Thus local social committees such as churches or other committees can take part and stimulate economic development in their area.
3. "Section 21 development companies" is companies that operate to promote local development with in an area, but not for gain purpose. These companies usually are business oriented and promote small businesses and entrepreneurs. They operated in cases where the local government does not have the capacity and resources for local development. One such a company is WESGRO in Cape Town.
4. "Top-down LED" is when "government, usually at the provincial level and/or in the form of various national organisations, is attempting to catalyse and support local initiatives" (Nel 2001). Although the approach has changed to a bottom-up approach, there are cases in which a top-down approach can unlock resources and potential at local level. These refer to funds that are being established by the provincial or national level in order to help the development and local level.

5.6. **Development planning**

According to Claassen (2001:2) Development Planning is a "predetermined course of action aimed at changing from worse state to a better state." The whole purpose of development planning is to stimulate economic growth and create employment. It is related to aspects discussed in Chapter 5 and 6, that is Export Zones, Industrial Zones, Spatial Development Initiatives, local economic development and Small, Medium and Micro Enterprises. The aim of these strategies is to stimulate economic growth, to create employment and to alleviate poverty. Figure 5.1. show how these concepts are related and linked to Development planning.

Figure 5.1: **Relation between Development Planning and other concepts.**



5.7. In conclusion

As in any other programme or strategy there are certain internal constraints in the local government such as the lack of capacities and resources. The limited help that is received from the government in this process is also worrying some investors and limiting the capacity of the local authorities. Not only do they not always have the capacity, but there are also no clear guidelines of how to undertake and operate these strategies.

However, there have been projects with a positive end result, such as Stilbaai "where various tourism and promotional endeavours have achieved near full employment" (Nel 2001:1014). In Hertzog, which is a rural village in the former Ciskei Homeland, "the local CBO led a programme to revive of the area's economy through a community agricultural cooperative, independent of external support" (Nel 2001). Examples such as this show that Local economic development can occur even in the most remote villages, but for it to be successful there must be a partnership between the government, the private sector and the locals.

CHAPTER 6

CASE STUDY: COEGA IN THE EASTERN CAPE

6.1. Introduction

The reason why Coega was chosen for this study is that at the time of writing it was the most talked about industrial development incentive. If the zone is successful it will pave the way for future and upcoming industrial zones and export zones, as it is the first of its kind in the country. The case study will look at the history of the region, the incentives offered and the aim of the industrial zone.

6.2. Eastern Cape

The Eastern Cape Province is one of the poorest provinces in South Africa. The two major cities of the province are Port Elizabeth and East London. These centres have a long "tradition of manufacturing in sectors such as the motor industry, clothing and textiles and food processing" (Driver 1998:1). The province is home to 16.4% of the country's population, but produces only "7.5% of national gross domestic product" (Driver 1998:3). According to Driver the province has the second lowest personal income and the lowest human development index.

Since the 1980's there has been a decline in industries. That is a reason why the Fish River Spatial Development Initiative was introduced in late 1996. This led to recent signs of increased growth, partly because of the "change from local-content programmes in the motor industry, to the Motor Industry Development Programme" (Driver 1998:5). The government in 1995 introduced this and its aim was to encourage international competition and exports to these coastal regions that had access to ports. The "Vision of the Eastern Cape" is aimed at providing "acceptable quality of life for all its people in the context of a united, non-racial, non-sexist and democratic South Africa" (About Eastern Cape www.ecprov.gov.za) and striving for an Eastern Cape that is devoid of inequalities of the past, and "unified through an integrated and sustainable economic, social and cultural development" (About Eastern Cape).

6.2.1. **Demography**

The population of the Eastern Cape was approximately 6,3 million in 1996 and represented 15,5% of the total population of South Africa. The population growth between 1985 and 1993 was 2,6% per annum, which was slightly higher than the national average of 2,4%. Half of the population is between the ages of 15 and 65, while 43% of the population is below the age of 15. While 36.5% of the population is urbanised only a third live in official towns (Eastern Cape Business Information Service ECDC).

