

**ECONOMIC, SOCIAL AND POLITICAL/INSTITUTIONAL  
ASSESSMENT OF SPATIAL DEVELOPMENT INITIATIVES  
(IN SOUTH AFRICA)**

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degree of Masters in International Relations at the University of  
Stellenbosch

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**DECLARATION**

Hereby I, Ruth Tessely, declare that 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.

R. Tessely

November 2001

**ABSTRACT**

The Spatial Development Initiatives (SDIs) became the Department of Trade and Industry's (DTI) official policy in 1995/6 to accommodate problems, such as unemployment and empowerment, through sustainable development. We consequently pose the **question** whether the government has realised a strategic fit, i.e. whether the initial intention with the SDI strategy has consequently been achieved and, if not, what the main lessons are to fill the strategic gap? This question will be addressed in five chapters. The first chapter will provide the reader with the necessary background information on these initiatives. Before concluding (Chapter 6), the following three chapters will follow the inherent logic of the SDI strategy, i.e. economic investments are crowded in (Chapter 3) through a facilitating and mediating role of government (Chapter 4) in order to solve employment and empowerment (Chapter 5). Each realm, i.e. economic- political/institutional-and social, is evaluated on its contribution to the success of the Spatial Development Initiative.

On the one hand it is difficult to say categorically whether or not there was a strategic fit, because the strategic aims were not initially written out in measurable detail. If the aim was to employ and to empower, while strengthening the institutions, we could qualitatively discern only when institutional capacity building (like in Lubombo) was a clear aim, that the resulting effect of the SDI strategy was significant.

The employment and empowerment efforts may have been more disappointing than hoped for. But again this is difficult to discern because it may be too early to observe the trickle down effects. Neither is it easy to measure the many achievements that were recorded, and still then, they will probably look very relative because of the immensity of the problem. In 2001 the South African Government acknowledged that it has failed in its empowerment programme, while a Presidential Summit was convened in 1998 to search for employment solutions. Against this background and given that not more effort is made to measure the results of the efforts to create employment, has to indicate that the SDIs have not left behind an impression of having performed well in terms of their strategic aim. On the one hand this was because government strongly tended towards attracting foreign investment while paying too little attention to the subsequent needs of SMMEs. Moreover is there a need for an integrated and long-term development plan that allows rational choices to be made. Nevertheless, the fact that evaluations are commissioned and that government publicly admits a mistake could be the signs of a learning organisation, which again is the start of a positive process.

## OPSOMMING

Ruimtelike Ontwikkelings Inisiatiewe (ROI's) het die Departement Handel en Nywerheid se amptelike beleid in 1995/96 geword om probleme soos werkloosheid en swartbemagtiging deur middel van volhoubare ontwikkeling aan te spreek. Ons stel gevolglik die vraag of die regering 'n strategiese plan gehad het waarbinne die ROI inisiatief gepas het, of dit gewerk het en wat die lesse te leer is? Hierdie kwessie sal in vyf hoofstukke aangespreek word. Die eerste hoofstuk voorsien die leser van die nodige agtergrondinligting oor dergelike inisiatiewe. Die samevatting is hoofstuk ses, maar dit word deur drie ander hoofstukke voorafgegaan: 'n logiese beoordeling van die ekonomiese determinante (hoofstuk drie), die fasiliterende rol van die regering (hoofstuk vier) en die suksesse, al dan nie, van werkskepping en bemagtiging (hoofstuk vyf). Elke tema word beoordeel in die lig van die vraag of dit bydra tot die sukses van ROI's.

Aan die een kant is dit moeilik te verklaar of daar 'n strategiese plan was omdat so 'n plan nie vooraf uiteengesit was nie. Indien dit die bedoeling was om werkgeleenthede te skep en om te bemagtiging te bevorder, sou mens slegs na enkele inisiatiewe hoef te kyk, bv die Lubombo Plan. In so 'n geval was die suksesse tog beduidend. In die algemeen was die werkverskaffings- en bemagtigingsresultate egter teleurstellend. Dit is moontlik steeds te vroeg om 'n finale oordeel uit te spreek. Op hierdie stadium is dit geen eenvoudige taak om prestasies in die lig van die groter problematiek te meet nie. Bv in 2001 het die regering bevestig dat bemagtigingsprogramme in die lig van die presidensiele beraad van 1998, misluk het. Teen hierdie agtergrond word die indruk geskep dat die ROI's moontlik nie hul strategiese doelwitte bereik het nie. Sedertdien het die regering daarna gestrewe om buitenlandse direkte investering na Suid-Afrika te lok deur middel van privatisering en klein, mikro en medium ondernemings te vestig. Die planne was moontlik meer suksesvol. Al hierdie inisiatiewe behoort in 'n enkele langtermyn ontwikkelingsplan opgeneem te word sodat rasionele keuses gemaak kan word. Dan sal daar duidelikheid wees oor die rol en plek van ROI's. Dit bestaan nog nie. Nietemin doen die regering reeds beoordelings van hulle planne met die oog om dit te hersien en die erkenning dat sekere planne nie hulle mikpunte bereik nie, is tekens daarvan dat 'n leerproses aan die orde van die dag is wat tog 'n positiewe begin was.

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I am much obliged to Dr. Ian Taylor, as a high-profile authority in the field, and Frederik Soderbaum, who both assisted me tremendously with providing and pinpointing relevant articles while always being available to answer my questions.

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**ABBREVIATIONS**

- BOT - Build, Operate and Transfer
- DBSA - Development Bank of South Africa
- DCs - Development Corridors
- DTI - Department of Trade and Industry
- CIC - Cabinet Investment Cluster
- EPZs - Economic Processing Zones
- FDI - Foreign Direct Investment
- FIRE - Finance, Insurance and Real Estate
- GEAR - Growth, Employment and Redistribution
- IDC - Industrial Development Corporation
- IDZs - Industrial Development Zones
- MEC - Member of the Executive Committee
- NPDP - National Physical Development Plan
- OSDICC - Overall SDI Coordinating Committee
- OUZIT - Okavango Upper Zambezi International Tourism
- PDIs - Previously Disadvantaged Individuals
- PPPs - Public Private Partnerships
- RESDIC - Regional SDI Committee
- RIDP - Regional Industrial Development Programme
- ROT - Rehabilitate, Operate and Transfer
- SA - South Africa
- SDIs - Spatial Development Initiatives
- SMEs - Small and Micro Enterprises
- SMMEs - Small, Micro and Medium Enterprises
- TDAs - Tourism Development Areas
- WCII - West Coast Investment Initiative

## CHAPTER 1. INTRODUCTION -- RESEARCH METHODOLOGY

The first chapter will address ten issues related to the methodology applied during the research, i.e. (1) the hypothesis; (2) the importance and relevance of the hypothesis; (3) the primary variables; (4) the units of analysis, levels of analysis, and levels of measurement; (5) the time dimension of research; (6) the research methodology being used; (7) the description of the data that is used; (8) the research procedure; (9) some of the assumptions made, and (10) finally, the limitations of the thesis.

### 1. PROBLEM STATEMENT

The Spatial Development Initiative (SDI) became the South African Department of Trade and Industry (DTI) official policy in 1995/6 to accommodate problems, such as unemployment and empowerment, through sustainable development (see Chapter 2).

This thesis consequently poses the question whether the government has realised a strategic fit, i.e. what was initially intended with the SDI; and what has consequently been achieved? If the aim was not reached, what are the main lessons to be drawn in order to fill the strategic gap?

These questions will be addressed in four chapters; (1) the alphabet on IDZs, SDIs, DCs; (2) SDIs and the economic realm; (3) SDIs and the political/institutional realm; and (4) SDIs and the social realm.

There are two main reasons underlying the choice to divide the chapters under the above three headings. Firstly, the division deals with the strategic paradigm underlying SDIs. As this will be covered in more detail below, it suffices here to say that the government (Institutional) tries to attract Foreign Direct Investment (Economic) to address certain socio-economic problems, such as unemployment, crime, empowerment etc. (Social).

Secondly, many authors writing on the developmental aspects of SDIs are inspired by the development model and lessons that are learned from the success story of the Cholla region in South Korea. Although these experiences will not be specifically addressed, its lessons justifies the subdivisions of chapters as the main contributors and success factors to development in this region, such as the availability of infrastructure conducive to investors (Economic), the existence of a continuous learning governmental organisation (Institutional) and the reliance on well educated labour force (Socio-economic).

Although the chapters in this thesis have a broader scope, they run parallel and include the lessons from South Korea.

## 2. IMPORTANCE AND RELEVANCE OF THE PROBLEM STATEMENT

The guiding questions mentioned above are relevant for especially two reasons:

Firstly, for many of the SDI projects, the exit phase has arrived at the time of writing this thesis, and the ordering for the execution of SDIs is being negotiated and implemented. Hence, a crucial period has arrived whereby prospective management systems, strategies and institutional arrangements need to be tracked. However, not all SDIs manage to weather that well, with one recent commentator asserting that 'although the majority of South Africa's fourteen spatial development initiatives (SDIs) got off to an inspired start, many seem to have petered out at the crucial investment stage'. 'Other [SDIs] will wait to see which institutions work or don't work'<sup>1</sup>(Bel & Taylor, 4/2001:12). At the time of writing this thesis, no reports on the overall performance of the SDI strategy were available, only evaluations on particular case studies. This study will, therefore, refer to the experiences of those SDIs that have been reported on and furthermore will contextualise the SDI within the broader governmental policy environment.

Secondly, it is not clear yet what SDIs in South Africa qualify as best practice examples, but the initiatives are in the meantime already being transferred to SADC. Not only the lessons, but also the specific South African conditions, need to be understood in order to know what aspects of the strategy would be best suitable for the specific conditions of the SADC countries. Furthermore, in the SADC integration discourse, the question has been raised whether SDIs could be a solution for the often perceived failed attempts of integration. To know how SDIs could contribute to integration, it is vital to know how these initiatives work, what the practical experiences were in the different SDIs in existence so far, whether there were any preliminary conditions that had to be met with a view to guaranteeing success.

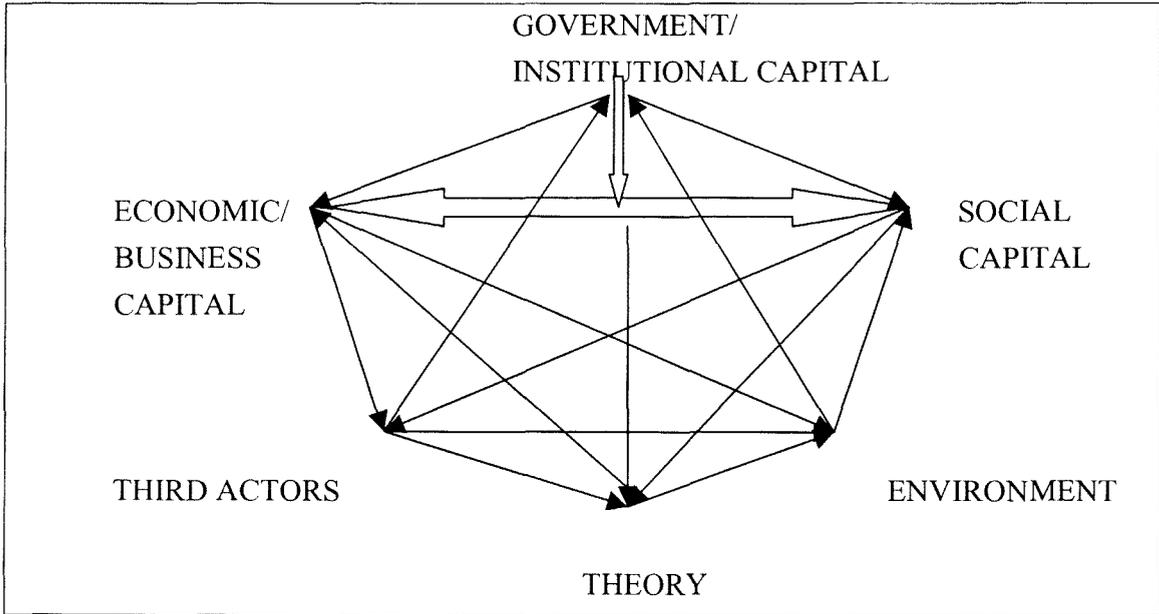
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<sup>1</sup> Ian Taylor interview with Dr. Alfredo Namitete, Chairman, Committee of Senior Officials, Southern African transport and Communications Commission, Maputo, 6 April 2000.

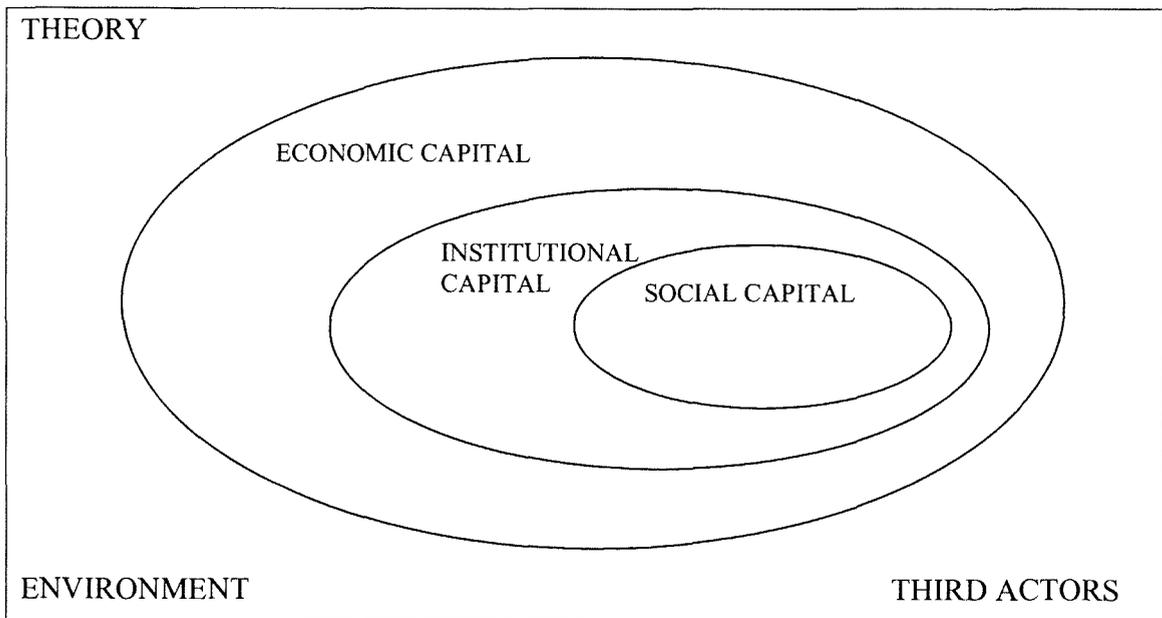
**3. PRIMARY VARIABLES**

Although this research, in the wake of the more qualitative interpretative approach, will focus more on a description of events and cases in spite of causality, it may contribute to identifying some of the main variables and their relations.

**FIGURE 1. The SDI Diamond: PRIMARY VARIABLES INTERRELATED**



**FIGURE 2: Primary Variables Interrelated – with a zoom on the “core causality” of the SDI strategy**



Although not too much will be elaborated upon each component/element of the figures displayed above, the visualisation of these main variables and their relationships may nevertheless be helpful in appreciating the research.

The two figures differ only in that – as the titles clarify – the *second figure* zooms in to the core “causality” intended by the SDI strategy, i.e. government (resembled by institutional capital in the intermediate circle of figure 2) wishes to attract direct investment (i.e. economic capital in the largest circle – and elaborated upon in chapter 3) in order to solve social problems (i.e. the smallest circle in figure 2 and elaborated upon in chapter 5) in a direct way which brings about employment and empowerment. Indirectly it is aimed at reducing crime and improving living conditions (see chapter 2). To a certain extent government thus plays an intermediate role in the SDIs. For the strategy to be successful, the governmental institutional web and network between the economic and social paradigm needs to be well established to achieve successful results (chapter 4).

With a complex reality, the presumption to perceive reality according to the strict causality mentioned above is of course unreal. It is, therefore, important to bear in mind (as both figures indicate) that all prime variables are closely interrelated. To give but one example, social circumstances, the environment and political regimes determine the possibility of the existence of business and also what type of business.

Third actors, theory and environment are mentioned as prime variables, but are not highlighted in the causality. It should be mentioned that government wishes to achieve sustainable development and that attention to the environment is certainly given within the SDI paradigm (for Saldanha Steel see for example MCEN, 3-9/7/1998: 17, 19; MCEN-a, 3-9/7/1998: 28; Bel & Taylor, April2001: 18; for Coega see for example Lourens, 3-9/7/1998: 44; MCEN. 3-9/7/1998: 45; MCEN, 3-9/7/1998: 36; Clancy, 2-8/7/1999: 37; for the MDC see for example Holt, 1999: 108 (official aim of MDC) and MCEN, 3-9/7/1998: 34). As we were not able to locate any extensive literature on the performance, the thesis does not focus specifically on this issue. Third actors (i.e. governments, international organisations, NGOs, etc.) also play an important role in providing for example finance to the government and determining what is ‘acceptable’ in international relations etc. Although it plays a role in the SDI strategy and although this ‘category’ might be referred to from time to time, no specific chapter is devoted on this issue at hand. As to the theory, in this research it is assumed that theory and facts always to be intertwined to a certain extent (as mentioned above). Below, i.e. in section 10 on limitations of the thesis, the fact that SDIs are an initiative that suits the neo-liberal

theoretical paradigm of development is elaborated upon. The logic deemed necessary in the course of this research is addressed in the second chapter.

#### 4. UNITS OF ANALYSIS, LEVELS OF ANALYSIS, AND LEVELS OF MEASUREMENT

The **units of analysis**, i.e. “the kind of empirical cases or units that a researcher observes, measures, and analyzes in a study” (Neuman, 2000:521), are SDIs. All the actors and variables that these involve, have been addressed above.

In this research the **level of analysis**, i.e. “a way to talk about the scope of a social theory, causal explanation, proposition, hypothesis or theoretical statement” (Neuman, 2000:513), is not unidimensional in form. Geographically the level of analysis touches on the *micro level*, i.e. very small and specific local and provincial investment areas, and the *meso level*, i.e. a broader scope stretching over more than one country. Socially, the *micro level* is addressed in that it is referred to the impact of the perceived characteristics of the representatives on the implementation policies. The *meso level* is applied in that SDIs attempt to solve the problem for specific social categories, such as the unemployed, the previously disadvantaged under Apartheid, etc. And the trends on the *macro-level* are deemed important as a determinant for attracting investment.

As to the **level of measurement**, this is “a system that organizes the information in the measurement of variables into four general levels, from nominal level to ratio level” (Neuman, 2000:513). As our aim is mainly qualitative, we will deal mainly with the nominal level (different categories), and when the statistics permit, we could aim at ‘higher’ levels.

#### 5. TIME DIMENSION OF THE RESEARCH

The SDIs were initiated in 1995/96. This means the thesis is based on “a technique comparable with the longitudinal research in which the same features of people or other units are examined at more than one time” (Neuman, 2000: 30), i.e. over a period of about six to seven years. It is important to notice a limitation in that although it is referred to the “strategy of government”, one should bear in mind that this is a retrospective compilation of what has been done by government. After all, some authors state that “after a while, government began to speak about a 'common methodology' ”, which

appears to imply that the so-called strategy was something that gradually came about and was not completely pre-configured or planned in the way we describe it.

Furthermore, possible prospects will at times be highlighted. The time-scale usually refers to the short term, i.e. 3-4 years from 2001, and is based on what could reasonably be expected, given the *current* conditions.

## 6. RESEARCH METHODOLOGY

This research applies to the qualitative method of literature review, and more specifically to 'applied research', i.e. "research that attempts to solve a concrete problem or addresses a specific policy question that has a direct, practical application"<sup>2</sup> (Neuman, 2000: 23, 504). Within this category some "evaluation research"<sup>3</sup> will be conducted. The SDI program will be divided into its components and each analysed with regard to its accomplishment in achieving the programme objectives. The evaluation will attempt to be summative, that is that it is looked at the final program outcomes<sup>4</sup> and lessons. Because the thesis draws on the experiences of different existing SDIs, a comparative basis is also present.

## 7. DESCRIPTION OF THE DATA

**Primary sources**, that is information that is/was actually used and/or created during the process of the event (Neuman, 2000: 516), will constitute an important part of this research, having been originally in the form of publications of original reports and proposals, official statements, seminars or conferences, newspapers, etc. More specifically, it is relied upon various case studies conducted by specialist researchers in the field who have conducted numerous formal and informal interviews with the roleplayers directly and indirectly involved in SDIs. My presence in South Africa facilitated and enhanced a full exploitation of these sources and gave me the possibility to

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<sup>2</sup> Applied research is often compared/contrasted with basic research, i.e. "research that advances knowledge of the fundamentals of how the social world works and develops general theoretical explanations" (Neuman, 2000: 23, 505).

<sup>3</sup> Other types of applied research are action research and social impact assessment (Ibid.: 26-27).

<sup>4</sup> Summative evaluation could be compared with formative evaluation, i.e. a built-in monitoring or continuous feedback on a programme used for programme management (Ibid.: 28). The reason why we "attempt" to be summative, is that – as would be made clear below – a great deal of summative information is not available. The research is nevertheless summative when it relates to the time dimension after the completion of many SDIs.

conduct 'informal' interviews or sharing views with persons who are either specialised in the subject or are actively involved in the matter.

**Secondary sources**, i.e. documents written by specialists or analysts who did not directly participate in the events they write about. Published books, articles, 'scientific' magazines, etc. are mainly used to contribute to the historical background and to elaborate on SDI related scientifically researched topics.

## 8. RESEARCH PROCEDURE

The research commenced with perusing some 'core' articles – mainly case studies on SDIs – because in order to know what is related with the issue, one should first understand the matter at hand. The above formed the initial skeleton of the thesis. Consequently, appropriate articles for the topic were selected. Firstly we gathered topical information after a search on the Van Schaik University Library of Stellenbosch computer database system. Additional information, amongst others topics more related to the SDI, was sometimes selected by relying on the resource-tree method in which the references used by the authors were cross-checked. However, to avoid bias as well as possible gaps in the library coding system, we searched through different newspapers and journals of diverse backgrounds, i.e. ranging from *Engineering News* to *Mail and Guardian*. Then articles that not only directly dealt with the topic, but also to some extent could relate to it or formed an important context for the topic were selected. Certain Internet sources were also very useful, such as the site on SDIs, the DBSA, TIPS, etc. Furthermore, electronic correspondence with Frederik Soderbaum and especially Dr. Ian Taylor (because he was directly involved in the official evaluation process) brought to my attention some unpublished research (by themselves and by other researchers in the field) and they gave me some valuable advice on certain newly published research. Electronic contact with the various SDI managers was also attempted, but this was not successful, as no replies were received, probably also because the current changes in management make the official e-mails obsolete.

There was a possibility to meet with the regional SDI coordinator, Paulos Zuccolo in Pretoria. Because of time and financial limits the scope of this thesis, however, remains bound to the developed existing SDIs and the lessons learned from these. Because of time constraints, research on the region and SDIs, (besides a general exposure to the regional conditions) concentrated on the fundamental background on existing experiences and lessons of the SDI and Corridors. As much of the information was not readily

available at the start of this thesis, we concentrated on the latter topic. Indeed, according to Jennifer Smith from the DBSA, the “dearth of information in the region is a direct result of the stage of the programme – very early yet” (16 August 2001).

## 9. ASSUMPTIONS

Implicit in this research are certain underlying assumptions, i.e. “parts of social theories that are not tested, but act as starting points or basic beliefs about the world [and] are necessary to make other theoretical statements and to build social theory” (Neuman, 2000:504). During the research we tried to identify and acknowledge assumptions as they arose, in order to avoid the Baconian fallacy, i.e. “the fallacy of assuming that a researcher can operate without any preconceived questions, ideas, assumptions, theories, or presumptions” (Neuman, 2000: 505) and to achieve more reliable results.

### 9.1. THEORY AND SELECTION OF DATA

Although the thesis does not elaborate on one or a few specific theories, it is assumed that theories and facts are interlinked. A theory implies fragmentation and division of the complex ‘reality’, and highlights some of the aspects considered to be crucial in explaining ‘reality’. This indeed produces knowledge, but necessarily only represents partial knowledge. Every theory may thus be considered as a better way to understand or explain ‘how things fit into a logical whole’– in contrast to merely describing and analysing data – but because it is a theory, it does not hold the complete ‘truth’. This assumption implies that theories are not necessarily perceived to be contradictory, but rather complementary to one another. Furthermore is it assumed that theories have normative implications and that a ‘neutral’ or ‘objective’ theory is an illusion.

Why our notion of theory is important is because it is assumed that every written text selects certain facts which the author considers important, whether or not explicitly or implicitly driven by certain beliefs. And while writing this thesis, facts were necessarily selected. If any theories could be linked to the contents of this thesis, they could probably be categorised in two main groups. Firstly: one could refer to those theories of development that concentrate more on how to make the system sustainable via the liberal market paradigm while benefiting ‘development’ (mainly the doctrine to which the South African Government is adhering). Secondly: one has those perceptions that care less about the system, but concentrate more on the eventual results of development for the

people, possibly tending towards critical theory. Whereas the first theory sometimes loses its focus on the results and remains trapped in the system, the latter omits how matters actually fit together. However, instead of working exclusively with binary assumptions, it is assumed that reality is more complex and as a consequence is best explained by using triangulation, i.e. multiple perspectives and, therefore, trying to avoid the possible fallacy of over simplifying “reality”.

## 9.2. THE CONCEPT DEVELOPMENT AND THE ROLE OF GOVERNMENT

Any critique on SDI governmental policies should be based on some implicit or explicit comprehension of the role of government and development.

Firstly, in this research it is assumed that the government should represent the country’s population (both its current and future generations) without obstructing other governments to do the same for their populations. Representing a country entails that government does what is perceived in the best interest of as many people as possible, with special sensitivity towards minority groups and structural disadvantaged.

As to the concept of development, this research remains rather implicit, as it will not be debated what the best definition of development is<sup>5</sup>, how it is best measured, what the government is morally/ethically allowed to do (or not) within the development paradigm, whether the debate of development is a way to hide (neo-Gramscian) elite interests, etc. Instead our starting point is the reconstructed strategic intent of government in the Spatial Development Initiative. We would then in an eclectic fashion blend it with the different critiques it has received. This may indeed mean that the critics have a different definition of development and the role of government than the latter may propose, but that does not

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<sup>5</sup> Some examples of definitions for development:

- “Development’: the ability of a community to advance in terms of well being and range of choices experienced by its people. ‘Development State’: a state that adopts policies to increase the international competitiveness of its economy, while improving the standard of living of its population (e.g. Japan since WWII)” (Nel & McGowan, 1999: 316).
- Developmental capitalism: “Term used to describe the system of political economy of postwar Japan, where state policies are used to encourage industrial growth (Balaam & Veseth, 2001: 458).
- Sustainable development must be concerned with intergenerational equity – that is, with ensuring that future generations have the same capability to develop as the present generation. A development path is sustainable only if it ensures that the stock of overall capital assets remains constant or increases over time. These assets include manufactured capital (such as machines and roads), human capital (knowledge and skills), social capital (relationships and institutions), and environmental capital (forests and coral reefs). The environment matters not just because of its effect on physic and non-economic welfare but also because of its impact on production over the long term (WB, 2000: 28).

constitute the subject matter of our research and neither does it impair our research, because, on the contrary, it allows us to draw a broad picture.

It may further be worthwhile to mention that the thesis subscribes to the assumption that all members (or the majority) of government would explain and share the concept of development in similar terms, and that it is possible to refer to “the government's vision on development”. Nevertheless, even if not all members should share the same vision, it remains the official aim and performance against it, can be measured.

### **9.3. METHOD OF LITERATURE REVIEW**

Amongst others (see above), the research has relied on the method of literature review. According to Neuman this type of research is based on the assumption that “knowledge accumulates and that we learn from and build on what others have done” (Neuman, 2000:445). We assume that from past experiences lessons could be learned and that these could be transferred to the present and the future, even when there are different aspects and persons in the relevant context. When mistakes from the past are avoided, this constitutes some improvement on past performance. However, this does not mean that any other and/or new mistakes could not be committed. Moreover, what is good and bad or what is an error is very much dependent on the perception of the people involved in the field (actively – local people, business, government etc.; or more passively – those commenting on it).

### **9.4. INVESTMENT**

A very important part of the SDI strategy relates to attracting foreign direct investment into the country. In the third chapter some factors we think are important to attract investments are selected. Whether they are, is however not necessarily empirically tested, but chosen on two main principals. Firstly, according to ‘traditional - mainstream’ assessments these factors are usually portrayed to influence investment. And secondly, the South African Government wants to attract investment to solve the unemployment problem, and consequently the characteristics of the pool of labour, regulations and taxes would necessarily be important for the specific kind of investor the government would want to attract.

## 10. LIMITATIONS OF THE THESIS

Although the main limitations may be found in the theoretical approach of the thesis, some remarks need to be made on the validity of the conclusions and the influence/effects of my personal background

### 10.1 THEORY

The main guiding question of this thesis assesses the ability of the SDI and Corridor initiatives to accommodate development problems from the perspective of the South African Government, that is within the neo-liberal economic paradigm which the South African Government perceives to suit these purposes best.

This implies that this research is not actively seeking to find a complete different systemic approach, but instead 'seek to find' 'externalities' that have been neglected by the paradigm and that are necessary to include or to consider for the success of the strategy. In other words, we do not directly question the strategy of neo-liberalism in its totality.

