Industrial development as an effective local economic development strategy:
The Port Elizabeth metropole as a case study

(Work In Progress)

In light of the performance of the Italian districts, and as if to compensate for decades of neglect, the local area is making a comeback as a new paradigm of industrial development (Ganne, in Scott and Storper, 1992:216).

Tamzyn Pakes
Institute for Development Planning and Research
University of Port Elizabeth
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1 INTRODUCTION

This paper addresses the concept of a relatively new approach to economic development in South African cities and towns. In particular, the focus is on local economic development and its association with industrial strategy. The case study of the Port Elizabeth metropole[1] is used to illustrate the question of industrial development as an effective local economic development strategy.

Since the early 1980s, there have been changes in the local economic development (LED) literature. The traditional neoclassical approach to LED appears to have given way to a new concept of economic development in which "economic values and motivations are only part of the story". The traditional "development from above" paradigm has been shelved in favour of "development from below" and a new emphasis on the role of institutions, evolutionary dynamics, and territorial specificity in the approach to both industrialisation and regional development. The responsibility for economic development has shifted to the local or city level in response to the inability of regions to respond to the global crisis prompted by global restructuring. Although the international trend has been towards a reduced industrial sector and a growth in services, it appears that "manufacturing still matters" in terms of the health and wealth of a country's economy.

A number of LED models have emerged which provide guidance to cities that are interested in taking the initiative in responding to the rise of the new flexible production order. In responding to the objectives set in a localised industrial development strategy, it is useful to consider three main options:- the attraction of new industries into the area, the strengthening of the existing industrial base, and the promotion of new small business and/or the agglomeration of interlinked small firms that serve specialised markets and react flexibly to emerging market niches.

The main argument in this paper is that an *effective*[2] local industrial development strategy that complements other economic activity in other sectors - and that is not solely based on large-scale industry - needs to be designed for the Port Elizabeth metropole, and that the new theories of LED provide some useful guidelines.

Section 2 presents a case study of the city of Port Elizabeth. The history of the economy and manufacturing sector are described, and the opportunities for development are considered. In **Section 3** the role of the manufacturing sector in the economy and the objectives of industrial strategy are discussed, followed by a review of the role of industrial development at a local level. The new developments in the LED literature are presented, and existing industrial and LED policy and its relation to the local level in South Africa is determined. **Section 4** then offers some suggestions as to how an effective local industrial strategy could be designed for the city of Port Elizabeth. In the concluding part of this paper, **Section 5**, some important questions are posed with regard to what needs to be further investigated.

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1 **Important**: The Port Elizabeth metropole includes the town of Uitenhage, which is located some forty kilometres away.

2 Meaning that it meets the objectives of both local economic development and industrial development strategy.

2 PORT ELIZABETH AS A CASE STUDY

2.1 Historical pattern of development

While in the 19th century the city of Port Elizabeth was a thriving centre of commercial activity and primary production, this changed in the early 1920s as the local elite in the city actively promoted local industrial growth, responding to a world-wide industrial boom. Commerce in the 1800s and early 1900s centred mainly around the wool and mohair industry, largely due to the city being able to traditionally draw on the agricultural hinterland for the raw products to which it could add value. Besides being an important national centre for international trade and finance, Port Elizabeth was also known for its trade in ostrich feathers, but diamonds were the main product to be traded until the railroad from Cape Town to Kimberley was built. As early as the 1920s the local elite in Port Elizabeth actively promoted local industrial growth. This place entrepreneurialism, which was driven by the town's merchants, led to attempts to influence both local and colonial state policy as well as foreign and local banking interests. The success of the merchants' efforts, together with the productivity of the wool regions in the hinterland led to Port Elizabeth exceeding Cape Town in trade and other economic terms for much of the latter part of the nineteenth century (Robinson, 1990).

However, the town was plagued with certain disadvantages "which would forever plague the full realization of its potential" (Adler, 1993:19), not least of which was the financial backwardness and political weakness which continually prevented the elite's efforts to upgrade the inadequate harbour facilities, and to win the position of railway hub to the interior after the discovery of diamonds in 1867 (Robinson, 1990 and Adler, 1993). The commercial position of the town was eroded through the last quarter of the 19th century as the Rand developed. In fact, at the turn of the century, the entire region slipped into decline. This was largely due to the collapse of the diamond and ostrich feather markets in the 1880s, the fall in the price of wool, and the failure of Port Elizabeth/s merchants to secure a significant share of the Transvaal trade or improved port facilities (Adler, 1993).

With the investment of international firms, the importance of Port Elizabeth shifted from a raw material export point and entrepôt to a production site tied to the dynamics of the international automobile industry, "the premier 20th century manufacturing sector". While in the middle of the last century, Port Elizabeth became the "premier port" in the Cape Colony earning it the name 'Liverpool of the Cape', it has been hailed by some as the 'Detroit of South Africa' in more recent years (Adler, 1993). In the early 1920s a world-wide industrial boom led to a turning point for South Africa in 1925. In this year the Pact government introduced protective measures for industry which encouraged local manufacturing, or import substitution. Major sectors influenced by this legislation included the motor assembly, and later motor production sector, and the clothing and footwear industries. All of these became important in Port Elizabeth from this time on. Together with this industrial protection, state intervention in employment practices was introduced which attempted to deal with the high unemployment rate amongst "poor whites". In this context, the municipality became involved in attracting industrial development to the area. Local industry and commerce also made efforts to promote economic activity in the city by promoting themselves, the harbour and railway development and encouraging cotton growing and processing in the region. On the other hand, in order to attract investors the city council provided discounts on various facilities such as electricity and gas, and engineered land availability. The faith in "modernism and manufacturing" was evident in the proud claim that Port Elizabeth "looks like a bit of Detroit in the North End" (Adler, 1993).

In the 1923-35 period, Port Elizabeth's local council policy and ideology was dominated by liberalism and aggressive place entrepreneurialism. In fact, the city was marketed as "The Progressive City" by the local government. Although the city's authorities were lenient in terms of the pass laws and other apartheid laws, the reasons for this were to secure a pool of labour for industry and to control the African people living in the town (Robinson, 1990). With the growth and development of the motor industry in the area, this sector became predominant. In 1923, the city managed to attract Ford Motor Company, General Motors (in 1926) and in the 1950s, Volkswagen South Africa (Adler, 1993). These large motor manufacturers were particularly interested in the City because of its harbour facilities, its railway network, and a large supply of labour. The result was that the automotive component and allied industries (such as tyre, glass, textile) began to develop in the area (Robinson, 1990).

The emphasis of the first phase of manufacturing (beginning in 1924) was on the assembly of parts made elsewhere and the production of basic consumer goods, while in the second phase (beginning in the 1960s) there was a shift to consumer durables and capital goods, fuelled by the growth in the automobile manufacturing industry under the local content programme (Adler, 1993). Each of these two phases was preceded by a World War. After the First World War, the tanning, footwear, and food industries were most predominant. The second phase, after the Second World War, involved the expansion of the textiles and motor and component industries (Department of Trade and Industry, 1996). Adler (1993) suggests a third phase in which import substitution seems to have run its course, and has contributing to a massive economic crisis in the auto industry and in the region.

After the first industrial phase in the city, which is characterised by the introduction of import substitution, the scale of industry shifted dramatically, towards larger establishments, higher capital to labour ratios, the growing importance of foreign capital investment, and the increased application of mechanised, assembly-line labour processes. This transformed the type of labour required and African and Coloured workers were increasingly drawn into the semi-skilled operative employment in mass-producing industries. Such workers were in a position to organise and shape production according to their own interests. This has had important implications for labour as from the 1970s, the black semi-skilled workers began to organise what would become the most powerful industrial union in the country (Adler, 1993).

As a result of the local content programme in the 1960s, the significance of imports of CKD kits declined relative to locally-produced goods, and Port Elizabeth's harbour became a far less important factor in shaping the decisions of firms to operate there. "Port Elizabeth may have had the sea, but the arid PWV had steel, capital, and the bulk of the market" (Adler, 1993:43). The transitions from import, to assembly, to manufacturing thus repeated a familiar 19^{th} century pattern whereby Port Elizabeth's growing, but not deeply rooted economy lost out to the development of other centres in the country (Adler, 1993).

In 1980 the Port Elizabeth metropole was considered an industrial centre as it contributed 40% of GGP and employed almost 30% of the labour force. The most significant sub-sector was that of automotive and components which had been central to the industry for many years (Davies, 1990). In fact, in 1978 this sub-sector accounted for just over 50% of the value of the area's manufacturing industry production. It is evident that the city has been reliant on the automotive and component sub-sector since the 1920s (Adler, 1993).

Although the Port Elizabeth metropole experienced a period of relative prosperity as did the other metropolitan centres in the country in the 1950s and 1960s, industrial stagnation and decline were evident in the 1970s and 1980s. Perhaps one of the most serious influences was the vulnerability of an undiversified industrial sector to respond to periodic recessions and inappropriate macroeconomic policies. In the second place, structural changes which altered the international division of labour in the international economy may have contributed to a change in the inter-regional division of labour in Southern Africa. Thirdly, certain structural weaknesses arose from national government's policy of tariff protection, limiting the ability of local manufacturers to compete in the national and international markets. Fourthly, the policy of import substitution, although initially introduced to protect final consumer goods, was extended to include the protection of intermediate and eventually capital goods – industries in Port Elizabeth faced the greatest disadvantage in competing with outside producers due to the cost-cutting effect of the policy to protect material inputs. In the fifth place, the policy of industrial decentralisation, perhaps the major reason for the relative shift of manufacturing activity at both national and regional level, played an important part (Black *et al*, 1987). Further, the manufacturing sector in the area displayed "a bias towards the production of final consumer goods for the non-local South Africa market, using manufactured inputs procured from non-local sources" (Wallis, 1986:88). Unfortunately this kind of industry has a significant disadvantage when competing on a global level and characterises local industry.

The decline in the area's share of national motor vehicle production from nearly 60% in 1965 to around 30% in 1986 was largely due to the structural changes in the motor industry at national level. This was largely due to the effects of the local content programme and the inability of the industry to realise economies of scale in a relatively small domestic market served by too many producers. The decline had a serious ripple effect in that it impacted on a number of other component manufacturing industries (Davies, 1990), largely because the textile, chemical, rubber products, metal products, machinery and electrical machinery industries all sell a significant proportion of their output to the motor sector (Wallis, 1986:8). The overall result was a long-term period of stagnation for the metropole during the 1970s and a decline in the 1980s. Despite signs of export activity in later years, the industry is still far behind its competitors and will face some major challenges. In particular, there has been growth in the automotive component industry in the city in more recent times (Robinson, 1990). Adler (1993) suggests that it is impossible to predict whether some new industry will arise "to supplant the motor industry, as it supplanted wool export, whether the automobile industry can be turned around, or whether the industry will continue to decline".

Besides the automotive and components industry, the other predominant industries in Port Elizabeth are:- the chemical; metal, metal products, machinery and electrical machinery; textile and clothing; and the food and beverages industries. Due to the industrial development policies in existence at that time, their location was a significant disadvantage in terms of distance from the main markets, limited export potential, and the close ties with the motor industry. It is clear that the problems experienced by the Port Elizabeth area in the 1970s and 80s were the result of national economic forces, but also the particular characteristics of the area's own economic fragility (Davies, 1990). Despite the apparent lack of dynamism in the other main manufacturing industries, certain industries that could be considered "propulsive manufacturing industries" according to certain criteria[3] in the Eastern Cape (the old "Region D") were identified (Black et al, 1987). The exercise revealed that the industrial "hubs" in the area had a particularly strong relative advantage in the production of textiles, clothing, electrical cables and conductors, microelectronics and motor components, and in the processing of food items like dairy products, meat, vegetables and fruit. In the Port Elizabeth metropole, the links with the hinterland were considered to make it a potentially profitable location for the processing of wool, mohair, skins and hides, depending on the ability of the city to penetrate certain foreign markets.