Table 6.1: SOCIO-ECONOMIC INDICATORS 1996

	Eastern Cape	South Africa	EC as % of SA
Area (km^2)	169 580	1 219 090	13.9
Population	6 302 525	40 583 573	15.5
Urban Population	2 304 378	21 781 807	10.6
Full-time students (5 to 24 years)	1 923 133	10 471 574	18.4
Employed	786 818	9 113 847	8.6
Employees earning less than R1000/month	379 701	3 917 850	9.7
GDP (1999) (R'billion)	57.3	760.0	7.5
GDP/capita (1999) (R)	9 092	18 727	49.0

Source: Eastern Cape Business Information Service (ECDC)

Figure 6.1: Eastern Cape Province

Source: ECDC

6.2.2. Structure of Eastern Cape economy

Even with the plentiful natural resources and people, the resources are under-utilised and are below their productive potential. That is a reason why the encouragement of foreign direct investment is such an important facet in this province. Increased foreign direct investment, together with increased local investment can lead to full economic potential of the province.

Being the poorest province the Eastern Cape is still plagued by poverty and unemployment. Some of the key features of the province are (Eastern Cape Province Website):

- "Relatively high rural population
- Relatively high proportion of young people
- Relatively low proportion of employed people
- Relatively high proportion of poorly paid employees."

The metropolitan economies of Port Elizabeth and East London are based primarily on manufacturing. The most important of these industries are the motor manufacturing industries, with some well-known industries located there. Table 6.3 show well-known industries located in this area.

With over "800 km of unspoilt tropical beaches lapped by the warm waters of the Indian Ocean, abundant game, fishing, mountain hikes, snow skiing, game reserves and numerous resort hotels" tourism is expected to be the major growth industry (ECDC 2001).

TABLE 6.2: SECTORAL PRODUCTION AND EMPLOYMENT IN THE EASTERN CAPE ECONOMY

Production Sector	Value of output (R million)	% of total EC output	Number of employees	% of total
Agriculture, hunting, forestry & fishing	2 063	3.6	70 470	13.2
Mining & quarrying	57	0.1	7 154	1.4
Manufacturing	14 783	25.8	97 035	18.1
Electricity, gas, water supply	974	1.7	5 598	1.0
Construction	1 892	3.3	43 635	8.1
Wholesale, retail trade	9 339	16.3	83 818	15.7
Transport, storage, communication	5 501	9.6	32 851	6.1
Financial, insurance, business services	7 048	12.3	35 181	6.6
Community, social, personal services	15 643	27.3	159 453	29.8
Total	57 300	100.0	535 195	100.0

Source: ECDC

TABLE 6.3: EXAMPLES OF WORLD FAMOUS COMPANIES IN THE EASTERN CAPE

Company Name	Number of employees	Location
Volkswagen	6 000	Uitenhage
General Motors (Delta)	3 855	Port Elizabeth
DaimlerChrysler	3 500	East London
Goodyear Tyres	2 500	Uitenhage
Nestle	1 350	East London
Cadbury's	1 000	Port Elizabeth
Firestone Tyres	1 000	Port Elizabeth
Duracell Eveready	620	Port Elizabeth
Ford (Samcor)	500	Port Elizabeth
Johnson & Johnson	400	East London
Dulux Paints	370	Port Elizabeth
SKF Bearings	250	Uitenhage
Marley Flooring	185	East London

Source: ECDC

6.3. Fish River Spatial Development Initiative

See Figure 4.1. in Chapter 4 for a map of the Spatial Development Initiatives in Southern Africa, including the Fish River Initiative. The Fish River Spatial Development Initiative has both a sectoral and spatial focus. The initial idea of the Initiative was that it should be an industrial area. The spatial form of this initiative consists of a corridor running from Port Elizabeth to East London. However, it was realised that the potential for "industrial investment in the towns between Port Elizabeth and East London was extremely small and that the SDI would essentially have a binodal structure" (Driver 1998:5).