This does not necessarily imply any preference. Indeed, although overall policy intentions may be good, these do not automatically render the results positive. What lies behind the SDI concept is very much inspired by the neo-liberal and capitalist ideology. And if there is one thing that is difficult to deal with, I think, then it is the (seemingly) contradictions that exist in the world. I do not want to deny that capitalism has its definite strengths, because it has made an innumerable number of things previously thought impossible, possible and it probably has much more still hidden potential that could be realised.

But on the other hand, much has been reported on how much neo-liberalism has "destroyed," such as for example certain cultures in this world and – as will be mentioned in the thesis – it also (sometimes) aggravates the situation for the already disadvantaged by the system. How to perceive the vanishing of cultures is of course debatable, i.e. is this something to embrace as part of 'the human evolution' or not, and can we speak of the vanishing of cultures or should the correct terminology be the adaptation of cultures? It is, however, not because some people cannot imagine to live in another culture or do not see the (capital) value of a different culture that they should adhere to the principle of 'survival of the fittest' and ignore or destroy the wants of people who live amidst this

different culture. Capitalism is but one ideology and it will surely not be correct to being arrogant towards non-alikes. This topic is probably very applicable in Southern Africa.

## 10.2. VALIDITY

### 10.2.1. EXTERNAL VALIDITY

The main focus of the SDI/DC evaluation was on those initiatives that were the furthest developed in order to draw as many lessons from these as possible. The result is that Mozambique, Swaziland, and especially South Africa are over-represented. The question of external validity therefore arises, i.e. the ability to generalise from [this] research to settings or people that differ from the specific conditions of the study, like the example of certain SADC countries.

First of all, the aim of this research is not to come to general conclusions that could be applicable to any place other than the ones we studied. Rather it is the aim to learn from the lessons within the region and we assumed that anyone could learn from these. Too few case studies were encountered that were too diverse (the socio-economic conditions in each province of different SDIs are considerably different from each other) to come to any generalisations. In the case of for example the participation of women, we only found three case studies that were explicit about this topic. Of these three, only one SDI implemented special policies. Even with some background information on the role, the position and problems of women and labour, it would not be viable to generalise on what eventually happened. On the other hand, the lack of evidence *may suggest* the lesson that management in SDIs was given too much liberty or manoeuvrability with policies to include women in the initiatives.

Secondly the 'model or the criteria of evaluation' that are used will be important to consider if the same strategy is adhered to in the SADC region, as the model highlights the different components that need to be in place for the SDI strategy to realise its assumed potential. This is further emphasised by the fact that this model actually includes lessons from other developmental regions, i.e. Latin America and South Korea, as mentioned above. Even when the circumstances and the people are different, that does not make these lessons obsolete. It is not because a problem occurred in Maputo that it would necessarily be the same elsewhere, but it adds a lesson to the map of constraints that could be taken into account for future developments. This also does not mean that the region does not have specific characteristics that should be taken into account to adapt the

strategy to fit best the circumstances. The model used could actually help to make these caveats explicit. The SDIs in South Africa are for example very much concerned with countering the effects of apartheid legacy and to create employment and empowerment. Certain conditions in the region are often described to be only worse than in South Africa.

### **10.2.2 INTERNAL VALIDITY**

Because the research heavily relies on case studies which are known for their detailed and intricate research, the internal validity<sup>6</sup> of this thesis is enhanced. During the research we encountered the problem that hardly any article on SDIs and Corridors made explicit its (assumed) definitions for various concepts. And although the awareness of this factor during research may enhance the internal validity of the thesis, it did limit the scope of the conclusions. For example the term “employment” has been used in its different components by different authors, making comparisons and overall conclusions almost impossible. Equally the boundaries between the concepts of “civil society” and “private sector” were not necessarily used in a similar fashion nor made explicit by all authors. This problem is further described in the chapters below. Although this problem became clear to us in terms of certain obvious concepts, the principal may also underlie other concepts for which we – for the purpose of making this research possible – had to assume that they were referring to the same term.

## **10.3. PERSONAL BACKGROUND**

I am neither from South Africa nor from the African continent. On the one hand that means that I am completely disinterested in that I do not favour a certain region because of unconscious affinities, as may have happened if I had been born there. I may be “accused” of European preconceptions on Southern Africa, but I think that if such allegations are made it would make more sense to be “accused” of not having them. Although many persons in South Africa could claim to be racially disinterested, I think I can perceive myself as belonging to that group as I have, as far as I can recall, not been subjected to any cultural ‘indoctrination’ that made racial differences more than the name says in itself. On the one hand this means that I cannot completely know in terms of

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<sup>6</sup> Internal validity is “the ability of experimenters to strengthen a *causal explanation's* logical rigor by eliminating potential alternative explanations for an *association* between the *treatment* and the *dependent variable* through an *experimental design*” (Neuman, 2000: 513).

personal experience how life was under apartheid, but on the other hand it makes me emotionally less detached and thus less vulnerable to being biased.

## 11. CONCLUSION: RESEARCH METHODOLOGY

The Spatial Development Initiatives (SDIs) became the Department of Trade and Industry's (DTI) official policy in 1995/6 to accommodate problems, such as unemployment and empowerment, through sustainable development. We consequently pose the **question** whether the government has realised a strategic fit, i.e. whether the initial intention with the SDI strategy has consequently been achieved and, if not, what the main lessons are to fill the strategic gap? This question will be addressed in five chapters. The first chapter will provide the reader with the necessary background information on these initiatives. Before concluding (Chapter 6), the following three chapters will follow the inherent logic of the SDI strategy, i.e. economic investments are crowded in (Chapter 3) through a facilitating and mediating role of government (Chapter 4) in order to solve employment and empowerment (Chapter 5). Each realm, i.e. economic-political/institutional-and social, is evaluated on its contribution to the success of the Spatial Development Initiative.

The main **relevance** of this thesis is that an overall and comparative evaluation on the existing SDIs did not exist at the time of writing. This evaluation is nevertheless considered important as many of the SDI projects are in an exit phase, while others are only starting off, and could learn any number of lessons from the completed ones. The question is also raised how these projects could be applied to the SADC region and even serve as an alternative way of integration.

The scope of the study, geographically and socially, touches upon the micro-, meso- and macro **levels of analysis**, while the **level of measurement** is mainly nominal.

The research discusses in retrospect a **period** stretching over six to seven years, but also provides prospects on where to proceed from here and what could reasonably be expected.

The **method** applied is that of qualitative literature review, more specifically 'evaluation research' within the category of 'applied research', backed with a comparative basis. We rely above all on primary **resources**, but also relevant secondary sources. The **selection of information** was purposefully, with reliance on the library, Internet resources, and electronic correspondence with specialists in the field. Relevant **assumptions** are made on the role of theory and the selection of data; the role of government and the concept of

development; the method of literature review; and the factors chosen to be relevant determinants for investments. As to **the limitations**, we do not attempt to find theoretical solutions and mainly address the problem from a neo-liberal perspective while the criticism tends towards the critical theoretical approach. Neither is it the aim to dwell on generalisations, but would like to map the lessons learned, and therefore the external validity has a different purpose, while internal validity is amongst others strengthened through reliance on case studies. Some notes on my personal background should make the research more credible.

## CHAPTER 2 – THE ALPHABET OF SDIs – CORRIDORS – IDZs

As the title reveals, this chapter provides the necessary background information on the Spatial Development Initiatives (SDIs), Development Corridors (DCs) and Industrial Development Zones (IDZs). First it will be briefed on the relevant concepts and their roots. This will be followed by a description of the strategic and operational intent of SDIs, DCs and IDZs, i.e. by means of what planning would these initiatives realise the aims set forth for them and which mechanisms will help to operationalise them? Lastly, the implementation process will be explained in its various phases.

### 1. ROOTS AND CONCEPTUAL DELINEATION

Nodes, Spatial Development Initiatives (SDIs) and Development Corridors (DCs) all have in common spatial development but are used to denote different geographic scales. A node is the smallest component of spatial development, referring to an area with very concentrated economic activity usually around a port, airport or anchor project (see below) and sometimes – but not necessarily – in the form of Economic Processing Zones (EPZs) or Industrial Development Zones (IDZs). SDIs denote the development area around a node, while a Corridor links the geographic areas between different nodes (Newman, 8/1998: 42).

#### 1.1. DEVELOPMENT CORRIDORS (DCs)<sup>7</sup>

“The idea of corridors is not new. It has a checkered history, ranging from architecture and town planning to economic geography and regional economics. The origins trace back to the 12<sup>th</sup> European century when, with the decline of the feudal city-states and the rise of merchant capitalism, linear cities emerged along Europe’s major trading routes. This notion of linearity informed the work of pioneering city planners in the early twentieth century. Large cities were seen as centers of economic growth, but development impulses could diffuse down the urban hierarchy to smaller centers and to

<sup>7</sup> The Development Corridor including South Africa and Mozambique is the Maputo Corridor. Corridors identified outside South Africa are; Malange DC (Angola), Lobito DC (Angola, DRC and Zambia), Namibe DC (Angola), Tazara DC (Tanzania and Zambia), Nacala DC (Mozambique and Malawi), Beira DC (Mozambique and Zimbabwe). See maps in appendix 1 and 2.

rural areas. The role of roads as ‘carriers’ of innovation and growth impulses was critical, and several regional plans included major road building to integrate peripheral areas into development. Development Corridors thus essentially refer to development along major roads with significant existing or potential movement. This inevitably occurs along routes that connect major ‘attractors’ – large cities, towns and other movement that generates economic activity. Corridors are however not just a narrow and immediately along a highway or main road. They refer to major areas around significant routes in which development is, or potentially could be, concentrated” (Harrison & Todes, 1996: 70). “The corridor idea has been enthusiastically applied by South African planners to local (e.g. pedestrian-oriented high density urban development as a way of compacting urban development), metropolitan (e.g. transit-oriented development to integrate townships into the urban fabric), regional (e.g. extending development into rural areas along transport arteries between major urban centres) and international (e.g. establishing or re-establishing linkages with Southern African neighbours) levels of analysis” (Hall, 8/1999: 7). Within Southern Africa, the emphasis has been traditionally on the corridor and not on development, i.e. the construction of colonial routes to connect the interior with the sea-bordering countries for the export of raw materials or industrial goods (for example Maputo; Taylor, 12/2000: 5).

## 1.2. SPATIAL DEVELOPMENT INITIATIVES (SDIs)<sup>8</sup>

Instead of focusing on the interlinkages between zones at a certain point in time, attention was drawn to actively develop the linked areas. In South Africa the focus on spatial development began in the 1960s and has since progressed through four main phases.

**(1)** Regional industrial policy in South Africa originated in 1956 with the Border Industry Programme, whose socio-political objective was to create economically independent sovereign states. This programme provided for industrial development to take place adjacent to the homeland areas, i.e. the racially segregated areas. In the late 1960s the policy was adapted to include industrialisation within the homeland areas (Wilsenach &

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<sup>8</sup> SDIs located in South Africa are the West Coast Investment Initiative (Western Cape), Fish River SDI (which eventually became two nodes (see below)) and Wild Coast SDI (both in the Eastern Cape), Kwazulu-Natal SDI, Richards Bay-Empangeni SDI, Pietermaritzburg/Msunduzi SDI (in Kwazulu-Natal), Phalaborwa SDI and Platinum SDI (both Northern Province), Gauteng SDI (Gauteng). SDIs not located in South Africa are the Walvis Bay SDI (Namibia), Coast to Coast SDI (Namibia, Botswana, South Africa, Swaziland and Mozambique), Lubombo SDI, (South Africa, Swaziland and Mozambique). See the maps in appendix 1-3.

Lighthelm, 1993: 362) and was coupled with several financial incentives (Harrison & Todes: 1996: 71; Luiz, 11/2000: 12).

(2) The Border Industry Programme failed to curb migration and to generate sufficient employment, and therefore in 1982 the Regional Industrial Development Programme (RIDP) endorsed a policy of promoting growth centres within development regions. (Naude & McCoskey, 9/2000: 10). The approach nevertheless remained linked to political objectives (Luiz, 11/2000: 12) and tempted to stimulate industrial development artificially at locations whose industrial potential may otherwise be limited.

(3) In 1991 this strategy was altered by a new market-oriented RIDP that emphasised the development of areas where economic potential and economic forces predominated (Wilsenach & Lighthelm, 1993: 362; Luiz, 11/2000: 13). (4) The SDI programme was launched in 1995/6 by the South African Government and primarily executed by the Department of Trade & Industry and the Department of Transport (Lundin & Soderbaum, 2000: 9; Taylor, 2000: 8; Naude & McCoskey, September 2000: 2)) as the practical implementation of the Government's macro-economic strategy, set out in its Growth, Employment and Redistribution (GEAR) policy (SDI, 2001-a; Williams & Taylor, 2000; Ahwireng-Obeng & McGowan; 1998).

Although Hall reported that the SDI did not appear to be informed by a strong theoretical basis, and that SDI Managers admitted that they were learning by doing (Hall, 8/1999: 7), this initiative of course did not come completely out of the blue. In fact, the SDIs show many similarities with the previous RIDP policy, although it had amongst others three important **differences**. **Firstly** the SDI programme was developed in a period in which South Africa no longer faced international sanctions. This had two important consequences. One is that the SDI strategy was designed to attract as much foreign investment as possible, implying the crucial role of the private sector, while the public sector involvement is reduced (compared to RIDP) to initiator, facilitator and regulator. A second implication concerns the change from import substitution to an export-orientated economy, which consequently influences the location of the developmental areas, i.e. predominantly along the SA coastline. The **second** difference is the adherence to a broader sectoral approach, as not only industrialisation, but also the development of tourism (conceptualised in the West Coast SDI, Lubombo SDI) and high-tech areas (mainly the Gauteng SDI- or Midrand area), are pursued (Cairns, 21-27/5/1999: 9). Although there is a certain overlap between the SDIs and the tourist sector, its main roots nevertheless appear to remain industrial. All the industrial initiatives to support trade and industry are included in the SDIs, while not all tourist areas are a SDI. The South

African Department of Environmental Affairs and Tourism has identified 16 so-called Tourism Development Areas (TDAs) in South Africa. A number of the TDAs fall within the areas of the Department of Trade and Industry's spatial development initiatives (for example Phalaborwa, Lubombo and Amatola-Wild Coast), thus allowing tourism to both benefit from and contribute to the economic development of these regions (Campbell, 19-25/3/1999: 10). The **last** difference is that with the end of Apartheid and the first democratically elected government the issue of empowerment became an important issue in addition to sustainable employment and growth, which practically entailed more emphasis on small, micro and medium enterprises (SMMEs).

### **1.3. NODES - INDUSTRIAL DEVELOPMENT ZONES (IDZs)<sup>9</sup>**

IDZs are more specific, smaller areas than SDIs, and are usually industrial estates adjacent to a harbour or airport, targeted at export industries from both international and local investors by offering them certain financial incentives, excellent world-class industrial infrastructure and non-financial incentives like streamlined customs procedures and 'one-stop-shops' to eliminate bureaucratic hassles. These should attract Foreign Direct Investment (FDI) and secure a favourable competitive position for South Africa in the global economy (Lewis & Bloch, 1998: 731; Newman, 8/1998: 42, Driver, 1998: 796; Creamer, 2-8/7/1999: 7; Rogerson, 1999: 268).

Why these types of zones were introduced in the first place becomes understandable upon a closer examination of its roots. "Until the 1970s enterprises operated within a set of vertically integrated enterprises which operated within national boundaries. This changed when multinational firms invested abroad, with vertically integrated value chains in several countries, in the beginning parallel chains, eventually only allocated at places based on their relative competitive advantage, (with strategic different roles for the offshore factories)" (Rogerson, 1999: 260). To attract this investment, countries started to compete with IDZs. Their shape has nevertheless changed over time, leading to a four-types-categorisation of IDZ. "(1) First there is a group that can be termed implicit export-oriented zones, which is an example of export manufacturing without a dedicated or explicit support physical infrastructure. (2) Secondly, there are the classic Export

<sup>9</sup> The Fish River SDI became the Port Elizabeth IDZ and East London IDZ respectively (Altman, 8/2001: 10). Other IDZs within the SDI framework are the East London IDZ, Richards Bay IDZ, Saldanha IDZ, Johannesburg Airport IDZ, Coega IDZ, City Deep (Creamer, 2-8/7/1999: 7), Gauteng industrial zones. In addition there are also the Algoa initiative, EmontiKei IDZ, Durban industrial node, Pietermaritzburg industrial node (Creamer, 9-15/7/1999: 11), and Gariiep.

Processing Zones (EPZs) which are rooted in the development of enclave manufacturing based upon the local attractions of cheap labour and generous incentives. (3) The third type is the Special Economic Zones (particularly in China), which move away from enclave manufacturing and instead integrate zones into the local economy and society and thus differ from the previous in terms of their spatial coverage and their comprehensiveness of economic activities. (4) Finally, the contemporary initiatives of a new wave of modernized hybrid EPZs, focus on ‘encouraging integrated manufacturing using domestic as well as foreign manufacturing in a wide variety of zone configurations’ (Ibid.: 263). Furthermore, the evolution of international competition and the making of global production chains has resulted in changing priorities in the locational decisions of international investors, with less importance attached to financial concessions and the availability of cheap labour, but rather to human resources and market access (Ibid.: 262).

#### 1.4. CONCEPTUAL FLEXIBILITY

A potential problem concerns the flexibility of the conceptual usage. Indeed, the terms of nodes/IDZs, SDIs and DCs could be used over different geographical scales, complicating the conceptual clarity. On a small scale, using as an example the Gauteng Province, the concept of "corridor" was historically used to link nodes *within* an area, which is now known as an SDI. On a larger scale, like the Nacala-, Tazara- or Lobito Development Corridor (see map), it links the geographic spaces between nodes over different countries, not necessarily involving SDIs.

And what complicates the conceptual delineation is that the official names are **not consistent in their terminology**. For example the West Coast SDI became officially known as West Coast Investment Initiative, because of political reasons<sup>10</sup>. Moreover, what all DCs in Southern Africa have in common is that they link the interior of the country with the coast. Within the above two groups could be distinguished, i.e. those DCs that are located in one country (Malange and Namibe, both in Angola) and those that stretch over several countries, Lobito (Angola-DRC-Zambia), Tazara (Tanzania-Zambia), Nacala (Mozambique-Malawi), Beira (Mozambique-Zimbabwe) and Maputo

<sup>10</sup>“The Western Cape SDI was implemented in one of the few provinces not governed by the ANC. While investment promotion institutions in the province and in Cape Town particularly, were stronger than in most other regions, the political differences added much complication to this initiative. The SDI programme, and the project manager were associated with the ANC. The change of name to the West Coast Investment Initiative (WCII) was partly done to distinguish it from the SDI programme” (Shapiro & Bundlener in Altman, 8/2001: 19).

(Mozambique-SA). Although the Coast to Coast DC complies with both of these criteria (inland to coast connection and over several countries, i.e. from Namibia, through Botswana, South Africa, Swaziland to Maputo (or the other way round), it is named SDI and not DC. Maybe this is done because it stretches from one coast to the other and does not stop inland, but the Lubito and Tazara DC are actually linked and, therefore, also go from Coast to Coast, but is instead called a DC.

## 2. STRATEGIC AND OPERATIONAL INTENT OF IDZs, SDIs AND DCs

Being aware of the roots of the IDZ, SDI and DC initiatives, it is important to know what exactly the government intends to achieve with them and how they are perceived to lead in practical terms to those aims, i.e. the strategic intent. Moreover several operational mechanisms are set in place to support the activities in the direction that is strategically intended.

### 2.1. STRATEGIC INTENT

The South African Government is facing two alarming socio-economic problems, i.e. unemployment<sup>11</sup> (officially over 20% and maybe as high as 37-38%; RSA 1998 in Hall,

<sup>11</sup> That South Africa has an unemployment problem is unquestioned. "By the narrow definition of unemployment (did not work in the last seven days but actively looked for work), the unemployment rate is 12-20% of the labour force. By a broader definition of unemployment, which includes the narrowly unemployed, plus those who were not working but would accept a suitable job if one were offered even though they are not now looking for work (and in some cases includes seasonal workers and contract workers as well), the unemployment rate rises to 27-37%" (Fields, 12/2000: 3). "The 37 percent unemployment, "hides the enormous divergence in unemployment conditions across races, skill levels, sexes, and regions. It also hides the fact that, even with the inclusion of discouraged workers in the labor force, the participation rate (55 percent) is quite low. The unemployment rate varies from a low of 4.3 percent among white men to 54.8 percent for black women. Unemployment rates in rural areas are significantly higher than in urban areas. For black persons, the likelihood of employment does not appear to be affected by the number of years of schooling until they reach the tertiary level, at which point the unemployment rate falls to 10 percent, compared with rates of 50 percent for persons with a secondary education or less". Furthermore, "one of the most striking features of the employment picture in South Africa is the extremely low ratio – 21 percent – of employed persons to total population (compared with, say Australia, at 67 percent, Brazil, at 44 percent, and Mexico, at 61 percent). This low ratio reflects, in addition to the high unemployment rate, the low participation rate, and the very skewed age distribution of the population toward the young (39 percent of the population is under 15 years old). On the basis of the current age distribution, and even assuming the same low participation rate for the next years, the labor force is likely to grow by 30 percent during this period. Thus, for the unemployment rate simply to remain at its current level, employment would have to grow at the same rate as the labor force, or 2.7 percent a year; moreover, to reduce the unemployment rate by 10 percentage points in ten years, employment would have to grow over 4 percent a year. It is important to note that, even in the latter case, the number of

8/1999: 3; Lewis, 7/2001: i-ii, 1; IMF, 12/2000: 30) which impedes economic growth<sup>12</sup> and structural racial inequalities in both functional (work) and spatial (living) conditions.

The strategic intent of SDIs and DCs tries to accommodate these problems through the creation of ‘sustainable development’<sup>13</sup>. As the government is facing budgetary/fiscal constraints because of inherited national debt (S&P, 1999; Altman, 8/2001: 24) and has committed itself to the GEAR macro-economic policy since 1996, these problems cannot be solved by relying on the state treasury. Instead the government relies on business activities, mainly – but not only – foreign, because of low savings rates<sup>14</sup> (S&P, 1999; Lourens, 23-29/7/1999:8; Altman, 8/2001: 24), to set about a virtuous cyclic development pattern (Hall, 8/1999: 8; Altman 8/2001: 7). Business can contribute in three main areas:

- Business creates employment through which people not only earn their living, but also gain experience and skills which increase the prospect of sustainable employment. More skilled people would not only counter the legacy of apartheid, with non-whites suffering of sub-standard education and deliberate discrimination in the job market (Taylor, 11/2000: 6), but could also lead to new businesses and/or can attract more business because of the newly created ‘pool’ of experience.

- The idea behind spatial development is to create a cluster economy (Altman, 8/2001: 7) “enclaves” around certain economic activities that mutually increase the competitive advantage, and where business attracts business, leading to an increasing number of job opportunities (Luiz, 01/2001: 2) and broadening the base of economic ownership and black empowerment as SMMEs create networks with these new investors, either as suppliers or as benefactor of more competitive inputs.

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unemployed persons would be reduced by less than 5 percent over the whole period” (IMF, 12/2000: 30, 32).

<sup>12</sup> “GDP growth has fallen steadily, from an average of nearly 6 percent during the 1960s, to around 3 percent during the 1970s, 2 percent in the 1980s, and erratic performance throughout the 1990s, averaging 1.3 percent (around the rate of population growth). After a prolonged period of decline, the economic rebound that began in 1994 was short-lived and weak, peaking at only 4 percent before dropping back off as a result of external pressure and business cycle movements” (Lewis, 1999: ii).

<sup>13</sup> Although “sustainable development” is often used as a ‘buzz-word’, the sustainability of the development can refer to the fact that development should be conducted in a way that it is not detrimental to the living conditions of future generations (see footnote 5). Some authors nevertheless also interpret this term as indigenising development, i.e. that development does not come from investments or external initiatives, but that at a certain point in time the local people are the stimulus of the development and that their efforts contribute to better living conditions being attained.

<sup>14</sup> “Domestic savings are low by international standards (compared to other middle income countries), and have been declined fairly steady over the last two decades, from an average of 22 percent of GDP during the 1980s to only 14 percent during 1998 (the lowest level in its history – (IMF, 12-2000: 10)). Much of the decline was due to falling government savings, which fell by 8-10 percent of GDP (from +4-5 percent to – 4-5 percent) between the early 1980s and 1990s, although the fiscal restraint since the mid-1990s had reduced government dissavings to fairly negligible levels” (Lewis, 7/2001: iv, 15-16).

- The more business is attracted, the more international capital and foreign exchange is received and the better the South African continent is able to weather its previous overprotected isolation, and to be drawn into the global competitive world economy which contributes to a better macro-economic performance that allows the cyclic pattern to continue. And finally, to be competitive this development pattern needs to be integrated in an environmental sustainable and holistic framework (Mitchell, 1998: 758; Clancy, 2-8/7/1999: 38).

## **2.2. OPERATIONAL INTENT: EFFICIENCY ENHANCING MECHANISMS**

To achieve the strategic intent, business needs to be “crowded in”. Within the SDI programme the role of government is to de-bottleneck and facilitate the crowding in of the private and public resources (Altman 8/2001: 24) through supply side or efficiency enhancing mechanisms (Lourens, 21-27/01/2000:18).

### **2.2.1. THE PROVISION OF INFRASTRUCTURE**

Firstly, it is attempted to remove those bottlenecks for investment that are mainly infrastructural in nature (roads, port, rail, etc. – (SDI, 2001-a)). The renewal and upgrading of infrastructure will reduce transport-related costs for exporters, thereby improving their global competitiveness and increasing profitability (Bel & Taylor, 4/2001:3). Certainly for the tourist sector of the SADC region, infrastructure will be vital (Campbell, 19-25/3/1999: 10). With the public sector having difficulty raising funds<sup>15</sup>, the private sector could play an active role through so-called Public-Private Partnerships (PPPs) in the form of BOT and/or ROT agreements, in which the government remains the owner and thus the principal stakeholder of the infrastructure (MCEN, 3-9/7/1998:38-a; Clancy, 2-8/7/1999: 38), while the private sector builds or rehabilitates and operates the

<sup>15</sup> This does not mean that the South African Government does not have any funds to spend. Firstly, the government spends some 12.9% of its budget on infrastructure. Thereby it takes the fourth position in budget priorities for 2001 (preceded by Education, Health and Justice and followed by Economic Services and Administration), and it is estimated to raise to the third position until 2004 (South African Survey, 2001: 469). Furthermore “a massive R2-billion loan package to back regional infrastructure projects in South Africa was given the green light by the European Investment Bank when it signed its second framework agreement with the Ministry of Finance. The first loan package worth ecu 300-million, was used to boost infrastructure projects and small and medium-sized enterprises for the period 1995-97. The second loan package totalling ecu 375-million will extend from 1998 to 99, and it is expected to focus in much the same sectors. This loan funding is in addition to the roughly ecu 125-million which is given yearly in grants to South Africa under the European Programme for Reconstruction and Development (EPRD)” (MCEN, 26-2/6-7/1998: 52).

infrastructure before transferring it back to government after thirty years of financing. Usually the cash flow will generate funds for the project, and not government or sponsor guarantees. It also manages and maintains the infrastructure (Driver, 1998: 18; Platzky, 10/2000: 11; Lourens, 3-9/7/1998: 37). In some PPPs the private sector even takes over the debt of government (in the case of the N3 highway, this amounts to R1,2 billion) leaving the government free of debt after the concession period, and which leaves the government free to spend rather on social services (MCEN, 12-18/6/1998: 40; Creamer, 17-23/7/1998: 6; Lourens, 30-5/7-8/1999: 11). The PPP philosophy is not unique to SDIs and in fact draws upon past experience from other countries/regions<sup>16</sup>. Government seems firmly committed to this philosophy, with the establishment in early 2000 of the new PPP unit (Taylor, 12/2000: 3, 4). "The Minister of Trade and Industry, Alec Erwin, gave the SDI Project Managers a 1:9 ratio, i.e. for every one Rand spent by the public sector in the SDIs, nine Rand had to be brought in by the private sector" (Platzky, 10/2000: 11). This principle has been applied for the Maputo N4 Toll Road (Lundin & Soderbaum, 2000: 12; Bel & Taylor, 4/2001: 3) and the Platinum Toll Road, but also other roads outside of the SDI framework, such as De Beers Pass (MCEN, 12-18/6/1998: 40) and it is planned to do more than double the size of the national road network until 2008 (from 7.000 km to nearly 20.000 km) (Creamer, 17-23/7/1998:6).

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<sup>16</sup> "Neo-liberalism focuses on the supply-side of the economy and pushes the role of the market in providing services. With its emphasis on low public expenditure and a concentration on trade deficit reduction and low national debt, the call to increasingly involve the private sector in supplying services formerly provided by the state has become almost universalised. The "private sector" could be broadly defined to include non-state actor(s). Thus private enterprise, informal market actors, community-based organisations, non-governmental organisations (NGO), universities, and private individuals may all be included within the proviso of the "private" element within PPPs. In this sense, the PPP philosophy inherent in the SDI project(s) is reflective of international trends and experience. Indeed, over the last few years in Europe, for instance, the use of PPPs has gained momentum and a number of transport infrastructural schemes have been pursued. Examples that may be cited include the M1/M15 Motorway and M5 Motorway in Hungary; Warsaw Airport in Poland; and the Resund Link between Sweden and Denmark. Furthermore, both the World Bank and the United Nations Development Programme (UNDP) advocate the usage of PPPs in providing or renovating services" (Taylor, 12/2000: 3).