The manufacturing sectors that had a comparative advantage in the Port Elizabeth area included automotive component production for local and international markets, hides and

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3 These include:- (1) market potential which refers to the actual and potential size of domestic and foreign markets (2) linkage potential which refers to the scope for developing an integrated set of backward and forward linkages within the sub-region and region (3) cost advantage which can be either an absolute cost advantage or a comparative cost advantage relative to similar industries in other regions (4) employment potential or labour intensity of the industry and (5) external economies which relates to the ability to upgrade labour skills and develop a technological capability, and to the scope for transferring such benefits to other industries in the region.

skins due to the existence of backward and forward linkages, electrical machinery due to its multiplier effect on income and employment in the local economy, and the processing of various food products such as canning, preserving and confectionery. However, at that time there were certain constraints that needed to be overcome, such as the economic recession, high cost of imported materials, several locational disadvantages, and various restriction on the export of manufactured goods. It was recommended that a number of targeted concessions and incentives should be given to those industries with a proven cost advantage over the rest of Region D (Eastern Cape), and above all for an appropriate regional industrial development strategy to be developed (Wallis, 1986). In fact, the local economy was considered by some to be unlikely to recover without "a particular, localised economic prescription" (Davies, 1990:210), and that it would need to be planned in the context of an appropriate regional economic development policy (Davies, 1990; Black et al, 1987).

2.2 Overall economic trends

Port Elizabeth is the largest city in the Eastern Cape Province, which is the second largest province in terms of surface area of the nine existing provinces in the country. The city houses just over 1 million inhabitants, and this represents eighteen percent of the almost 6.5-million people living in the province. In 1994, in the region of 360,000 inhabitants were part of the labour force in the city, and the total labour force contributed almost 60% to the total GGP output in the province (Pakes and Nel, 1997a; Institute for Development Planning and Research, 1997).

The latest GGP figures available for Port Elizabeth indicate that the city had a growth rate of 2.0% in 1994, an increase over the lower figures during the early 1990s. The national contribution to total output for the same period was 2.1%, suggesting that the performance of the city of Port Elizabeth successfully remained on a par with the rest of the country. Uitenhage, on the other hand, experienced a slightly lower growth rate over the same period of 1.3%, but this was an improvement from the negative growth rates in the early 1990s (Institute for Development Planning and Research, 1997).

The manufacturing sector is the largest in Port Elizabeth in terms of the size of its relative contribution to the GGP, even though this contribution declined during the 1980s. In fact, the percentage contribution of the manufacturing sector declined from 40% in 1968 to around 36% in 1991. More recent statistics (Central Statistical Service, 1995) suggest that by 1994 the relative size of the manufacturing sector in Port Elizabeth had fallen to one third of the total contribution to GGP. The community and general government services sector contributed almost 20% to total GGP for the city in 1991 and similar figures were reported for 1994, but has grown considerably from 1.6% in 1968. The trade and catering sector contributed the third largest percentage to GGP in 1991 and in 1994. Although the percentage contribution has not changed much since 1968, there has been an increasing contribution from 13% in 1980 to in the region of 17% in 1994. Of these three sectors, which contribute the largest percentage of GGP in comparison with the other sectors, manufacturing has been in decline since 1980, while community and general government services and the trade and catering sectors have been growing. Other than the financial and real estate services sector, for which the GGP contribution has increased from around 11% in 1980 to just over 17% in 1994, the community and general government sector and the trade and catering sector were the only two economic sectors to experience significant growth during the 1980s and early 1990s (Central Statistical Services, 1993 and 1995).

In terms of employment figures, the total labour force in Port Elizabeth numbered almost 360,000 people in 1994. Of this figure, 160,000 were formally employed, just over 140,000 were unemployed, with the remaining number of just over 55,000 employed in the informal sector. Between 1980 and 1994, the percentage of those that were formally employed dropped from 80% to 44%. During this same period, unemployment escalated sharply from 16% to almost 40%, and employment in the informal sector increased from 3% to 16% (Black and Saxby, in Pakes and Nel, 1997b). In 1991 approximately 32% of the formally employed were engaged in the manufacturing sector, and there was a similar amount of people employed in the community and general services sector. These two sectors accounted for the highest percentage contribution of employment. Between 1980 and 1991, there was an increase in formal employment in the following sectors:- community and general government services, finance and real estate, trade and catering and construction (Central Statistical Service, 1993). These statistics suggest that without major investment in the city, manufacturing activity is unlikely to be a major source of employment growth in the future, unless it occurs in sub-sectors that are expanding, such as components in the automotive industry.

2.3 The nature of industrial development

After the election of the new government in 1994 many international firms became interested in reinvesting in the country. Until then, the city of Port Elizabeth experienced many years of isolation from the international economy. This had a significant influence on the nature of industrial development in that it primarily focused on the satisfaction of domestic demand; more recently, however, the export orientated stance promoted by national government has challenged industry to respond to global markets.

The city of Port Elizabeth is traditionally known for its' automotive and components agglomeration industry. This sector is well represented in the city, with three of the seven assembly firms in the country including Volkswagen SA, Delta Motor Corporation, and Samcor being located there. There are in the region of 300 component producers in the country, of which around 120 are in Port Elizabeth. This industry is fairly concentrated in South Africa with nearly 50% of total employment and an even greater percentage of output being employed by fourteen large firms that employ over 1,000 workers (Black, 1994). Largely due to the changing trade and industrial policy environment, and the introduction of the Motor Industry Development Programme (MIDP), exports have risen sharply in the country as a whole with an annual rate of increase of 47% from 1988 to 1996. In the 1994-96 period, the bulk of exports has been limited to a relatively small range of products with seat parts and leather seat covers (31.1%) and catalytic converters (12%) being most dominant (Department of Trade and Industry, 1997).

Although exports have risen sharply in the automotive components sector, the reduction of protection has been difficult for the automotive and components industry. Despite a dip in profits, as experienced in 1996, the sector seems to have risen to the challenges of reduced protection, and is performing well. As the sector has become more integrated into the international economy, the structure of the industry has changed rapidly. Firms have been encouraged to become more competitive on global markets by lowering costs, and this has led to market expansion and a growth in exports. There has also been an increase in investment, particularly of foreign direct investment in both the assembly and component sectors. The main challenge for the sector is rationalisation so that the high volumes that are necessary to compete on global markets can be attained (Department of Trade and Industry, 1997:15). Unfortunately, there is a paucity of information available on a sub-sectoral level about the other industries in the area. One study revealed that there seems to be export potential in the textile, wool and mohair; leather and footwear; food processing and automotive and components sectors – four of the potential cluster sectors in the Fish River Spatial Development Initiative (Pakes, 1997c).

The manufacturing sector in the Port Elizabeth metropole employed a total of around 66,000 workers in 1993, and 69,000 in 1988 (a decrease of 4% in two years). The total number of manufacturing establishments that were officially registered in 1993 was 698, and in 1988 there were 605 establishments recorded (Central Statistical Services, 1994 and 1998). In 1993, there were 1,267 manufacturing establishments officially recorded in the census in the Eastern Cape Province, and a total of 105,126 people were employed to work in these factories. The Eastern Cape figures fell in the two years since the 1991 Census, when the number of establishments totaled 1,300 and the number of those formally employed in this sector was in the region of 120,139 workers (Central Statistical Services, 1998).

The 1993 official statistics unfortunately do not reflect employment in the automotive sector. The 1988 Census shows that the highest number of workers was employed in this sector (18,319 workers). The other manufacturing sub-sectors to employ a large number of workers included the textile (6,963 workers), rubber products (5,969 workers), food (5,937 workers) and electrical machinery (4,571 workers) (Central Statistical Service, 1994). In 1993, the sub-sector which accommodated the highest number of manufacturing concerns was the fabricated metal products industry (n=76). The other industrial sub-sectors that dominated in terms number of manufacturing concerns were the parts and accessories for motor vehicles and their engines (n=57), machinery (except electrical) (n=64), furniture (n=47), other non-metallic mineral products (n=44) industries. However, there are also a relatively large number of establishments making machinery in the city (Central Statistical Service, 1998).

A survey of 430 manufacturing establishments in the city in 1993 found that 63 of the firms had more than 200 employees. This means that approximately 15% fell into the category of "large" business (Institute for Development Planning and Research, 1993). In the same year official manufacturing statistics for the Eastern Cape suggest that the employment breakdown was skewed towards the small and medium size of enterprise. In fact, in the region of 85% of the industries fell into an employment size of less than 100 employees. In view of the fact that 55% of the manufacturing establishments in the Eastern Cape (Central Statistical Service, 1998) were located in the Port Elizabeth metropole, it is safe to assume that a similar employment size pattern prevails in this metropole. An analysis of the main input materials specified by these firms indicate that the most common input required was steel in various forms – piping, tubing, sheet, stainless, mild etc. A total of 32% of all the firms required this input. Some of the other inputs required by a relatively high percentage of firms included:- other metals, especially aluminium, wood, chemicals, and textiles (Institute for Development Planning and Research, 1993).

A survey of 160 formal manufacturing firms in the city shows that there are certain skills in short supply. In particular, blue collar skills seem to be most lacking – artisan, technical, supervisory, machine operating, basic literacy and spray-painting skills. The implications of these findings are that, in terms of the relatively high level of skills shortages reported, there are employment opportunities in the manufacturing sector that are not currently being exploited. However, it remains to be determined whether this phenomenon is due to a lack of information flow in the labour market or whether there is a shortage of these types of skills in the area. It should be noted, however, that the main method of recruitment of the formal manufacturing firms in the Port Elizabeth metropole is by "word-of-mouth", and that firms are more likely to recruit staff from inside the firm than from outside the firm. The apparent lack of sufficient and effective linkages between local industry and local education and training institutions constrains initiatives to plan for the needs of industry. There is a high level of trade union presence in the Port Elizabeth manufacturing sector. Almost 90% of the 160 firms surveyed recorded that they experienced some kind of union presence. Just over forty percent of the firms in the sample cited the National Union of Metalworkers South Africa (NUMSA) as the main trade union to be officially recognised as representing workers. The influence of this union nation-wide is significant. Thus, the strength of this union, and the high degree of presence of unions among manufacturing firms in the area is likely to have various labour market implications (Pakes, 1996a).

The use of outsourcing as a more efficient and "flexible" method of production remains relatively unexploited, with an average of only five percent of the respondents reporting that their firms are engaged in production methods of this nature. However, outsourcing opportunities were mentioned by almost 40% of the sample, the dominant kind of opportunities being machining, cleaning, engineering and maintenance. A large number of other outsourcing opportunities were mentioned by the firms, however (Pakes, 1996a).

From a spatial point of view, most industrial development in the city of Port Elizabeth has occurred in a north-easterly and north-westerly direction. The eight main industrial areas are clearly indicated on **Map 1**, just as the main 16 business nodes and all residential areas are shown on **Map 2**. As can be seen from **Map 3**, the planned industrial development zone at Coega is more than five times the size of the existing land allocated for industrial development use. Further, it is clear that at this stage there is no existing or planned industrial or commercial development along the south coast of the city.

As indicated by a number of academics in the 1980s and early 1990s, the lack of a particular localised industrial development strategy for the city remains a problem. The limited detailed information available about the manufacturing sub-sectors in the area constrains an effective local industrial strategy from being initiated. What contribution has each sub-sector made to total production output in recent years? In what sub-sectors has there been growth in exports and/or in productivity? What plans have been made to match the demand for technical skills in industry? When will industrial cluster initiatives begin in the city? Spatially, which industries are located where in the city, and how large are they? What is the nature of the industrial structure in the city?