The sectoral form of the Initiative was focused on tourism and municipal infrastructure projects and later also agricultural projects. According to Driver (1998:6) within the manufacturing sector the SDI should focus on four clusters:

- "The automotive and components industry
- Textile, wool and mohair
- Timber and wood products
- Food processing."

Together with this there are also several key aspects of the Fish River Spatial Development Initiative. These are (Driver 1998:13):

1. "Aim of sustainable jobs through investment:" This is the aim to create sustainable jobs, jobs that last longer than just a few years. This job creation will be stimulated by investment in areas.
2. "Less emphasis on infrastructure" It seems to be that the lack of infrastructure is not a constraint factor in industrial development.
3. "Greenfield investment projects from outside the region:" 'New start' projects are seen as the main mechanism for promoting growth and employment. This will be the investment from outside the region in the form of 'new start' projects.
4. "Marketing exercise" in order to put Port Elizabeth and East London on the international investment map. This will include incentive packages, in order to make it attractive for foreign investors.

5. "Export orientation" is necessary in these areas. In order to attract international manufacturers the area must become export oriented. This is where the industrial development zones come in, to make the economy more competitive on the international market.
6. "Nationally driven." The Fish River Initiative is essentially a national initiative.
7. "Short, sharp intervention". The aim being to create rapid planning and delivery. This is also important when attracting investment. Investors do not have the time for slow planning and service deliveries.

The Fish River Spatial Development Initiative will include two Industrial Zones: the Coega Industrial Zone near Port Elizabeth and the East London Industrial Zone on the West Bank. Not only will manufacturing industries have an advantage but also tourism. There is talk of three tourism projects to be set up in partnership with local communities in the Spatial Development Initiative. "They are the development of the Great Fish River Nature Reserve; a fly-fishing venture near King Williams Town, and the setting up of a nature reserve near Bathurst (www.sn.apc.org.)."

6.4. History of Coega

According to the Coega Development Corporation (CDC:2001) a port at Coega River was mooted in 1970. It was however not pursued, due to several factors, such as the growing isolation of South Africa from the rest of the world. In 1996 with the focus of trade turning to the global market and after the sanctions have been lifted, a pre-feasibility study was done for the Coega Project. The outcome of the study was positive and national, provincial and local governments decided that a full-feasibility study should be done. They also decided on implementing industrial development zones as their strategy to encourage investors.

In 1997, technical, environmental, financial and socio-economic studies were undertaken and once again the outcome was positive and that it was a well-suited location for a deep-water port. A draft framework plan was formulated (CDC:2001). The Government also decided that they will spearhead the project and they established the Coega Implementing Authority. In 1998 they realised that, in order to attract investors, the project developers should provide infrastructure within the Industrial Zone and port.

In 1999 the Coega Development Corporation (Pty) Ltd. was registered and its task was to implement the strategy for the Coega Industrial Zone. The Coega Development Corporation was the successor to the Coega Implementing Authority. In 2002, the Coega Corporation identified a private partner for the Coega project and the Government appointed P&O Nedlloyd/TCI Infrastructure as the partner. Transnet also confirmed that Portnet would develop the common infrastructure in the port.

In 2001 various Environmental Impact Assessment studies were done, in order to facilitate the implementation of the Coega Project. At the end of 2001 the rezoning application of land for the Industrial Zone, from agricultural land to specific purpose usage was approved. This was followed by the declaration of the Coega Industrial Development Zone (CDC: 2001).

6.4.1. Coega Industrial Zone

The Coega Industrial Zone is situated only 20 km east of Port Elizabeth. The zone will occupy 12 000 ha of land. The zone will include various industrial parks or clusters, where different types of manufacturing industries will be located, including metallurgical, electronic, automotive and textile industries (Spatial development initiatives in Southern Africa).

The first phase of development will see the development of 6 000 ha and this will take approximately 10 years and 11 400 ha will be developed for industrial areas (URBAN-ECON Report). According to this report the land situation is as follows:

- The Coega Development Corporation already own 47% of the proposed land.
- Another 14% has been pledged, it is land owned by the Nelson Mandela Metropolitan Municipality.
- The rest of the land is being negotiated for at the moment, but it is thought that 18% will need to be expropriated.
- This excludes Portnet's land, some of which still needs to be obtained.