"Over the past few years, the South African government has made it plain that it just does not have the money to fund much-needed infrastructural development. Instead, it is calling for the evolution of public-private partnerships. It is not a model unique to this country. Build, operate and transfer (BOT) projects, as they are known, are being successfully implemented in North America, Europe, Asia and South America, and are beginning to take off locally. Banks try to replicate in South Africa what took place in Japan following the Second World War. There, the construction and development of the country's infrastructure became the building block of some of the most successful Japanese banks (Creamers, 12-18/6/1998: 1, 8). The reason why PPP's strategy is chosen can be found in the new financial strategy presented as realistic and sensible macro budgeting to eradicate debt. "The starting point is that government will only spend what they earn, unlike the way it has traditionally been done" (Dorfling, 12-18/6/1998: 1, 8).

### **2.2.2. ANCHOR PROJECT AND INVESTMENT OPPORTUNITIES**

Within each SDI government identifies a strategic investment, the so-called anchor project. The anchor project usually takes the form of a crucial infrastructure investment (e.g. Port of Maputo), a major new industrial plant (e.g. Saldanha Steel in the West Coast SDI), or a large tourism venture (e.g. Wild Coast SDI). In practical terms, the anchor project consists of a sudden large injection of resources which is planned to kick-start the economy (Ibid; Harrison & Todes, 1996: 70; Naude & McCoskey, September 2000: 2) to boost the performance of the cluster economy of that region (Jourdan, 1998: 718-9; MCEN, 2-8/7/1999: 37). Furthermore it is intended for the anchor project to demonstrate that large new investments in the SDI space are feasible and that government is committed to the region, both of which are intended to increase investor confidence (Taylor, 11/2000: 10; MCEN, 11-17/02/2000: 67).

However, government does not assume that everything will flow automatically from one key investment. Adjacent to the anchor project the government provides readily available packages of investment opportunities with information and feasibility studies presented during a high-profile investment conference (see more below) and offers a dedicated staff attached and accountable to central government (Jourdan, 1998: 717; Lewis & Bloch, 1998: 726, 729).

### **2.2.3. IDZs AND SPECIAL PROJECTS**

“At the outset the South African IDZ concept was viewed as an important local policy response to global economic restructuring. The IDZs are an integral part of the SDI programme; the only component of the SDI programme that is likely to gain legislative status and is ‘linked to the challenges of globalisation, the importance of speed, quality and cost considerations for competitiveness. Increasing prominence is given to the best international environmental and labour standards practices (via dispute resolution and Integrated Environmental Management Strategy (Hall, 8/1999: 6)). This implies a shift from traditional EPZs towards ‘leading edge Hybrid Development Zones that have a close integration with the local productive sector’<sup>17</sup> (Rogerson, 1999: 268-269; Clancy, 2-8/7/1999: 38).

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<sup>17</sup> “Seven core principles underpin the South African IDZ initiative:

1. The promotion of sustainable local and foreign investment, oriented towards achieving sustainable growth and development and facilitation of technology transfer.
2. It is directed at new companies in order to prevent the relocation of industry.
3. The implementation of best practice environmental and industrial safety standards as competitive advantages for zone investors.

“The South African IDZs are to be oriented towards promoting, developing and consolidation of four basic kinds of export activity:

1. labour-intensive light manufacturing and assembly that incorporates unskilled, skilled, technical and managerial personnel to produce higher value-added products and services;
2. Manufacturing activities linked to local industry that incorporate substantial level of local inputs, downstream manufacturers, components and/or services;
3. The technologically intensive service sector that demands higher skill levels and value added; and

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4. A strategic human resource focus, designed to significantly improve skills and human resource development at all levels
  5. The application of ruling labour legislation and full compliance with prevailing standards and regulations
  6. The active application of government incentive programmes available to investors.
  7. The minimum financial commitments by the state while maximising investment in the provision of world class infrastructure.

Overall, the objectives of South Africa’s IDZs are tenfold:

1. IDZs are seen as a useful instrument to unlock a series of strategic projects identified and promoted by government. More particularly, being port-related, IDZs are potential gateways for a series of export-oriented manufacturing industries.
2. IDZs are designed to promote the continued vertical integration of South African industry through the establishment of linkages with downstream industries to effectively incorporate local inputs, raw materials, services and labour into the production of internationally competitive export products. The DTI paper identifies several sectors as offering the basis for cluster development, *inter alia*, motor industry, electronics, metal working, plastics and labour-intensive services, such as data entry and information services.
3. IDZs are seen as promoting a set of development projects that are likely to optimise the utilisation of existing infrastructure in terms of ports, airports, roads and telecommunications.
4. IDZs are seen as contributing to objectives of employment generation. Each IDZ is to ‘designate a significant proportion of its area to developing labour-intensive industries and services’, in particular seeking to attract new enterprises that utilise leading edge technologies and progressive manufacturing systems.
5. Those projects using outdated or low technological levels ‘will be specifically avoided in order to focus on enterprises and products that will contribute to increasing South Africa’s technological level’
6. IDZs will have a strategic human resource component aimed at facilitating advanced labour relations and rapid development of human resources. Indeed, with support from the Department of Labour, it is claimed, that IDZs’ will benefit from accelerated skills development programmes’
7. IDZs are geared to the goal of earning foreign exchange through their export activities.
8. Supplier networks are to be promoted in order to more effectively incorporate the SMME sector in export processes, both as direct exporters as well as indirectly as providers of export-oriented goods, inputs and services.
9. IDZs are seen as ideal locations for new enterprises that arise out of industrial co-operation between South Africa and industrialised countries through joint ventures, merges and strategic alliances.
10. IDZs are to be co-ordinated towards promoting, developing and consolidating the four basic classifications of export activities as identified in the 1998 consultative document, namely labour intensive light manufacturing and assembly; manufacturing activities linked to local industry; the export services sector; and capital intensive and natural resource-based primary activities” (Rogerson, 1999: 269-271).

4. Capital intensive and natural resource based primary activities” (Rogerson, 1999: 269).

“‘Special Projects’ were initiated by the Special Projects Division of the DTI. They often entailed some overlap with central DTI work, but were meant to fast-track an investigation or a process. The projects were often pursued to support the SDI work. It is therefore difficult to disentangle the ‘special projects’ from the SDI programme, even though they were strictly speaking not the same. Some of the programmes initiated by the Special Project Office include: “Interface with parastatals, such as Portnet, to promote improved delivery; support services initiatives such as the ‘linkages Programme’ to identify SME opportunities linked to mega project investments or the “industrial Processes” course developed to train project managers; sector investigations and the web-site to make information easily available on each SDI” (Altman, 8/2001: 11).

### **3. THE SDI PROCESS -- HOW DOES IT OPERATE?**

Although each SDI has to adjust to the different conditions under which it operates, some basic similarities could be traced and officials at the DTI now speak of a generalised “SDI methodology”. There are two main phases, i.e. the national and local phase (Soderbaum, 9/2000).

#### **3.1. THE NATIONAL PHASE - THE INITIATION PHASE**

The first phase of the SDI process is driven by the national government and is conducted over a short period of time, usually twelve to eighteen months, with an emphasis on fast-tracking<sup>18</sup> the development projects (SDI, 2001-e; Soderbaum, 9/2000: 14; Jourdan,

<sup>18</sup> The fast track approach stands for a short, sharp intervention (often referred to as the shot-gun approach or the parachuting of the SDI-programme) as there is a sense of urgency, aiming at overcoming as fast as possible the underdevelopment due to the Apartheid legacy.

The advantages of this approach are that

1) it enables rapid implementation, streamlining of bureaucracy and flexibility. The SDIs established a number of ways of pushing decisions through. On a broader level, inter-departmental committees were established, and ultimately the Cabinet Investment Cluster was also formed. On a smaller level, the funds covering facilitation were located in the DBSA so that expenditure could be faster and flexible. There are other examples in government like this, such as the Poverty Alleviation Funds, allocated to special projects that are not directly in a department’s budget vote” (Altman, 8/2001: 31).

2) It establishes a connection between input and output and therefore “creates space for considerable innovation and experimentation in directing and then evaluating projects” (Taylor, 12/2000: 14).

3) It may spur a certain ‘multiplier effect’ and a kick-start to the economy, because it creates visible benefits (Soderbaum, 9/2000: 31).

1998: 719; Taylor, 11/2000: 11; Altman, 8/2001: 27). We distinguish between the operational/institutional phase and the technical phase<sup>19</sup>.

### **3.1.1. OPERATIONAL (INSTITUTIONAL) PHASE**

The operational phase mainly consists of identifying the SDI area and of the three tasks of the appointed SDI project manager.

#### **3.1.1.1. Project manager**

The process starts with the Department of Trade and Industry (DTI) to identify potential SDIs on the basis of their potential to fulfil the above mentioned strategic objectives, with the main criteria for designation being (1) areas that have been demonstrably disadvantaged by ‘aberrations’ associated with South Africa’s apartheid past and (2) have demonstrably inherent economic potential (Lewis & Bloch, 1998: 731)<sup>20</sup>. Having been located, the SDI project is granted a working budget by the Department of Trade and Industry (Taylor, 11/2000: 9; Platzky, 10/2000: 10). The next step is the appointment of a project manager, who is employed by the Development Bank of SA and accountable to the DTI<sup>21</sup> (SDI, 2001-e; Taylor, 11/2000: 9).

Because more governments are involved in the case of international SDIs, the procedure is slightly different. In the case of the Okavango SDI<sup>22</sup>, SA first completed an assessment of the direct tourism benefits, which were consequently briefed to the governments involved (that is Namibia, Botswana, Angola, Zimbabwe and Zambia) during a 60-day period of intense consultation. Once they agreed, each of them assigned its own national project management teams to interact with other governments as they saw fit. Then the investment projects could be fine-tuned to maximise revenues from already-made investments, to study environmental conditions, etc. with the aim to hold an investment conference nine months later. Agreement also has to be achieved concerning the technical phase regarding funding for detailed feasibility studies (Cairns, 23-29/7/1999: 8).

<sup>19</sup> This is not an official distinction, but one we think suits well the reality of the SDI processes.

<sup>20</sup> It is questionable whether this was the actual way in which the process was conducted. It looks more likely that government received offers from certain investors and that subsequently the best suited area was chosen. But this becomes more clear throughout the thesis.

<sup>21</sup> Before 2000, the Special Projects Directorate of the DTI was the lead agency of the SDI programme, but this was demobilised during 2000 and its responsibilities were carried over to the Development Bank of South Africa (DBSA – which has always been directly involved). This transfer was conceived necessary to move away from bureaucracy and to enable the programme to have a measure of independence from public policy (Soderbaum, 9/2000: 10).

<sup>22</sup> Also known as the Okavango Upper Zambezi International Tourism (Ouzit) SDI.

### **3.1.1.2. Three main responsibilities**

The SDI project manager has three main responsibilities: establishing a conceptual workshop, identify two political champions and coordination.

#### **A) Conceptual workshop**

The project manager is responsible to organise an initial conceptual workshop, which involves key public (provincial and local) stakeholders and parastatals in the SDI area. The workshop would pursue four main objectives: (1) clarify/explain the SDI process to the stakeholders; (2) deliberate which form the SDI should take (e.g. which sector(s) it should cover); (3) start identifying major bottlenecks to development and (4) set up technical working-teams, comprised of people from within and outside the SDI area, to provide the expertise needed to drive the SDI process and to detect potential opportunities for new investment in the area (Jourdan, 1998: 719; SDI, 2001-e, Soderbaum, 9/2000: 15).

#### **B) Two political champions**

Another crucial component of the SDI methodology and main task of the project manager is to identify local 'champions' and stakeholders to fulfil two main aims: (1) raise the SDI's public profile to provide the programme with legitimacy, and (2) to ensure ongoing practical support so that there is an organisation which may secure the implementation of the decentralised functions for provincial and local authorities. High level political support will facilitate and streamline decision-making, facilitate the signing of protocols and agreements and promote cooperation between the levels of government. The stakeholders assumed to best perform these functions are two political champions; one national and one provincial. These are elected representatives, usually a Minister or Deputy Minister at national level, and a Member of the Executive Committee (MEC) – sometimes known as the provincial government 'Cabinet' (Jourdan, 1998: 719-720; SDI, 2001-e, Soderbaum, 9/2000:10, 15, 31; Taylor, 11/2000: 9; Mitchell, 1998: 759).

#### **C) Coordination between SDIs**

At the earlier stage of the SDI methodology it was intended to promote coordination at the highest state level. The SDI programme is coordinated by the intersectoral and broadly based 'Overall SDI Coordinating Committee' (OSDICC), which liaises with a new inter-ministerial Cabinet Investment Cluster (CIC).

The OSDICC is composed of SDI managers, representatives of national government, investment agencies (DBSA, Investment SA, IDC), Transnet, Portnet, Spoornet, the Council for Scientific and Industrial Research (CSIR), and the Agricultural Research Council (ARC). As the participants increased, the OSDICC was split into two entities, the coordinating committee of the so-called resource-based SDIs and the Regional SDI Committee (RESDIC) (Soderbaum, 9/2000: 9). These actors meet to advance fast track implementation procedures (Taylor, 11/2000: 8-9).

The CIC draws together representatives from a wide range of central public service departments, with an emphasis on those whose portfolios are related to or affect possible investment in SDIs. It has the mandate to facilitate investment promotion, give content to cooperation between the various spheres and levels of government, and is a powerful forum which reports directly to Cabinet and has proved to be important when rapid decisions had to be taken (Soderbaum, 9/2000:9; Taylor, 11/2000: 8-9).

### **3.1.2. TECHNICAL PHASE**

The technical phase consists of three main components; (1) implementing the undoing of bottlenecks while (2) simultaneously conducting feasibility studies in preparation of (3) the eventual investors' conference.

#### **3.1.2.1. Implementing the undoing of bottlenecks**

After the operational phase, work begins to undue/unblock the identified bottlenecks, "particularly vis-à-vis the availability and readiness of infrastructure, along with environmental impact assessments, telecommunications, small and medium entrepreneur capacity-building, appropriate regulatory frameworks and community involvement projects (particularly ensuring that local involvement was promoted)" (Taylor, 11/2000: 10; Platzky, 10/2000: 10; SDI, 2001a).

#### **3.1.2.2. Technical feasibility studies**

Simultaneously the technical teams (formed under the operational phase) investigate investment opportunities (called pre-feasibility studies) in preparation for the Investment Conference. The technical teams are working groups that take about a year to evaluate whether the potential individual projects in different sectors and sub-sectors, as well as anchor projects are bankable – in other words whether they are market-driven commercially viable and with a return on investment so that a commercial financial institutions would be willing to support the project (Campbell, 12-18/6/1998:7). Some

projects are taken further to the stage of full feasibility studies. If the initial result should appear positive, the projects would be presented to the investors' conference (Jourdan, 1998: 720; SDI2001-e; Soderbaum, 9/2000: 15; Platzky, 10/2000: 10; Taylor, 11/2000: 10; SDI, 2001a). In the case of the Coega port and IDZ for example, a company called "Section 21", comprised of national, provincial, local and private stakeholders, produced more than 80 individual reports for the final feasibility of the initiative, after which a detailed planning and design phase followed (Clancy, 2-8/7/1999: 38; Creamer, 3-9/9/1999: 7).

### **3.1.2.3. Investor Conference**

The reason for these feasibility studies is to provide packages that could be easily evaluated by the private sector (Bel & Taylor, 4/2001:14). Indeed these projects are presented at the investor conference so that investors who may be interested, could be identified and possibly matched with a project. Moreover the Investor Conference raises the profile of the SDI as an investment destination (Jourdan, 1998: 720; SDI 2001-e; Soderbaum 2000: 15; Taylor, 11/2000: 11). Small-and medium-sized businesses may benefit from the conference in that local businesses are encouraged to network and form joint ventures with foreign and non-local investors (Lundin & Soderbaum, 2000: 12). For the Maputo Corridor, for example, 180 proposed projects were offered to investors, with a total value around US\$ 7 billion (Bel & Taylor, 4/2001:4).

## **3.2. THE PROVINCIAL/LOCAL PHASE - IMPLEMENTATION PHASE**

The first 'national' phase is assumed to prepare the ground for the second phase of the SDI programme, being the actual project implementation phase. During this exit period, which may last up to two years, the initiative is handed over to local and provincial institutions. At this juncture, SDIs are supposed to be advanced by provincial SDI technical units, as well as local or provincial investment promotion agencies (like Cimec in the Fish river SDI), whose task is to ease in new investment (Taylor, 11/2000: 11; SDI, 2001-e; Jourdan, 1998: 720; Driver, 1998: 792-793).

#### 4. CONCLUSION: THE ALPHABET ON IDZs/SDIs/DCs

Nodes/IDZs, Spatial Development Initiatives (SDIs) and Development Corridors (DCs) all have in common spatial development, but are used to denote different geographic scales. A node is the smallest spatial development referring to an area with some concentrated economic activity usually around a port, airport or anchor project and sometimes – but not always – in the form of an Economic Processing Zone (EPZ) or an Industrial Development Zone (IDZ). Spatial Development Initiatives denote the development area around a node, while a Corridor links the geographic areas between different nodes. And although their roots go far back in time, i.e. IDZs arose in the 1970s when multinational companies ‘invented’ global vertical integrated organisations; SDIs were linked to spatial development in South Africa since 1956, but resemble more the RIDP of 1991; and DCs find its traces in the 12<sup>th</sup> European century but were heavily developed on the African continent during colonial times. These initiatives are combined in an effort to solve pressing current problems.

The focus is on growth, employment and empowerment and these aims are intended to be achieved through a sustainable and self-enhancing market oriented development cycle in which the government plays an intermediary and facilitating role. In other words, the government seeks to establish conditions that make the South African market attractive for business through supply-side, efficiency enhancing mechanisms. In previously disadvantaged areas with an untapped economic potential, government pinpoints an anchor project around which a cluster economy will be built. Subsequently the area is provided with appropriate infrastructure (usually through PPPs) and IDZs and special projects to make the cluster more internationally competitive.

Institutionally it is attempted to realise these projects by means of two main phases, i.e. the national initiation and the provincial/local implementation phase. **(1)** The first phase stretches over 12 months and is composed of an operational and technical phase. The first refers to activities, mainly of the selected project manager, that are meant to establish the basic components to drive the SDI project, i.e. political support and cooperation. The technical phase entails the start of implementing the undoing of bottlenecks while feasibility studies are conducted to create investment packages that are presented at the ultimate marketing and matching effort, i.e. the investor conference. **(2)** After this period, a period of two years is taken to hand over the projects to the provincial and local authorities, which further implement the project and attract new investments.

For the purpose of evaluating the initiative, it is divided into three components, that is – as mentioned in Chapter 1 on methodology – the *government* wishes to attract *investment* to solve *socio-economic* problems. The government plays an intermediate role between the economic and the social realm. Therefore, first the economic realm will be addressed.

## CHAPTER 3. SDIs AND THE ECONOMIC REALM

The first component of the SDI strategy focuses on attracting (foreign) direct investment. In this chapter it is analysed whether proportionally the expected investments were attracted and, if not, how the government would consequently react and what could reasonably be expected with the economic factors that characterise the economic realm.

### 1. SDIs AND INVESTMENT - DID IT SUCCEED?

As the SDI plan was aimed at marketing for the amount of investment it would attract in the destined area, observers would probably wonder whether government succeeded in doing so.

Although several figures are available on the investment (either identified or realised), it is difficult to reach firm conclusions because of several problems with the two types of groups of data available. The first groups of statistics are those reported by **unofficial/‘independent’ sources**. First of all, they often refer to the investments created within specific investments of the SDI instead of an overall total. Secondly, they could refer to different moments on the time scale of the investment without clarification whether the figures are cumulative or not.

The problem was increased when it appeared that the second group of statistics, i.e. the IDC databases - an **official source**, was not accurate at all, either. On this database some projects within a certain IDZ were for example listed to be in their implementation phase, while this IDZ was in fact not yet even in existence<sup>23</sup> (Luiz, 01/2001: 8-9; Altman, 8/2001: 30). The lack of an overall framework of measurable outcomes was in 1999 considered to be due to time as “it [was] too early to evaluate the program in terms of job creation and other outcomes” (Hall, 8/1999: 3). Nevertheless, if investments are indeed

<sup>23</sup> On the positive side of evaluation, the researchers for the DBSA evaluation report (Altman, Luiz, Rogerson, Taylor, de Beer and Shapiro) “were excited to see the IDC database when it was first presented. It seemed to provide a wealth of information, and would usefully offer contacts for each of the projects. The method of gather information seemed strong, as it was gathered using questionnaires to the firms themselves. In addition, the design of the database is good, in that it is quick to move around, and most relevant information categories are included”. On the other hand, “the database is a bit opaque and does not really seem to reflect the reality on the ground. The categories describing project status are unclear and sometimes contradictory, so it is difficult to understand whether or not a project is moving ahead. When the researchers came to look around the regions themselves, we all found that the reality bore little resemblance to what was listed in the database. The PMs also mostly remarked that the database did not seem recognizable” (Altman, 8/2001: 30).

so important, it is rather strange that so little attention is given to accuracy and data collecting, which is a necessary step to allow evaluating whether the strategy eventually met its objectives.

Furthermore, some observers not only claim that it is too early to judge the amounts of investments and equally that it is inappropriate because it is not just the amounts that are important, but actually that which surrounds the initiative (see more – below, Chapter 5) (Altman, 8/2001)).

With the lack of data for specific SDIs, it is looked at how South Africa performed overall in terms of direct investment, in as far as it is relevant for the SDI evaluation. No particular attention is given to the debate whether SA could justifiably have expected/assumed a strong upsurge of direct investment, as our focus will be on the particular factors/determinants and the investment climate that will be important for the kind of FDI that the government tends to attract to solve the unemployment problem. As it is also drawn on recent data, this chapter can provide an idea of what could reasonably be expected if the SDI concept is to be continued.

## **2. SDIs AND THE RIGHT INVESTMENT STRATEGY AT THE RIGHT TIME?**

“The SDI office made great claims in regard to potential investment that would be forthcoming. There was much exuberance in the office, but also a need to communicate confidence in the programmes to bring forward this interest. The web site announced that ‘Seven of South Africa’s SDIs have identified nearly 800 investment opportunities worth \$32.4 billion with the capacity to create 85 000 jobs and are currently marketing these projects to potential investors through a variety of mechanisms’. This was a very ambitious claim in a context of very slow economic growth, and certainly there was far less interest in South Africa by foreign investors than was initially envisaged” (Altman, 8/2001: 24). Indeed, certainly the advent of a democratic and multi-racial government in 1994 was expected to end South Africa’s pariah status and usher in a period of significant foreign investment interest (Lewis, 7/2001: iv, 16-17). But, in fact, very little foreign direct investment has been received in higher value industries, whether nationally or in any of the country's regions (Altman, 8/2001:29). Comparatively, “South Africa has been attracting only a small share of the overall pool of foreign direct investment (FDI) directed to emerging markets. During 1994-2000, FDI in South Africa averaged less than

1 percent of GDP. By comparison, over the same period, FDI/GDP averaged 2.5-3 percent for Argentina, Brazil, and Mexico, 4-5 percent for Hungary and the Czech Republic, and 3-5 percent for Malaysia, the Philippines and Thailand. With limited additional foreign resources available, investment had remained constrained to 15-16 percent of GDP throughout the 1990s. Such low investment levels help to 'explain' South Africa's poor growth performance over the last decade" (Lewis, 7/2001: iv, 16-17).

So, as the SDI strategy heavily relies on investment, but the climate for investment does not appear favourable, what does the government do and what may reasonably be expected in this regard?

## **2.1. ENCOURAGING DOMESTIC SAVINGS AND DIRECT INVESTMENT**

"Until recently the focus of more investment promotion agencies around the country has been to attracting foreign investment. The main reason being that, as with the national strategy GEAR, there were low expectations of local investment due to low savings rates and conservative behaviour. Attention is nevertheless starting to turn to encouraging domestic industry, and domestic-foreign deals in promoting economic development: this is essential for both the attraction of anchor investments, and also for promoting linkages" (Altman, 8/2001:29). "The Minister of Finance, Mr. Trevor Manuel, said in his budget speech in February 2000 that 'as a nation we must save more'. He said that although foreign investment was important for South Africa, sustainable growth would need to be fuelled by making domestic funds available for productive investment." (South Africa Survey, 2001: 442). With this aim in mind, various measures were proposed and/or implemented. "Wide ranging changes to the country's tax system were announced which, in broad terms, sought to alleviate the tax burden on lower- and middle income earners, while raising revenue in areas which had hitherto been exempt (i.e. the capital gains tax, see below). Modest concessions were also made to taxes on interest received, in order to stimulate saving" (Ibid.: 421).

Two problems nevertheless remain endemic.

The low savings should not really be a surprise with the high unemployment, meaning that those who earn will probably spend it completely on their families, and this tendency is exacerbated by the low wages to which the employees are often subjected. In the event

employment rates do not change drastically, and when imagining the consequences of HIV/AIDS, prospects do not look too rosy either. “The take-home income of households would probably be reduced by higher health and insurance costs, leading to lower consumption demand, disposable income, and saving” (Ibid).

In addition the State would have to meet substantial additional health costs, and this could have implications for the fiscal deficit and government dissaving (South Africa Survey, 2001: 423). Government dissaving stood at some R25.6bn in 1998 and at R20.8bn in 1999 (3.5% and 2.6% of GDP respectively). The decline in dissaving was ascribed largely to the government’s commitment to fiscal discipline, and had enabled the government to reduce the portion of capital expenditure financed from external sources, according to the Reserve Bank. Corporate savings was equal to some 4.4% of GDP in 1998, and to 4.1% in 1999 (Ibid: 442).

A second problem concerns the overly strong financial system. “Despite its strengths [see below], the financial sector has not been effective at advancing South Africa’s development objectives. Since the early 1990s, the financial system has been modernised and strengthened. These changes have been motivated by the challenges posed by globalisation, as well as the recognition that adaptation is needed to address the problems created by neglecting the needs of the majority of the population for decades. However, efforts to enhance the contribution of the financial sector to growth and poverty reduction have been only partially successful. The banking sector has been quite sophisticated at dealing with the requirements of big business, but largely ineffective in providing financial services to small and medium enterprises and poor households. There has been limited expansion of deposit facilities to low-income groups, but efforts to develop wholesale-retail networks to provide loans to small business have been ineffective” (Lewis, 7/2001: iv, 17-18)[This will be further elaborated on in chapter 5].

## **2.2. ENCOURAGING FOREIGN DIRECT INVESTMENT**

Secondly, what does the government do with its foreign investment policy? The strategy of attracting foreign investment was apparently not changed, but improved. “The government is seeking to boost economic growth by targeting various sectors of the economy (i.e. the food and beverages sector, information technology, metal-based industries, motor manufacturing, the pharmaceutical and chemical sectors, and tourism), increasing investment, especially in infrastructure, and much more aggressively courting

foreign investment, through an aggressive promotion campaign and via a range of targeted incentives" (EIU, 03/2001: 7-8), like the unveiling of a new tax concession aimed at foreign investors in 2001. The concession would target investments of over R100m, but would also be available for investments of between R540m and R100m (South African Survey, 2001: 416).

Whether these initiatives will lead to the expected or hoped result is questionable. The following sections scan through the economic related factors that are deemed important for the attraction of the kind of the investment the government seeks for its labour economy. They are classified in three groups; namely factors that discourage investment, factors in-between, because they do not rank badly internationally, but the perception about them is not good or progress is too slow; and lastly factors that do not distract investment (which does not mean that they necessarily attract them either).

### **2.2.1. FACTORS THAT DISCOURAGE INVESTMENT**

Labour costs, the unimportant marketing location and the global economic recession are considered to be factors that will discourage investment in South Africa.

#### **2.2.1.1. Labour cost**

South Africa has an abundance of unemployed labour and more specifically of unskilled unemployed labour (CDE, 8/1999; Cassim, Seventer & Fedderke, 9/2000: 17).

#### **A. low wages - bargaining position**

This could be beneficial for labour intensive businesses (Lourens, 23-29/7/1999:8) in the form of low wages and possibly a better bargaining position<sup>24</sup>.

Some perceive low wages as an extension of the employment problem, as well as "those with very low hourly wages, those with inadequate monthly or yearly work hours, and those who have to work too long just to be able to eke out a meagre livelihood. According to the October Household Survey data, 46% of the labour force – about seven million people – earn less than R650 a month. The unemployed, defined broadly, make up half this group, and the working poor make up the other half (Fields, 12/2000: 3).

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<sup>24</sup> The political leaders of some provinces, such as the Eastern Cape and the Northern Province – with unemployment estimated to be more than 50 per cent of the working population – are desperate for employment for their citizens and for investment and tax revenue (CDE, 8/1999:172). They will, therefore, be very receptive for new businesses, which may place the investor in a favourable bargaining position. However, the latter is not secured as exemplified by the labour law (see below).

Especially in the formal economic sector, these socio-economic statistics could nevertheless be seen to be counterproductive. Indeed, several economic sectors have been hit by labour strikes for wage increases. But although the strike itself will create losses in productivity and profit, it does not necessarily alter the competitive edge as an increase in wage could still imply a low wage competitive outcome.