2.4 Opportunities for industrial development

With the new state industrial policy reforms in place, South Africa is "in the throes of a change to its industrial geography" with Port Elizabeth "gearing itself up to become the country's export manufacturing capital" (Sussens-Messerer, 1998:1). The city finds itself as one of the priority areas for industrial development as government plans to relocate industry more strategically. One of the most significant changes to the economy is the shift in reliance from gold to the increase in exports of beneficiated products, the result of which is a renewed focus on industry needing to "become centred around ports and airports". According to Sussens-Messerer (1998:1), "Port Elizabeth is regarded as SA's most promising industrial area. Not only is the whole ethos of the city industrial, but it is one of the most stable labour regions in the country".

There are a number of reasons for this recent attention on the city as an "hub of industrial renaissance" (Sussens-Messerer, 1998). Besides the stable labour factor, other advantages include the relatively low crime rate, and the lack of political violence prevalent in other areas of the country. The significant growth in motor component exports in the city, and a total of 80% of manufacturers making further investments and expressing positive sentiment about future prospects are further advantages. The city has a port, located half-way between eastern and western markets, which has experienced a steady growth in container traffic in the last few years. There are other infrastructural advantages for the city, notably the plans to upgrade the airport to international status within the next two years and a number of new shopping centres and hotels that are being developed. These advantages, together with the planned purpose-build deep-water industrial port at Coega, suggest that the status of the city as an industrial centre will be enhanced (Sussens-Messerer).

The Coega IDZ and port, perhaps by virtue of the potential sheer enormity of the project, has been called Port Elizabeth's "lead" local economic development strategy (Hosking, 1998a). This project has provided an interesting case study of many of the terms referred to in the local economic development literature:- private-public partnerships, local initiative, comparative and competitive advantage, SMME development, international competitiveness and export-orientation, social capital. This project has the support from many interest groups in the city, and the "energetic and sophisticated growth coalitions" that have been necessary to lobby for the development of infrastructure and the Billiton anchor plant provide a further opportunity for mobilising the resources necessary for regenerating and attracting new industrial development - as well as investment in other sectors such as agriculture and tourism. As suggested by Bloch and Lewis (1997:23), "(t)he ground for growing local growth coalitions in the region of the Fish River SDI is fertile". They emphasise the importance, in "endogenising" the process of regional industrial regeneration, and of encouraging non-governmental participation in the SDI process. In particular, the role of the local private sector is important, considering the absence of a "developmental provincial or local state".

However, it has also been labelled a “top-down” local development strategy (Hosking, 1998a). There are a number of other problems that have been raised by Hosking (1998b) about the industrial development and port planned for Coega. He questions the projected employment and income generated in the Coega development, and suggests that this will be less than that which could be effected by alternative private and public sector initiatives or options. In his opinion, the income and employment figures of at least 25,000 during the construction period as suggested are unlikely to be realised. He has a number of other questions:-

- ❑ Are there any other "genuine anchor tenants" other than Billiton's zinc smelter?
- ❑ What are the benefits to local government, despite its significant support for the project?
- ❑ Will the city of Port Elizabeth end up cross-subsidising the Coega IDZ industries?
- ❑ Why is there "overwhelming government support" at all levels, "even to the point of becoming directly involved in its ongoing promotion" when there has been considerable opposition by a number of interest groups?
- ❑ What about the question of "conflict of interest" in the public-private partnership that has been cultivated to promote this initiative?
- ❑ What are the opportunity costs of alternative economic development options at Coega?
- ❑ Can Portnet efficiently operate two harbours side-by-side in Port Elizabeth?
- ❑ Will government get the return on a R1,5-billion investment in terms of the capital requirements of the Coega harbour?

In 1997 there were a number of business owners indicating that future prospects depended on the Coega IDZ “going ahead”. This feeling was strong in the primary sector, while in the manufacturing sector those in the engineering field, electrical machinery, metal products and communication supported this viewpoint. The construction sector is also heavily dependent on the development, and in the tertiary sector the following sub-sectors indicated a similar attitude:- wholesale and retail, transport, insurance, property, rental of equipment, machinery, plant and transport, and business services (Institute for Development Planning and Research, 1997). Clearly, the Coega IDZ and port is perceived as a very important catalysing project on which the future economic prospects of the city in large part depend.

According to a recent report “Coega is well placed to compete with other international locations as a destination for large scale industrial operations, since it is able to meet most of the criteria typically set by potential international investors” (GIBB Limited, 1997:312). Amongst other advantages, the input costs in the city are competitive compared with other South African industrial and commercial areas, there is underutilised transport and electricity infrastructure, there is an agglomeration of industrial skills over “four generations” and presence of relevant educational institutions, and a good quality of life is prevalent. Further, the city has the capacity to accommodate a range of new large-scale development projects due to “environmental capacity”. The potential port capacity that would be created with the establishment of a new port, as well as the site-specific development potential and operational advantages are further advantages (GIBB Limited, 1997).

Five potential sources of investment in the Coega IDZ and port have been identified, including:-

- the expansion of the existing local industrial base in the city;
- relocation from other South African locations;
- possible regional development initiatives aimed at regenerating industries with further growth potential (such as wool, fruit processing, wood products and clothing and textiles);
- industries that have potential "synergies with the industrial development projects which have already shortlisted Coega as a proposed location", and
- foreign direct investment.

The sectors that have been identified to have the most investment potential include iron and steel production, automotive and components, petroleum and petrochemicals, forestry products, construction materials, food processing (particularly fruit and meat processing), clothing and textiles, port-related investment, tourism development, and industrial support industries (GIBB Limited, 1997). The particular sectors considered to be more specialised[4] in the Eastern Cape than the country as a whole are (in order of specialisation):- basic metal industry, paper and products of pulp and paper, non-metallic mineral products and fabricated metal industry. The highest specialisation rating was recorded in the miscellaneous products sector (IDC Regional Industrial Location Study, 1996, in Urban-Econ Development Economists, 1997). In the Eastern Cape, considerable growth is expected in the automotive and component; food and beverages processing; textiles, wool and mohair; and timber and wood product sectors (Centre for Investment and Marketing in the Eastern Cape, 1997). In Port Elizabeth the opportunities for expansion in the automotive components sub-sector are clear; a number of opportunities in other manufacturing sub-sectors were also pointed out by industrialists (Ligthelm, 1996).

Other opportunities for development at Coega that "could be converted into advantages" are the Spatial Development Initiatives (SDIs); cluster initiatives; the "investment pull" related to the need for infrastructure and human resource development (RDP projects); expected increases in domestic demand due to population growth, a reduction in income inequality, and an larger youth market; tourism; and the growing export trade with African countries (Duze, Haines, and Hosking, 1997).

It is estimated that there will be at least 24,117 jobs created and income generated of R3-billion in the construction phase of the Coega IDZ. On the other hand, a total of at least 2,840 jobs and R228-million in the operational phase is expected (Pakes and Nel, 1997). Although these figures have been extensively debated and there has been significant opposition by a number of interest groups (Hosking, 1998b), government at all levels has remained heavily committed to this initiative. The Coega IDZ and deep-water harbour is planned to be developed approximately twenty kilometres north of Port Elizabeth. The harbour, which will be the country's deepest at 23 metres, will satisfy the 14-17 metre depth required of a hub port. The IDZ is planned to cover 14,000 hectares of land and involves an export-led outward-orientated strategy that aims to stimulate growth and create employment in the city.

The cluster potential and the linkages that can be developed between economic activities is of critical importance to the success of the Coega IDZ. The challenge, however, will be "to attract the right mix of industry to the IDZ in order for this kind of clustering effect to take place" (Pakes and Nel, 1997:65), and "depending on what other industries are attracted to the Coega IDZ, a local economic development strategy will need to be developed if the aim is to foster economic linkages between Coega and the PEU economy – and thus encourage cluster development" (Pakes and Nel, 1997:72). The cluster concept, which is at the core of

[4] This is in terms of the production specialisation ratio, which measures the share of the sector in the Eastern Cape of the national total in that sector, as a proportion of the Eastern Cape's GGP share of the national GGP.

Department of Trade and Industry's industrial promotion activities, is designed to build the local social capital[5] that enhances regional industrialisation programmes internationally. Port Elizabeth is the centre of some significant agglomerations or prospective clusters (Bloch and Lewis, 23-24). However, considering that Port Elizabeth has a history of manufacturing activity, as well as a relatively large manufacturing sector, "there is probably a great deal of social capital to build on" (Driver, 1998:8). Strengthening the social capital will mean, amongst other things, that:-

> *key socio-institutional issues relating to the Coega IDZ are raised. The importance of co-existing with a growing tourist industry; establishing substantive linkages with the PEU motor industry; and building social and entrepreneurial alliances more generally are emphasized. Further, it is pointed out that should Coega take off, it should be part of a broader vision of Port Elizabeth – a strategic vision which takes due cognizance of new markets in Africa and in the Southern hemisphere (Duze, Haines and Hosking, 1997).*

The Fish River Spatial Development Initiative, and the "dedicated, focused institutional support" that it contributes to the industrial centres of both Port Elizabeth and East London, provides the opportunity for industrial development. However, Driver (1998:6) suggests that the focus of the SDI was on attracting new investment, and to "go for big new projects, using large amounts of capital from outside the region, rather than to try to build from the 'bottom up' ". Further, Driver (1998:8) suggests that the SDI is not a regional industrial strategy and that it is thus important in promoting sustained industrial regeneration in Port Elizabeth to develop a regional industrial strategy that targets existing firms and institutions and builds their capacity for innovation and learning. She suggests that, in the drive to increase investment, that there should be three main elements i.e. (1) strengthening the existing industrial base to encourage reinvestment and expansion (2) encouraging new business start-ups from within the region, and (3) attracting new investment from outside the region.

Furthermore, the "long-established capacity in construction and engineering" that will be required for the Coega IDZ and port exists in the city of Port Elizabeth, and enhances the prospects for extensive local backward linkages during the construction phase. The “lessons learned” in the Saldanha and Richard’s Bay port developments are yet a further advantage on which the planners of the Coega IDZ can capitalise.

The promotion of small business development in the manufacturing sector has been enhanced by the location of Manufacturing Advisory Centres (MACS) in Port Elizabeth and Durban. This pilot project, a partnership between Ntsika Enterprise Promotion Agency, the Council for Scientific and Industrial Research (CSIR) and the National Productivity Institute (NPI), aims to provide assistance to all small, medium and micro-enterprise manufacturers in order to improve their competitiveness and growth in the marketplace. The objective of this institution is to help manufacturers that have a workforce of under 200 employees, with the primary focus being on upgrading the capabilities of previously disadvantaged manufacturers. Considering the significant obstacles faced by manufacturing micro-enterprises in the townships, yet the promising dynamism of these businesses (Pakes, 1996; Levy, 1996), the building of this institution provides an important opportunity. However, the activities of this institution are constrained by the scant existence of formalised (registered) black-owned businesses. Most of the manufacturing businesses that were in existence were very small (average of 2 people), and quite a number were "co-operatives". Many business owners held the perception that support institutions were ineffective in providing support (Pakes, 1996b). These findings are serious considering that most SMME support institutions target the micro-enterprise sector in the city (Pakes, 1998).

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5 By social capital is meant "features of social organisation, such as networks, norms and trust, that facilitate co-ordination and co-operation for mutual benefit. Social capital enhances the benefits of investment in physical and human capital and is coming to be seen as a vital ingredient in economic development around the world" (Putnam, 1993 in Driver, 1998).