According to the Coega Corporation 20 000 permanent jobs will be created by the Coega Industrial Zone and more than 50 000 construction jobs during the initial phase. The construction of infrastructure in the industrial zone will create a further 8 000 jobs in the local business industry and a further 2 500 permanent jobs will be created.

A Development Framework Plan has also been completed. This framework identifies broad land use categories for the development of Coega Industrial Zone. According to the Report about 29% of the land is allocated to Environmental Areas such as Valley slopes, Valley Floors and Open Space (URBAN-ECON Report). While 9% are allocated to transportation. Thus leaving approximately 60% of total area to be developed. The Port cluster will be established on 758 ha.

6.4.2. **Benefits of the Industrial zone to investors**

According to the Coega Corporation there are various benefits for an investing in the Coega Project. The benefits of the Industrial Zone for investors are as follows:

- A reasonable return on their investment.
- Coega is also located at the hearth of the Detroit of South Africa, thus allowing for strong linkages and competitive advantages from the existing auto industry.
- With up to 12 000 hectares of land available for development and low rentals leading to reasonable returns for investors.
- Service plots will be available in the industrial and business areas, suitable for light and heavy industry.
- Reliable, low cost energy supply.
- International standard environmental management, including best practice waste management.
- The new deepwater port and container terminal.
- National road and rail linkages.
- Skilled labour force.
- International recognised training facilities.
- Co-existing with eco-tourism initiatives.

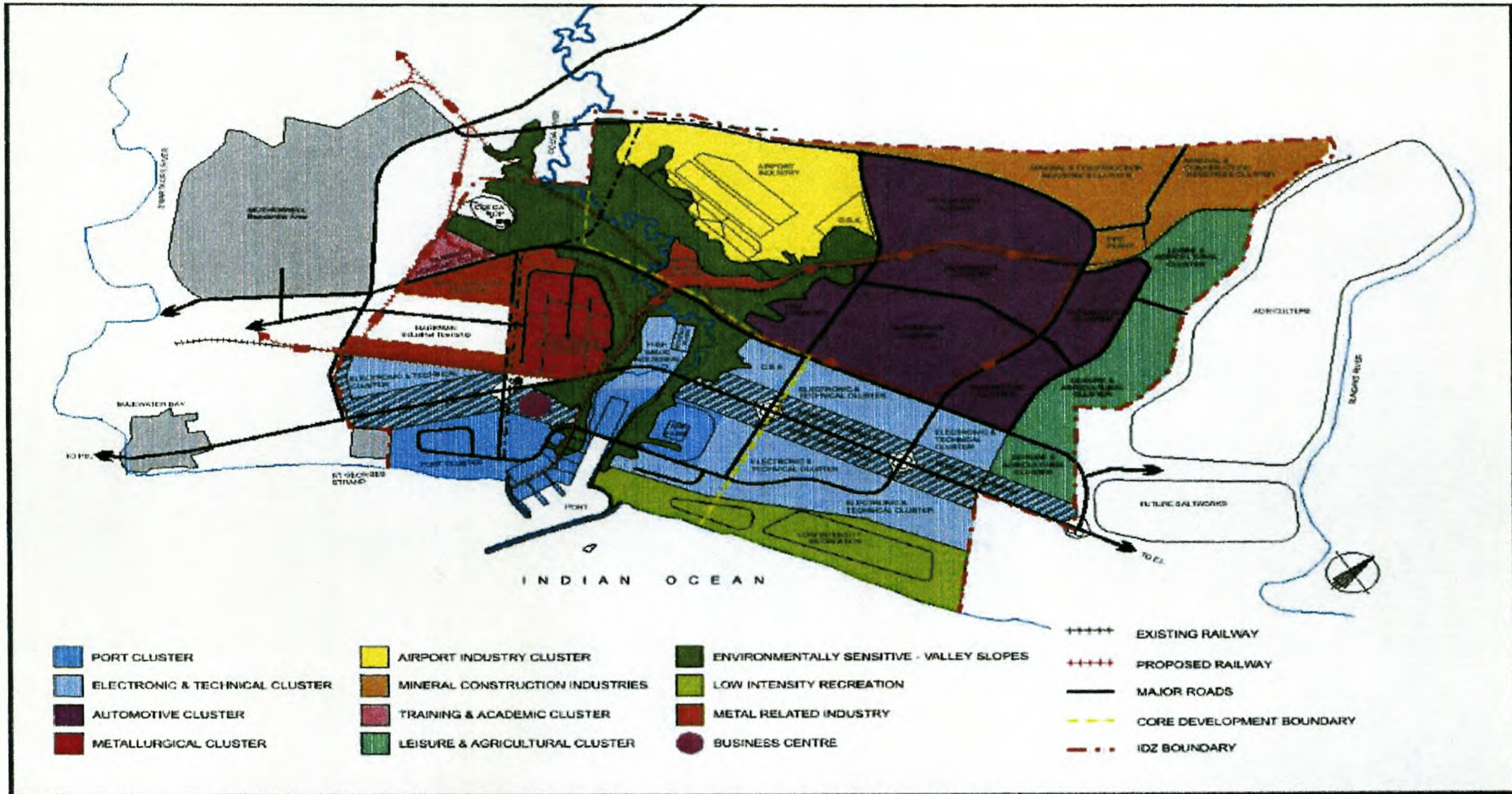
- Strategic Government initiatives (such as duty-free import of production, zero rate on VAT for supplies procured from South Africa).
- One-stop shop investor services, facilitated by the Coega Development Corporation.