However, Stephen Golub, Professor of Economics at Swarthmore USA, assessed South Africa's international competitiveness by analysing international differences in labour costs and labour productivity and concluded that "there is no room to increase real wages faster than productivity. On the contrary, wage moderation and/or continued real and depreciation are necessary to gain competitiveness vis-à-vis other emerging markets and to foster the continued growth of exports and foreign direct investment" (Golub, 12/2000: 14, 17). And the World Bank too mentions that "job creation among the unskilled and semi-skilled labor force has been constrained by rising real wages" (Lewis, 7/2001: 32).

### **B) Demand for skills, HIV/AIDS, International competition**

**Demand for skills.** A pool of unskilled labour could be unfavourable to attract investment because expected world trends highlight the need for educated people, as the demand is shifting more towards the skilled and highly skilled end of the spectrum (EIU, 1999). The forecast for South Africa (for the period 1998-2003) reports that the vast preponderance of net job creation will be in the professional and managerial categories, while job losses are likely to be experienced in the semi-skilled or unskilled category (Hall, et al, 1998:121, 122-123). This is exemplified by figures indicating that the nearly 36 percent of unemployment varies from near zero for the highly skilled groups to over 50 percent for unskilled and semi-skilled workers (Lewis 7/2001). The consequence is that skill-demanding industries will first of all have difficulties attracting skilled people as this group is especially affected by either emigration (EIU, 1999), driven by future uncertainty and fear of crime (Thomson Financial Bankwatch, 2000) and/or *AIDS* in the next twenty years. And secondly as businesses sectors will compete for skilled people, (Bell & Madula, 8/2001: 37-38), it may become very expensive for having and keeping the skilled people, eroding the profit margins (Aniruth & Barnes, 1998: 846) and the incentives to invest.

These unfavourable labour conditions are exacerbated by the daunting problems of HIV/AIDS and international competition.

**HIV/AIDS.** The obvious solution for the unskilled is training, but the complexity of the issue is exacerbated by the problem of HIV/AIDS (MCEN, 23-29/7/1999: 66). Although HIV/AIDS is most pronounced among the unskilled and semi-skilled sections of the workforce, it would also make an impact on the skilled work force. This would aggravate the country's skills shortage even further. Business would have to bear additional costs (in the form of additional health and insurance benefits, as well as training and replacement costs), and some of these would lead to higher producer price inflation. Some of these costs would have to be met from operating profits and company savings. In other words, amidst non-discrimination policies<sup>25</sup>, the training of people may become an expensive adventure.

In view of the prospects of a doubling of the current number of annual deaths to 500 000, this will cause a negative population growth (Thomson Financial Bankwatch, 2000) and is expected to reduce South Africa's growth rate by 0.3-0.4 percentage points over the next 15 years (EIU, 2000: 12).

Nevertheless not all prospects are negative. Hall et al (1998: 221-123) for example expect that, "given the rapid expansion of higher education over the past decade, the growth rate in the stock of graduates should be high enough to meet demand in general terms". Nevertheless they do mention that it is difficult to make any forecasts because of a lack of information (Ibid).

**International competition.** With a view to attracting labour intensive industries it is also important to consider world trends. As was the experience of Latin America (with its similar resource endowments and economic structure of 1990 comparable to South Africa (Berry, 12/2000: 10)), it may be that South Africa's comparative advantage in unskilled labour will be eroded by the Asian market, causing the low skilled sector to contract (Wood, 12/2000: 8). "The harsh fact is that the rest of the world does not need South Africa's working people, but South Africa's working people need the rest of the world" because of "the fundamental truth that if you're poor, you can't get rich by selling to yourself. There are 1.300 million Chinese and 1.000 million Indians compared with 40 million South Africans. These two Asian countries alone offer all the unskilled labour that anyone would want, plus a fair amount of skilled labour as well" (Fields, 12/2000: 4-5).

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<sup>25</sup> "The Employment Equity Act of 1998 prohibits discrimination, with the burden of proof on the employer to show that it is fair, it also prohibits ad hoc medical HIV/AIDS or psychological testing" (IMF, 12/2000: 38). "The Promotion of Equality and Prevention of Unfair Discrimination Act of 2000 (the Equity Act) sought to promote equality and eliminate unfair discrimination in a very wide range of business activities. This act is important in that it 'places upon the state a duty and responsibility to promote and achieve equality', while imposing the same obligation on the private sector too" (South Africa Survey 2001: 395).

### **2.2.1.2. Geographic Marketing Position**

Other concerns for attracting investment are the geographical location of South Africa, its small domestic consumer market, including relatively limited gains accruing from the SADC free trade area (Lewis, 7/2001: viii) and the fact that in contemporary trade and investment Asia receives far more attention than South Africa; something that in the near future will increase as China will “certainly be a member of the WTO by the end of 2001” (H.E. Liu Gui-jin, Ambassador of the PRC, seminar 24 August 2001) and will host the Olympics in 2008. Unless the trade and investment relations between Asia and other continents improve with a guarantee of local content (see Chapter 5), South Africa will have to make itself an extremely attractive place in every sense of the word to solve unemployment through business investments.

### **2.2.1.3. Global investment climate**

Whether the new efforts to promote foreign investment would succeed, will be seen over the course of the next few years. A worrying factor is that this initiative is being launched at a time of global economic slowdown, driven by the US, which may lead to a general slowdown in global FDI flows (The Economist 2001). The EIU growth forecast for most emerging regions have been downgraded, “reflecting weaker export prospects, lower commodity prices, and a rise in risk aversion among OECD investors. However for the strategy to succeed in South Africa, it will only need to attract a small amount of FDI. Another factor which could work in its favour is that the slowdown in the global economy is likely to be more pronounced in Asia and Latin America, whereas Africa with limited links to the global economy is likely to be less affected” (EIU, 3/2001: 10, 22).

## **2.2.2. INTERMEDIATE FACTORS**

Labour regulation, privatisation, trade relations, the exchange and the interest rates are factors considered to be somewhere in between the scale of distracting and attracting investment in that they do not rank badly internationally, but the perception about them is not good or progress is too slow.

### **2.2.2.1. Labour regulations**

Besides labour costs, labour regulations will be an important determinant to attract direct investment. Between 1995 and 1998 South Africa rewrote almost its entire labour

legislation<sup>26</sup> aimed at correcting some of the abuses of the apartheid era (The Economist, 15 July 2000). Given South Africa's high unemployment rate, there have been concerns about the possible impact of these laws on incentives for job creation. "Several economists blame job losses partly on a labour system that they say favours workers and discourages investment<sup>27</sup>" (Cloete, 2000). And indeed, the "World Bank-GJMC survey of large firms in the Johannesburg metropolitan area provides some confirmation for the importance of labor market flexibility<sup>28</sup>. But the impact of the labor market environment was also somewhat variable: while around 23 percent of firms reported that each of four recent labor regulations lowered employment, around 70 percent of firms pointed out that *individual* regulations had no effect on employment decisions. However, 60 percent of the firms still reported that all labor legislation combined had no cumulative impact in their employment decisions. There can be no doubt that along some margin, perhaps a fairly wide margin, South Africa's labor market institutions and regulations have constrained more rapid growth in employment. But can these problems of inflexibility account for African unemployment rates in excess of 30 percent? If greater flexibility were achieved, by how much would unemployment fall? Improved labor market flexibility would expand employment. But it is hard to imagine that greater flexibility in the institutional setting would double African employment" (Lewis, 7/2001: 32).

Furthermore, the IMF has conducted a study in which it examines these labour laws in terms of their potential impact on job creation, using the recommendation of the OECD Jobs Study<sup>29</sup> as a point of reference and compared it with certain other selected countries. The review found that the recently passed labour laws were not significantly

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<sup>26</sup> "The Labor Relations Act (LRA, 1995), replaced a version of the same name; the Basic Conditions of Employment Act (BCEA, 1997) replaced a version of the same name and the Wage Act; the Skills Development Act (SDA, 1998), replaced the Manpower Training Act (MTA); and the Employment Equity Act (EEA, 1998) was passed". In addition, the Presidential Jobs Summit was convened in 1998, which launched a number of initiatives designed to stimulate employment (Alleyne in IMF, 12/2000: 29).

<sup>27</sup> "A recent study by the South African-based social development fund Shared Interest said the private sector has lost 500.000 jobs during the past five years. The introduced labour legislation aimed at a 40-hour workweek. It also stipulates four months maternity leave and a stiff policy on overtime. Employment equity law compels employers to stick to plans to recruit and promote more blacks, women and the disabled. It is a move widely welcomed by workers but worrying to business" (Cloete, 2000).

<sup>28</sup> "One-third of the largest firms in the group (greater than 200 employees) must deal with three or more unions. 45 percent of the full sample are bound by collective bargaining arrangements (at the sector or industry level); 30 percent experienced at least one strike during 1998; the average time required to retrench an entry-level workers was 2.7 months" (Alleyne in IMF, 12/2000: 29). But according to Cassim, Fedderke & Seventer (9/2000: 17), labour unrest variations apply equally across all sectors.

<sup>29</sup> "The 1994 OECD Jobs Study (OECD, 1994) was the outcome of a major research effort by the OECD, launched in 1992, to analyze and provide recommendations to combat the rising unemployment rates experienced in much of the OECD area since the mid-1970s". The IMF-study "does not take the view that the recommendations of the OECD Jobs Study, if followed, constitute a blueprint for the solution of the employment problem in South Africa. However, it assumes that the recommendations should improve the situation (IMF, 12/2000: 30).

out of step with the recommendations of the OECD Jobs Study, except in the area of improving the flexible wages, more specifically the promotion of sectoral collective bargaining agreements. But South Africa's labour legislation is not atypical of that found in many industrialised and emerging market economies, and in many cases the laws passed in the 1995-98 period are in step with the trends taking place in many countries (Alleyne in IMF, 12/2000: 30) and are comparatively more attractive<sup>30</sup>.

### **2.2.2.2. Privatisation**

Accelerating privatisation together with market liberalisation could provide an important additional stimulus to FDI as it draws in foreign firms directly (through the purchase of assets) and indirectly (by sending a strong signal of the Government's continuing commitment) (Lewis, 7/2001: vii). Nevertheless, "privatization and sectoral deregulation have proceeded relatively slowly, disappointing potential international investors and sending mixed signals regarding the strength of Government's commitment (Lewis, 7/2001: vi). Altman reports that also in the framework of the SDIs "the slow pace of state-asset restructuring (rail, ports, land, telecommunication, forests, non-core businesses) has been an important barrier to the success of the SDIs: the Special Projects office did recognize this, and applied itself to influencing this. But the Department of Public Enterprises was not at that time sufficiently equipped to overcome the political forces in the parastatals. This is a good example in regard to how major regional initiatives are more importantly supported by central institutional delivery: in other words, some of the key initiatives would not really take off in the absence of government applying itself to improving the efficiency and reducing the costs of services in logistics and telecommunications, encouraging competition in areas currently governed by state monopolies, and even redistributing *its own* agricultural land" (Altman, 8/2001: 33, 35).

Nevertheless, according to the Budget Review [2000, Journal of Department of Finance], the government was committed to restructuring the four largest SOEs; Eskom, Telkom, Transnet, and the arms producer, Denel, being the four largest state-owned enterprises, to

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<sup>30</sup> To give a few examples;

Labour relations are very "market-based" (Alleyne in IMF, 12/2000: 35) and South Africa's employment protection legislation is not overly strict when compared with other countries. In fact, a major concern on the part of the union movement regarding the LRA is that it requires only that firms consult unions in the case of layoffs, instead of negotiation, in contrast with France and Indonesia (Ibid.: 44).

The Jobs Study specifically cited overly generous unemployment insurance (UI) benefits as important contributors to the high level of unemployment in certain countries. The replacement rate and the maximum period of benefit payments are low by international standards, and thus it is unlikely that the

maximise economic efficient and expand competition' (South Africa Survey 2001: 395; see also xxx, 28-8-2001; xxx, 29-08-2001; The Europa World Year Book, 2000: 3305). And "although the markets welcomed the forecast increase in privatisation receipts, which they have taken as a clear sign that the government will move ahead with privatisation, especially in financial year 2001/2 (April-March) (EIU, 3/2001: 23), the broader investor reaction has been quite muted, with concerns expressed over the slow pace and relatively limited scope of actual privatization. This would appear to be an area where faster progress would bring immediate benefits" (Lewis, 7/2001: vii).

The privatisation strategy is, however, not without political risk. Indeed efforts to accelerate the pace of privatisation will put the government at odds with its political allies in the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), which were recently manifested in anti-privatisation strikes (SAPA & Makoni, 16-8-2001; 17-09-2001). But according to EIU (3/2001: 8), "the government has traveled too far down the road of reform to turn back now".

### **2.2.2.3. Trade relations**

The incentive to invest can be boosted by a more open trade regime (Chacholiades, 1981:271 in Blomqvist et al., 1993:53). Although South Africa's trade position is considered to be weak (Altman, 8/2001 7), for the purpose of incentives for attracting investment it is important to mention some considerable successful results that South Africa recorded in its trade relations. The new free trade agreement signed with the **EU** (EIU, 2000:131), according to Moody's, "signals another favorable opportunity for strengthening the tradable sector and attracting private investment over the coming decade" This increase in diversification of exports markets and products will help serious balance of payments shocks when gold prices collapse (Moody's, 2000). "The country should begin to reap the benefits of its trade agreement with the EU, giving a substantial boost to exports; and the weakness of the Rand will also make South Africa's goods more competitive overseas" (EIU, 3/2001: 12). South Africa's position is also strengthened by the signing into law of the Africa Growth and Opportunities Act by the **United States** in May 2000, which will remove tariffs from several South African exports, including clothing, as long as it is made with African or American fabric. "The benefits from the Africa Growth and Opportunities Bill are expected to be more immediately felt than those from the EU agreement, which is to be phased in over a number of years. In the

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receipt of UIF benefits discourages job search on the part of unemployed beneficiaries in South Africa (Alleyne in IMF, 12/2000: 49).

week after the Act was passed South Africa enjoyed a record quarterly trade surplus with the US. In April 2000, the minister of trade and industry, indicated that South Africa and the South American common market **Mercosur** might sign a free trade agreement within the next three years. And South Africa is holding bilateral discussions with **India**” (EIU, Country Report 2000:32). Moreover, South Africa is still the “lion on the continent” and a gateway to Southern Africa with which the country is planning further economic integration (S&P, 1999). Within the **SADC** framework a free trade area is planned for the year 2008 (Section 2, 2000: 1, 3). And except for South Africa, all SADC countries are full **Lomé** members. South Africa also neighbours **COMESA** which aims to establish a customs union in 2004 between its 21 members, and plays part in the **CBI**<sup>31</sup> (Cross Border Initiative) (Maasdorp, 1997: 385-6). As a consequence “South Africa’s external sector has performed quite well as non-commodity exports responded to the competitive exchange rate, strong productivity gains, and industrial restructuring. Reserves have increased moderately, and the forward foreign exchange liabilities are being paid down steadily” (Moody’s, 2000).

#### **2.2.2.4. Exchange rate and real interest rate**

The promotion of **real exchange stability** has been challenged by both international and domestic pressures. Defensive currency interventions to support the Rand following the 1997-98 Asian crisis generated a net open foreign exchange position five times the size of actual reserves. While defensive interventions have ceased and this exposure has been substantially reduced, South Africa’s weak reserve position (the open position still exceeds reserves) remains a concern to international investors, generates substantial actual and potential fiscal costs, and limits the credibility of efforts to maintain a stable exchange rate (Lewis, 7/2001: vi). The nominal effective exchange rate fell by about 9 and 1/2 percent (year-on-year) in 1999, following a decline of about 14 percent in 1998. In real effective terms, the Rand depreciated by about 5 percent in 1999, following a 9 percent fall in 1998. During this 17-month period, the exchange rate depreciated by 26 percent in nominal effective terms, with over half of the overall depreciation occurring in a single month –July 1998 (IMF, 12/2000: 26).

The effects of this are overall not that negative. “According to the National Treasury, ‘approximately 50% of South Africa’s exports are mining goods. Most of which are

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<sup>31</sup> The CBI is a 1993 provision for a multi-speed approach toward free trade in COMESA, often referred to as ‘variable geometry’. CBI, in other words, consists of a fast-track group of 14 COMESA countries that try to establish free trade among them, and they agreed on the establishment of a harmonised external tariff (Maasdorp, 1997: 385-386).

priced in US dollars, as are many of South Africa's agricultural exports and some manufacturing goods. Add to this that around 13% of the South Africa's total exports are destined for the US market, and it is clear that a large proportion of the country's exporters benefit from a depreciation of the Rand against the US dollar'. On the other hand most of South Africa's imports are manufactured capital goods, of which less than 15% is sourced from the US, almost 50% from Europe, and 20% from East Asia. Currencies in these regions have remained relatively stable, or in some cases, weakened against the Rand. The net effect of all these factors on the South African current account and economy should be positive" (South Africa Survey, 2001: 454)

Nevertheless, in the case of for example Saldanha Steel in the West Coast SDI, it faced a debt of up to R1-billion in 2000 related to the variations that the currency had undergone from the time the project was triggered; the second reason being the six-month delay caused by contractor unrest on the site (Creamer, 3-9/9/1999: 7).

The interest rate has traditionally been high in South Africa (Lourens, 23-29/7/1999:8), and since 1996 **real interest rates** have averaged 11 percent. Persistence of such high rates is driven largely by the sizable "risk premium" demanded by international markets concerned with South Africa's vulnerability, as well as general skittishness about emerging markets (Lewis, 7/2001: iv, 18). Although it contains inflation and encourages savings, it is a disincentive for borrowing (venture) capital to start a domestic investment, certainly counter-productive towards the development of the SMME sector (South Africa Survey, 2001: 439).

### **2.2.3. FACTORS THAT DO NOT THWART INVESTMENT**

Lastly, the financial system, some capital related rates, the infrastructure and the global ranking on competitiveness are factors considered not to distract investment (which does not mean that they necessarily attract them either).

#### **2.2.3.1. The financial system**

According to the World Bank, "the South African financial system is highly developed and well managed, even by first world standards. Most financial institutions are privately-owned and run, South African regulatory authorities are comprehensive and widely respected, than national payments system is modern, the court system is conducive to timely and unbiased settlement of disputes, and foreign banks are permitted to enter and operate with relative ease. The breadth of financial products and services is unparalleled

in other emerging economies, and there is depth as well: the stock market is the 13<sup>th</sup> largest in the world, and the bond market offers first-world size liquidity” (Lewis, 7/2001: iv, 17-18).

### **2.2.3.2. Inflation and tax**

“Inheriting an economy in disarray and faced with external pressures and questions over credibility, the new government in 1994 was forced to concentrate on macro policy concerns”. Its policy is considered to have been very successful (Lewis, 7/2001: i, 1-2, 11). The inflation level<sup>32</sup> is one result of this, as it fell to the lowest rate for 30 years in 1999 (The Economist, 15 July 2000).

With only 20 percent of the population in formal employment, there is no doubt that the tax rates on the personnel income and corporate taxes are high and that there are many complaints in this regard (certainly as the public sector's money is not necessarily spent on visible short-term aims, such as education for example). Indeed, as has been the annual practice for many years, the budget of 1999/2000 increased the personal income tax and excise duties. A few tax-levies are important for companies. Firstly, the corporate tax rate, which has been high in South Africa (Lourens, 23-29/7/1999:8) was reduced from 35 percent to 30 percent to bring the South African rate more in line with international levels, and thus to make the country more attractive to investors (IMF, 12/2000: 18-19).

Under the Skills Development Levy Act, “a payroll tax will be levied, at a rate of 0.5 percent beginning in 2000/01 and increasing to 1 percent in following years, in order to finance the skills development initiative envisaged in the Skills Development Act. Nevertheless, compared with other countries, South Africa’s payroll taxes are small, totaling less than 3 percent (including the Skills Development Levy). In contrast, Argentina, Brazil, France, Germany and Spain all have payroll taxes greater than 30 percent, with the median for OECD countries higher than 20 percent” (Alleyne in IMF, 12/2000: 19, 46).

“On December 12<sup>th</sup> the government published draft details of the capital gains tax (the Tax Laws Amendment Bill, 2001), that will go into force the first of October 2001. It has been widely condemned by a range of interest groups such as the South African Chamber of Business and Business SA. However, even if the redistributive effect is only modest,

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<sup>32</sup> During 2000-2001, South Africa officially adopted inflation targeting. This involved the setting of desired levels of inflation to be achieved within particular periods of time. This measure was intended to increase ‘the transparency and accountability of monetary policy’, and to provide ‘stability in the value of money, which in turn enhances growth prospects’ (South Africa Survey, 2001: 438).

it is still symbolically important. In late January 2001 the IMF strongly endorsed the government's stance on the tax" (EIU, 3/2001: 25).

### **2.2.3.3. Infrastructure**

The experience of Richards Bay suggests that financial incentives are largely irrelevant to a firm's choice of location in a country. Sustainable locational decisions are usually made on the basis of development factors, such as the availability of infrastructure or proximity to raw material and/or markets (Aniruth & Barnes, 1998: 848). According to international development success stories – like in South Korea – infrastructure is a prerequisite for development. According to some authors, South Africa is well positioned with its well developed infrastructure (an excellent transport system, including extensive road, rail water-ways, air system (Mckeever, 2000), ports (Richards Bay with some of the world's most advanced ship loading machines (Bradley, 12-18/6/1998: 21)) and industrial infrastructure much better equipped to deal with the challenge of global competition (Creamer, 19-25/11/1999: 5).

The SDI initiative (but also initiatives beyond this: see Dorfling, 12-18/6/1998: 10, MCEN, 12-18/6/1998: 40) enhances this position and will have a positive impact on the credit rating of the country by reducing its contingent liability (MCEN, 3-9/7/1998: 38-a). Some problems occurred on the SDI sites. Firstly, according to Taylor (in the MDC), a wrong sequence of implementation was carried out. To avoid disappointing prospective investors, the SDI methodology should first renovate and bring on-line basic infrastructure, *before* other SDI-associated projects can be sold to investors as part of an investment initiative (Taylor, 11/2000: 13). Secondly, the SDIs were implemented over a period of tight controls, and the programme was not backed by strong infrastructure spending programmes (Altman, 8/2001:24). As a consequence "the [Maputo SDI, Lubombo SDI, Richards Bay SDI, Fish River SDI, WCII and Gauteng SDI] case studies find that a large part of the DTI's role in de-bottlenecking was not achieved. In its context regional policy that focuses on new industries and the building of clusters is unlikely to succeed" (Altman, 8/2001: 26).

If we take the statements by President Mbeki and Minister of Finance Manuel literally, the **prospects** for the above appear better, as it is claimed that advantages will accrue from the reduction in the budget deficit and use the state money to build roads and other infrastructure (EIU, 3/2001: 19). In the medium-term budget policy statement in October 2000, Mr. Manuel said the 2001 budget "will signal the most significant shift towards infrastructure spending that government has yet made" (South African Survey, 2001: 421; EIU, 03/2001: 8). "Government will spend R6bn (US\$4bn) on economic

infrastructure in the next three years to boost rural development and as part of its urban renewal strategy. In its medium-term budget statement the government committed itself to increasing capital spending by nearly 18% a year "(EIU, 3/2001: 19-20).

#### **2.2.3.4. Competitiveness**

The World Economic Forum's Global Competitiveness Report for 2000 evaluated 59 countries on the basis of a number of factors including, finance, government, infrastructure, institutions and technology. Having remained fairly stable from 1996 to 1998, South Africa's competitiveness ranking fell from 42<sup>nd</sup> position in 1998 to 47<sup>th</sup> in 1999. Between 1999 and 2000 it improved remarkably to 33<sup>rd</sup> position, largely attributed to economic creativity. The report ranked South Africa's economy as the 25<sup>th</sup> most innovative of the 59 measured (South Africa Survey, 2001: 423).

### **3. CONCLUSION: SDIs AND THE ECONOMIC REALM**

In view of the lack of overall statistics on the investment performance in SDIs, it is not clear whether or not it would be appropriate or too early to consider them. We would thus concentrate the analysis on the SDI strategy. The latter heavily relies on FDI, but the amount that eventually entered South Africa between 1994-2000 contrasted strongly with the expectations. The question, therefore, arises: what will the South African Government do and what could be reasonably expected in this regard?

On the one hand, government is starting to encourage domestic investment by various means. The main constraints are that no direct change could be expected in the low savings rate – quite the opposite in fact – and that the financial system, although internationally highly regarded, is too robust to deal with domestic development.

On the other hand the government is seeking to enhance its foreign investment policy. It is however questionable whether one could expect the attempted incentives to work. At a closer examination of the factors that could influence the kind of investments which the government tends to attract, it appears that besides the lack of skills and the possible impact of HIV/AIDS, the main distracters are not related to South African policies, i.e. the fact that South Africa's geographic position is not currently strategically important compared to for example Asia; and secondly, that a downturn in investments could be expected from the global recession.

Some economic factors are not performing badly, compared internationally, but have a flip side. For example labour laws are perceived to be more detrimental to labour

intensive investment than they actually are; or for example privatisation makes too little progress although it is highly unlikely that it would not be executed in the final analysis. Other inhibiting factors include South Africa's trade relations and the interest and exchange rates. Factors that make the South African climate attractive – although they do not in themselves necessarily attract investment – are a successful macro-economic stability, good financial institutions, sound infrastructure (which is enhanced by SDIs) and a rise in global competitiveness, mainly because of economic creativity.

But investors consider more factors than just those of the economic spectrum.

## **CHAPTER 4. SDIs AND THE POLITICAL / INSTITUTIONAL REALM**

The political climate not only determines investment decisions, but also how well the government is able to implement its overall SDI strategy. This chapters addresses how the political realm has and will influence each respectively.

### **1. POLITICAL UNCERTAINTY AND INVESTMENT**

An important factor for business to determine the investment destination concerns political uncertainty, i.e. “that future events (such as a reversal in trade policy) could make current profitable ventures less profitable at a later stage” (Cassim & Seventer, 12/1999: 6-7).

#### **1.1. POSITIVE CONTRIBUTIONS TO INVESTMENT**

South Africa has a business-oriented government, which is well translated by the high marketing profile of the SDIs. Both decrease the possible political uncertainty, investors might have.

##### **1.1.1. BUSINESS ORIENTED GOVERNMENT**

Within the political field, South Africa had a successful transition to the second democratically elected post-apartheid government in 1999. In the near future, the political life will be dominated by the ANC and Mbeki’s whose mandate runs until 2004, while the opposition seems to be largely in disarray (Silke, 2000; EIU, 1999). However, although the formal political life will not reflect much of change, the incumbent government is and will be exposed to increasing pressure, because whereas the first five years were more or less perceived as a honeymoon period, much more stress and attention will henceforth be devoted to the particular results. In other words democracy must be seen to deliver. Some argue that the transition from President Mandela to President Mbeki was a positive step, because Mandela was an international icon, but he did not introduce any coherent management and strategic focus for his cabinet (CDE, 8/1999:165). In other words, he was not a pragmatist, while it is expected from Mbeki to have a “more aggressive approach to the transformation of South Africa’s economy and

civil society” (EIU, 1999) as he is more “scholarly, visionary and something of a salient assassin” (Financial Mail, 1998-12-18). The overall perception is that the government is more businesslike than its predecessors (EIU, 2000) and is, therefore, expected to be more committed to “disciplined fiscal and monetary policies as well as market-based reforms” (S&P, 1999).

### **1.1.2. SDIs AND HIGH POLITICAL MARKETING PROFILE**

This business orientation is translated well in the SDIs and Corridors. Even when it would be true that SDI’s did/do not bring about investments in themselves<sup>33</sup>, they obviously act as a visible marketing device, demonstrating national and provincial commitment to the region (Bel & Taylor, 4/2001:9; Holt 1999: chapter 5). Good marketing and the provision of information would be very important and necessary to decrease the uncertainty regarding areas with a negative historical background, but also to shorten the period needed to evaluate the performance on the possible investment in the area. The fact that the conferences provide packages of investments means that information is supplied to make choices for investors easier and to lower the thresholds to take initiative. The high political profile of SDIs normally left a good impression on investors and increased credibility of the will of the political leaders. Nevertheless, according to Platzky, the main attitude of investors to move slowly is because they are adverse to risk-taking (Platzky, 10/2000: 13).

## **1.2. UNDERMINING FACTORS FOR INVESTMENT**

On the other hand, factors that undermine investor confidence are the internal ideological party and institutional frictions that are translated into contradictory images and promises in the SDI framework, frustrating the created expectations.

### **1.2.1. PARTY AND INSTITUTIONAL (IN)STABILITY**

Although there is on the one hand major confidence in the potential of South Africa’s economy (MCEN, 21-27/01/2000: 97; Clancy, 9-15/7/1999: 13; MCEN, 11-17/02/2000:

<sup>33</sup> “Although there is a boom in investment in for example Nelspruit and Maputo it is problematic to construct a direct link between raised levels of investment and the MDC SDI. Both Mpumalanga and Maputo Province are well located to receive investment *anyway*, particularly from Asia. Mpumalanga for instance has received substantial investment from mainland China. Mozambique is going through a (mostly donor-funded) reconstruction phase after the end of its civil war, as well as embarking on a liberalisation policy aimed at attracting foreign investors. This has nothing to do with the SDI. The incentives of the success of the MDC SDI *per se* is not particularly helpful, nor accurate” (Bel & Taylor, 4/2001:9).