2.5 Local economic development strategies

There has also been considerable interest in upgrading the airport to international status, and to relocate the petroleum tanks and manganese ore dumps from their harbour location to Coega so that the harbour can be redeveloped into a “waterfront” tourist attraction. Initiatives such as that planned to extend the Addo Elephant National Park is also important for the growth of the city. Tourism is, in fact, often referred to as the sector with the most potential in the city – perhaps reflected in the rising trade and catering official statistics - and it has been argued that it is important for the Eastern Cape to develop a "“cohesive, strong branding or image for the region as a whole” (Fabricius, 1998:11). In the instance that potential tourists think of the Western Region of the Eastern Cape an immediate “picture needs to ‘snap’” as regards the peculiarities that the area has to offer. In fact, “(t)he image of the Eastern Cape can sell not only tourism, but also industry and agriculture”. However, Fabricius (1998:11) points out that a strong internal marketing exercise is “needed to encourage the people of this area to become their own best ambassadors, with a positive attitude, speaking with pride and enthusiasm of their special place in the national and global picture. The big challenge is that you need to take a very long term perspective of your product development”. The Eastern Cape is currently the fourth most popular tourist destination in the country, and is the fastest growing, receiving around 2.5-million tourists per annum. This is not surprising considering the number of game farms and nature reserves in the province, the heterogeneity of plant and animal species, variety of beaches and unspoilt coastline, and the cultural and historical richness of the area (Centre for Investment and Marketing in the Eastern Cape, 1997).

With the implications as spelt out by the Constitution for local government as well as the Local Government White Paper, the Port Elizabeth Transitional Local Council responded by creating an Economic and Tourism Porfolio consisting of three councillors under the chairmanship of the Deputy-Mayor. The aim of this Portfolio is to begin working on the ways in which council will adopt a new economic development role. A Task Team was also established that consists of representatives from organised business, organised labour, the TLC and the provincial government to identify initiatives and monitor progress (LED News, 1998).

In a recent policy document the Port Elizabeth TLC points out that the organisation has never purposefully accommodated or encouraged economic development, and that change needs to take place so that Council can play a facilitating role in local economic development. The priority areas of action for Council include:-

1. the identification and addressing of organisational bureaucracy
2. the preparation of a spatial framework for the city which promotes the integration of land-use the support and initiation of partnerships and joint ventures;
3. the sourcing of external funding to complement the abilities of Council; and
4. the commissioning of a comparative and competitive analysis of the city.

However, although these actions have been identified for Council to fulfil, the institution is not currently in a position to implement this policy, and it is for this reason that it is recommended that Council (as a priority) establishes a dedicated economic unit. The main purpose of such a unit would be to drive and co-ordinate the implementation of Council’s Economic Development Policy (Port Elizabeth Transitional Local Council, 1997).

3 INDUSTRIAL DEVELOPMENT STRATEGY AT A LOCAL LEVEL

3.1 The significance of industrial development in the economy

The decline in terms contribution to total output of the industrial sector in Port Elizabeth, and the increase in tertiary sector activity, is perhaps a reflection of a similar trend of this structural shift in the economy in other parts of the world (Department of Trade and Industry, 1998). However, as pointed out by Cohen and Zysman (1987:xiii), “manufacturing matters” if a city is to become a global competitor, and the notion of a post-industrial economy is misleading. Manufacturing, in their view, is critical to the health of the economy in the sense of job creation in both manufacturing and other high wage service employment. The sector plays in important role in determining the position of a country in the international hierarchy. For this reason policy plays a critical role in terms of setting “the terms of the new competition and the context in which the new technology will evolve” (Cohen and Zysman, 1987:xiii-xiv). Indeed, "(t)he lesson for post-industrialism for many cities would appear to be that they should seek to retain as large a manufacturing sector as possible for as long as possible" (Lever, in Harris and Fabricius, 1996:99-100).

One of the recurring themes in development economics is that of the central role of industrialisation (Pomfret, 1997). In fact, industrialisation is often seen as a cause rather than a result of economic development (Enke, 1963). Promoting industrialisation as the solution to the problems of the developing countries’ economies has been a tradition since the end of the Second World War. One of the main reasons for promoting industry rather than agriculture is that the country’s stock of capital, which is essential to the economic development process, is more easily accumulated through the former. Furthermore, as has already been pointed out, one of the main characteristics of the more developed countries is their structural transition away from agriculture and toward manufacturing and services. However, as pointed out by Case and Fair (1996), experience reveals that simply attempting to replicate the structure of developed countries does not in itself guarantee, or even promote, successful economic development.

There are three main reasons for regarding the manufacturing sector as the “engine of growth” in developing countries (Department of Trade and Industry, 1998). In the first place, there are the dynamically increasing returns to scale which result from two factors. They include increases in the volume of production due to out of proportion increases in production (largely because of productivity improvement) which induces technological progress and ‘learning by doing’ effects and which spreads through the manufacturing sector via externalities and linkages. The second reason is that there are positive external effects (mainly pecuniary or technological) of manufacturing plants on each other and on the rest of the economy, and through forward and backward linkages in the economy. Thirdly, the manufacturing sector plays an important role in terms of both direct and indirect employment.

Although it is debated as to the exact causal mechanism, it is generally accepted that rising incomes are associated with industrialisation. The manufacturing sector – as well as other key sectors such as services - has been targeted for development in the developing countries. However, as reported by the Department of Trade and Industry (1998), the manufacturing sector “does not always spontaneously create itself”. For this reason contemporary industrial policies are important.

3.2 The objective of industrial development strategy

With the need to address the socio-economic challenges in this country, national government has recognised that industrial policy should be designed in a manner so that interventions can revitalise the economy after decades of tariff protection. In accordance with the overall objectives of the national government policies of the Growth, Employment and Redistribution (GEAR) and Reconstruction and Development (RDP), the Department of Trade and Industry has been tasked with "transforming the South African economy into a sustainable, fast growing, internationally competitive, labour-absorbing and export-oriented economy" (Department of Trade and Industry, 1998:1).

With South Africa's industrial sector facing significant challenges at present, both the need for further transformation of manufacturing operations to meet the needs of the domestic population, as well as the global competitive market have led to many countries realising the need "(t)o focus and co-ordinate economic activities and policies in respect of industrial development - in other words to develop an industrial strategy - in order to achieve the desired goals" (Joffe et al, 1995:15). In order to develop an industrial strategy, it is essential to have certain set objectives in mind. Within the context of the poor performance of South African industry since the 1970s, some of the objectives of industrial policy that have been suggested include employment creation, increasing investment, the improving of trade performance, and (perhaps most importantly) raising productivity. These four objectives are viewed as interdependent, and the strategies that were developed by the Industrial Strategy Project (ISP) in order to meet these objectives included:- (1) industrial specialisation through moving up the value chain; (2) promotion of benefication of natural resources wherever economically feasible; (3) targeting of key generic capabilities (particularly skills, technology, and institutions); and (4) empowerment necessary to secure productivity growth (Joffe et al, 1995:16-26). The context within which the industrial strategy is designed is important:-

> *Any strategy - be it in industry, in a public institution or a firm - has to be set in context. The context is given by the existing performance and structure of the manufacturing sector. It then requires that the objectives are specified. The broad route, often also termed strategy, by which it is proposed to meet these objectives, must then be identified. Finally, concrete policies must be established in order that the strategy can be implemented effectively (Joffe et al, 1995:16).*

Industrial strategy, according to Best (1990:265-6, quoted in Maree, 1995:1), aims at promoting "Schumpeterian competition and (collective) entrepreneurial fims". This implies that it is critical for firms to consider other non-price competition factors; further, this strikes deep as it concerns revolutionising the foundations and "economic structure from within" of firms. The entrepreneurial firm is different from a hierarchical firm in that it chooses the terrain on which to compete, gains strategic advantage by continuous improvement in process and product, and maintains the organisational flexibility required to be able to adjust a competitive strategy at any time. Further, there are four aspects of industrial strategy policy that are important to consider- (1) the encouragement of competition, but (2) the seeking of a balance between co-operation and competition; (3) no planning industries of the future, but rather and examination of the requirements for sustaining competitive success and work to ensure that firms, which provide the real dynamic thrust, can respond quickly as new markets emerge; and (4) the need for independence, but hands-on industry studies and the integration of "thinkers and doers" from different institutions that are able and willing to think long term (Best 1990:265-6, quoted in Maree, 1995).

3.3 Industrial development at a local level

The concept of local economic development (LED) has been formulated in response to the global crisis prompted by global restructuring and the inability of regional planning to address problems (Tomlinson, 1993). In the last quarter of a century, cities of the western world have had "an explosion of interest in the city" (Healy et al, 1995:7). There is an attempt to "reconstruct new understandings of the contemporary city and its role in our lives, and thereby to provide a basis upon which to work out what we should do about the preoccupying problems". In fact, individuals in households, firms and agencies are working out new ways of dealing with the altered urban environment. In the economic sphere, there has been an interest in researching the network-building work of firms, and its contribution to building new institutional cultures and practices in a region. There are some perceptions that forms of economic organisation that were believed to have been displaced by modern capitalism for many years, are becoming more important (from petty production to reciprocal exchange as well as criminal activity) (Healy et al, 1995).

Innovative responses are critical in rising to the challenge, with the organisational capacity of a particular locality playing a critical part – in fact, "territorial organisation" is increasingly considered a factor of production in economic analysis. As suggested by Healy et al (1995:12), "How do we conceptualise the place-based embeddedness of the webs of relations in which people now exist". In analysing urban problems, it is becoming increasingly important to understand what use households and firms make of the urban area, how the area is valued, and what meaning they give to it. It is also important to assess how the actions of local authorities impact on the economic activity of people (Healy at al, 1995:13). Perhaps most important of all are recent theories of urban political economy which stipulate economic forces as the chief determinants that influence the social, geographical and political transformation of cities. In fact, "(t)he complex global patterning of urban economic growth and decline is seen to help shape the geography of social welfare and political strategies of all spatial scales" (Graham in Healy, 1995:84).

Despite the problems that can arise in emphasising local and regional development, such as increasing regional disparity and regional inequalities which may spill over into wages, employment opportunities and labour standards, it is important to: "Think *and* act both locally *and* globally" (Pyke and Sengenberger, 1992:19).

> *Refocusing development at the local level, and creating new or strengthening existing local industries, should not be dismissed as "romanticism", or a retrogression to a traditional kind of economic organisation. This issue at stake is how regionalisation is undertaken and in what way employers' and workers' institutions could be involved in the process (Pyke and Sengenberger, 1992:18).*

Adylot (in Demaziere, 1996) supports the importance of analysing the current economic restructuring and its spatial dimensions at a local level, particularly as it is at this level that local entrepreneurship is created – which largely accounts for the performance of local firms. He further suggests that the characteristics of early industrial regions need to be reversed (these include vertically integrated plants with stable, if few, relationships with subcontractors; a hierarchical division of labour; a 'paternalistic' management of human resources).

Regulationist theory, institutionalist and evolutionary economics, and the new economic geography are some of the main influences in a new approach to industrialisation and regional development. There is a new set of theoretical tools involving three interdependent dimensions of industrialisation and regional development:- "(a) their necessary institutional contexts, (b) their evolutionary dynamics, and (c) their geographic foundations and territorial specificity" (Storper and Scott, 1992:4). The breakdown in the mass production system, which has been dramatically evident since the 1970s in almost all the manufacturing regions of the United States and Western Europe, has led to the rise of a new flexible production order. Much of this response was the culmination of a search for alternative models of production to that of the old "Fordist" mass production system, which had itself required the creation of various institutions and practices in order to regulate the social and economic effects of that kind of system. The new models considered such areas as industrial technology, organisation, labour relations, and location (Storper and Scott, 1992).