6.4.3. **Problems/challenges facing Coega Project**

One of the first problems or constraints the Coega Project met with was whether South Africa needed another deep-water port, with existing deep ports at Saldanha Bay and Richards Bay. According to Hosking and Jauch (1997) a recent showcase for port and shipping issues stated that Coega were barely mentioned by shipping experts. The reason for this is because of the lack of existing facilities and few carriers are familiar with the potential of the Coega Project. However the Coega Corporation and other champions for the project feel that the ports of Richard Bay and Saldanha Bay have already reached their capacities and that it is time for a new deep-water port.

Another constraint is that of insufficient transport infrastructure. This could be addressed by spending money on establishing an efficient transport network. Another constraint is the strong labour movements of the Eastern Cape. As explained in previous chapters one of the aspects of export zones are the lack of labour laws and the use or misuse of cheap labour. One way Coega is trying to address this issue is by allowing the labour law of South Africa to apply in the industrial zone and by establishing an independent private agreed dispute resolution mechanism ,which will address labour disputes.

Figure 6.2: Coega Framework Plan



Source: URBAN-ECON Report

Ecological challenges are another constraint to the Coega project. Not only does the Coega Industrial Zone interrupt the ecological corridor between Groendaal Wilderness Area and the Addo Elephant National Park, but it can also have a negative impact on other attractions such as the Coega estuary, the St. Croix Island group, the beaches in the Coega mouth area and the whale migration routes (Hosking and Jauch 1997). Impact assessment studies were done and independent scientists also did more than a 100 specialist studies. Following this an Environment Management System were put into place in order to manage certain ecological aspects. The Coega Corporation is committed to environmental sustainable development. According to the Coega Corporation the environmental management system plan is to: "Ensure long-term sustainability (CDC):

- of islands in Algoa Bay
- of marine reserves and other sensitive features (penguin population)
- to reduce the visual impacts of the industrial development
- to monitor marine, air and land pollution levels and enforce minimum standards
- To include a tenant approval procedure for investors wanting to locate in the IDZ."

If unacceptable levels of pollution are recorded it will be reported to the local authority and relevant government departments and the Coega Corporation must take corrective action.