67) and most agencies rate South Africa as a positive investment opportunity<sup>34</sup> (see for example Thomson Financial Bankwatch, 2000), on the other hand this confidence is undermined by various factors, such as party and institutional (in)stability. The country is not yet operating as a mature democratic state and the governing ANC needs to be careful not to undermine its own power base. ANC is highly centralised and the executive has sidelined parliament. On controversial issues the ANC uses its majority to push legislation through and avoids conflict instead of giving the opportunity to debate and develop support for the changes (CDE, 8/1999:168). As a consequence, adverse economic cyclical developments encourage critics to condemn governments' strategy, creating strong pressures within the government to relinquish the strategy and to replace it with a more populist approach. For the moment the government remains committed (Stals, 1999; S&P, 1999), but the basis from which it used to draw support (within its own party as well as its alliances) has been eroded (Financial Mail, 18 December 1998). "The Mbeki administration will come under increasing pressure from its political allies, the SACP and the COSATU, to shift its macroeconomic policy focus towards short-term measures", "and these tensions within the tripartite alliance will increase as the government accelerates its market-oriented macroeconomic program. But there is little likelihood that the alliance will break up before the elections of 2004" (EIU, 2000:7; also see Thomson Financial Bankwatch, 2000). The lack of support most probably causes less coherence in policy implementation and thus a lack of effectiveness. In the case of the latter, some commentators questioned the commitment of the government to its economic policy, because the ANC's 1999-election manifesto did not even mention GEAR. Cosatu and the SACP, together with several civil society organisations, made repeated calls for the strategy to be reviewed (South Africa's Survey, 2001: 421). This problem is further exacerbated by the weakness and incapacity of the institutions to deliver services (Kotze, 2000), the lack of clarity concerning the role of public services (CDE, 8/1999:170), and it has recently sent out different ambiguous messages that have undermined the positive perception and trustworthiness in the government's control over its policy (i.e. for example the disputed source of HIV/Aids<sup>35</sup>, the quiet diplomacy towards President

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<sup>34</sup> A year ago Moody stated that "although the problems the government is facing are sufficiently daunting that no time can be wasted", it believes that "Mbeki's government appears to appreciate this urgency, and the ratings outlook is therefore stable" (Moody's, 2000). Also EIU expects the government to step up its implementation of market-oriented economic policies (EIU, 2000).

<sup>35</sup> Not many could understand Mbeki's policy of doubting the causes of HIV, thereby undermining a successful campaign for preventing contracting the disease. This policy was consequently met with a great deal of skepticism, certainly by business (see *The Economist*, July 15<sup>th</sup> 2000; EIU, 2000:3,17).

Mugabe of neighbouring Zimbabwe, disputed crime figures<sup>36</sup> and the arms corruption scandal (see EIU, 03/2001: 13-16)).

### **1.2.2. OVERSELLING - FRUSTRATED EXPECTATIONS**

Whilst the promotion of the SDIs (particularly MDC, WCII and Fish River) was obviously necessary and a certain amount of overselling was perhaps required, realistic evaluations of what was possible would have been more advisable. Employment and downstream capacity has been exaggerated in the local media. Such prospects and promises may well lead to too high expectations<sup>37</sup> and thus negative consequences (Platzky, 10/2000: 13; Luiz, 01/2001: 13). For the investors the consequences are not only that they may be reluctant to return if turned away at their first expression of interest, but also – as was the case in Saldanha Steel – the overly high initial expectations led to small scale unrest and vandalism when the employed work force realised they would no longer be needed for construction work. This interrupted the smooth functioning of the work for several days with a damage up to 5 million Rand. For the community it led to increased migration, thereby actually increasing the long term unemployment rate of the region and resentment amongst the local population with the perception that the government does not deliver its promises. Such perceptions may undermine the fledgling democracy and a negative perception of the contractor (Bel & Taylor, 4/2001:6, 17; Creamer, 3-9/9/1999:7).

At times not mere overselling, but completely untrue promises and expectations are seen to be the problem. For example in the MDC the government promised that local users no longer had to pay toll fees (Taylor, 12/2000: 12; Soderbaum, 9/2000) or that informal traders on the N4 were not only promised the formalisation of their trading status but also housing facilities<sup>38</sup> (Taylor, 12/2000: 15),

Furthermore, in the MDC case, the undermining of the political support of the ANC carried the day. Although the average costing of the tolls was taken into consideration during the bidding, national government seemed to have washed its hands of the issue, leaving TRAC to defend its tolling policies against members of the public. “The state

<sup>36</sup> “Astonishingly, President Mbeki attacked the statistics presented for the proportion of rapes committed that are reported, claiming that the government could not base its plans on false information. This has inflamed increasingly vocal anti-rape campaigns, creating the impression that the government does not have the political will to tackle crime”. Moreover, “confidence in government’s control over crime is declining, and feelings of personal safety are diminishing. Public perception of the severity of the crime problem and the governments inability to solve it increases the likelihood of non- or underreporting of crime, which can contribute to further decline in confidence of the government” (McKeever, 2000).

<sup>37</sup> For the differences in perceptions and expectation of different sectors see Holt, 1999: 91.

must not abandon private investors to the vagaries of political opinion [which does not mean that business does not have social responsibility]. It is not the job of PPP contractors to sort out political problems, rather this should be left to the politicians” (Taylor, 12/2000: 9, 17).

## **2. INSTITUTIONAL CAPITAL AND THE SDI EXPERIENCE**

Rather than focusing on the overall perception on political uncertainty for investments, this section evaluates the experience with institutional capital in SDIs. After briefly elaborating on the concept ‘institutional capital’, the intergovernmental relation and institutional capacity within the SDI framework are addressed. Because government mainly relies on the support of local communities, it is important to highlight a number of the problems occurred there.

### **2.1. CONCEPT INSTITUTIONAL CAPITAL**

To understand what is meant by institutional capacity within the SDI strategy, an analogy could be made with a spider web. The outer rim of the web would represent the field of economic initiators whom the government intends to attract in large numbers, in order to develop and eliminate social-economic problems, which are represented by the inner side of the web. The institutional capacity refers to all the links in between, basically the foundations, or the skeleton of the governmental strategy. There are three focal points within this domain, i.e. the three governmental tiers (national, provincial and municipal). Institutional capacity thus refers to structures and networks of people, institutions and associations that manage the successful realisation of the process/project.

“The key behind the success story of industrial development in the Cholla region in South Korea is according to Lee a changed institutional environment and rules of the game in which local government officials became increasingly knowledgeable about industrial development. Indeed, in South Korea, the government became a partner in the industrialisation process owing to its exposure to the needs and interests of the private sector. The institutional learning of local government reached the point where management capacity attained the level of sophistication necessary to support sustained industrial development. Overall, local government’s growing responsibilities, as the

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<sup>38</sup> This may, however, have been the case, but then not in terms of the SDI project. Government has a housing policy.

guardians and managers of local industrial development, caused them to assume increasing responsibility for projects and their follow-on operations” (Rogerson, 1998: 922).

## **2.2. INTERGOVERNMENTAL RELATIONSHIPS**

The strategy of the SDI is for central government to initiate and conduct SDIs for approximately a year, after which the project is handed over to the ‘local’ government for further continuation and stimulation. The process has however been criticised for lacking an efficient and vibrant organisational network of cooperation and facilitation.

This is rather strange, as the SDI strategy<sup>39</sup> actually relies on a network organisation, which entails the creation of as few new organisations as possible (i.e. a special departmental task team, the CIC, the OSDICC, etc.) but the strengthening of linkages between existing ones. The positive side of the network approach is that it is cheap and it reduces bureaucracy, while increasing efficiency and enhancing interdepartmental coordination and cooperation. All of them are important characteristics for a government with restricted resources and for the attraction of new businesses.

The failure (according to the critique) could have been induced by the neglect and/or over-emphasis of the assumptions underlying the network structure. Relying on existing structures assumes that they are not only sufficient, but actually have an excess of potential. In the case of exhausted or spent structures, the network strategy will crowd out time and resources from other functions. Secondly, reliance on the network structure assumes that the existing structures are well established and functioning, as the network structure creates diffuse power and responsibilities without a clear centre of decision making and might dilute effectiveness (Soderbaum, 9/2000; Creamer, 3-9/9/1999:7).

In the following section we analyse whether these assumptions have indeed been overemphasised, firstly in the case of the political champions and the project managers, and secondly in terms of local government overall.

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<sup>39</sup> As mentioned in the first chapter, although we refer to “the strategy of government”, one should bear in mind that this is a retrospect compilation of what has been done by government. After all, as some authors write that... “after a while, government began to speak about a common methodology”, which implies that its so-called strategy gradually came about and was not completely pre-configured or planned. This contradicts the impression one could obtain from how we write about it. The project managers confirm this.

### **2.2.1. POLITICAL CHAMPIONS AND PROJECT MANAGERS**

The SDI process intended to receive its impetus from a few key players, in other words the SDI project manager and the two political champions. The mobilisation of the **political champions**, i.e. one national and one provincial celebrity, was foreseen to raise the public profile, but also for these actors to provide and ensure ongoing practical support. If there was indeed a lack of support, to a certain extent this could then be blamed on the poor results booked by this person as he/she was responsible to ensure this objective. However, when taking into account the assumption underlying a network structure, it may also have been that the political champion, normally occupying a full-time function, was not in a position to devote sufficient attention to this process. In the case of the Maputo Corridor, Mpumalanga Province Premier Matthews Phosa was a fervent supporter and was locally praised for his successful role in the SDI project. He was nevertheless replaced as provincial Premier by the relatively unknown Ndaweni Mahlangu immediately after the second national general elections in 1999. Ndaweni was not democratically elected, but imposed by the leadership of the ANC. Phosa was replaced after an ANC investigation found him “guilty of factionalism”, but most observers agreed that because Phosa was popular, he was seen by Mbeki as a threat. Ndaweni Mahlangu appears to stand in direct contrast with Phosa, especially in view of his unpopular expressions such as “sometimes politicians are allowed to lie”, and consciously undermining the MDC process, via for example the closure of the technical unit, as a means to attack Phosa’s legacy (Taylor, 12/2000: 12 – and electronic correspondence). In some cases – such as the above – it would clearly be unjustified to blame the failure on one person.

In the case of the **project managers**, there was no lack of commitment and devotion, but rather of sufficient resources. According to Altman (8/2001: 35), “the project managers (PMs) were not really given powers or supported sufficiently politically at a national level to really unlock development processes. So the PMs that were successful at getting resources for the key infrastructure projects, such as in Lubombo, were simply highly skilful at 'scavenging' for funds and garnering political support at a national level. So, those that managed to get the money can be commended” (Ibid.: 21). But it is of course rather pointless that “the national government puts in place PMs and resources, and then force the PMs to fight for national resources for long periods of time. The national government should simply commit to applying resources, otherwise the PM may as well be placed elsewhere”. Furthermore, “the process of investment facilitation could also be strengthened by the experience of the PMs, which was mixed in the SDI cases. Some had substantial private sector experience, and others had none. The SDIs could rely more on

existing expertise, possibly hiring expert investment facilitators and merchant banks to assist in packaging opportunities and facilitating investment, rather than throwing new people into the deep end. Over time, (quasi) public officials will learn, but it appears that more informed choices, i.e. investors, location, and type of project could have been made” (Ibid.: 29).

### **2.2.2. LOCAL GOVERNMENT**

To assess the consequences and applicability of the assumptions for the local government, it is necessary to distinguish between the different status of the local government institutions, i.e. the scenario with no/limited capacity and those with sufficient capacity.

#### **2.2.2.1. No/Limited capacity Scenario**

It is (or should be) common knowledge for any politician to know that all provinces do not share the same level of the assumed well-established capacity, as some were only created at the very moment of the injection of the SDIs themselves.

Little to no capacity does not necessarily make the reliance on the network structure obsolete *if* special attention were drawn to these particularities. One could imagine that a proper strategy for the government would be to initiate and dominate at the beginning of the main initiatives, and indeed apply a fast-track approach<sup>40</sup> “to push forward investment attraction more quickly, in a context where government departments were in a process of developing new policies and re-forming bureaucratic structures for basic delivery of social services and social infrastructure. As local and provincial government were either non-existent, poorly capacitated or in debt and on a massive and on a steep learning curve, with many internal restructuring and still a lot of legal clarification to be done (Ally, 11/2000), coordination in integrated planning may have seemed too ambitious” (Altman, 8/2001: 27). Government could thus have ensured that the central pillars/fundamentals of the strategy were established to consequently slowly transfer the responsibilities and skills of governance to the ‘lower’ tiers of government.

The **problem** that occurred in this scenario was that the structures necessary for the downstream flow were absent (Altman, 8/2001: 31).

Firstly, there was a lack of **money**, not just in general as local government has since the new Constitution of 1994 an increased mandate, but it remains under-funded (Ally,

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<sup>40</sup> For an explanation of this approach, see footnote 18 (chapter 2).

11/2000: 5), but also specifically within the SDI paradigm because (as in the case of the West Coast Investment Initiative (WCII)) the DTI failed to hand down the budget as previously agreed (Bel & Taylor, 4/2001:16).

Secondly, it was reported that no specific instruments were foreseen for the transfer of skills (Driver, 1998: 806; Taylor, 11/2000: 15).

Thirdly, there was a lack of proper institutional decision making procedures. Indeed, the main criticism found in the SDI literature deals with how the fast-track approach resulted in the side stepping and/or too late involvement of local authorities (as happened with the investment promotion agencies in the MDC) (Taylor, 11/2000:14; Bel & Taylor, 4/2001: 8-9). The reason was that fast-tracking was adhered to without the instalment and reliance on legitimate decision making fast-track institutions, which meant that fast-tracking boiled down to side-stepping non-central government<sup>41</sup> (Altman, 8/2001: 31). In addition it appeared that eventually the approach “did not enable the respective ministers or officials to make quick decisions on key infrastructure and financial commitments”<sup>42</sup>. On the other hand it did accelerate a significant number of processes (Altman, 8/2001: 35-36), but the consequences entailed bad and project-specific communications<sup>43</sup> that undermined both systemic benefits and the formation of institutional capital<sup>44</sup> (Driver, 1998: 806). Consequently in some cases there was low local ownership, little local fine-

<sup>41</sup> “Compare this with Singapore, where this type of fast-tracking is enabled in legislation giving ministers wide decision-making discretion” (Altman, 8/2001: 31). In the case of the MDC, the national government distrusted the local level which led for example to refuse the Mpumalanga provincial government access to the concession contract (Taylor, 12/2000: 13).

<sup>42</sup> “Instead, the culture of SA government is very bureaucratic and highly rule-bound, partly to reduce political risk, but also to minimize corruption. It is therefore sometimes faster to simply follow ‘the rules’ (albeit ensuring political support) rather than attempt to by-pass them” (Altman, 8/2001: 35).

<sup>43</sup> The SDI concept appeared either not to be grasped by the provincial and municipal authorities (Driver, 1998: 801; Lundin & Soderbaum, 2000: 14; Soderbaum, 200: 33; Taylor, 2000: 17; Luiz, 01/2001: 13), in some cases they were even ignorant about the procedural sequences and their time-schedules (Taylor, 12/2000: 13), or the concept was incorrectly interpreted in that they thought the name SDIs meant that they aimed at holistically develop an area, instead of the aim of SDIs being to de-bottleneck the attraction of key investments (Altman, 8/2001: 27).

One should nevertheless not generalise the situation. Altman for example mentions that “all informants [RB, Lubombo, Fish River SDI, Gauteng SDI, WCII, Maputo Corridor] interviewed had a good sense of what the SDI was about and communicated a positive feeling, that it engendered hope and a sense that it would help build the local economy. There does appear to be good consultation with local authorities, such as they exist, and integration into local structures. Gauteng is a different situation, since the SDI concept arose from the province itself. There has been concern that national government over-rode provincial goals and views. The province has since taken back the SDI with vigor, having put together a large budget for key infrastructural projects (Altman, 8/2001: 38).

<sup>44</sup> In particular, on the Mozambican side, legal and institutional mechanisms were not established, nor given sufficient time to begin working, before the project began (Bel & Taylor, 4/2001:6-7). “Laying the basis for increased trust, a networking culture, and capacity for institutional innovation and learning (with a high learning curve) is a long slow process, and one which cannot take place in the space of a one-year intervention” (Driver, 1998: 806; Luiz, 01/2001: 18).

tuning<sup>45</sup> and in some cases even aggravated relationships between similar or different governmental tiers<sup>46</sup>. One, however, should not generalise the situation<sup>47</sup>.

But it may be more than merely a lack of proper institutions. According to Dr. Taylor “the centre distrusts the local stakeholders for only having sectional interests which they will always try to filter into an SDI to suit themselves” (Taylor, 11/2000: 18). If sectional interest is not equated with personal political interest<sup>48</sup> – but rather local interest – then it seems as if the centre does not seem to grasp what the whole process of democracy really entails. Indeed, the limited participation of local government may be caused by the lack of experience in democracy and the inherited culture of top-down centralist approach of the previous government. Not that this justifies anything in itself, as it probably refers to attitude than anything else. But although the concepts of democracy and empowerment appear desirable, they are not necessarily easy to achieve. After all, one needs to be able to discuss disagreements and find compromises. If one occupies a senior position and the opposition is weak, the incentive to act and appear democratic is probably impaired.

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<sup>45</sup> One example concerns the initiation of the exit strategy while the elections were approaching which would again change the political structures (Bel & Taylor, 4/2001:16, 26). Furthermore, “the local ANC politicians have been involved in a degree of populist grandstanding which has exacerbated resentment vis-à-vis the whole MDC project. In conversation with the women traders they claimed that they had been promised free housing and other facilities by local politicians: everyone else spoken to vehemently denied this. It was also reported by one (reliable) source that local ANC politicians had – quite illegally – addressed meetings to announce that the government would make sure that local users did not have to pay the toll fees. What seems to be occurring on the ground is that local ANC officials are projecting a populist agenda in an attempt to deflect pressure against the local implications of their own party’s pursuance of a neo-liberal programme. There is a disjunction between local and national, with the local acting at times in direct contradiction with the national. How these two processes may be harmonised has profound implications for local support for the construction of the Corridor” (Taylor, 8/2000: 13). The fast-track approach proves counterproductive here and could thus lead to a slow-track, as institutional components and policies may have to be redesigned in order to match the local conditions and realities on the ground (Soderbaum, 9/2000: 31).

<sup>46</sup> “East London and Port Elizabeth have been in a particularly unhealthy rivalry situation with each city accusing the other of undermining their investment efforts (this adds onto the historically bad relationship between the two). East London feels neglected. In the past both East London and surrounding areas received spatial incentives under the RIDP. With the elimination of that programme, many surrounding areas were particularly hard-hit and East London is concerned that it faces the same bleak prospects when the IDZ does not come to fruition. The mood is quite negative. East London consequently has taken an isolationist stance, because of the belief that government is not supporting them but Coega. As a consequence, the East London IDZ is lagging behind, and their approach thus proves counterproductive as the leadership of this IDZ is relying too heavily on themselves and thereby making mistakes or slowing everything down” (Luiz, 01/2001: 11-12).

<sup>47</sup> Altman mentions for example that the consultation processes in the RB, WCII, MDC and Lubombo SDIs seems to have been broad and inclusive, despite protestations on the latter (Altman, 8/2001: 38).

<sup>48</sup> First of all it would be difficult to generalise about the presumption that the local would only have sectional interests and this would also contradict some reported local experiences that some investment initiatives proposed by the central government, while side-stepping local input, would not be viable in the local context.

A fourth problem, related to the fast track approach, was the reported lack of time to gain capacity. The incentives to follow the democratic path were weakened because government wished to achieve immediate results in pressing times to deliver, with the consequence that it preferred the option that was seen to deliver results quickly. However, according to Ally, “[t]he mistaken belief is that the deeply imbedded apartheid legacy and mentality could be eliminated in five or ten years, largely by prescription and formal enforcement. There seems to be some misunderstanding of what the term ‘institution’ means and what their transformation entails. It is naïve to assume that there is any quick fix. A change in hearts and minds is required, which cannot occur overnight. It is necessary to inculcate the spirit of *dharma* or *ubuntu*: people have to be conditioned to embrace change and accept the challenges posed by the transition to democracy. Such change in social behaviours, inevitably, takes time, but it is both a prerequisite and a necessary adjunct to organizational restructuring for the promotion of self-sustaining social development. The consequences, in the long term, can be dire, especially for the more vulnerable groups and individuals, if the social engineering experiment is over-hastily completed and without the control for benchmarking, as well as for assessing social costs and benefits” (Ally, 11/2000: 16-17)

#### **2.2.2.2. Sufficient capacity Scenario**

Not all provinces, however, face a lack of capacity. Some provinces, such as the Western Cape, Free State, Gauteng and Kwazulu-Natal, are not new and are fairly well established. In for example Richards Bay (Kwazulu-Natal province), “the ability of local actors to capture resources of national government and parastatal agencies, to seek and attract investors, to efficiently and rapidly develop land, and provide certain well run infrastructure is not the problem” (Hall, 8/1999: 3, 14-16). And also in Midrand there appears to be a well established and flexible local government<sup>49</sup>, and as a matter of fact, the Gauteng SDI was essentially their brain-child (Rogerson in Altman, 8/2001:21).

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<sup>49</sup> One should not generalise the lack of institutional capacity. Midrand proves a successful example. The town council has remained largely politically neutral and has established a good relationship with the business community. This relationship developed initially because of considerable cross-membership between the local Chamber of Commerce and the Midrand Town Council between 1990 and 1994. This ensured that Council decisions were in the interests of local business. The Council has now encouraged ‘walkabouts’ by municipal staff – visits to business have become part of their job to ensure that they understand its needs. Municipal officials also occasionally engage firms in discussion on the future development of the area. There is an annual breakfast for local business to inform them of future plans and obtain feedback. Of the firms surveyed, 43 per cent felt that they had some influence over local government policies involved in development. If the Council should hear that a large firm in another area is considering moving out of its current premises, the firm is called in to talk about what Midrand could offer it. If the firm then decides to develop land in the area, the Council rapidly processes its request. The

“It should be kept in mind that provincial governments are constitutionally empowered structures, which might be administratively weak but nevertheless are engaged in activities such as drawing up their own provincial growth and development strategies<sup>50</sup>” (Driver, 1998: 800). The problem could be that the existing network and established interests are so strong that they would be difficult to change towards a policy that would be different from the one that has been the national government's preserve.

An evaluation of the level of ownership is therefore important, but reports in this respect are variable. Some authors/cases report about the high national political commitment in the investors conference, while local government was resistant to commit to new expenditure and SDI personnel, etc. (Platzky, 10/2000: 13,14) and thus only shallow integration at local level (Altman, 8/2001: 29), while the local governments in the Fish River SDI<sup>51</sup> (even if there was not much capacity) and the municipal government in Richards Bay<sup>52</sup> are claimed to have been very supportive (Luiz, 01/2001: 15; Aniruth &

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response time for a resolution from the Council is three months, compared with about twelve months in other municipal areas. If the firm has paid its bulk services fee and engaged the council engineers, then development can start within four months of the tabling of the request. Response times have been helped by the fact that there is ready-zoned open land in Midrand, while in more developed areas new developments often require land to be rezoned. The impact of this short response time has been especially important in a post-apartheid climate where numerous foreign investors have re-entered the market quickly and local firms have expanded in line with greater business confidence (Hodge, 1998: 865-866).

But also in other provinces not all initiatives should be credited to the SDI/Corridor initiative. “As a matter of fact, locals in the Fish River SDI ‘went out of their way’ to emphasise that certain recent investments had nothing to do with the SDI process but had been the result of local initiatives, often begun before the SDIs. The problem seems to lie with the vague terms of the SDIs with locals not quite understanding tangibly what it entails” (Luiz, 01/2001: 9).

<sup>50</sup> “Whereas provinces rely on the transfers from the national budget for 96 percent of their revenue, local authorities are largely self-sufficient, raising most of their own revenue from property and other local taxes, levies, and user charges. The provincial government officials responsible for local government have used the powers vested in them in terms of the Local Government Transition Act (1993) to instruct municipalities facing financial difficulties to take corrective action. One aspect of such has been the establishment of the Management Support Program, which aims to build capacity and financial management systems in the municipalities to help them restore their financial viability. The national government has backed this project by providing funding” (IMF, 12/2000: 16).

<sup>51</sup> The Member of the Executive Council (MEC) for Economic Affairs, Environment and Tourism has given the SDI his full support, and provincial government officials have been substantially involved in SDI processes. Also at provincial level, Cimec worked closely with the SDI team during the lead-up to the Investors Conference and, has now taken over implementation on the SDI (Driver, 1998: 802). This enthusiasm becomes very clear in expressions like “the Port Elizabeth Regional Chamber of Commerce and Industry (Percci) has expressed its delight at the recent breakthrough in the Coega project, which brings the city’s dream of this big economic development closer to reality (MCEN, 2-8/7/1999: 37).

Note that this enthusiasm could also be caused by the severe competition between PE and East London.

<sup>52</sup> With a few exceptions, the local government of Richards Bay seems to receive a rather positive evaluation from Aniruth & Barnes. “Local government has been relatively efficient in its attempts to support industrial development in the region over the last two decades. It has proven to be an efficient supplier of roads, services, utilities and serviced development land. It has also been proactive in marketing the area aggressively to national and international investors” (Aniruth & Barnes, 1998: 847). This contrasts with the experience of the provincial authorities in Richard Bay. “In the past, the provincial government was non-involved, which is quite understandable, given the concentration of power in central government

arnes, 1998: 834) as well as in cases “where institutional development was a key part of the SDI process, such as in the Greater St. Lucia Wetland Park, where the local authority had to be established in line with World Heritage Site requirements” (Altman, 8/2001: 29). In the case of Richards Bay, local organisations and interest groups quickly and enthusiastically adopted the SDI strategy . The ability of local actors to capture resources of national government and parastatal agencies, to seek and attract investors, to efficiently and rapidly develop land, and provide certain well run infrastructure is not the problem” (Hall, 8/1999: 3, 14-16). The problem according to Hull lies within the fact that the local government and other involved actors concentrated on inward investment and infrastructural improvements, but not on endogenising economic growth, which is essential in its contribution to economic diversification, the creation of an entrepreneurial and innovative climate, a shift in the operating environment for small business, the development of new skills base or strengthening of rural-urban economic linkages. But Hall argues that this change was never attempted because the SDI policy is “only concerned with the preparation of investment project proposals” (Ibid.). In other words, Hull claims that the failure to endogenise economic growth lies within the SDI approach, not the lack of institutional capacity. On the contrary, institutional networks and vested interests might be so well embedded, that in the case the SDI approach would be changed in favor of more endogenising stimulating initiatives, one can expect difficulties to arise to change the local way of management

## 2.3. RELATIONSHIP GOVERNMENT - COMMUNITY

As national government mainly relies on the support of the local people it is important to mention some of the problems or contradictions

### **2.3.1. REPRESENTATION**

One of the major problems concerns the lack of inclusion of the local concerns and issues related to it.

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during the last administration. Nevertheless, there appears to have been little increase in the activities of provincial government in the industrial sector of Richards Bay since the change in government in 1994. Furthermore there has been little coordination between local and central government in the transmission. The local authorities, for example, generally been unaware of the various incentives offered by central government (Ibid.: 834). This failure in public sector institutional coordination has recently been taken up by private consultants who have attempted to fill the institutional gap. Interestingly, the large industries report a much closer working relationship with central government than does the local authority” (Ibid.: 836).

Clearly, there was a great deal of consultation with formal established interest groups. However, grassroots actors, non-governmental organisation and residents, etc. had little input<sup>53</sup>. Furthermore in the case of the N4 toll road, the provincial government was explicitly excluded from the concession process making it impossible for the latter to represent the actually toll prices agreed in the contract. The fast-track process exacerbated the lack of representation. It may cause problems that need to be dealt with at a later date, particularly with regard to issues surrounding the environment, community involvement empowerment etc. Local processes should be accommodated, and when government does not side step the issue that “rapid is not negotiable”, then popular support may evaporate quickly as the initiative may be perceived as benefiting only the private sector<sup>54</sup> (Taylor, November 2000:12, Bel & Taylor, 4/2001: 14).

### **2.3.2. GOOD FOR BUSINESS, BAD AND/OR CONTRADICTION FOR COMMUNITY**

Furthermore it appears that what may be good for business would not necessarily be good and/or may directly contradict the realities of the community. The following are a few examples:

The initial N4 toll prices to Maputo are a good example of Ally’s comment that “[w]hile increased efficiency can be of direct benefit to the public, it cannot be said to be a means to enhance sustainable social development: for profit motive of the private sector may result in services, becoming unaffordable by the majority. The mistaken belief is that foreign first world institutions, models and best practices are directly and rapidly replicable in a country that is largely third world” (Ally, 11/2000: 16).

The water and electricity issues are also clear examples of the contradictions. Water is both limited in access and frequently contaminated during the rainy season in Mozambique. It is, therefore, provocative that the foreign-owned Maputo Iron and Steel Project and Mozal together could use nearly 40 per cent of the total water resources of the Maputo region. As Taylor (1999) pointed out, the amount of water left is simply not

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<sup>53</sup> “Residents [in the MDC] were not consulted in the planning stage and are now fighting against the siting of the toll gates on the N4 road, pointing out that the gates will separate them from schools, jobs and shopping centres in Nelspuit. Mpumalanga’s economic affairs department agrees that the ‘little man; has not always featured significantly in the planning. “Casinos and hotels are nice, but they don’t really have anything to do with empowerment,” says Jonathan Mitchell, development economist” (Reconstruct, Sunday Independent, 14/6/1998 in Newman, 8/1998: 45).