Some of the new "models" of locational dynamism that emerged in the 1980s include the "agglomeration of interlinked small firms which are able to serve specialised markets and to react flexibly to emerging market niches. Another is based on the location decision of large enterprises, which under certain conditions may imply more than a mere 'branch plant economy'. A third is based on the successful transformation of old industrial areas"

(Bergman, Maier and Tödtling, 1991:4). A common thread in these new models is the technological or organisational innovation, as well as the "network characteristics" of the local actors and their local "milieu". It is vitally important to consider that generic processes interact with historically evolved local and regional conditions (economic, cultural, political conditions). It is out of these more complex interactions that regions are permitted to flourish or wane, depending on their enabling position along networks and within the international division of labour. In fact, "(t)he total involvement of a region's core cultural, social and institutional structures in its economy is difficult to assess, yet wholly pivotal to a successful development plan. This is particularly the case for older industrial regions" (Bergman, Maier, and Tödtling, 1991:10).

With the increasing emphasis on the responsibility for local economic development being at the city level, and a shift in perception of the world as a "global mosaic of regional economies" (Storper and Scott, 1992:11), there has some rethinking of some aspects of Third World development theory. Industrialisation has played an important role in the development strategies in these countries, with the idea of large growth pole industries together with import substitution policy being central. With the internal and external constraints experienced in this regard in the 1970s and 1980s, development strategies based on this theory have more recently lost ground. Alternative forms of industrialisation based on more labour-intensive and flexible production activities have been predominant in many Asian and Latin American newly industrialising countries. Export orientation and the exploitation of labour has been the hallmark of industrial success in these instances, although in some cases there has been a shift into relatively high value-added activities by means of product differentiation and technological upgrading. These cases, together with the experiences of areas such as the Third Italy, Jutland, or northern Greece "suggests that a flexible production base, combined with effective national and international marketing organisations, can generate significant rounds of economic growth, especially where producers are able to start climbing the price/performance frontier" (Scott and Storper, 1992:11). In response to these changes at an international level, local institutions at a local level will play an increasingly important role in terms of specialisation, agglomeration and the place-specific character of production.

According to Blakely (1994), there is currently no theory or set of theories that explains regional or local economic development. In his view there are a number of partial theories that explain the need for local economic development. Some of the principal factors in this regard are reflected in the equation:

> *Local/Regional Development = ¦(natural resources, labor, capital investment, entrepreneurship, transport, communication, industrial composition, technology, size, export market, international economic situation, local government capacity, national and state government spending, and development supports) (Blakely, 1994: 53).*

As pointed out by Blakely (1994), there is no certainty as to the weight of each of these factors. There are lessons to be learnt, however, from the traditional theories of growth and development. For instance, although neoclassical economic theory does not have a significant spatial dimension, it offers two important concepts for regional and local economic development, namely equilibrium and mobility. Neoclassical theory offers other useful concepts such as the fact that communities must ensure that they use their resources in an optimal manner in order to attract capital, and that communities should argue for the resources necessary to assist them to reach an equilibrium status with surrounding areas. However, there are some opponents to this theory. In particular, many regional and local economic development advocates argue against the theory because of its anti-interventionist nature, and because it gives little insight into why some areas are competitive while others fail. Further, the theory is limited in that it gives an idea of communities in terms of their economic utility without expanding on their value in other spheres.

The other theories on which one can draw in order to partially understand regional or local economic development include economic base theory, location theory, central place theory, cumulative causation theories, and attraction models. Industrial attraction theory is the economic development model used most widely by all communities. In essence, this theory assumes that a community can alter its market position with industrialists by offering incentives and subsidies. The argument is that new activity will generate taxes and increased economic wealth to replace the initial public and private subsidies. This model has proven that community promotion works and that it is important for communities to “package” themselves for marketing purposes. A relatively new approach is to emphasise the attraction of entrepreneurial populations to the local area rather than industry. While location theory suggests that localities can display themselves and offer incentives that give a competitive advantage over other areas with similar resource endowments, there is significant debate as to the extent to which such efforts cancel one another out or provide firms with unnecessary and costly incentives (Blakely, 1994).

Blakely (1994) proposes that a new conceptual framework is emerging to serve as the parameter for local economic development. This framework, which suggests that local economic development “is a process that emphasizes the full use of existing human and natural resources to build employment and create wealth within a defined locality” (Blakely, 1994), is shown in **Table 1**.

TABLE 1: TOWARD A THEORY OF LOCAL ECONOMIC DEVELOPMENT

Component	**Old Concept**	**New Concept**
Employment	More firms = more jobs	Firms that build quality jobs that fit the local population
Development base	Building economic sectors	Building new economic institutions
Location assets	Comparative advantage based on physical assets	Competitive advantage based on quality environment
Knowledge resource[6]	Available workforce	Knowledge as economic generator

Source: Blakely (1994:62)

Regional policymaking has traditionally been based on the creation of highly developed core regions on the one hand, and on underdeveloped dependent peripheral regions on the other. However, "(t)he resurgence of flexible production organisation in the modern world thus requires a reconsideration of the question of interregional trade, local economic specialization, and the broad configuration of the geography of production" (Scott and Storper, 1992:9). While in the traditional theory of trade, comparative advantage was based on the existence of natural endowments, the new strategic trade theory and evolutionary economics takes into account comparative advantage that is created by man - such as a series of technological breakthroughs. Further, the new theory of spatial/international division of labour, as well as the theory of agglomeration reflects the dual importance of the functional and spatial aspects of the division of labour. This former theory suggests that "the most rapidly growing industries today are often strongly associated with particular industrial agglomerations" in which manufactured inputs are dispersed further down the commodity chain to other locations and other agglomerations. Another new realisation is that the centres of flexible production usually have similar industrialistion processes, and there has thus been an increasing tendency for concentrations of different kinds of labour (eg unskilled as opposed to technical competence and managerial control) to develop in different locations (Scott and Storper, 1992).

The new economic geography has had a particularly strong influence on the creation of new models of production, particularly in the "regional" sense of the word. This is because the "territorial structures that flow from and sustain processes of industrialisation and their

6 In the modern economy where information is exchanged more than goods, communities will need to develop methods of “tapping” the intellectual resource centres of their locality.

regulation" operate in order to determine the nature of the production system in a particular geographical area. Thus,

> *just as the Fordist mass production era was rooted in a distinctive set of core regions, so with the rise of modern flexible production in the 1960s and 1970s, some sectors broke away from the old core regions and established themselves in new locational domains. In these domains, processes of institution-building - and thus of the eventual construction of a regulatory mode for the flexible production economy - are now occurring. In the same places, new kinds of technologies and labor relations which are critical to the new strategic competition and the evolutionary trajectory of production are being generated. It is thus here that the pathway of development in the new contemporary period is, at least in part, being defined (Storper and Scott, 1992:6).*

The form that the capitalistic system takes, and its' "social configuration" that changes with time and place emerges as "a series of historically and geographically specific technological-institutional systems" such as an evolving technological and organisational structure of production, labour markets and industrial relations, managerial cultures and norms, market structures and forms of competition, and regulatory institutions at a number of different levels. The configuration of any given system in terms of these factors determines the nature of different periods of capitalist development as they are "embodied in ensembles of leading industries and complemented by different political and quasi-political arrangements with steer and coordinate the economy". In the new flexible production system, there are three distinctive groups of contemporary regions. Firstly, there are the craft-based, design-intensive industries. These tend to be in two main types of location, either the inner city areas in large metropolitan regions (such as London, Paris, New York and Los Angeles all with large immigrant populations), or the old centres of craft production (in parts of Italy, France, Germany and Scandinavia). The second is high-technology industry, which tends to mainly locate in selected surburban locations close to major cities and in formerly non-industralised areas (such as Cambridge, French Midi or US Sunbelt). The third group, advanced producer and financial service agglomerations, are found in or close to the central cores of large cities (Tokyo, New York or London) (Storper and Scott, 1992:5-8).

The relationship between economic development and territory looks “at the specific characteristics of local patterns of development" (Garofoli, in Bergman, Maier and Tödtling, 1991:121). New patterns of regional development have been at the core of this new approach, a response to the "crisis of the "functionalist paradigm" of development" which does not consider space as playing a significant role. Traditional theoretical basis for development strategies and regional policies has been development "from above" and "territorially concentrated polarized development". In this paradigm, development has been made possible by "the continuous expansion of large-scale industry, prevalently localized in large urban centers since the type of technological innovation, economic policies and the development of infrastructure allowed the formation of large-scale economies and growing external economies. The development policy based on the model of ‘big business’ (by implicitly relying on mechanisms of income multiplier and new economic linkages) characterized the greater part of government interventions for a number of decades, both in developed and developing countries" (Garofoli, in Bergman, Maier and Tödtling, 1991:122).

Since the 1970s, the relatively new perception of "territory" has been seen as the "’sedimentation’ of specific and interrelated historical, social, and cultural factors in local areas, which directly generate different processes of development" (Garofoli, in Bergman Maier and Tödtling, 1991:122). This has led to the interest in a new paradigm, referred to as "development from below", in which economic development mainly based on territory forms a cornerstone. "Development from below" also refers to endogenous and territorial development, and the mobilisation of what is called "indigenous potential". These concepts became increasingly popular amongst international scholars during the late 1970s and early 1980s. In this new approach to space or "territory as a strategic factor of development opportunities and their different characteristics", there is a new perception of territory. In fact,

> *territory represents the meeting place of specific market relationships and social regulation forms, which determine different forms of production organization and different innovative*

> *capacities (regarding both products and processes). The relationship between business systems and environment is highlighted as the basis for the frequent existence of external economies to the firms, but internal to the area. These external economies make the adoption of different productive techniques possible, together with the organization processes and strategies different even in areas where the same goods are produced. They are independent of and beyond the simple relationships between the prices of "factors" or those of the usable inputs (Garofoli, in Bergman, Maier and Tödtling, 1991:123).*

Institutions have become increasingly important in determining the economic performance of urban areas. The "institutional thickness" of a locality refers to its networks of social relations in the economy, and particular common forms of understanding that circulate within these networks (Amin and Thrift in Healy et al, 1995:101-103). Despite the new emphasis on global dynamics, it seems that capital remains concentrated in certain geographical agglomerations. The literature on industrial agglomerations indicates that there is an acceptance of the role played by institutions and other non-economic factors in creating and maintaining agglomerations. A number of authors suggest some of the other factors to include:- social and institutional factors such as non-market relationships of trust; a strong sense of common industrial purpose; social consensus; local institutional support for business; and agencies and traditions encouraging innovation, skill formation and the circulation of ideas (Amin and Thrift in Healy et al, 1995:100).

As can be seen, the local economic development literature has changed significantly since the early 1980s. Demazière (1996) points out that the pioneering work of a few scholars in the late 1970s and early 1990s has resulted in the documentation and classification of the numerous LED initiatives taking place all over the world. In the process, certain places such as Route 128, Prato, Baltimore's waterfront, or Modragon, have become particularly famous. A number of models of local economic development have also appeared – one of the most important being the Marshallian Industrial District model. Wilson (in Demazière, 1996:xx) suggests that the LED literature illustrates the "decline of grand theory, and the use of more partial, post-modern, methodologies". In terms of this she explains that "(e)conomic values and motivations are only part of the story", and that we need to look at "social innovation as well as technical innovation" in particular situations.