Another constraint or problem is the loss of valuable agricultural areas. "The Sundays River alluvial soils are considered amongst the best available areas in South Africa for citrus farming" (Hosking and Jauch 1997). Large areas of this valuable land were bought and are used in the Coega IDZ. There are however other problems of the Coega Industrial Zones, such as (Hosking and Jauch 1997):

- possible pollution of citrus crops by heavy industries
- loss of underground water
- Health hazards for the Motherwell residents due to the pollution caused by heavy industries.

The Coega Development Corporation however assures the public that the environmental management system will take great care in preventing this kind of pollution and disturbances.

6.5. **Conclusion**

The Eastern Cape is a province with high levels of poverty and unemployment. There are areas that have not been developed and it has resources that can and must be utilised in order to ensure the economic growth of the province.

The Coega project and the Fish River Initiative is one way in which the resources can be utilised efficiently and effectively. As the Coega Industrial Zone is the first of its kind in South Africa there is a great need for it to succeed. Not only to benefit the whole region, but also to be a guideline for further development of this kind. South Africa need a project that can set the footwork for future development in order to see what must be done to ensure success and also how much it is going to cost.

CHAPTER 7

EVALUATION OF THE COEGA PROJECT

7.1. Introduction

Even though the overall outlook on Export Zones and Industrial Zones may look bleak, the South African Government went ahead and declared industrial development zones as part of its macro-economic strategy. Most countries in Africa that adopted Export Zones created only a fraction of the jobs it promised. Overall problems include too few job opportunities being created, industrial zones are almost like sweatshops, labour rights are non-existent and overall economic growth is low.

South Africa however declared its first Industrial Zone at Coega. One characteristic of countries adopting Export Zones is that they are committed to strategies of export-oriented industrial development, and thus import substitution strategies. Such countries also have high rates of unemployment and high proportions of their population are engaged in agriculture. The Eastern Cape Province has all these characteristics.

In the next section factors that influence success and failure will be discussed, and then the Coega Project will be evaluated against these factors.

7.2. Success factors

According to Timotheüs (1997:29) the World Bank identified certain factors that must be present for a successful Export Zone, under which a stable business environment, a slightly undervalued exchange rate, and certain aspects of policy should be addressed. Policy for implementing an Export or Industrial Zone is very important and if the policy does not address the necessary issues such as labour and environmental management, the zone may experience problems. The following key policy factors must be present and be included according to Timotheüs (1997:29):

- A clear foreign investment policy regime, including the possibility of 100% foreign ownership and guaranteed profit and capital repatriation;

- Restriction-free and duty-free access to imported raw materials and capital equipment;
- Rapid, low-cost customs clearance for imports and exports;
- A completely liberalised foreign exchange regime;
- A minimum of red tape, i.e. minimal regulatory control of actions and transactions within the Export or Industrial Zone, preferably including the freedom to hire and dismiss workers at low transaction costs and speedy processing of investment applications, and
- Extending free-trade status to Export/Industrial Zone estate development and operation.

Further factors also play a role, such as the location of the zone. Industrial estate factors according to Timotheüs (1997:29) are:

- Appropriate site selection and location in other words the zone must be located in or near a major urban area with low-cost labour.
- Good infrastructure, such as good roads, major ports, international airport.
- The Industrial Development Zone must be located near to this infrastructure or near to an airport or a port, as it is based on import and export.
- All necessary utilities and services such as water, electricity, sewerage, reliable telecommunications, security, banking and maintenance service should be provided or already be in place.
- Good administration and management.
- Sufficient and appropriate promotional efforts.

Other factors that can influence the success of an Industrial Zone and that must be addressed are:

- Labour legislation of South Africa should apply in the zone, as most EPZs and variants ignore labour laws, it is very important that there must be labour laws especially in South Africa.
- Together with labour laws there should be equal rights for women. Women are generally ignored or used as cheap labour. In many Export Zones there have been cases of sexual harassment.

- Training and education programmes for workers should be implemented, in order to help workers develop different skills. There can even be rotation systems in factories, so that each worker can learn different skills.
- The local workforce should have first option in a job. This is to ensure that the high unemployment rate in the region is actually addressed.
- Appropriate public open spaces should be provided, as this will help to lower stress levels in the work, and increase overall health and production levels.
- Effective and sustainable environmental management systems and monitoring of environment and pollution levels.
- Stimulate local small businesses and not just international organisations. The Government should support South African companies.