<sup>54</sup> “Pretoria’s Planning Zone Forum II adds that higher pressure on alternative routes will increase maintenance cost and place “an unacceptable” burden on municipal ratepayers. This viewpoint is supported by, among others, the Centurion Chamber of Business and the Greater Pretoria Metropolitan council (GPMC)” (Dorfling, 12-18/6/1998: 10).

enough to supply the city of Maputo (Lundin & Soderbaum, 2000: 13). Equally astonishing is that only about 25% to 30% of the total Namibian population has electricity, with a total supply of 344 Mw, (while the plan in 1998 was to provide up to 500 MW (Hoogenhout, 3-9/7/1998: 39; Lourens, 3-9/7/1998:41-43). In the case of the investment of Mozal, two lines of 1.200 NW are supplied, with a 850 MW provision for Mozal alone, and the second line in case the first should break down (Lourens, 3-9/7/1998: 41-43).

### 3. PROSPECTS FOR INSTITUTIONAL CAPITAL

First of all, any prospect will depend on the attitude of government. “Because of the social economic institutional and global context in which South Africa abides, it is important that there was a willingness to experiment, make mistakes and then learn from that; this is not something that government does usually”. But it appears to be a culture that the government is embracing and which is should be encouraged as it has been a critical success factor in the successful development of for example South Korea. The DBSA has commissioned an evaluation report on SDIs and this “ability to criticize the SDI’s is a result of Government’s willingness to take the risk of giving this programme a ‘name’, enabling public scrutiny. This enables learning: the next phase may demarcate itself from this period, but its ability to do so is directly relate to having this comparator” (Altman, 8/2001: 7, 36). But also in other aspects of its policies, government takes this attitude, like for example creating more labour flexibility for SMMEs (IMF, 12/2000: 32).

Probably partly because of this mindset, government has been able to improve dramatically the financial and institutional formations of public service departments at the three levels of government, since the change of government (Altman, 8/2001: 27).

Financially, government has taken several initiatives. “In 1997/1998 a financial management improvement program – coordinated at the national government level – was established to monitor expenditure in each province on a monthly basis, appoint qualified personnel, train financial managers and improve reporting and oversight procedures. While transfers from the national government were raised to better cover certain outlays, provinces improved their management and control of expenditure and thus were able to curb unwanted expenditure. Several provinces also launched anti-fraud units”. Also for example provincial governments, under the Local Government Transition Act (1993),

established the Management Support Programme, which “aims to build capacity and financial management systems in the municipalities to help them restore their financial viabilities. The national government has backed this project by providing funding” (IMF, 12/2000: 15-16).

Institutionally this was accompanied by an unexpected move of the ANC to realign its own branch structures in line with the new municipal boundaries. This led to a drastic reduction in the number of branches, from about 7 000 to 280, which would allow party headquarters to have a much better idea of what was going on and to monitor development. Furthermore, besides the fact that frameworks for integrated planning have been developed (Altman, 8/2001: 27), “the ANC is rethinking its existing party structure to create closer links between the party and its grassroots supporters. A key development in the overhaul, is the establishment of a policy and research unit, which will act as a think-tank for the party and improve the leadership’s understanding of both the electorate and how it should relate to its supporters” (EIU, 3/2001: 13).

These initiatives will be necessary because for the government “to boost investment in infrastructure, it will have to channel money through provincial and municipal governments which it has recently re-organised. While the new structure is intended to be more efficient and accountable than the old structure it has replaced, the capacity of the new councils is largely untested and delivery will still be a major strain, and could be beset by claims of incompetence and corruption. The issue of corruption will continually be addressed by the opposition (Democratic Alliance), in the hope that it can taint some of the ANC’s leading figures. In any case, much is expected to be channeled through provincial and municipal governments (like infrastructure expenditure) and they will initially struggle. Nevertheless, the ruling African National Congress (ANC) is committed to improving the quality of staff at these levels of government, progress is expected to be slow” (EIU, 3/2001: 7, 9).

In this context the role of national government as a facilitator will be less appropriate, although it retains its role in national intervention, as the responsibilities of local authorities go well beyond their capacity at this stage (Altman, 8/2001: 32). In general, it is probably no longer appropriate for national government to provide a project manager and funding for localities, as was done within the SDI programme. Suggestions of what government should do now, include to oversee consistency in policy and implementation in relation to industrial and regional development, focusing on small number of

programmes instead of dispersing efforts (as was the case with the SDIs) and provide generic services (Ibid.: 37).

#### 4. CONCLUSION: SDIs AND THE POLITICAL/INSTITUTIONAL REALM

The political climate for investment is on the one hand positive, because government is considered to be very business oriented and thus committed to market based reforms. In the SDIs this translates itself in the high marketing profile accompanied with information packages to lower the threshold for investment. On the other hand this confidence is undermined in that South Africa does not operate as a mature democratic state. The ANC policy is undermined by its own allies, causing less coherent and ineffective policy implementation, while the institutions are young and weak. In the SDIs this translated in contradictory images and promises, frustrating the created expectations

Intergovernmental relationships were criticised for lacking an efficient and vibrant organisational network of cooperation and facilitation. The failure could have been induced by the neglect and/or overemphasising the assumptions underlying the network structure, i.e. sufficient and excess of resources and well established institutions. In the case of the political champions and the project managers there appeared to have been no problem with devotion and commitment, but there was indeed a lack of central support, both politically as in providing the necessary resources for these actors to fulfil their function. In the case of local government the assumed establishment and availability of resources could not be assumed for all provinces. *Little or no capacity* does not necessarily make the reliance on the network structure obsolete *if* special attention were drawn to these particularities. However, this was not the case, and instead there is a reported lack of money; instruments to transfer skills; proper institutional decision making procedures; and time to gain capacity. In *the well established provinces* the problem was not so much to get the initiative going, as in some cases the initiative was the initial brainchild of the government itself, but that the SDI strategy enhanced the practice of merely seeking investment, instead of making effort to endogenise sustainable development.

As to the relations with local community, there was an apparent lack of representation from grassroots actors – NGOs and resident – and sometimes it appeared which was good

for business was not always in the interests of the community, or contradicted their living conditions.

As to **the prospects**, government will probably attach more attention to popular demand beyond the GEAR policy, not because it would want to alter its position radically, but because the time allows it and it is considered necessary (as happened with the elections in 1994). Signs that the government is starting to experiment and to acknowledge mistakes, are a positive sign towards a learning government. Several financial and institutional initiatives have been taken or are in the make. These will be very necessary as the opposition will take every opportunity to crack down all possible incidents of corruption. With the institutional progress that has been made, Altman recommends that the role of central government in SDIs should now be changed towards overseeing consistency in policy and implementation.

## CHAPTER 5. SDIs AND THE SOCIAL REALM

The third and last component in the SDI strategy is the social realm. After some conceptual clarification on empowerment and employment, the chapter will analyse the characteristics of the social realm and their possible effect on investment decisions. Furthermore are the main concerns and lessons learned from the SDI strategy highlighted through addressing the issue of employment and empowerment and what their respective future prospects are in terms of South African policies.

### 1. CONCEPTS OF EMPOWERMENT AND EMPLOYMENT

The SDI framework makes a distinction between empowerment and employment. Although there is no well-delineated definition of these concepts and many authors seem to use them interchangeably, we could at least intend to provide some clarity.

The primary focus in the *social-economic realm* of the SDI is the creation of jobs. This may be either as employee or as a self-employed person. In both cases one could describe this as empowerment. As an *employee* of a previously disadvantaged group, one cannot only earn a salary to provide one's family and give them opportunities, but it is also possible for such a person to obtain a promotion to a high rank position through work experience or training, which frequently used to be impossible during the apartheid era. Nevertheless, some authors claim that one can only speak of empowerment in the case of (sustainable) *self-employment*, as only this allows change in the ownership structures (from predominantly White to Black). Within the SDI framework, the role of empowerment in the sense of the latter, is mainly attributed to Small, Micro and Medium Enterprises<sup>55</sup> (SMME). Specifically these types of enterprises are addressed because it is

<sup>55</sup> With the lack of an official definition (to our knowledge), we can use parts of the following classification of the Ntsika Enterprise Promotion Agency:

- "The survivalist enterprise is directed mainly at providing minimal means to keep the unemployed and their families alive. It includes hawkers, subsistence farmers, and vendors. A number of entry barriers keep the survivalist out of the micro category, among them a lack of skills and experience, shortage of financial resources, social barriers, and lack of access to markets;
- The *micro* enterprise usually lacks formality. It does not usually qualify for VAT registration, it adopts informal accounting and operating procedures, and does not comply with labour legislation. Metal workers, furniture makers, spaza shops, and minibus taxis belong in this category. Micro enterprises have a turnover of less than R150 000 a year, and have maximum of five employees";

there that the previously disadvantaged are concentrated, and their presence decreases as the size of the enterprise increases<sup>56</sup> (South African Survey, 2001: 401).

## 2. UNEMPLOYMENT, CRIME & VIOLENCE and INVESTMENT

Because of the history of apartheid, South African society suffers from high economic inequalities along racial lines. Although the government has made some notable socio-economic accomplishments<sup>57</sup>, the country is trapped in a vicious circle, by which a factor such as unemployment raises the level of crime and violence (Lourens, 23-29/7/1999:8), which distracts business, creating lower economic growth, and therefore, more unemployment (Stals, 1999). Although a substantial redistribution of governmental budget expenditure has been allocated since 1994<sup>58</sup> in favour of social programmes (i.e.

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High unemployment can create a large informal economy. In South Africa this sector constitutes 5 to 8% of the country's gross domestic product (GDP) and continues to increase. Compared to gold contribution to GDP of 3%, it is obvious that the informal sector is an important part of the South African economy and encouraging SMMEs is becoming a big priority in South Africa (Poggiolini, 11-17/02/2000: 13). According to the IMF, "there has been a marked trend towards the 'informalization' of the work force, and the October Household Survey, mentions that overall employment fell by 9 percent between 1995 and 1997, with a decline of 22 percent in formal sector employment, which was partly offset by an increase of 22 percent in informal sector employment" (IMF, 12/2000: 11). By the end of the 1990s the informal sector would have provided employment to some 1 m people (South Africa Survey, 2001: 429). The informal sector can contribute to illegal activities, but can also be a major source of competition for certain businesses (mainly retail – Albie de Jongh & Michell Jackle - Pepcor interview 6/2000. In the taxi industry for example, there are estimated to be more illegal taxis than legal ones (South African Survey, 2001: 402)).

- "The very small enterprise category refers to self-employed people and enterprises employing a limited number of employees. It usually operates in the formal market and has access to modern technology. The lower limit in employment is the self-employed with no employees, such as artisans or professionals. The upper limit is nine paid employees, except for construction, electricity, manufacturing, and mining sectors, where it is 19 employees;

- The **small** enterprise category is in general more established compared with very small enterprises. The upper limit in employment is 49. Such enterprises have more complex business strategies. They have developed a secondary co-ordinating mechanism with direct supervision no longer entirely in the hands of the entrepreneur;

- The **medium** enterprise is the largest of the small, medium and micro enterprise sector. Although it is owner/manager controlled, the ownership and management structure is more complex. It employs a maximum of 100 people (or 200 in the construction, electricity, manufacturing, and mining sectors)" (South African Survey, 2001: 408).

<sup>56</sup> Of the 805899 survivalist, micro, and very small enterprises in South Africa, 58% were black (African, coloured, or Indian). Blacks also accounted for 87% of the 197 393 survivalist enterprises, 57% of the 471 850 micro enterprises, and 22% of the 100 286 very small enterprises (South Africa Survey 2001: 394).

<sup>57</sup> An example concerns the water supply programme to 3 million people, delivery of electricity, telephone systems, the erection of 15 000 houses each month and the primary nutrition program (Marries, 1999).

<sup>58</sup> From the five divisions in the government's budget Social Services (composed of Education, Health and Welfare), Protection Services (composed of Defence and Intelligence and integrated Justice system), Economic services, Infrastructure and Administration), the Protection services take the second position (i.e. 20.7%) in its total share of the budgets for 2000/1 as well as the estimated budgets for 2001/02 (20.7%),

education, health and welfare) and the integrated justice sector (i.e. justice, police, and prison) (IMF, 12/2000: 18; South African Survey, 2001: 469), “the idea lives that very little convincing progress has been made with the rampant crime in South Africa. One of the reasons might be that 'although police statistics show a decline in some of the worst categories of crime, the public perception of the situation is not that positive'. Crime is not contributive to any business (except for the security business); in fact this factor is according to different research the biggest perceived deterrent for international investment<sup>59</sup>. Some investors have pulled out of the country, while others have avoided South Africa as an investment destination, saying it's not safe enough to do business” there, even though “Mbeki is adamant about cracking down on crime and ensuring that investors aren't scared off” (Cloete, 2000). Crime was a high budget priority in 1998/1999 (S&P, 1999), and although good and bad initiatives (or lack thereof) are taken<sup>60</sup>, it will be very difficult to get rid of a reputation as “the world's most dangerous country (besides war zones)” (World Reference Atlas, 1998:497).

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2002/03 (20.7%) and 2003/04 (20.6%). Decomposed, the share of the integrated justice system in the 2000/01 budget ranks third (with 13.3%), having Education (27.3%) and Health (14.5%) above, followed by Infrastructure (12.9%), Welfare (11.5%) with Defence and Intelligence on the sixth position (7.5%), followed by Economic services (6.6%) and Administration (6.5%). Although the percentages slightly change for the estimated medium term budget in the years 2001/02, 2002/03 and 2003/04, all the positions remain the same, except for the swap in that infrastructure will take the third position and integrated justice system the fourth (figures from South Africa Survey, 2001: 469).

<sup>59</sup> The government launched a R35m (US\$5.7m) campaign to change perceptions of "South Africa, following a government-sponsored study of international investors' perception of the country that showed that 84% of respondents felt that crime was the main concern of potential investors in South Africa, while 74% were concerned about AIDS (some larger multinationals reported the unwillingness of some staff to accept a posting in South Africa). In addition, investors said that they were concerned about the difficulties of labour management in the new South Africa as a result of the new labour laws. Since the survey was conducted in mid-1999, other issues have come to investor's attention, including the problems in Zimbabwe and president Mbeki's controversial views on HIV/AIDS” (EIU, 3/2001: 21).

Furthermore, in the 1999 index of the *Global Competitiveness Report*, “South Africa was ranked lowest overall in respect of confidence in the police to safeguard personal security (security was a major concern for business), and second lowest in respect of the cost imposed on business by organised crime. Among the other countries affected by such considerations were Bolivia, Indonesia, Mexico, the Philippines, Russia and the Ukraine” (South Africa Survey, 2001: 423).

<sup>60</sup> As mentioned in the previous footnote, the South African government launched a R35m (US\$5.7m) campaign to change perceptions of South Africa, following the results of a government-sponsored study of international investors' perceptions (EIU, 3/2001: 21). Other examples in the field of SDIs includes Portnet which has purchased an X-ray scanner, providing an inspection solution which allows the detection of illegal drugs and other hidden things (Bradley, 12-18/6/1998: 23). On the other hand some proposals for tourism and security are being neglected. Quoted from an interviewee in the field: “Certainly for tourism, developing infrastructure alone will not automatically lead to a growth in tourism. On a softer side, our biggest priority is safety and security- we have been pushing very hard for the idea of tourist police, like you find in Rio de Janeiro and elsewhere, but the security establishment is opposed to such specialised units and feels crimes against tourists should be handled like crimes against local people, by the local police stations and investigating units,” he reveals. “But we feel very strongly the need for special policing for tourists, because the criteria involved are different from normal policing – some knowledge of foreign language is essential” (Cambell, 19-25/3/1999: 10).

### 3. EMPLOYMENT AND CAPITAL INTENSIVE EXPORT-ORIENTED INDUSTRIES

In this section we will focus on how the unemployment problem is addressed under the SDI framework.

#### 3.1. EMPLOYMENT PERFORMANCE

Although many figures are available on the creation of jobs by the SDIs projects, it is difficult to come to clear conclusions because of the same problems with the available data as mentioned in Chapter three. Besides the lack of a total overview of the realised investments and a lack of clarification whether the numbers are cumulative, an extra problem with the **unofficial/‘independent’ sources** is that there are many subdivisions in the definition of job creation, i.e. direct/indirect, permanent/temporary, local/provincial/national/international, etc. and with no specification the reported figures thus become obsolete<sup>61</sup>. And the inaccuracy of the IDC database – an **official source**, as mentioned in Chapter three – is not helpful as these figures on investment also influence the employment figures.

Nevertheless, at this point in time of the SDI process, figures on the amount of employment (as well as for investments), may not be that important after all. Altman (8/2001: 27-28) argues convincingly that the SDIs have been wrongly promoted by “referring to the number of jobs and potential capital invested based on the projects scope, thereby focusing people’s mind on these outputs”. These are inappropriate means to measure success, because development is a lengthy and uncertain process particularly where structural change is required. What should have been done – and the Lubombo SDI is a good example of this – is “to frame an integrated development plan, with clear goals and phasing that the local community can understand. Then there is recognition that roads are built, land tenure being settled, investment sites scoped, as laid out in the

<sup>61</sup> To give but a few examples; Naudé & McCoskey (September 2000: 3) mention that the KwaZulu-Natal SDI, Fish River SDI, Richards Bay-Empangeni SDI Phalaborwa SDI, Lubombo SDI, Wild Coast SDI, Maputo Development Corridor and the West-Coast Investment initiative together have identified projects to the value of 32,4 billion Rand, creating 86 000 jobs, while Lourens (3-9/7/1998: 35) reports that the NRA estimated about 60.000 direct and indirect jobs generated during the MDC road construction [*alone*]. And Mitchell (1998: 764) mentions 7000 permanent jobs to be expected in Mpumalanga against the 35 000 permanent jobs mentioned by Holtzhausen (16-23/7/1999: 24). The logic also applies to other SDIs.

plan” (Ibid.). When such plan is available, it can be measured by its quality and by the achievements at each stage. But of course there remain those characteristics of the SDIs that are difficult to measure, such as the learning culture, but also for example the problem of isolating certain elements: “...how [for example] does the evaluator know what the impact the SDI or the Project Manager (PM) has had, that is distinct from the role of other players and processes? They are so interlinked that it is difficult to disentangle. At what point can we say the PM’s role was critical? Ideally no project should *really* be a purely SDI project: local institutions should ultimately be the main drivers. Can one claim credit where some critical intervention is made that pushes the activity through?” (Ibid.: 8).

### 3.2. THE SDI SECTORAL<sup>62</sup> APPROACH

An important criticism is the depiction of SDIs as focusing on traditional (old), capital intensive industries, that is big business with the sole purpose to increase GDP and export growth in contrast with a people centered approach that concentrates on the new economy, labour intensive and small developmental businesses (Lundin & Soderbaum, 2000: 11; Altman, 8/2001: 26).

In what follows, we have tried to contextualise this argument by zooming into certain aspects/factors that are important in evaluating and understanding why matters may possibly have been done in the way they were.

Some authors claim that, as other countries in the world, South Africa’s economic structure is changing to the tertiary sector and that, therefore, the SDIs concentrate on the wrong niche market, i.e. mineral resources like MOZAL (Pareja, 2000; Altman, 8/2001: 12). However, this criticism ignores that SDIs in fact addressed different sectors, like the High-technology (Gauteng) and Tourism SDI (Lubombo and Wild Coast). The problem may, therefore, lie elsewhere.

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<sup>62</sup> For the following discussion it may be helpful to have an overview of the standard classifications: The primary sector, consists of (A) Agriculture/forestry/fishing; (B) Gold mining and (C) other mining, i.e. coals, diamond, platinum, iron ore. The secondary sector (manufacturing) consists of (A) Natural based manufacturing (i.e. chemicals, iron & steel, non-ferrous metal, pulp & paper); (B) Downstream non-natural durable (i.e. fabricated metal, machinery, electric machines, motor vehicle, other transport equipment); (C) manufacturing labour intensive manufacturing (i.e. textiles, wood & wood product, leather products, furniture, footwear, clothing). The tertiary sector is composed of (A) wholesale retail; (B) Transport/storage and communication; (C) Finance/Insurance/ Real Estate business; (D) Community, social and personal services.

Researchers who have evaluated a specific SDI, could possibly have found that many potential within that spatial initiative remained untapped<sup>63</sup>. This confronts the government with a dilemma in that not all sectors can be combined in one area. Indeed a mineral mining industry requires a complete different working environment that is moreover highly unlikely to be compatible with the environment needed by the tourism and/or high-tech industry<sup>64</sup>. The problem, therefore, is that one necessarily has to choose and the question is how to make this choice, as there are arguments pro and contra.

### **3.2.1. ARGUMENTS PRO MINERAL BASED INDUSTRIES**

Firstly, the natural resource based industry contributes most to exports. The reason why these figures are important for government is that with exporting the government gains foreign exchange which not only allows it to repay its foreign debt, but also enables the government to support import-intensive industries while avoiding a balance of payment deficit. Indeed, during the 1980s, a foreign exchange constraint led to an excess capacity of the downstream non-natural manufacturing sector and was unable to grow, and in fact it declined (Bell & Madula, 2001: 27-35).

Exporting also result in integration in the world economy, which could possibly increase the potential viability of investment in South Africa. A business can only exist and flourish when there is enough demand for what it produces, and the lack of which is considered one of the main constraints for SMMEs. As Southern Africa is characterised with a low domestic market and low purchasing power this could undermine the prospects for the industry and its employees. For that reason export concern can be justifiable.

A Second possible reason for pursuing the mineral industries, is that the natural resource based industries had a very big upsurge in growth (6.7%) and export (11.9%) between 1972-1980. The low oil prices, the appreciated Rand and the low real interest rates made it interesting for these investors to construct SASOL II and III and the Iron and Steel industry, ISCOR. Even if one does not take into consideration the possible

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<sup>63</sup> In the Eastern Cape, agriculture and especially tourism have major possibilities that remain untapped. "These alternatives are much more labour intensive and in many respects hold greater benefit for the local populace but they are not being pushed because they offer less 'ribbon-cutting opportunities'. They are not big, glamorous projects which politicians tend to favour but nonetheless are real alternatives which must be supported" (Luiz, 01/2001: 13, 19). In the West Coast Investment Initiative, more locally-based and locally funded projects have emerged, like tourism and seaweed production after the 1998 Investor Conference, to attract significant external investment failed (Bel & Taylor, 4/2001:19-20).

export earnings of these investments, it did mean a substantial increase in capital formation which remained high for several years thereafter (i.e. gross fix capital formation increased from 7.2 per cent in 1974 to 55.7 per cent in 1979) (Bell & Madula, 8/2001: 13). It could have been that investments such as Mozal (Maputo Corridor) and Steel (WCII), were given permission, certainly as the same economic conditions as in the 1970s were not prevalent, while it could on the other hand again lead a similar upsurge in capital formation, which not only brings in foreign exchange, with the same benefits mentioned above, but also contributes to the macro-economic stability. Whether this is a good or bad strategic move is not a clear cut matter (see further below).

Thirdly, if one acknowledges that South Africa has an abundance of natural resources, why does the country not exploit its opportunities? Some authors mention that with this dominant characteristic “it will be difficult for South Africa to switch at all to a more diversified export pattern, especially with unfavourable world economic conditions. Africa should [therefore] make most of its comparative advantages in natural resource-based products, to increase its exports and output, while upgrading its skills and educational levels, and in other possible ways trying to promote the necessary further diversification of the economy” (Wood & Mayer – 1998- in Bell & Madula 8/2001: 46-47)

Lastly, according to Dr. I. Taylor (in Altman, 8/2001: 27), a “good justification [for the attraction of very large investment and less attention on other kinds of goals] is that facilitating a large and a smaller investment can often require the same amount of energy”.

### **3.2.2. ARGUMENTS CONTRA MINERAL BASED INDUSTRIES**

Firstly, if it would be assumed that the natural resource based sector contributes to the sustainability of the downstream manufacturing sector, because the former provides the foreign exchange needed for the imports of the latter. This is, however, mistaken as this direct link does not exist. On the contrary, the average annual export growth rate of the natural resource-based group fell by 4.8 per cent in 1985-90, compared to 11.9 per cent in 1970-80; whereas that of the downstream durable goods group accelerated considerably to 15.7 per cent in 1985-90 from 0.7 per cent in 1970-80 (Bell & Madula, 2001: 22).

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<sup>64</sup> See Hodge for the requirements of a high-tech environment. In the case of the Lubombo SDI, prior to the initiation of the SDI the dilemma was between mineral industry versus tourism, and eventually the tourism industry was chosen.

Secondly, capital intensive industries are questioned for their role of creating sufficient jobs (Bel & Taylor, 4/2001:4; Naude & McCoskey, 9/2000: 3; Mitchell, 1998: 764; Aniruth & Barnes, 1998: 844-5), which is further exacerbated by the fact that the people who are hired are supposed to be highly skilled, with the effect that recruits often need to be sourced outside the local labour market<sup>65</sup>. Furthermore the capital-intensive industry does not have any prospect for employment growth. Naudé & McCoskey (9/2000: 1, 12-14, 16) for example mention that the sectors on which the SDI focuses—such as mining and manufacturing – have experienced a decrease in *employment* since 1991 (IMF, 12/2000: 11). They therefore argue in favour of “sectors which are poised for *growth* and *employment*, e.g. Tourism, Financial & Business Services and 'hi-tech' manufacturing. The case for this would seem to be even stronger if the hierarchy of development is considered, whereby economies become more dependent upon tertiary sectors and less dependent upon primary and secondary sectors for economic growth”. And indeed, other authors confirm the considerable increase of shares of services in the GDP, and in formal employment since the mid-1980s (Bell & Madula, 8/2001: 43; South Africa Survey, 2001: 430). Bell & Madula, (8/2001: 37) even mention that within the rapid worldwide growth of the FIRE sector (Finance, Insurance, Real Estate and Business Services sector), commonly associated with the New Economy, South Africa with its well developed financial system, good accounting standards, and a legal system conducive to such activities, has a comparative advantage and is well-placed for growth in this area.

### **3.2.3. FINE-TUNING**

The arguments pro nevertheless also need some fine-tuning.

Firstly, the conclusions on the growth of the FIRE-sector are made on their relative contribution to GDP. According to Bell & Madula (8/2001: 44), “the increased share of services in GDP has not been due to particularly rapid growth of value added in the service sector, but to very slow growth in the rest of the economy; and its increased share in formal employment so far, is due entirely to larger proportional declines in employment in other sectors”. In other words, it may have been over-hastily concluded

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<sup>65</sup> This appears to be the case across different sectors in several SDIs, that is Midrand with its high technology based needs high-skilled labour (Hodge, 1998: 861), in the tourist sector better educated and equipped immigrant workers are likely to be preferred over the local people (Koch & de Beer & Elliffe et al, 1998-a: 913); and in the industrial sector like the West Coast SDI (Saldanha) the use of locals has been limited by the lack of skills in the area and the unavailability of funds to provide basic training (Fitschen, 1998: 781-2).

that the structure of South Africa's economy is leaning towards that of the New Economy.

Secondly, as to the critique that capital intensive industry attracts *skilled employees* and experts, it is ignored that "the number of skilled workers employed increased in all the main sectors of the economy – primary, secondary and tertiary - between 1984 and 1997, and that only in the skilled category, employment increased (with the minor exception of the number of 'elementary' workers in manufacturing). In all other categories, in all sectors, employment fell. The result was a substantial increase in the proportion of skilled workers in each sector" (Ibid: 35). In other words, when it comes to criticising investments because of their demand for skills, all or most investments will face this problem and education is, therefore, an issue that needs to be addressed nation and generation wide. Some authors state that how South Africa attempts to create employment is unrealistic<sup>66</sup> (Bhorat, 3/2000), and that "SA has to recognize that they will not be able to create thousands of jobs for unskilled people" (Platzky, 10/2000: 16). Besides the fact that education is given prime priority in the government's budget (with 28%) until 2004 (figures from South African Survey, 2001) the government has also taken initiatives to improve the country's skills base<sup>67</sup>. The lack of skills should nevertheless not be over-exaggerated. Compared to rich and poor nations, South Africa has a comparative advantage in intermediate levels of skills intensity (Bell & Madula,

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<sup>66</sup> Haroon Borat- deputy director at the Development Policy Research Unit analysed the impact of trade flows on labour demands and who gains and loses, and concluded that "short- and medium-term adjustment policies aimed at ameliorating the labour market consequences of trade liberalization must take into account the degree and nature of the mismatch between firms' labour demand specifications and employees' human capital endowments. This means that very specific and well-targeted labour market industrial policy initiatives are required. It is clear that a policy stance that expects the process of liberalisation to eventually create the conditions for long-term productive employment for these victims of the adjustment process, based on the availability evidence, is almost certainly erroneous" (Bhorat, 3/2000: 9).

<sup>67</sup> For initiatives with a broader, countrywide approach, we could for example refer to the Skills Development Act (SDA- 1998). It "replaces the Manpower Training Act (MTA), [and] seeks to encourage employers to provide opportunities for employees to acquire new skills, employ job seekers who find it difficult to gain employment, enable new entrants to labor market to gain work experience, and improve the employment prospects, through training, of persons previously disadvantaged by unfair discrimination. Financing for the SDA will come from the Skills Development Levy, a payroll tax of 0.5 percent that began in April 2000 and should have increased to 1 percent in April 2001 (IMF, 12/2000: 38). "The Skills Development Act (1998) provides for the setting up of public employment services to facilitate job searchers, arrange matches between employers and job seekers, and provide counseling for job seekers. The Presidential Jobs Summit has already initiated similar programs. While it is fair to say that the SDA, the Presidential Jobs Summit, and the EEA have made important commitments in the area of ALMPs, careful attention will need to be paid in the implementation of such policies" (Ibid.: 49).