The industrial district model, originally proposed by Alfred Marshall, has propelled a number of countries to their economic success. In particular, it is documented that they have been able to penetrate global markets to an extent unprecedented for small enterprises. Although this type of industrial organisation has perhaps achieved most success in Italy (the "Third Italy"), this novel and dynamic approach to regional economic development can also be found in other European countries, North America and other parts of the world. Perhaps the most marked characteristic of this model is the particularly effective social and economic organisation based on small firms. As proposed by Sengenberger and Pyke (1992:7):-

> *Industrial districts could stimulate the debate on development because they refocus attention on the critical role of "social organisation". They lead us to emphasise things as non-hierarchical organisation, autonomy, co-operation, local and regional networks, competent entrepreneurship, and differentiated industrial structure. They thus set us on a track which is somewhat different from the standard development models which tend to see mainly financial resources and sophisticated technology as being the keys to economic and social advancement; these, in our view, are clearly not enough. We feel that what needs to be explained is the enormous variation in economic performance, and perhaps even its increasing disparity, in a world which appears to be increasingly equal in its access to advanced technology.*

There are certain characteristics held by this model which have determined its success, including, (1) the existence of strong networking of mainly small firms which promotes collective capability through specialisation and subcontracting; (2) the networks of an industrial district belong to the same industrial sector and are geographically bounded so that all upstream and downstream linkages are geared towards "the manufacture of a family of products"; (3) there is a readiness among firms for cooperation which aids competition; (4) the pervasiveness of entrepreneurial dynamism; (5) a sense of competition in a number of dimensions (not just price) which helps the firms to meet competitive challenges through differentiated high quality products, flexibility of adjustment, and the ability for innovation; (6) there is a flexible response by the workforce; and (7) the existence of trust and cooperation which is supported by an attitude that seeks out competitive success not by the aggressive cutting of direct labour costs but by general organisational competence, standards and productivity (Sengenberger and Pyke, 1992).

There are a number of reasons for considering industrial districts within the context of local economic development (and local economic regeneration in particular). Firstly, since 1975 there has been a profound industrial restructuring taking place in industrialised countries. Instead of the growth of large industrial firms there has been a re-emergence of small units of production, with the industrial district model being one of the most successful. The second reason is that industrial districts provide a mechanism for responding to the competitive challenges that have faced industrialised countries. The industrial district model avoids infringing on labour standards by offering a new type of industrial organisation that “combines economic targets, such as efficiency and flexibility, with social targets, such as good pay and good working conditions, participation and equity” (Sengenberger and Pyke, 1992: 7). A further reason is that the success of the model suggests lessons for balanced and sustainable development elsewhere in the world, particularly in terms of the principles of organisation that are involved.

Demazière (1996) suggests that although the Marshallian industrial district model has had a considerable influence on local economic development strategies, it only applies in a limited fashion to current trends. He advises that the involvement of large firms in local dynamics is important. Although there has been doubt as to the applicability of the industrial district model in other regions (than Italy), there is evidence of quite a number of industries that have grown in different locations and sub-sectors that are able to compete at a global level. This has been a new development in this century (Sabel, in Hirst and Zeitlin, 1989:23). Zeitlin (in Pyke and Sengenberger, 1992:279-292) explores the contrasting models of the industrial district, and suggests that "the canonical model of the Marshallian industrial district now appears too rigid, too exclusive and too closely bound up with the experience of a particular time and place to accommodate convincingly the diversity displayed by contemporary districts both inside and outside the Third Italy" (Zeitlin, 1992:284). In considering a more "thin", "open" model of the industrial district, he points to the important roles of culture and institutions in the operation of successful districts, emphasising the importance of formal mechanisms for conflict resolution and the provision of collective services in sustaining trust and co-operation among economic actors. Once it has been accepted that the model of an industrial district is useful, there is an important question that needs to be contemplated by policymakers, "What role can policy play in stimulating the emergence of new districts, whether in declining industrial areas or in developing regions?" (Zeitlin, 1992:279).

Most of the literature describes industrial districts in the context of developed countries (Hanival, 1996). As a developing nation, an important advantage that could be gained by promoting the idea of industrial districts is that regions can promote endogenous development from local resources and under local control. The challenge is to reach the required political consensus and collaboration in an atmosphere of trust (Sengenberger and Pyke, 1992: 28).

Schmitz and Musyck (1994) have documented a number of terms that have been used to describe industrial districts, among these being "local productive systems", a "socio-territorial industrial system" and flexible specialisation. They suggest that this type of local industrial development, which has been evident in a number of developed countries, is also a potentially attractive option in the developing countries. They attribute the main reasons for this to be the fact that industrial districts have had a favourable growth and employment performance; they also have clusters of indigenous firms, they operate mainly in the traditional sectors (in which the LDCs are though to have a comparative advantage) and they compete successfully in global markets. Some of the key characteristics of the developed countries that have experienced a success in terms of the industrial district model, are also found in some of the developing countries. These include "deep social roots, in particular a common history of small-scale agriculture, a strong tradition of self-employment, and a socio-cultural identity which facilitates trust and reciprocity between local firms" (Schmitz and Musyck, 1994:891).

One of the most important characteristics of successful industrial districts is that they have taken what is referred to as the "high road" to competitiveness. Pyke and Sengenberger (1992) explain that this means that there has been significant investment in the labour force in order to innovate, as opposed to a "low road" which means competing through the payment of low wages and low labour standards. A further critical factor in determining success is the role of institutions, which play a critical role in controlling labour standards and remuneration and provide assistance through vocational training and technology centres. Although there has been much hope that small-scale industry will contribute to economic reconstruction and income generation in LDCs, an important finding of Schmitz and Musyck (1994:904) in their case studies of successful industrial districts in Europe, is that "the emergence of the industrial districts does not result from consciously pursued local or regional industrial strategy. It seems that the reviewed cases went through two stages: spontaneous growth, and institutionally enhanced growth". They further suggest that far too much international attention has been paid to the European industrial district model in relation to the scant information available about them.

In South Africa, just as in the rest of the world, small and medium business development is seen as the key to economic regeneration. The Department of Trade and Industry has in recent years developed a national strategy that includes a range of policies that will improve the competitiveness of these enterprises. It is contended that these policies support the notion of industrial districts (Hanival, 1996). However, in South Africa, largely due the neglect and the discrimination of state policy against small business development in the past, there is currently a “SME sector which shows little evidence of the highly productive, innovative and flexible production processes usually associated with this sector in industrial districts” (Hanival, 1996:9). Although SMEs play a significantly large role in light manufacturing in South Africa especially of differentiated products, these firms are still under-represented in manufacturing in relation to international norms. The country is characterised by a high level of industrial concentration as well as the dominance of four giant business conglomerates in South Africa, which in 1991 controlled just over 81% of the JSE. It is clear that there will need to be significant change before the industrial strategy of promoting SMEs can succeed in the country. Although small business has been suggested as the panacea for the high levels of unemployment, there is a distinct lack of sufficient industrial SMES in the country. Internationally studies have shown that successful SMEs are run by highly educated and experienced entrepreneurs – as is the case in South Africa. Most of the industrial activity in South Africa is undertaken by white-owned enterprises. Thus, although the promotion of small industrial businesses is politically attractive and can theoretically promote black advancement, it seems unlikely that this will happen in the near future (Levy, 1996).

Evidence from other developing countries suggests, however, that the small-scale manufacturing sector has considerable potential for growth. Schmitz (1982:445) suggests that “the issue is not *whether* small enterprises have growth and employment potential but *under what conditions*". He argues that the relative importance of the various factors that favour or work against small manufacturers needs to be considered, and that the best way to undertake this task is to use “branch-specific studies”. However, he further suggests that these studies need to be situated in the broader context, and that the development of the national and global economy also need to be investigated. This sub-sector can be an important tool for meeting growth and equity objectives of developing countries. Empirical evidence "indicates that much of what is small is indeed beautiful. Improved policies an carefully crafted projects can play an important role in ensuring that the potential contribution of small enterprises to the development process is fully realised" (Liedholm and Mead, 1987:125)

3.4 State policy and local industrial development strategy

Assuming that "manufacturing matters" and is important in stimulating the economy, there are a number of ways in which industrial development can be promoted at a local level. The old Regional Industrial Development Programme (RIDP), which was based on the growth centre theory, was unsuccessful. Current direct investment promotion policies include the Tax Holiday Scheme (which has replaced the RIDP in 1996), Spatial Development Initiatives, and Industrial Development Zones. In its spatial approach, the DTI is concerned with regional development. The aim of these types of programmes is not only to develop industries in specific locations for economically strategic reasons, such as the development of industrial clusters around specific resources or to tap the potential of currently under/undeveloped areas. There is also a strong redistributive component. The targeting, whether at a sectoral or spatial level, forms an important component of the strategy to move away from import substitution to an outward oriented manufacturing sector, increased regional co-operation and a more diversified ownership base. Moreover, there are agglomeration economies within specific locations that are advantageous for manufacturing competitiveness and these advantages have to be drawn upon, and where possible, duplicated (Department of Trade and Industry, 1998).

Investment support, one of the five key pillars[7] of policy intervention that have been designed by the state to accelerate manufacturing development, has in the past favoured large-scale capital-intensive natural resource based industrial production. The new policies emphasise increased policy co-ordination between the DTI and other institutions, incentives for investment in small business, economic empowerment of historically disadvantaged individuals and communities, and promotional programmes (Department of Trade and Industry, 1998).

There is an emphasis in current industrial policy, largely due to recent economic theories of manufacturing growth and trade, on laying the foundations for success in the initial stages as "success is endogenous. It is possible that an initial disadvantage can give rise to a long-lasting low-level equilibrium trap". Further "countries that start off from a disadvantaged position and wish to compete in world markets have to out-compete established industries in developed markets". The Department of Trade and Industry has set up an industrial strategy framework that is acceptable to a broad range of interest groups through its supply side measures that accompany trade reform. This is advantageous in that it sends signals to investors that there is a clear industrial strategy that is widely accepted within the context of sound macroeconomic policies. In fact, "(t)he investment facilitation programmes are therefore designed to complement industrial sectoral strategies and spatial development strategies. They are designed to breed success where the chances of success are greater, and where the spin-off effects that will encourage further investment and job creation are most significant" (Department of Trade and Industry, 1998:36).

The Spatial Development Initiatives (SDIs), first introduced in 1996, are based on two theoretical concepts. In the first place, they have as a foundation the notion of regional agglomeration which refers to the tendency for industries to be concentrated in relatively confined geographical areas. A second theoretical concept is that it is necessary for

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7 These include:- (1) investment support (2) trade facilitation (3) technology promotion and innovation support (4) strategic and informational leadership (5) contributing to human resources development.

government to contribute to the provision of basic infrastructure that enables private investors to invest in profitable industrial establishments. The SDIs aim at generating long-term globally competitive growth and development as well as restructuring the “apartheid space economy”. They aim at “crowding in” private sector investment in particular regions that have inherent under-utilised economic potential, and tend to be located near to transport hubs such as harbours or airports. Besides aiming at upgrading physical infrastructure, the SDIs aim at leveraging private investment funds “by packaging industrial projects and introducing them to potential investors”. They also are designed around at least one “key anchor project” funded by the Industrial Development Corporation, and provide regulated support mechanisms for the IDZs to be established. Throughout the country, there are different kinds of SDIs, each focused on tourism, industry, agriculture, or a combination of these sectors. In the Eastern Cape there are currently two SDIs that have been developed. The Fish River SDI is focused on industrial development, while the Wild Coast SDI looks at agro-tourism (Department of Trade and Industry, 1998). As pointed out by Hosking and Jauch (1997:6), “SDIs in the Eastern Cape certainly need to be adjusted to the specific conditions in the province”, and that the SDI “broad conception allows for adjustment to local, national or regional conditions” (p5).

The Industrial Development Zones (IDZs) are planned to provide a further mechanism to facilitate investment in manufacturing. The linkages between SDIs and IDZs are considered important by government, and for this reason the IDZs are designed to fall within the SDI areas that are marketed to foreign direct investors for export oriented manufacturing production. The reasons for the creation of IDZs are based on the need for industrial concentration in order to respond effectively to global markets, as well as evidence in other countries that it has become important to provide incentives in order to attract foreign direct investment in manufacturing production. The IDZs, different from the traditional export processing zone concept, will not allow labour conditions to be relaxed, but will offer various incentives that are attractive to foreign investors:- an institutional framework, administrative support, advanced labour relations, incentive structure, regulatory mechanisms, physical zone qualities, and other attributes specific to the particular location (Department of Trade and Industry, 1998). The Coega Industrial Development Zone near Port Elizabeth, located in the Fish River SDI, is one example.