7.3. **Failure factors**

According to Timotheüs (1997:30) failure of Export or Industrial Zones could be because of:

- Tardy policy formulation.
- An over regulated and rigid business environment.
- Ineffective implementation of laws and regulation.
- Lack of follow-up on further trade refers.

Operation failures may be because of (Timotheüs 1997:30):

- Poor site selection, which includes siting an enterprise zone in a country with an unfavourable business environment, or a location with poor trade infrastructure.
- Poor enterprise zone management
- Inadequate promotion.

Other factors include the failure of implementing the success factors efficiently and effectively. The attitude of the people managing the zone and the overall attitude and support for such a zone by the whole country is also an important factor. Another factor to consider and address is that IDZ initiatives could lead to "crowding out of enterprises in the same sector as are targeted in the IDZ elsewhere in the country" (COSATU 1999:7).

7.4. **Evaluation of Coega Industrial Zone in terms of the success factors**

This section will evaluate the Coega Industrial Zone in terms of the success factors mentioned in 7.2. This is done in order to see how far the Coega Project is on the success ladder.

In terms of ***a clear foreign investment policy regime***; ***restriction-free and duty-free access to imported raw materials and capital equipment; rapid, low-cost customs clearance for imports and exports and a minimum of red tape,*** the Coega Corporation ensures a reasonable return on investment for investors and a competitive advantage from existing industries. The Custom Area in the zone will ensure rapid inspection and clearance services. The customs regime also offers different kinds of incentives in order to ensure investment. The Custom Area will also ensure limited red tape and act as a one-stop shop where permits and approvals can be obtained.

In terms of ***good infrastructure*** and provision of ***all necessary utilities and services*** the Industries and Service Corridor will try and ensure that services as well as infrastructure are provided. In terms of addressing environmental problems or preventing environmental problems a new regional hazardous waste site will be developed, in order to take care of the hazardous waste of the industries. Water waste will also be limited by using recycling methods and an on-site pre-treatment of wastewater streams may also be built. An environmental management system will monitor pollution in all aspects and report high levels of pollution. This is however also an important issue and the environmental management system should be evaluated and monitored more often. This is to ensure that the management does not become lax about the regulations after a few years. Thus independent committees should regularly review the system and make sure that the job gets done and that no corruption occurs.

Appropriate site selection and location and that the Industrial Zone must be located near to infrastructure or near to an airport or a port, is addressed by the ideal location of the Coega Industrial Zone. It is situated near a port, which is one of the requirements of establishing an Industrial Zone. The good administration and management of the Industrial Zone cannot be evaluated at this moment, only at a later stage, when the zone is fully operational.

Addressing the ***labour legislation and Training and education programmes***. The Labour laws of South Africa will apply in the zone and as mentioned earlier a special dispute regulatory mechanism will be put in place to ensure that labour dispute are resolved. The Department of Labour and other government departments will also address the human resource development of the workers by offering various learnership programmes and training. Although I think this issue must be more specific and it must be monitored to ensure that local workers can gain from the Industrial Zone.

The current Development Framework Plan of Coega identifies about 29% of land that will be allocated to open spaces and sensitive areas. This seems to be enough. It seems to be that the Coega Development Corporation is addressing all the factors mentioned, but there is however three issues that need attention. This is the stimulation of local enterprises; ensuring woman's rights, and job creation for the local workforce. By ensuring the stimulation of local enterprises in the Eastern Cape Province and especially in the Coega Industrial Zone the empowerment of people will take place and give them the chance to do something. The Government must ensure that there is also local investment in the industrial zone. Another issue that is not addressed is that of women's rights. It is a pity that labour organisations such as COSATU did not refer to this issue. The only place they mentioned it was in their Submission on the Industrial Development Zone Programme Draft regulation (1999), by asking that projections should be done in order to establish what proportion of jobs will be expected to go to women (COSATU).

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