8/2001: 37). Several SDIs have recognised the problem and have taken valuable initiatives in this matter<sup>68</sup>.

Nevertheless, the problem of local content (or lack thereof) could have been minimised if the government would not have been reluctant to stipulate a high local content in the concessions contract ((in case of MDC) Mitchell, 1998: 764; Holt, 1999: 108) and would have obligated construction companies to equitable employment via quota targets (Bel & Taylor, 4/2001:23). As to gender inclusion, the “practice on the [MDC] PPP project is highly mixed: one contractor seems to have made no real effort to involve women, whilst another has an exemplary record. SBB has a particularly bad record compared to TRAC<sup>69</sup>. It would be helpful if specifically gender-oriented NGOs or bodies were actively involved in monitoring developments and providing recommendations (Taylor, 12/2000: 16, 18).

Lastly, some do not criticise that capital intensive industries were built, even if they bring about less employment than labour intensive sectors, but they are critical that “although considerable background work was done to expand other higher value and more labour intensive activities, it could be argued that comparable energies were not applied to their realisation<sup>70</sup>” (Altman, 8/2001: 26).

### **3.2.4. CONCLUSION**

Whether the current SDIs would have put too strong an emphasis on certain sectors, compared to others, or to the detriment of the whole economic development, is currently

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<sup>68</sup> Some solutions that were adopted are the Coega Skills Development Committee (CSDC) in the Fish River SDI (Clancy, 2-8/7/1999: 36) or ad hoc training, the West Coast College and bursaries for practical experience in steel plants in South Africa for the West Coast Investment Initiative (Platzky, 10/2000: 12; Bel & Taylor, 4/2001:18). As for some background information on the CSDC: It was launched by the Department of Labour and given the mandate to develop a strategy for skill development. “It will establish the human-resource needs of the Coega IDZ and the existing skills base in the Eastern Cape area, develop and co-ordinate systems or registration, assessment and training of work-seekers to ensure fair and equal access, set up quality assurance mechanisms, facilitate the placement of work seekers in temporary and permanent employment, it will analyse the skills gap as well as compile a register of accredited training providers both local and national (Clancy, 2-8/7/1999: 36).

<sup>69</sup> “At ABB a total of 1302 permanent and temporary jobs were created (excluding jobs created by subcontractors and casual jobs, which add 773 to the figure). Eight hundred and thirty four (64%) were from local communities (excluding jobs created by subcontractors), but a total of only sixty, or 4.6% were female. A total of 1173 employed by SBB (90%) were from previously disadvantaged communities. TRAC’s figures are much better. A total of one hundred and eight permanent positions were created, excluding jobs created by subcontractors. Ninety of these (83%) were drawn from local communities and seventy-nine (73%) were female. Eighty-nine (82%) were from previously disadvantaged communities” (Taylor, 12/2000: 16).

<sup>70</sup> “This was found in a more detailed study of the MDC by Ruben Matlala, and was certainly found in the case studies [i.e. Maputo SDI, Lubombo SDI, Richards Bay SDI, Fish River SDI, WCII and Gauteng SDI], where most of the factors that would underpin the establishment and/or expansion of higher value, labour intensive sectors were not realised (Altman, 8/2001: 26).

difficult to discern because of one main reason, which is the lack of a long term integrated governmental development strategy beyond the GEAR document. The latter is more concerned with macro-economic stability; something that was deemed necessary and a priority at the beginning of the transition of governments (which was the time at which the SDIs were launched). However, one needs more detailed information than just to focus on an area, to see what the dominant potential is, to then try to attract as big and much investment on a "first-come-first-served" basis. Without a well researched and overall long term strategic plan – providing coherent and justifiable criteria on a country sized scope – it will be a daunting task to make rational weighed and sensible choices, which will eventually have to be made in any case. In other words, whether a capital-intensive industry is justifiable, would depend on its overall role in the governmental development strategy. It is furthermore also difficult to evaluate SDIs in themselves as one should bear in mind that some initiatives, like MOZAL, were planned to happen long before the SDI was initiated and, therefore, did not *come about* by the efforts of the SDI framework.

#### 4. EMPOWERMENT

Currently, “the SMME sector in South Africa appears relatively underdeveloped; three-quarters of South African firms have more than 100 workers, compared to an average of only one-fifth in a sample of nine other middle income countries” (Lewis, 7/2001: vii).

“In many developing economies, SMMEs have [nevertheless] been an important source of growth<sup>71</sup>, competitiveness, and employment growth<sup>72</sup> – SMMEs tend to be more labor

<sup>71</sup> Recent literature from virtually all parts of the world emphasises the important contribution that SMMEs could make to an economy’s strong overall performance. “The world’s best performing economies, notably outward-oriented East Asian countries, are very heavily based on small enterprises” (Cassim, 12/2000: 2).

<sup>72</sup> In Latin America this sector became a major source of employment throughout 1970s and 1990s, while the agricultural, public sector and large non-agricultural private firms decreased in contribution. It did however not have the capacity to generate moderate to high income for a large number of people (see Berry, 12/2000: 11). Whether this is replicable in South Africa is of course open to questioning. The research of Ismail and Horn points out that South African SMME’s in themselves do not contribute significantly to downstream employment (that is besides the owner and family of the SMME’s) (Ismail & Horn, 1997: 124-128). The lack of downstream employment might be sector-bound. Although, also according to Bell & Madula (8/2001: 44), employment growth outside the formal sector manufacturing in South Africa has predominantly been in relatively low income informal sector service activities, with some much less significant amount in the form of subcontracting in informal manufacturing”.

Furthermore it may be useful for the reader to be aware that one should not over-romanticise the SMME concept. In South Africa (and maybe this was the case too in Latin America), the prime incentive for establishing an SMME business is caused by recession-push factors (no other work available and/or retrenched). The study of Ismail & Horn consequently concludes that the informal sector operators are forced by circumstances to start out with any type of business. For most of them, it is not a carefully

intensive, and often meet the demands of international competition more flexible”, while it can change ownership structures. According to the World Bank, this segment in South Africa is relatively underdeveloped because it appears to have been crowded out by factors such as the sanctions-related closure of export markets to South Africa, a trade regime that promoted capital-intensity in domestic markets, and distortions and regulations in domestic factor markets that have hampered the emergence of expansions of informal and/or startup firms” (Ibid.: 25-26).

How do SDIs/Corridors and SMME interact with each other? Albert Berry, from the University of Toronto, remarks that “we cannot expect SMEs to be a motor for growth since it relies on domestic demand for its growth impulses. As long as economic growth remains modest, SME growth will be modest unless an increasing number of them become more export-oriented” (quoted in Cassim, 12/2000: 2). SMMEs would therefore very well fit the SDI strategy (not taking the sector approach into consideration), as the SMMEs could be attached to the new export-oriented (anchor) investment in the form of subcontractors or in the form of membership of “clusters” made up of small firms or more or less as independent businesses (if they do not fall in either of the above two categories) (Berry, 12/2000:12), that would end the main constraint of inadequate demand for SMMEs (Lewis, 7/2001: vii, 29).

But besides the provision of a demand for the SMME’s other support policies are advisable. The next two paragraphs are devoted to firstly a summary of how SDIs/Corridors contributed to overall empowerment and secondly to an evaluation of the SMME support policies.

#### **4.1. EMPOWERMENT PERFORMANCE**

After briefly mentioning the concerns on the overall empowerment performance, we will zoom into the lessons learned in the tender process, the adjudication process and the three support policies for SMMEs.

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considered decision that they make to develop their entrepreneurial skills in the informal sector, but rather a forced decision to enable them to survive (Ismail & Horn, 1997: 124-128).

#### **4.1.1. OVERALL PERFORMANCE**

There are many contradictory and unclear evaluations on how well the South African Government performed to empower SMMEs in the SDI framework. Aspects that were positively evaluated were that the contractor was “legally bound” or “required” to form joint ventures with SMMEs; that within the framework of empowerment a special manager was employed to ensure the implementation of relevant policies and that many opportunities for SMMEs were identified and realised<sup>73</sup>.

On the other hand many authors were dissatisfied with the achieved relative proportion of empowerment and/or with the loosely framed principles of the legally binding terms, leading to a situation that mainly benefited foreigners<sup>74</sup>. Furthermore questions arose

<sup>73</sup> (1) In the *Maputo Corridor* 500 to more than 600 subcontract packages for small, medium and micro enterprises on the South African side alone, while a similar number has been identified for Mozambican entrepreneurial enterprises (Lourens, 3-9/7/1998: 395; Lourens, 3-9/7/1998: 33; MCEN, 3-9/7/1998: 37). These include contracts for construction and maintenance work, as well as for peripheral activities such as clothing, hardware products and transport (MCEN, 3-9/7/1998: 37; MCEN, 3-9/7/1998: 38). The N4 plazas were constructed by SMMEs while being assisted to build capacity and comply with ISO 9000 Standards (MCEN, 3-9/7/1998: 38-b). “Legally, the TRAC contractor is obliged to subcontract work to a certain percentage of SMMEs in previously disadvantaged communities. Under the terms of Annexure Eight of the contract agreement the proportion of work that is to be made available to SMMEs is stated as follows. ‘In South Africa up to 20 per cent of the value of design and construction work, while 40 per cent in Mozambique. Up to 30 per cent of the value of operation and maintenance work for the first 15 years, and at least 80 per cent of the value of operation and maintenance work from years 16-30, while this should be 50 per cent continuously in Mozambique’” (Rogerson, 2000: 543; MCEN, 3-9/7/1998: 37). And from the information available for February 1999, these figures seem to have been approximately achieved (Lourens, 3-9/7/1998: 39).

(2) At *Saldanha Steel*, 65 per cent of site order had been placed with small local suppliers (Fitchen, 1998: 782); the Rainbow Construction Cape, in which 67% of the shareholding is controlled by previously disadvantaged contractors, completed a R6.2 million project (MCEN-b, 3-9/7/1998: 28). The established engineering designers and managers of Saldanha Steel are required to form joint ventures incorporating suitable disadvantaged engineering and management firms. Furthermore Saldanha Steel appointed a Business Development Manager in 1997 to investigate domestic linkages and to ensure that the procurement policy was strictly adhered to during operation and that it had the intended impact on local habitants (Fitchen, 1998: 781-2). The company has set four rather promising objectives ((1) to create 20.000 jobs through outsourcing and new business creation in the next decade; (2) to establish an effective and viable local supplier base; (3) contribute towards the development of local technical and entrepreneurial skills; (4) to promote a cluster of internationally competitive enterprises in the region (Bel & Taylor, 4/2001:24)).

(3) For the construction of the *Richards Bay* dry dock the criteria applied for the bids was amongst others to include ‘sufficient’ economic empowerment participation in the project (Written, 21-27/01/2000: 18).

(4) The SDIs concerned with *tourism* adopt an adjudication system for competitive ‘bids’ which reward those companies and investors who have programmes to support the local or regional procurement of goods and services, and to enter joint ventures with local communities (Koch & de Beer & Elliffe et al, 1998: 913). To give but an example in the *Lubombo SDI*; the launch of a solar power system was run by a consortium of PB Southern Africa, Eskom and local service company Emtateni, which is the black-empowerment arm of the deal and is familiar with the on-the-ground situation. It has been appointed by the SDI as co-ordinator to harmonise the strategies and processes of local SDI projects and is thus also involved in housing agriculture and small business projects (Cairns, 11-17/6/1999: 13).

<sup>74</sup> Although no specific figures are available, the “positive” achievements could be contrasted with the expression that in *Richards Bay* “large proportions of the contractors were brought in from the area”

whether relying on *foreign* investors to realise downstream production and associated linkages was and is not a too big challenge to undertake (Altman, 8-2001:24).

The main constraint for the purpose of evaluation is, however, the lack of a clear and precise overall and relative overview on the achievements, both what could have been achieved and what has in fact been achieved. With a lack of figures, we can consequently only convey certain perceptions. In what follows, the inclusiveness of the process is described.

#### **4.1.2. THE TENDER PROCESS**

The tender process was positively accredited in that there was sufficient information and knowledge on the general opportunities that may arise (i.e. in the case of the N4 road in the MDC -Rogerson, 2000: 556, 564); on how to participate in the tender process (in Saldanha Steel - Fitschen, 1998: 784); while the technicality of the tender documentation was considered simple. In the MDC the advertising through newspapers was both the preferred and most efficient means of spreading tender information. Critique nevertheless went to the fact that the tender documentation was only in English (Rogerson, 2000: 563-4) and that (in the West Coast) advice and support on tender preparation was either absent or not readily available (Bel & Taylor, 4/2001:23).

#### **4.1.3. THE ADJUDICATION PROCESS**

Apart from the adjudication process being praised that the membership of a particular business association did not play an influencing role in the selection process (Rogerson, 2000: 556, 564), several aspects were deemed necessary for improvement. We would categorise them in three main groups, i.e. (1) aspects of the adjudication *process*; (2) on the *gender* sensitivity of the process (or lack thereof); and (3) the *racial* checks and balances.

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(Aniruth & Barnes, 1998: 843; Bradley, 12-18/6/1998: 21; Bradley, 12-18/6/1998: 26); or that “*Midrand* failed to create a sizeable innovative small and medium enterprise (SME) sector” (Hodge, 1998:870); while Ian Taylor claims that “the winners of the ongoing processes within the *Maputo* micro-region appeared to be restricted to a small fraction of the population, an ostentatious class of ‘entrepreneurs’, often foreigners or other ‘outsiders’” (Taylor, 8/2000: 12) and the low proportion of generated SMMEs needs critical state intervention for a suitable and legislative institutional environment (Bek & Taylor, April 2001: 4). Rogerson claims that “the TRAC has been granted too much flexibility within the terms of the contract specifications (Rogerson, 2000: 542). Where empowerment projects have been advanced, such as in *tourism and forestry*, a lack of regulatory legislation have effectively sabotaged such efforts (Bel & Taylor, 4/2001:6). In the tourist sector mounting evidence suggests that unless there is a serious intervention by the state, the SMME economy will remain subordinate and marginal (Rogerson, 1998: 930-1).

#### **4.1.3.1. The process**

The adjudication of the tender procedure takes place through a points system which takes into consideration the tendered price (83 percent); equity ownership (a total of 12% with 10% for the ownership by PDIs and 2% for the ownership by women) and location (5%) of the enterprise<sup>75</sup>. Moreover, the price is used as the basis upon which to eliminate the largest number of tender applications – those which fall beyond 20 per cent above or below the estimate for the award price on the tender (Ibid.: 556-7). The latter was subject to critique. Those who envisaged to foster construction enterprises considered the 20 per cent spread around the engineers' estimated price too wide and suggested a 5 per cent instead, in contrast with those who sought to maximise empowerment and entrepreneurship capacities (Ibid.: 563-4).

Secondly, concerns were expressed about the practice to bring SMMEs into the adjudication process only after an initial prescreening had taken place, limiting the inclusiveness of the process.

Furthermore, the challenge of empowerment would be more effectively met by a process in which *all* the opportunities involved [in the road construction works] are identified and made available to communities. This would replace the situation whereby the main contractor filters the total package of opportunities and 'bottom slices' certain kinds of labour-intensive work as a set-aside, which is then offered to emerged SMMEs (Ibid: 563).

Lastly, in contrast with the positive evaluation of the transparency of the MDC process (MCEN, 3-9/7/1998: 37), the West Coast Initiative was criticised for its informality and lack of feedback which lead to suspicion and the perception that the process was unfair, while entrenching mainstream business (Bel & Taylor, 4/2001:24). The lack of feedback also led to discontent because firms did not know what aspect of their business did not meet the required specifications, which disabled them to adapt towards more competitiveness (Fitschen, 1998: 784).

#### **4.1.3.2. Gender sensitivity**

Besides proportional empowerment, attention is drawn to the gender composition. It appears that in the MDC, indigenous entrepreneurial women were not only highly *excluded* as workers and subcontractors (Pareja et al, 2000: 11), but they were also

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<sup>75</sup> With a maximum of 100 points that could be obtained by any tender the system in operation is that, "in the event of a tie between different tenders, the contract is 'awarded' to the tenderer who scores the highest equity ownership points and if thereafter tenders have the same number of points, the contract is awarded on lowest price" (Rogerson, 10/2000: 557).

*prevented* from enjoying profits by different means, such as selling fruit on the road<sup>76</sup> (Taylor, 8/2000:12). Instead, the only industry that appeared to provide employment for women was sex work that has sprung up along the [N4] highway (Colleen Lowe-Morna, quoted in Bel & Taylor, 4/2001:6). This aggravates the already disadvantaged position of women in both SA and SADC<sup>77</sup>. And “although there is an affirmative action policy, which is supposed to be integrated into SDI project, gender is not specifically emphasized” (Taylor, November2000: 16). Indeed only two points (out of hundred) are allocated for the gender representation in the government point system for the awarding of contracts (Bel & Taylor, 4/2001:6). This evaluation raises questions about the efficacy of certain initiatives like the South African Women in Construction (Sawic) established by the Development Bank of Southern Africa in 1997 and involved in the N4 Maputo corridor project (Lourens, 3-9/9/1999:7). Another initiative came from the University of Pretoria to establish the Gender Resource Centre with a mandate to intervene, facilitate and negotiate on behalf of its members on issues such as access to jobs, training and finance.

#### **4.1.3.3. Racial checks and balances**

PDIs fronting (Previously Disadvantaged Individuals) for white enterprises is an acknowledged practice and problem and processes have been set in place to avoid the worst known abuses of white entrepreneurs, such as funding and setting up their African gardeners as the executive front (Rogerson, 2000: 558).

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<sup>76</sup> “Initially, female informal traders were chased off the N4 for trying to sell fruit to travelers (something they have done for decades). With the increase in traffic flows along this route, the impoverished women felt that they had a right to try and make a living this way. However, the local council felt that this activity was dangerous to road users and so a hard-standing area with a slip-off road is planned. Local women interviewed felt that this would deprive them of potential customers complained about the sanitation conditions they work in” (Interview conducted by Taylor with informal traders outside Nelspruit, April 2000, in Taylor, 2000: 12).

<sup>77</sup> In SADC, “women are regarded as minors, denied property and contractual rights and financial banks are reluctant to lend them money as they are perceived as high risk cases” (Pareja et al , 2000: 11). “According to Ntsika, the contribution of women to the South African economy had been hampered by the discrimination and exclusion they suffered historically. Self-employed women needed support because they were increasingly becoming the sole breadwinners of many households. The agency said that women headed some 30% of households. Even married women tended to contribute a large proportion of their income to family welfare. In the ...SMME hierarchy, women accounted for 42% of the survivalist sector in 1996, according to Ntsika. They accounted for 11% of the small sector. The agency said that males dominated on all sectors of the economy, with male-owned businesses outnumbering female-owned enterprises by more than half” (South African Survey, 2001: 403).

## 4.2. SMME SUPPORT POLICIES

The SMME sector is still highly underdeveloped because of several reasons. One of them is the lack of certain basic facilities, which could be rectified with certain support policies, i.e. finance, efficiency and training and skills.

### 4.2.1. FINANCIAL SUPPORT

The most important lesson is the need for financial mentorship for emerging SMMEs in the construction sector (Rogerson, 2000: 562; Bel & Taylor, 4/2001: 21; MCEN, 3-9/7/1998: 17, 19; Lewis, 7/2001: vii, 29). In the absence of adequate financing, certainly start-up costs and equipment, many packages awarded to emerging SMMEs are reduced to little more than labour-only contracts with minimal profits for the emerging enterprise and minimal contributions towards empowerment (Rogerson, 2000: 560; Fitschen, 1998: 784). Appropriate financial support, such as venture capital, for small businesses is equally vital in the tourism as well as the high-tech industries (Koch & de Beer & Elliffe et al, 1998: 914; Hodge, 1998: 871).

This could be done via means such as contractually specifying the responsibilities of the main contractor in the concession contract<sup>78</sup> and by requiring banks that are involved in financing the anchor project to finance the small contractor businesses that have received guarantees from the main contractor.

Two **main problems** were encountered in the banking system. The core of the financing problem were the attitudes of and requirements asked by of the formal banking system, with the majority of applications being declined even with guarantee letters (Rogerson, 2000: 562; Creamer, 17-23/7/1998: 16). Financial institutions thus need to change their risk-averse attitudes (Platzky, 10/2000: 13) with a longer term view whereby the success or failure of an individual business is less of an issue than the benefit of experience that the individual in that business would have felt (Bel & Taylor, 4/2001:12). On the other hand, there is little clarity on what “the limits to the likely performance of a financial system [are] in terms of allocating such credit to the 'right' borrowers. Perhaps the only valid generalisation is that financial system will work better when it has better designed rules to guide lending to SMEs and more SME-specific personal experience, that is, more people who have enough feel for the context of SMEs to be discerning lenders. Not too

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<sup>78</sup> And not as was the case with TRAC-SBB which was by contract bound to ‘facilitate’ financing for emerging businesses. This vague term allowed the main contractor merely to offer letters of guarantee, while in fact a much more direct form of intervention was needed (Rogerson, 2000: 562).

many institutions in Latin America or elsewhere<sup>79</sup> in the developing world have performed impressively in this regard” (Berry, 12/2000: 13).

Secondly, the institutions need to be geared to the SMME’s needs (Platzky, 10/2000: 13). Besides the need for micro finance schemes, it for example appeared that physical distance from a key lending facility was a significant problem as transport links were expensive and infrequent (Bel & Taylor, 4/2001:12).

#### **4.2.2. COMPETITION - EFFICIENCY SUPPORT**

In the framework of creating cluster economies, micro-economic policies should aim at assisting firms in becoming more efficient and competitive, as large firms are mainly interested in subcontracting work out to smaller firms at or above a minimum performance level. Marketing support, skills transfer and the upgrading of technology and ICT infrastructure is the key to continuing success of SMEs (Berry, 12/2000: 12-13; Wolf, 8/2001).

However, the SDI experience has created the perception that the competitive wall is too tough for SMMEs to penetrate. The adjudication process allowed the most competitive tender to receive priority (that is in price, time and quality and within certain geographical concentric circles) (Fitschen, 1998: 781-2). It has been argued that the

<sup>79</sup> During a discussion on the South African financial banking system, institutions and laws on 11 September 2001, between 09:00 and 10:00 on SA-FM radio (104-107FM), it appeared that the banking system in general enhances the marginalisation of the population. Some reasons that were deemed important are that banks adhere to “first world” rules, while they actually face a complete different reality. Secondly the banks have created a system to protect themselves, but ended up with a “monster” against which people cannot fight. This is so because:

1. No loan is for example given to people that earn a monthly salary under a certain level. The figure mentioned was 3.500/month, which is very high knowing that many people (if not majority) live on this a year. But the behaviour in general is one of reluctance, because even when one earns under this amount but could prove a collateral, this was not accepted.

2. Banks furthermore look at the clients credit file without contextualising the information. This lead to many contradictory logic, like a criminal ex-jail person would be better positioned then those who once had a debt, and these are again better positioned then those who never had a debt because lack of a credit file. A major problem furthermore concerns the blacklisting and one non-related to banks, i.e. exceeding credit loans given by chain stores.

The consequence of this all is further marginalisation of the marginalised. Indeed, if you do not have money and not the right background you have no ability to receive any money and thus are ‘forced’ to remain in the position one was. An event often captured under the terminology that capitalism widens the gap between the rich and the poor. The consequences of this situation are vicious. Nobody can live without money, so people go to the “black” market and engage in loans with so-called loan-sharks, aggravating their situation as the money they will earn one day will mainly go to pay of their debts. And secondly, the consequences of these policies transfer to the children. If for example one of the parents was black listed, one cannot receive a student loan, impairing the abilities of future generations.

It was therefore said that financial institutions need to be much more strictly regulated according to the needs of the country, while they should live up to their promise of creating 50.000 home loans (?a year).

adherence to this principle is one of the reasons that the attempts of empowerment failed as (in Richards Bay and Saldanha) it enabled large companies to cut initial tender prices in order to win the contract, only to raise prices when the competition was no longer around (Fitschen, 1998: 781,3; Aniruth & Barnes, 1998: 844).

Furthermore, the provision of infrastructure is/should be aimed at lowering the production costs and thus increasing the competitive position. However, the obliged new tolls on the roads (perceived to be high) actually decreased the competitive edge of SMMEs (Lundin & Soderbaum, 2000: 12). Community protest (in the MDC) has eventually led to a different price policy, with discounts for commuter and local users, which is now below (in some cases substantially below) “normal” fares<sup>80</sup> (Taylor, 12/2000: 9).

In the high-tech SDI of Midrand, a lack of in debt competitiveness was reported and the question was raised around “the potential for SME involvement in an area dominated by multinationals. Typically, such corporations have limited links with the local economy. The limited local interaction will restrict opportunities for SMEs” (Hodge, 1998: 869-870).

#### **4.2.3. TRAINING & SKILLS SUPPORT**

A last important constraint for the prospect of SMME’s concerns skills shortages (Lewis, 7/2001: vii, viii, 33; Bradley, 12-18/6/1998:17; MCEN, 3-9/7/1998: 17, 19). SMEs do not and cannot be expected to supply most of the needed learning in-house, both for a lack of resources and for fear of “poaching” by other firms (Berry, 12/2000: 13). Besides the effect this has on attracting investment and on employment, it also leaves its traces on empowerment. According to Fitschen “providing people with an income for performing unskilled labour is not empowering if they remain unskilled at the end of the employment episode. When their contract is complete they will be no better equipped to survive than before. Skills transfer is thus a prerequisite for empowerment (Fitschen, 1998: 785). SDIs did not have as objective the direct development of the skills of the local population. Instead it presumably relied on a trickle down effect whereby through labour an employee would attain experience and skills. Nevertheless some SDI began to focus more on long term capacity building of the locals (Platzky, 10/2000: 14), and several initiatives have therefore been launched<sup>81</sup>.

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This appeared not to have been realized (only 1000 were created - the speaker referred to COSATU documents).

<sup>80</sup> For specific figures, refer to <http://www.trac4.co.za>

<sup>81</sup> Some solutions for capacity building have been adopted. In **Maputo**, two main initiatives were undertaken. The first concerned the training of trainers and the second was the provision of development

## 5. PROSPECTS

If the government can be taken for its word and if the new initiatives are realised, the prospects for both employment and empowerment appear quite promising.

As to **empowerment**, the government (President Mbeki and the DTI) seem to unanimously agree and acknowledge that their previous attempt at initiatives have failed. The DTI was disappointed that its own efforts to promote SMMEs had failed to produce the expected results. While the government had hoped that small business would grow

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centres as focal points for training programmes and as community development centres (Rogerson, 2000; Lourens, 3-9/7/1998: 35; MCEN, 3-9/7/1998: 37). "Training centres are established along the routes so that enough enterprises could make use of the packages offered. There, the potential candidates are taught skills involved in drafting bids as well as professional skills (see also Lourens, 3-9/7/1998: 35). At the three planned development centres a range of training courses were to be offered including, *inter alia*, management training, business skills as well as community education programmes, such as adult basic education and training, basic health care, road safety and basic life skills. After the three-year construction phase of the project, development centres were to be handed over to communities, leaving it for them to decide on their use perhaps for primary health care or emergency services" (Rogerson, 2000: 555). "The main problems experienced was bad timing, that is too late, with as a consequence criticism that the major beneficiaries of the initial phase contracting to SMMEs were the already advantaged or empowerment SMME entrepreneurs. An oversupply of training opportunities at a later stage was the reverse of the early stage. Therefore there is more need for a demand-driven training. And there is need for post-training and monitoring to see whether what was taught was actually implemented" (Ibid: 559).

In **Richards Bay** an "innovative education project started in the mid-1990s, which offers some hope of relieving the shortage of skilled personnel in the future. The project, called the Business-Education Network, involves an innovative relationship between local schools, the University of Zululand and local businesses in Richards Bay. The network is committed to fostering partnerships between schools and business by way of developing new curricula that better meet the requirements of the business sector" (Aniruth & Barnes, 1998: 846).

Also on the Saldanha Steel site training was provided (MCEN, 3-9/7/1998:28). Indeed, various bodies have been set up at the **West Coast Investment Initiative**, such as the West Coast Business Development Centre (WCBDC) to serve specific practical purposes through direct contact with actual businesses and potential entrepreneurs. Others, such as the LED-forum, act to bring local role players together to devise ways forward. In addition, an Education, Training and Employment (ETE) working group has been established. All the three province universities are situated in or very near to Cape Town. As a result there is no meaningful pool of local skilled labour to supply the work force for many project or indeed to act as forward thinking entrepreneurs. It has therefore been WCII policy to lobby for the improvement to the educational infrastructure available to the West Coast population. Important outcomes to date included the preparation of a detailed skill audit of industrial and non-industrial sectors of the West Coast. A school career choice programme is also in progress aiming to both increase young peoples' awareness of possible future opportunities, and also to act as a motivating tool. Most significantly a West Coast College has been 'proclaimed' by the Department of Education. Such programmes will have little short-term beneficial effects upon the local economy, however they provide the bedrock foundations upon which future growth will depend (Bel & Taylor, 4/2001: 20-21).