The notion of clusters is based on Michael Porter’s (1991) argument that national competitive advantage is increasingly concentrated in a particular industry or sectors of an industry. Excellent results in terms of the use of this model have been experienced in many countries and regions throughout the world. A cluster initiative involves processes whereby industry roleplayers identify challenges and opportunities that can be addressed more effectively through working as a team rather than individually. Industry clusters can be successful at local, regional or national level (Department of Trade and Industry, 1997). It is important that industrial development policy at a local level is informed by the growth and decline trends in the area. Clusters, or particular industrial agglomerations, are based on specific sectors and the related services that are required. These clusters have an impact on the region into which the city or town falls, and are obviously impacted by national and global dynamics. Each cluster which falls into a local industrial centre has usually developed over a long period of time and it thus makes sense that "(l)ocalised industrial clusters should be at the centre of regional industrial development policy" (Bloch and Lewis, 1997:6). In fact, each region has a different cluster formation path, and the related “competitive advantage is created and sustained through a highly localised process” (Loots, 1991:18). Loots further emphasises the importance of the role of institutions at various levels in supporting this process. A Cluster Programme was begun in South Africa in 1997 by the Department of Trade and Industry, but there have thus far been somewhat disappointing results. Some of the main problems that have been experienced have been the lack of substantial participation by industry and labour, poor management, and a serious lack of capacity within the Department of Trade and

Industry. There is a new "action agenda" which is planned to evaluate the cluster initiative that is currently in progress and identify action by March of 1999 (Cohen, 1997).

Small business development has been considered as the panacea to the woes of the country's economy. This sector is able to flexibly react to the market much more rapidly than large firms, as has been documented world-wide. Furthermore, it is viewed as the main driver of economic growth and employment creation, and helps to raise incomes and improve the distribution of wealth. It has been argued that small, medium and micro-enterprises (SMMEs) can work effectively with larger firms by providing them with low cost, high value services and products. For these reasons, it is clear that it is to a country's advantage if it can improve the rate of success of start-up businesses. In South Africa the SMME sector has traditionally been neglected by government industrial policy. Within the Department of Trade and Industry, the Centre for Small Business Promotion (CSBP) has been established which co-ordinates the activities of the national Small Business Strategy. A number of new institutions have been established that aim at creating an enabling legal and policy environment for SMMEs, and the facilitation and financing of support services to SMMEs. A further aim has been to develop strategies for increased and equitable access to finance for SMMEs (Department of Trade and Industry, 1996). However, are the SMME institutions set up by government delivering? Some evidence suggests problems (Sikhakhane, 1998). Government seems to have shifted its focus onto other policies such as SDIs and IDZs. As suggested in by Dludlu (1998), "(o)nce small business promotion was government's flagship programme. Not anymore, some in business argue. Then came 'cluster studies' to provide a forum for business, labour and government to address impediments to competitiveness" and "(n)ow, spatial development initiatives and industrial development zones appear to be the buzzwords *du jour*".

While some of the above industrial policies devised by the Department of Trade and Industry are suitable for development at a local or city level, the concept of local economic development that has also been supported by national government[8], offers the use of particular "tools" to be used at a local level. There are nine tools proposed, including:- (1) small, medium and micro enterprise (SMME) development; (2) regulations and by-laws; (3) land buildings and other public assets; (4) public/private partnerships (PPPs) for infrastructure and service delivery; (5) business retention, expansion and attraction; (6) human resource development; (7) promotion and marketing; (8) regional linkages; and (9) plugging the leaks (National Business Initiative and International Republican Institute, 1998).

A "bottom-up" up approach is key to the local economic development concept, as is a complementarity with national and regional planning processes. In fact, the management of a city in these times cannot be along the lines of "top-down" or "command and control" models of governance (Healy et al, 1995). In order for LED to be sustainable, it is a long-term process that cannot rely on quick-fix measures, and is centred around the community's comparative and competitive advantages. Local entrepreneurialism and opportunism are important characteristics, as is "seeking consensus around development issues at the local level". In South Africa, successful local economic development has achieved the central aim of employment, and has been characterised by a number of key characteristics. These "key ingredients" are:- ownership and involvement of local residents, vision and passion, committed and skilled local leadership, practical and realistic goals, partnerships and shared vision, credible structures and processes, the sourcing of outside skills and resources where necessary, and entrepreneurism and opportunism (National Business Initiative et al, 1996).

The building of partnerships in order to "create and re-create advantage" is particularly important in the context of a new economic environment so as to use resources more effectively and to build further capacity. This will need the support of "dynamic, well informed

[8] And legislation passed by the Ministry for Provincial Affairs and Constitutional Development.

and determined leadership" in order to take action so that the health of the local economy is sustained and improved. Successful local economic development "will also require a shift towards a multi-sectoral and multi-scale conception of the local economy which does not simply privilege large scale industry, but rather extends into a variety of economic sectors and a variety of scales of enterprise – right down to the micro-enterprise of a one-person operation" (McCarthy, Hindson, and Peart, 1997?:32).

The Department of Trade and Industry clearly supports the notion of LED as indicated by its emphasis on the role of local government in its National Strategy for Small Business Development, its programme of Local Business Service Centres, and the involvement of the Ntsika Enterprise Promotion Agency in the pilot Manufacturing Advisory Centres. Further, attention has been given to the intergovernmental processes in developing the local economy through its Spatial Development Initiatives (Cranko, 1998:9). In fact, the concept of LED is entrenched in a number of other policy documents and programmes at national level. The Reconstruction and Development Programme has employment creation as its central tenant, and provides a basis for LED. The RDP emphasises the "people-driven process", which is about the involvement and growing empowerment of citizens, that is necessary for sustainable development. Similarly, there are echoes of the LED process in the Rural Development Strategy (released in October 1995), the Urban Development Strategy (October 1995) and the government's Masakhane Campaign. Besides the White Paper on Local Government (March 1998), other national government policies and initiatives highlight the importance of local development concepts and principles, such as the White Paper on the Development and Promotion of Tourism in South Africa (1996).

As has happened in the United States, and in parts of Europe, the role of local government in South Africa has become important in facilitating local economic development. In South Africa "(l)ocal authorities must take a strong view on how the local economy will be grown. The following issues must be the basis of a LED agenda: which industries have the most potential; how jobs can best be created; how to meet the needs of the poorest sections of the society; the potential of SMME emphasis versus investment attraction emphasis; and which interests does the local authority hope to promote through LED initiatives" (Cranko, 1998:9).

A new policy for local government has been developed in the context of globalisation, the redefinition of the national state, as well as a new emphasis on decentralisation. The White Paper on Local Government (1998), a so-called "mini-Constitution" for local government, will affect all South Africans. It documents a unique form of decentralisation that can impact on reconstruction and development, and appropriate legislation will be prepared to enact the policy directions contained in this document. Some of the specific measures proposed to promote LED are to *invest in the "basics"* (through the provision of good quality cost-effective services and by making the local environment a pleasant place to live and work), *to review existing policies and procedures to promote LED* (such as revising procurement procedures, establishing a spatial framework to help speed up rezoning, and the establishment of user-friendly one-stop-shops for advice and the centralisation of all municipal services), and the *provision of special economic services* (such as marketing and investment support, provision of small business support services, provision of targeted assistance to potential growth sectors, training and placement centres, supporting or contributing to the activities of other agencies with the provision of such services, and a review of existing legislation which impedes LED) (Ministry for Provincial Affairs and Constitutional Development, 1998).

It has been found that international theories of LED are appropriate in South Africa, and that the Eastern Cape has a long history in the use of LED strategies. The pre-1991 regional development strategies in the area revealed that "politically based planning did not establish a permanent industrial base" (Nel, 1996:409). However, LED in the 1990s has been relatively successful in a number of Eastern Cape towns such as Stutterheim, Seymour and Hertzog. This has been largely due to the existence of ideal combinations of skills, resources, infrastructure and goodwill, and "the limited role played by the state and the limited range of LED strategies implemented" (p409). It is advocated that LED needs to be implemented as complementary to other forms of development intervention. LED appears to largely be a "small town and rural area phenomenon" in South Africa, but the community based efforts of East London and Durban in the 1990s indicate that this might be changing. However, in the larger cities the strategies that are implemented are likely to have a project focus rather than a broad-based community focus (Nel, 1996).

3.5 Alternative local economic development strategies

The new context within which cities operate have resulted in their reacting in different ways. Internationally, there seems to have been a new way of looking at the local economy. Rather than protecting and restoring the old industrial economy in order to create employment opportunities, the approach has been one that considers the city economy as a whole rather than emphasising a few key sectors (of which manufacturing was traditionally the main one). In this new approach the city managers see the city in an international context as opposed to national or regional, and think of the future in terms of "flexible scenarios founded in a consensus of city interests rather than the technically expert master plan" (Harris in Harris and Fabricius, 1996:9).

Within this context, the city has been seen as a "centre of service provision", with a "complex of business or producer and professional services" located outside of the urban economy, personal services (linked to the quality of life and tourism in particular), financial services, and commercial, retail and wholesale trade, hotels and restaurants. Some of the different activities have been of an export-oriented nature in sectors such as tourism, the manufacture and delivery of "culture", specialised medical care, local higher educational institutions. Other than this, some cities have relied on sports to sustain local markets (eg Olympic Games), or have sought to retain a key role in industrial innovation, linking to universities and research centres, science parks and technopoles. There has also been a trend to "unbundle" services so that different countries can produce different parts of the final output (labour-intensive service exports such as software programming, data loading and processing), and it is expected that this kind of activity will grow in the future. Furthermore, the concept of a "favourable environment" – such as the effectiveness of local and national government, the quality of life of the city, transport and other infrastructural service provision – have strong effects on "growing" the rest of the economy (Harris in Harris and Fabricius, 1996).

Increasing internationalisation has led to the decentralisation of governmental power. New coalitions of urban interests that are concerned about the future of the city have also become important, and they play an important role in terms of furthering the interests of the city (both in terms of promotion and lobbying activity). These coalitions have representatives from many different interest groups[9], not just the city authorities. In some cases, the role of recent and continually-changing information in decision-making has become paramount, and coalitions have promoted research on the city. It has been recognised that:-

> *(t)imely intelligence is the key to increasing speed and accuracy of reactions, of the increased awareness by the city authorities of the city's strengths and weaknesses, and of the opportunities and threats confronting them. It is also a vital factor in promoting the city and in supplying the arguments for persuading the national government and other agencies of the validity of the city's case. In the old order, few city officials had much idea of their city's comparative strengths and weaknesses, and almost no incentive to find them out; they have now become of vital importance if the city is to have some chance of shaping its destiny (Harris in Harris and Fabricius, 1996:11).*

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9 Such as chambers of commerce and other business associations, craft associations and trade unions, universities, non-governmental organisations, the political parties and citizen groups.

Although there is no particular policy prescription that can apply to all or even most cities, it is useful to collect information about how other cities respond to the challenges. This information can provide a source of new ideas about "best practice" in urban management; information that is very different from one's own situation can also force one to see one's own city in a new light (Lever, in Harris and Fabricius, 1996:93-94). However, there do appear to be certain similarities between cities, not least of which is the increasing openness of urban economies to capital flows (increasingly locational decisions are taken on "quality of life" criteria, rather than the traditional criteria of factor costs and comparative advantage as documented by neoclassical economists). Other similarities include a more realistic allocation of service provision between the public and private sectors, the decentralisation of power from central to local government ("rolling back the state"), an increase in the size of the informal sector, improvements in terms of income distribution and inequality, a shift from a manufacturing to a service economy, and inter-urban collaboration in order to exploit mutually complementary attributes (Lever, in Harris and Fabricius, 1996:95-100).