But also outside the SDI framework, such as the R3-billion **N3 Toll road**, the consortia were required to stipulate what training and skills programme would be undertaken in respect of the creation of job opportunities for developing contractors and small, medium and micro enterprises (SMMEs) (MCEN, 3-9/7/1998: 38-a).

over the last six years, in May 2000 it acknowledged that it had underestimated the structural obstacles impeding the growth of this sector. According to the Minister of Trade and Industry, Mr. Alec Erwin, it also misjudged the ability of South Africa's banking sector to promote SMMEs. The financial sector as a whole had not made a sufficient contribution to assisting SMMEs establish themselves and grow" (South Africa Survey 2001: 393). In the words of the President: "We have looked at empowerment nationally and it has not worked. We need a complete review of black empowerment and we have to look at small black businesses and find solutions to these problems" (EIU, 3/2001: 17).

Although we do not have an overall overview of some of the proposed initiatives, "(t)he Department of Trade and Industry announced in 2000 that it was considering appointing an advisory panel to promote the small, medium, and micro enterprise (SMME) sector and announced a scheme to encourage small and medium enterprises through R2bn a year in subsidies and grants over the next six years. Industries that qualified were those involved in the services sector, as well as arts, crafts, manufacturing, and tourism" (South African Survey, 2001: 416). An investment incentive has also been introduced in the form of an amendment of depreciation rules in favour of small business in the manufacturing sector. The government is likely to make any kind of inducement heavily conditional on the level of employment involved (EIU, 3/2001: 24)

The small, medium and micro enterprise (SMME) sector was expected to increase its relative significance in the economy as a result of unemployment. And Ntsika predicted that the SMME sector would dominate South Africa's tourism sector in future, because the sector was 'at the beginning of a long-run growth process'. Ntsika said the tourism sector had opportunities which were "immense and untapped" (South African Survey, 2001: 416).

As to **employment**, a Presidential Jobs Summit was convened in October 1998 and consisted of representatives from the government, organised business, and organised labour. "Its purpose was to seek specific measures and strategies to increase employment growth. The parties agreed on a number of measures, which are now being implemented, including special employment programmes focusing on rural infrastructure development, monitoring and micro-financing programs for the promotion of small enterprises and labour-intensive sectors (particularly tourism), and skills development and training initiatives targeted at youth and women. In contrast with large scale projects, rural-based community projects boost employment, but they may take a substantial time to get under

way and need considerable capacity at the local government level to ensure that they are effective” (EIU, 3/2001: 19-20).

## 6. CONCLUSION: SDIs AND THE SOCIAL REALM

South Africa’s reputation is seriously damaged by the perception of high crime rates. It is rated as the prime concern of potential investors (after HIV/AIDS). This problem is somehow linked to the high unemployment rate according to racial divisions, which is what SDIs are intended to address.

Because of the lack overall **employment** statistics, we have focused and contextualised the main criticism, which is that the SDIs have concentrated on capital intensive industries. Although this arguments neglects that there are SDIs that focused on more labour intensive industries, it may have been that comparatively speaking not sufficient attention has been given to them in all the SDIs. When weighing up the advantages and disadvantages of the capital intensive industries, it appears that the main problem is the lack of a long term integrated governmental development strategy beyond GEAR which would provide criteria on which choices could be rationally weighted and eventually make sense. In any case, since the ‘Presidential Summit’ of 1998, **prospects** are that much more emphasis will be devoted to small rural based and labour intensive community projects instead of the large scale projects.

As in the case of employment, no overall statistics on **empowerment** performance were available. Positive perceptions on the process included contractors who were legally bound to form joint ventures and that many opportunities were identified. On the other hand the lack of legal clarity was criticised for leaving too much manoeuvrability to the detriment of the SMMEs. Furthermore, whereas there was sufficient information and knowledge on the general opportunities during the tender process, the adjudication process was criticised on three aspects. The process was **first** of all blamed for the prescreening and the informality which questioned the fairness of the inclusiveness; **secondly**, some criticised that too much emphasis went to empowerment while a focus on entrepreneurship capacity would be more long term and viable, and **thirdly** others complained that there was too little emphasis on empowerment because the opportunities were too much skewed in favour of labour intensive work. The composition of the

empowerment effort on the other hand was (in the MDC) heavily criticised for the lack of gender inclusion and problems occurring with PDI fronting.

From the three **support policies**, financial mentorship for emerging SMMEs was simultaneously the most important void, as well as the biggest need. The problems mainly related to two aspects, i.e. the attitudes and requirements by the formal banking system and that the institutions were not geared to the SMMEs' needs. As to efficiency support, it was argued that the competitive wall was too high and therefore failed to empower SMMEs; moreover the provision of infrastructure through PPP actually decreased the competitive edge, while in Midrand it was perceived difficult for SMMEs to compete with multinationals. Thirdly, the SDI did initially not cover the development of skills of the SMMEs, but only after several years in operation it started to take some relevant initiatives.

**Prospects** nevertheless look more favourable, if one could take the politicians on their word. Government has unanimously acknowledged that its previous attempts of empowerment were not successful and pointed the finger at the financial sector. Several other initiatives that have been undertaken include the establishment of an advisory panel to assess the problem, and subsidies, grants and investment incentives have been introduced to stimulate SMMEs.

## CHAPTER 6. CONCLUSION: STRATEGIC FIT AND LESSONS FOR SADC?

This thesis evaluates Spatial Development Initiatives, Industrial Development Zones and Development Corridors, that became the official policy of the DTI in 1995/6 (mainly) in South Africa are evaluated.

After introducing the reader to the methodological background of the approach and to the necessary roots and concepts of the initiatives, the strategy is divided into its components and each is analysed as to how they contributed to the overall success; on what the main experiences and lessons were; and on how the governments' policies would possibly change their prospects.

During the research it has become evident that the government was 'trapped in a vicious circle'. Government tends **to attract investment** to solve pressing *socio-economic* problems, while it is mainly these problems that distract investments. Indeed in the social-economic-institutional realms it is crime and violence (which is caused by poverty) and HIV/AIDS, that are considered to be the main constraints on investments in South Africa. In the *economic realm* the main distracter would be the characteristics of the labour units, i.e. the unskilled and HIV/AIDS. In other respects the distracters are not related to South Africa's policies, i.e. global recession and the 'just the wrong continent'. There are nevertheless concerns about certain policies (as for example the labour law), but currently they seem to be perceived to be more detrimental than they actually are, when compared internationally. *Institutionally*, although the government is business oriented, the undermining of support by its alliance and the absence of a mature democratic experience causes policies not to be uniformly coherent and effective. But according to some observers the political risk is low because government has gone too far to change its policies.

Why government would want to attract investment on the other hand, is also understandable, given the condition of low domestic savings and **entrepreneurship**, or as some say, 'when you are poor, you cannot get rich by selling to yourself'. Nevertheless, there are still considerable efforts that could be made in this regard. Although education is the governments' top budget priority and some initiatives have been made to cut tax on interest to enhance saving, the financial system should be more adapted to the local reality. Although some may think that when there is some measure

of institutional pressure on the financial system, this may decrease the country's credibility for investment. There are of course boundaries and with expected investment being low, government should do as much as possible to achieve as much as it is able with the resources at its disposal. It thus stands to reason that amidst the low prospects of investments, government should especially focus on SMME. It is in this sector that most of the disadvantaged people live, could be employed and internationally this sector has been successful, especially in Asia and Latin America. Although what seems to be successful in other part of the world, does not automatically mean that it would work for South Africa. Nevertheless, this sector is very underdeveloped in South Africa and much potential is therefore untapped. Although this sector has been addressed in accordance with the SDI strategy, it is not a straightforward task to comment on the results that have been achieved. Firstly there were no specific set goals on the amount to achieve; secondly, there are no overall figures available (and collected?) on how what has been achieved. The consequence is that our evaluation focused on reported experiences that were mixed, i.e. good and bad. Special attention needs to be directed towards gender inclusion, financial backups, efficiency support and the development of skills. Prospects for this sector may look better as government has acknowledged its previous empowerment policy failed and has consequently taken some initiatives to improve the sector.

In terms of the investment that the South African Government has managed to attract, many evaluators complained that it concentrated on the wrong niche markets, i.e. those that are not **labour** intensive and that have low prospects for growth. After contextualising the argument, it appears that the sectoral choice could only be made and criticised when it is evaluated against an overall long-term development strategy, in other words: where does the government wish to go with the economy? Because this vision is found wanting, (the GEAR document is too vague in this matter) the governments stands accused of incoherence in its policies and it may thus eventually be missing its aims, while its intentions may well be good. It is unquestionable that amidst the present global economic prospects, the South African Governments, and the other governments in the Southern African region, will have to concentrate on labour intensive industries. This does not mean that capital intensive investments should be excluded, but maybe less attention should be drawn to them.

The fact that South Africa is not yet operating as a mature **democratic state** is reflected by the SDI experience. Central government initially played a significant facilitating and

intermediating role, but it did not always stand by its policy, either in defending it towards its electorate or in providing the necessary mechanisms and resources to the key actors (project managers) to do their job. In the provinces where institutional capital is worth its weight in gold, the result was a low level of ownership of the SDI which made all the invested time and resources in the first phase almost wasted. Furthermore it harmed central government's policy coherence, while enhancing intergovernmental friction. Nevertheless, there certainly are some successful provinces, such as the Gauteng and Lubombo SDI. In the case of Gauteng, whose SDI was the province's own brainchild, it was nevertheless remarked that not enough effort went to endogenising economic development. After the six/seven years after the 1994 elections, the institutions have nevertheless improved tremendously and financial credibility and management initiatives have been undertaken to improve their performance. This will be needed. According to Altman the role of central government in SDIs should now be changed towards overseeing consistency in policy and implementation.

On the one hand it is difficult to say categorically whether or not there was a strategic fit, because the strategic aims were not initially written out in measurable detail. If the aim was to employ and to empower, while strengthening the institutions, we could qualitatively discern only when institutional capacity building (like in Lubombo) was a clear aim, that the resulting effect of the SDI strategy was significant.

The employment and empowerment efforts may have been more disappointing than hoped for. But again this is difficult to discern because it may be too early to observe the trickle down effects. Neither is it easy to measure the many achievements that were recorded, and still then, they will probably look very relative because of the immensity of the problem. In 2001 the South African Government acknowledged that it has failed in its empowerment programme, while a Presidential Summit was convened in 1998 to search for employment solutions. Against this background and given that not more effort is made to measure the results of the efforts to create employment, has to indicate that the SDIs have not left behind an impression of having performed well in terms of their strategic aim. On the one hand this was because government strongly tended towards attracting foreign investment while paying too little attention to the subsequent needs of SMMEs. Moreover is there a need for an integrated and long-term development plan that allows rational choices to be made. Nevertheless, the fact that evaluations are commissioned and that government publicly admits a mistake could be the signs of a learning organisation, which again is the start of a positive process.

Finally we will briefly elaborate on whether and how SDIs could contribute to **the SADC integration**. In this connection we relied on the work of Stewart. He evaluated the Southern African experience with integration models, and from which he discerned three guidelines that needed to be taken into consideration when selecting any integration model that could possibly fit the Southern African reality. We will briefly analyse whether the SDI-strategy meets these guidelines.

Firstly, “*political feasibility* must remain central to the discussion of economic cooperation in Southern Africa, and the blind and naïve pursuit of such, as yet, unattainable concepts as maximum economic efficiency should be guarded against at all times. The broad political implications of all possible options for economic cooperation should be identified and thoroughly deliberated upon, so as to avoid the adoption of any overly technical, mechanistic and politically impractical “solutions” to the economic cooperation question in Southern Africa” (Stewart, 1994:8).

The SDIs seem to reflect this guideline. “The idea of a development corridor has important political value. It is a concept around which to mobilize development, capture popular imagination and market regions and localities. The development corridor links localities and projects within common programmes. The corridor intersects political boundaries, facilitating inter-locality, inter-provincial and international cooperation. It also links disparate projects that might benefit from the synergy’s of networking and cooperation” (Harrison & Todes: 1996: 73).

Secondly, the model should be *technically feasible*. “Technically and institutionally, the vast majority of countries in Southern Africa are not particularly mature, with the result that any cooperative model considered for the region should not make excessive demands on their rather underdeveloped technical and institutional capacities. Simple models which require the minimum of institutional and technical backing and support are likely to be the only ones practicable in the Southern African situation” (Stewart, 1994:8).

This may be problematic in the SDI context. The lessons from South Africa are that SDIs are only successful when explicit efforts to capacity building are undertaken. Certainly when relying on a network structure, this is a vital precondition. On the other hand, the

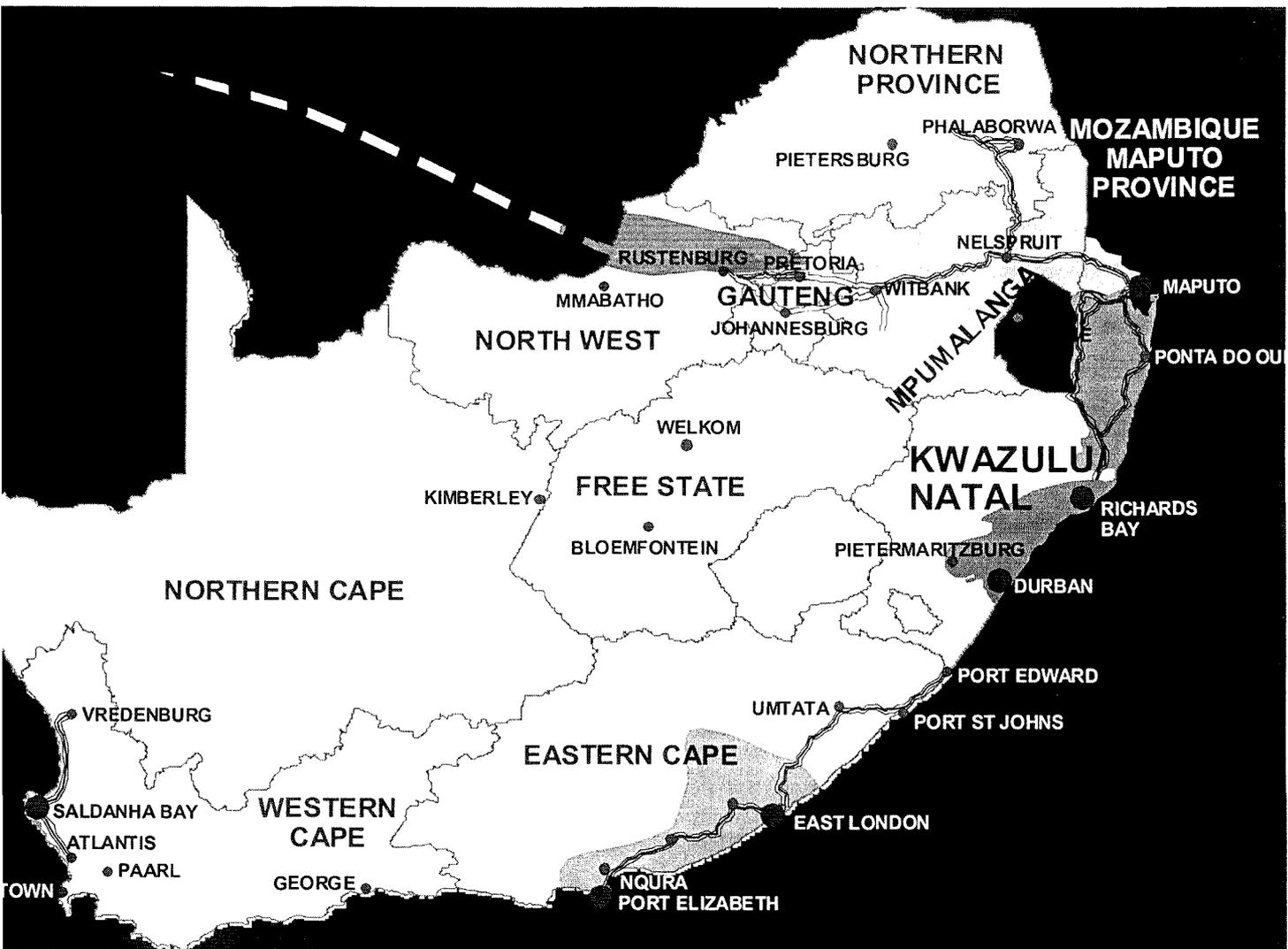
SDI concept provides a good opportunity, as it starts to build capacity, that it can immediately be applied and reap benefits, which is the third guideline.

Indeed, the third guideline is that the *gains should be feasible*. Third World leaders evaluate regional cooperation on the basis of the contribution it can make to the achievement of national development objectives (Mytelka 1973: 240 in Stewart, 1994: 8). Consequently, the distribution of the gains from economic cooperation becomes a central issue amongst less developed countries (Stewart, 1994:8). The multiplicity of problems faced by the leaderships of developing countries, as well as the scarcity of resources to deal with these problems, tend to make these leaderships rather impatient. Consequently system durability requires that significant and concrete benefits are delivered within a very short time period (Ravenhill 1980:46 in Stewart, 1994:9) If these national goals are not satisfied, the arrangements will swiftly lose their legitimacy and may, as a result, be driven to total disintegration. Mytelka (1973:250 in Stewart, 1994:9) cites five factors related to the salience of gains that have a strong influence on the creation and durability of Third World integrative schemes. These factors refer to the extent to which: “the leadership perceives a probability of national gains; there are immediate tangible gains; gains are increasing over time; equity in the distribution of gains is perceived; gains are increasing proportionately faster than losses”. These five factors are highly relevant within the Southern African contest and should, therefore, be used as important criteria in the process by which an appropriate model for regional economic cooperation is selected (Stewart, 1994:9).

The South African experience shows that gains are direct if certain preconditions are met. First of all there is a need of an overall integrated development strategy for the country, so that the industries on which an emphasis is placed would perform well in their contribution to the overall development. Certainly with the prospect of a global economic recession it is important not merely to focus on attracting big capital investment, but to pay specific attention to the needs of SMMEs and gender. Secondly, although there may be a perception that the latter focus may take longer before any benefits are reaped, disappointment can be avoided by drafting step-by-step strategic plans, with measurable outcomes, so that the progress that is made could be clearly recognised.

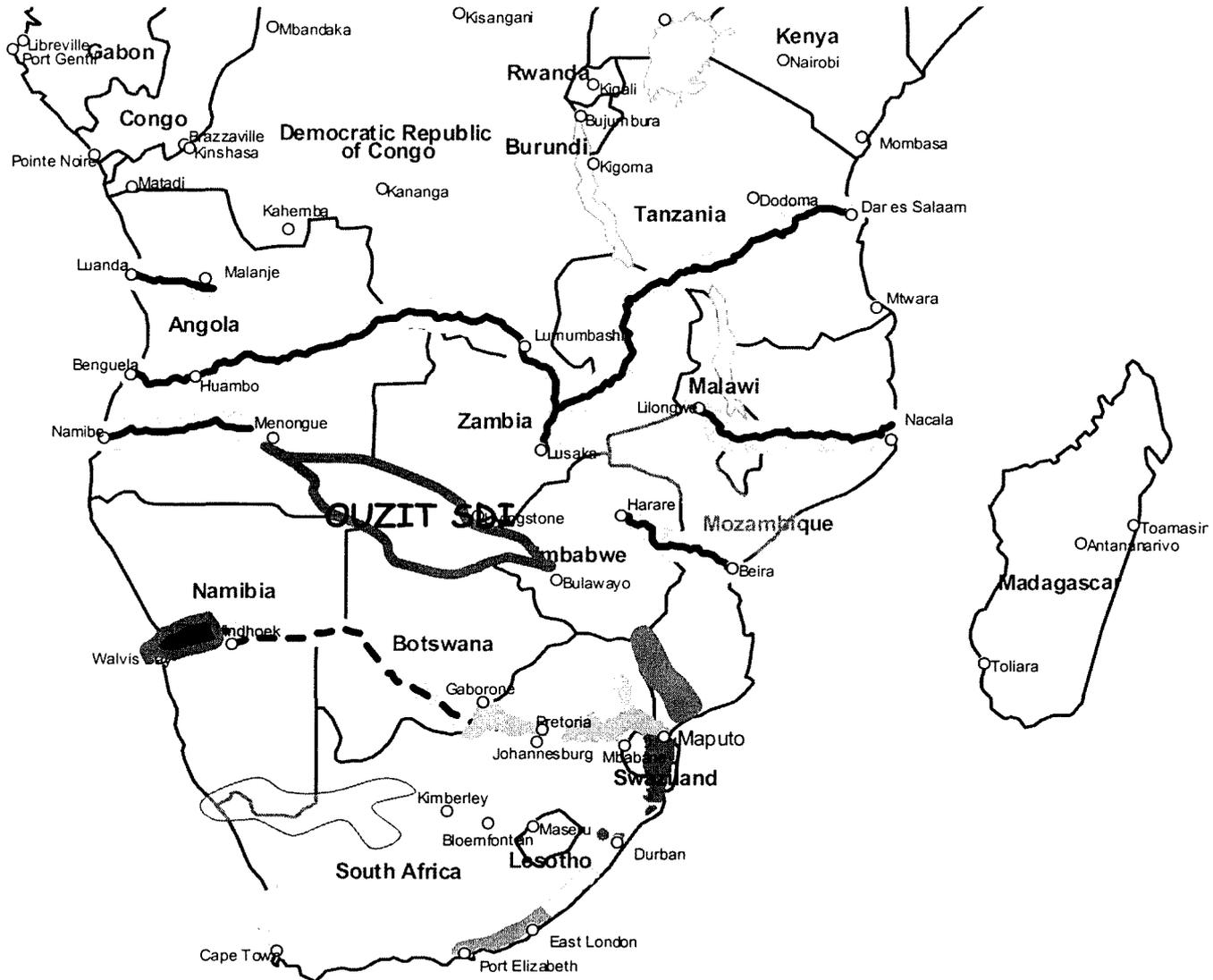
CHAPTER 7. APPENDIX

APPENDIX 1: SDIs, IDZs AND DCs IN SOUTH AFRICA



Source: DTI presentation on of South Africa's International trade Policy

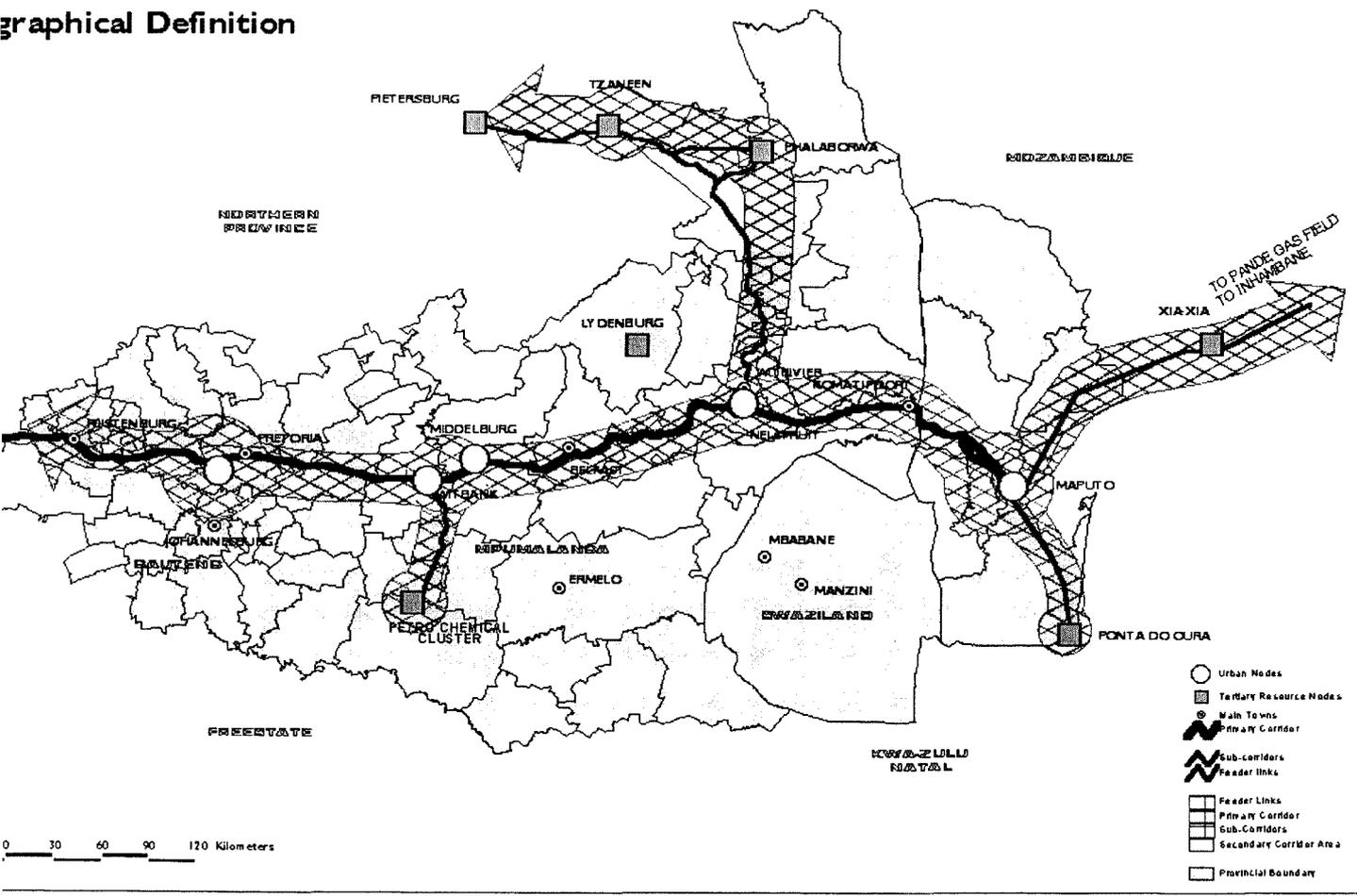
**APPENDIX 2: POSSIBLE SDIs AND DCs IN SADC**



Source: DTI presentation on of South Africa's International Trade Policy

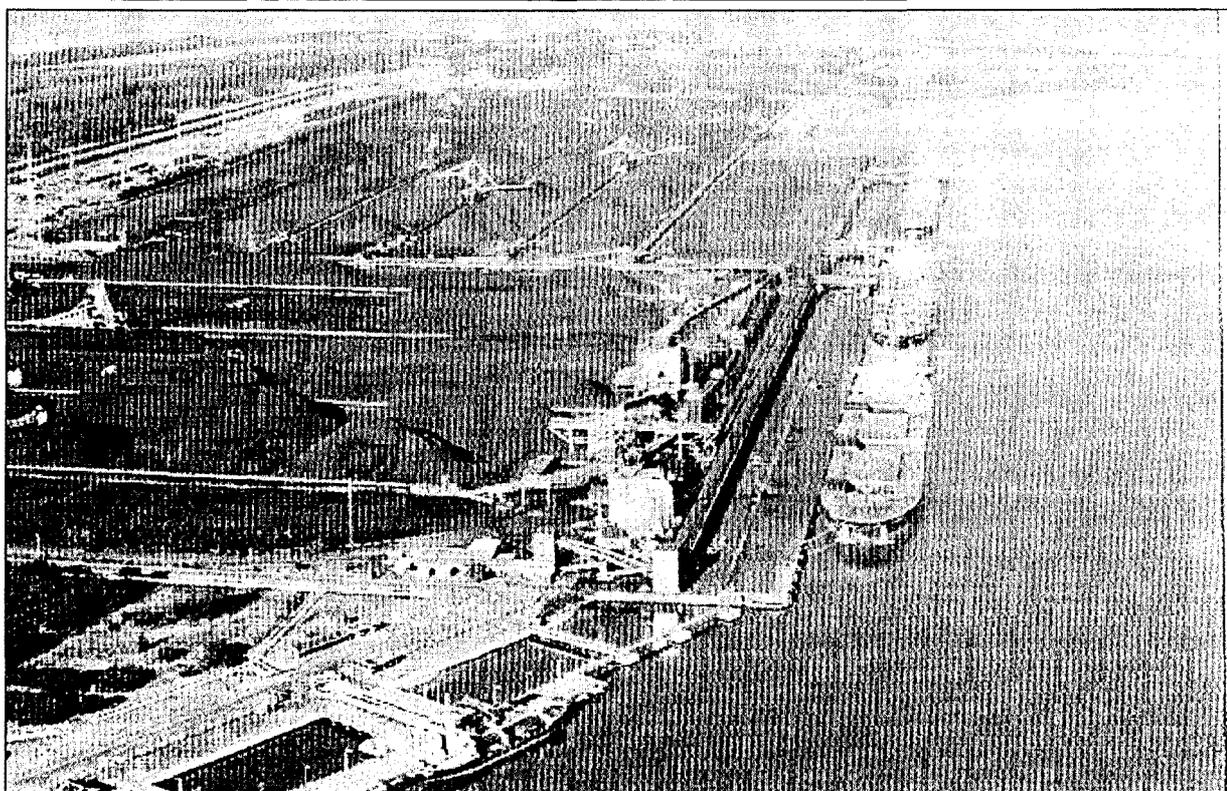
**APPENDIX 3: THE MAPUTO CORRIDOR IN PERSPECTIVE**

**MAPUTO DEVELOPMENT CORRIDOR  
IN PERSPECTIVE  
Geographical Definition**



Source: DTI presentation on of South Africa's International Trade Policy

**APPENDIX 4: SOME TYPES OF SDIs IN PICTURE: LUBOMBO (TOURISM) AND RICHARDS BAY (INDUSTRIAL)**  
Source: DTI presentation on of South Africa's International Trade Policy



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