In other cities throughout the world, there have been a number of different local economic development strategies which proponents have used. Due to current global trends, there has been a trend towards national policies promoting "a new economic localism and the potential resurgence of local politics". This "new centrality of locality" means that "cities matter" in that place specific differences can create competitive advantages. The role of local government has thus changed, and there are new roles and responsibilities. There has been a shift in local economic development policy orientation from conventional to market-based or entrepreneurial approaches. The market-based approach involves a focus on facilitating value-creating processes by private investors, and an investment and risk-taking approach on the part of local officials. Thus these new strategies focus on wealth creation as opposed to the subsidisation of locational decisions or employment strategies (Clarke and Gaile, 1992).

4 TOWARDS A LOCAL INDUSTRIAL DEVELOPMENT STRATEGY FOR PORT ELIZABETH

Industrial development as an economic development strategy is on the decrease internationally. Although it has been traditionally punted as the most effective job creating and output inducing strategy in developing countries, it is not the only route to growth in the city. It does play an important role, however, particularly in terms of increasing return to scale, positive externalities, and generating employment. It can also play a meaningful role in determining the position of a country in the global hierarchy. Internationally evidence suggests that the manufacturing sector should be promoted for as long as possible. However, the industrial development that does occur in a city should be of the nature that it complements existing economic activity.

There has been a shift towards viewing the role of the city in an international context and to think of the future in terms of "flexible scenarios founded in a consensus of city interests". The growth in new coalitions of urban interests plays an important role in furthering the interests of the city, and in terms of identifying the city's strengths, weaknesses, opportunities and threats. The new market-based approach - with a limited role for the state - to local economic development means that it is critical to ascertain and explore the competitive advantages of a city and to mobilise indigenous potential. The new local economic development literature points to the "decline of grand theory", and the emergence of a "bottom-up" territorial specific development theory that depends largely on the institutional context and evolutionary dynamics of the local environment. Technological or organisational innovation, cooperation and trust, and new industrial relations all play a part in the design of the new models of local economic development. Some of these models focus on the strengthening or transformation of the existing industrial base in a city, the attraction of investment from outside of the city, the encouragement of small business start-ups and/or the agglomeration of interlinked small business that react flexibly to global market forces. The rise of the flexible production system has culminated in three new regional models of production:- the craft-based, design intensive; high technology; and advanced producer and finance service agglomerations. These are derivatives of the industrial district model, which offers a mechanism for responding to the competitive challenges through a particularly effective social and economic organisation based on small firms. This model is of interest to developing countries as it offers a favorable growth and employment performance, is based on clusters of indigenous firms, operates mainly in the traditional sectors, and competes successfully on global markets.

The objectives of industrial strategy in South Africa are to create employment, increase investment, improve trade performance, and raise productivity. Further, it is envisaged that the broader objectives of the *Reconstruction and Development Programme* (RDP) and *Growth, Employment, and Redistribution* (GEAR) programmes will be achieved by gearing the South African economy into a “sustainable, fast growing, internationally competitive, labour absorbing and export-orientated economy”. These objectives are reflected in the industrial policies of the Department of Trade and Industry. Whether at a sectoral or spatial level, these policies aim at the promotion of an outward oriented stance, increased regional cooperation, and a more diversified ownership base. They emphasise increased policy co-ordination between the DTI and other institutions, incentives for investment in small business, economic empowerment of the historically disadvantaged individuals and communities, and promotional programmes. In accordance with these objectives, and international evidence that the most rapidly growing economies are those with industrial agglomerations (producing manufactured goods that are dispersed further down the commodity chain to other locations or agglomerations), the DTI has introduced the Spatial Development Initiatives, Industrial Development Zones, the Tax Holiday Scheme, cluster initiatives, and a national Small Business Strategy. It is clear that national government aims at both “economically strategic” as well as redistributive development in the industrial arena. However, are these policies sufficiently *effective* at a local level? Although the policies appear to be flexible on this count, is there a *particular emphasis at the city level*? The local economic development (LED) concept introduced by government offers a complementary “bottom-up” approach at the city level that, in line with international trends, provides a methodology for responding competitively to the global marketplace.

The case study presented in this paper of the city of Port Elizabeth provides the opportunity to determine the need for and the process most suited to the development of a local industrial strategy. In aiming to achieve the objectives that are set by such a strategy, it will be essential to analyse the existing performance and structure of the manufacturing sector. Port Elizabeth has a long history of industrial activity which began in the early 1920s. Local council policy and ideology was characterised by liberalism and aggressive place entrepreneurialism which succeeded in attracting some of the international automotive manufacturers to the area. These efforts encouraged industries with backward and forward linkages to this sector to locate and grow in the city. Port Elizabeth has since been known as an automotive and components centre, and even today is referred to as “The Detroit of Africa”. This agglomeration industry led to a relatively undiversified economy which found it difficult to respond to recessions and inappropriate macroeconomic policies. The protectionist policies that culminated in structural weaknesses in the South African economy, the structural changes which changed the international division of labour, and import substitution and industrial decentralisation policies of national government played a role in causing the industrial decline and stagnation in the 1970s and 1980s. The complex socio-political situation played a large part in shaping the industrial development of the area, and the city experienced a high level of industrial action and organisation in the 1980s. The isolation of the country from the international marketplace was a further factor impacting on this sector. After the decline of the local economy in the 1980s, which was largely attributable to the performance of the automotive and component sector, there seems to have been renewed hope in this sector as the automotive components sector in particular has shown a rapid growth in exports. The emphasis of the DTI on export orientation in the 1990s, and the introduction of the MIDP has played a significant role in promoting this success. The other sectors that have traditionally had a strong presence in the area include the chemical; metal, metal products and machinery and electrical machinery; textile and clothing and food and beverages industries.

In more recent years, the city has displayed positive growth figures in line with national averages. Since the late 1960s the manufacturing sector has been on the decline; the percentage contribution to the city's total output has dropped from 40% to 33% in 1994. In employment terms, the absorption rate of this sector has dropped and in 1991 it employed a similar percentage of workers to that of the community and general government services sector (32%). However, the sectors that have been growing, both in terms of contribution to output and to employment, are the community and general government and trade and catering sector. The finance and real estate and construction sector also recorded employment growth. However, the formal sector absorption rate has dropped considerably from 80% to 44% between 1980 and 1994. Furthermore, the economic growth figures recorded in the city are below those projected in the GEAR policy document. It is questionable as to whether the other objectives of industrial strategy and local economic development are being achieved in the current situation.

Towards the turn of the century the prospects for economic growth in the city appear to depend heavily on the Coega Industrial Development Zone and port. This project offers an opportunity to kickstart growth in the local economy largely through the attraction and promotion of large scale investments in industry or "big business" as characterised in both developed and developing countries for a number of decades. This "top-down" approach is based on the traditional theories of growth and development, and ignores the new approach to space or "territory as a strategic factor of development opportunities and their different characteristics". Endogenous development is essential in the "development from below" paradigm, as is the important role played by institutions and other non-economic factors in creating and maintaining institutions. Some of the other important factors that need to be considered within the context of "development from below" include social and institutional factors such as non-market relationships of trust, a strong sense of common industrial purpose, social consensus, local institutional support for business, and agencies and traditions encouraging innovation, skill formation and the circulation of ideas. It has been recommended that the Coega IDZ project should aim at attracting industries that will have strong linkages with the local economy so that the economy may be strengthened. For instance, the attraction of a steel mill (as has been recently reported in the local press) could potentially provide a strong backward linkage for a significant portion of local industry.

Besides the attraction of new industries to the Coega IDZ, there are other ways in which the existing industrial base could be strengthened. In developing an industrial development strategy for the city, a localised automotive and component cluster should possibly be initiated. Consideration will also need to be given to the fact that large firms are also important, and that they need strengthening. Information will need to be collected about the performance of the industrial sub-sectors within the economy in order to determine the extent and nature of their competitive edge. Further, a local industrial strategy will need to be based on certain factors that are unique to the particular area - they include social, historical, cultural, as well as economic factors.

A further approach that could be adopted in the development of a local industrial development strategy is to encourage small business start-ups and/or the agglomeration of interlinked small business that react flexibly to global market forces. Although small business in this country does not appear to display "the highly productive, innovative and flexible production processes usually associated with this sector in industrial districts" in many parts of the world - both developing and developed - there is evidence of dynamism amongst small-scale manufacturing enterprises in the country and in the city of Port Elizabeth. Perhaps something could be learned from the business successes of our neighbouring African countries (Torp, 1998). Or perhaps the "co-operative" structure of business that is fairly evident in South Africa could be further explored as a model that could enhance business development in this sector (Torp, 1998). There are a number of possibilities to be considered in respect to small business development as a route to growth and development.

In adopting either of the above approaches, a local industrial development strategy would need to consider whether firms build quality jobs that fit the local population, whether they build new economic institutions, possess competitive advantage based on quality environment, and tap on knowledge as an economic generator. Further, questions that will need answering include:- Which industries have the most potential? How can employment best be created? How can the needs of the poorest sections of society be met? What is the potential of SMME development as opposed to investment attraction? Which interests does the local authority hope to promote through LED initiatives?

The LED legislation that has been passed in the course of 1998 provides local government with a useful set of "tools" and a framework within which to act. This methodology, together with the LED models as presented in the recent literature perhaps offers useful lessons for various local stakeholders. Although it is envisaged that local government will play an important role in developing the local economy, the other interest groups in the city will need to have a stake if economic development is to be meaningful and sustainable. Furthermore, it should be remembered that the private sector is the driving force in promoting economic development, and that “planning…itself (has been) a cause of economic inefficiency” (Fainstein and Fainstein, 1989). Attention will also need to be given to the other growth sectors in the Port Elizabeth economy. The city will need to decide if it *wants* to become the “Detroit of Africa”? Or to what extent it prefers to be a sought-after tourist destination. Alternatively it could become a “quality of life” capital, or an “educational” capital? The city has a choice in this. In other words, the various interest groups in Port Elizabeth will need to prioritise and decide on its development focii.

It is up to the citizens of Port Elizabeth to take up the challenge in building a common vision and a healthy image and shaping the future of the city so that it achieves the objectives that are desired. Only then will others refrain from the following kind of comments:- “Port Elizabeth harbour: last one out, close the gate” – caption in Sacob’s offical journal, *Business Voice* in 1997.

5 CONCLUSION

The city of Port Elizabeth has been known as a manufacturing or industrial town since the early 19th century. Despite a decline in the employment and GGP contribution to the manufacturing sector - from 40% in 1980 to 33% in 1994 - a changing trade and industrial policy environment in the country has recently culminated in Port Elizabeth, as a port city, being offered the opportunity to engage in a different mode of economic activity that trades with international markets.

The rise of a new approach to local economic development, in which emphasis is placed on a number of factors - endogenous growth, local initiative, employment creation and control over one’s destiny, common community vision, the role of institutions, entrepreneurial or market approach, “space” as a factor of production, industrial districts, flexible specialisation - provides some guidelines. The opportunity presents itself for the city to rise to the challenge and devise a local industrial development strategy that can reach the objectives that are identified. However, together with this it will be critical to identify the other opportunities available to the city, so that the initiative can be taken and there can, in fact, be new hope for economic development and growth. The competitive edge that the city has to offer is critical to its ability to compete in the global environment. Rather than relying on the traditional comparative advantages advocated by traditional neoclassical theory, it will become increasingly important to seek out the competitive advantages that the city has to offer. The "quality of life", skills base, tourism potential, strong local government, political stability and relatively crime-free environment, etc - these factors can be used to "package" the city as an attractive destination point.

Some questions to be considered:-

1. How important is it that industrial strategy be formulated at a local level?
2. What models of industrial development are most appropriate for the city of Port Elizabeth?
3. What "tools"/methodology are/is the most appropriate in this respect?
4. To what extent should the city consider other sectors as part of its local economic development strategy, and how should they be identified?
5. Who are the local stakeholders/interest groups that should be included in these tasks, and how could they be involved?

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