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Industrial Strategy Project

Funders Report: Spatial Development Initiatives

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1. Introduction

In early 1997, at the suggestion of the IDRC and the Department of Trade and Industry, the Industrial Strategy Project embarked on a study of the Spatial Development Initiatives (SDIs), a key industrial policy programme of the South African government. This report represents the conclusion of this project.

Section 2 reviews the policy context in which the project has taken place, and summarises the main features of SDIs. Section 3 describes the project's activities and outputs, including working papers, workshops and meetings, international co-operation, journal articles, and related research. Section 4 outlines plans for ongoing research on SDIs. Section 5 provides a detailed financial report.

In summary, although the project was taken up at relatively short notice, we have produced quality research in close interaction with policy-makers and other stakeholders. The project has cemented a strong relationship with the policy unit of the Development Bank of Southern Africa (DBSA) – with whom we collaborated on aspects of the project – and with the SDI project group in the Department of Trade and Industry (DTI). We have recently been commissioned to draft, on behalf of the DTI, policy papers outlining the SDI concept and approach and have recently embarked on a large study of Southern African industrialisation, a significant component of which incorporates an examination of the transnational SDIs.

2. Review of the policy context

When the ISP began its work on SDIs, the SDI concept was a relatively new one in government, and the programme was in its initial stages. Since then, SDIs have gained in importance, becoming a major element in government's

drive to attract investment to South Africa and thereby to create jobs and increase incomes.

The term SDI, which first emerged in the DTI and the Department of Transport in mid-1996, is a broad one. It covers a number of government-led initiatives in different parts of the country, generally in lagging or less favoured regions. The features that all SDIs have in common are:

- they are spatially delimited;
- the central aim is to attract investment in order to create jobs in the areas concerned;
- central government is strongly involved;
- they focus on one or more broad sectors, e.g. manufacturing, tourism, agriculture;
- they are intended from the outset to be "fast-track" initiatives, in which consultation with local and regional structures and interest groups is project-driven rather than exhaustive.

The form that individual SDIs take depends on the economic character of the area in which they are located. Of most interest to the ISP have been those SDIs which focus predominantly on manufacturing. The DBSA, with which the ISP has co-operated over the course of this project, has undertaken research on those SDIs which focus predominantly on tourism and agriculture.

The SDI programme is currently spearheaded by the DTI. Other national government departments, for example the Department of Transport, the Department of Land Affairs and the Department of Tourism and Environment, are involved to varying degrees in particular SDIs, depending on the nature of the SDI concerned. In this respect, the SDI programme has pioneered new methods of co-operation across line functions in government.

Within the SDI programme, Industrial Development Zones (IDZs) have gained increasing prominence. The concept of an IDZ, new in South Africa, is based loosely on free trade zones elsewhere in the world. The exact form which IDZs will take is currently under debate between stakeholders at national level. It is envisaged that an IDZ will be a spatially delimited industrial zone which will offer a duty-free trade environment for exporting firms, excellent infrastructure including access to a port and/or airport, and some level of financial incentives.

As attention on the SDI programme has grown, within government and in the media, and as individual SDIs have been implemented, the ISP has been well-placed to interact with those involved in overall management of the SDI programme from national level as well as with project managers of particular SDIs.

The growing importance of the SDI programme is evident in the fact that new SDIs have been identified and established. Also, a programme of Southern African SDIs, involving countries such as Namibia, Botswana, Zimbabwe and Mozambique, is being actively pursued. Indeed, the best known of the SDI projects is the Maputo Development Corridor, linking the industrial heartlands of Gauteng and Mpumalanga provinces with Maputo harbour. Although these Southern African SDIs are likely to differ significantly from their purely South African counterparts, lessons learnt and policy developed in the course of the South African SDI programme may be able to be shared usefully with those involved in the Southern African SDI programme. This project has concentrated exclusively on the South African SDIs.

We have approached the SDI concept from a somewhat broader perspective than that of the DTI. In our view SDIs are a special case of a broader set of questions surrounding the relationship between space and industrial investment, surrounding, in other words, the locational determinants of industrial investment. This perspective has allowed us to incorporate into our study a number of papers examining high tech industrial clusters which,

although not yet part of the SDI programme, offer particular insights into the spatial determinants of investment and help answer questions posed in the SDI programme itself.

3. Project activities and outputs

The ISP's project on SDIs incorporated a range of activities and outputs. At the core of the project was a series of case studies and an overview paper examining key international experiences as well as theoretical work concerned with location and investment. Emphasis was placed throughout the course of the project on interaction with members of the DTI and DBSA SDI teams.

3.1 Working papers

A series of case studies were conducted, some dealing with existing SDIs and others with places of related interest. All of the case studies will be published as part of the ISP's working paper series. The case studies are each briefly described below. Most of the case studies relied heavily on interviews with local and regional stakeholders in the area concerned.

Our most general finding emphasises the importance of endogenising local capacity to attract industrial investment. Whilst the quality of physical infrastructure and the importance of attracting large anchor plants to the designated area – the key pillars of the SDI approach – they will not, on their own, constitute the basis for self-sustaining local industrial development. The mode of implanting these exogenous injections of capital in less favoured regions will exercise a determinant influence on their capacity to attract further investment.

Theoretical and comparative overview

In addition to the case studies outlined below, the project produced an overarching paper examining some of the theoretical underpinnings and comparative international experiences of SDI-type programmes, as well as attempting to locate the South African programme in the broader industrial policy context.

The aims of this paper were:

- to summarise the main features of South Africa's economic geography;
- to examine the policy context in which SDIs have been introduced;
- to draw out key points from recent theoretical debates relevant to the SDI programme;
- to pick up on some of the themes that emerged from the case studies, and draw them together.

The paper was written by David Lewis, Director of the ISP, and Robin Bloch. An earlier version of this paper was presented at the 1997 Annual Forum of the Trade and Industry Policy Secretariat.

Richards Bay (KwaZulu-Natal)

Industrial SDIs tend to rely on a combination of large infrastructural investment and one or more large mineral-processing anchor projects, which, it is believed, will together result in the "crowding in" of further investment in the area concerned.

Richards Bay, which was a small fishing village 25 years ago and is now a large industrial town, is frequently held up as evidence that this approach to economic development works. The initial investments in Richards Bay were in a deep water bulk port and an aluminium smelter – a similar combination of

investments to that proposed for the West Coast SDI in the Western Cape and the Fish River SDI in the Eastern Cape.

The ISP commissioned a study on Richards Bay to explore:

- the extent to which Richards Bay is indeed as successful an example of the "mega-project" approach to economic development as is commonly supposed;
- the factors which contributed to this degree of success, and whether they are replicable.

The study was undertaken by Jayanthi Aniruth and Justin Barnes of the Centre for Social and Development Studies at the University of Natal, Durban.

The study was useful not only because Richards Bay is something of a test case for other industrial SDIs, but also because Richards Bay has subsequently been declared an SDI itself.

Fish River SDI (Eastern Cape Province)

The Fish River SDI (initially known as the Eastern Cape Industrial SDI) focuses on Port Elizabeth and East London, the two major cities in the Eastern Cape Province. Both are traditionally industrial cities which have experienced decline in their manufacturing bases. The sectors which have traditionally been important in the economies of both cities include the motor industry, food processing, and clothing and textiles.

The major infrastructural investment in the Fish River SDI is a proposed new deep water port at Coega, close to Port Elizabeth. The major anchor project is a proposed Billiton zinc refinery at Coega.

Other important elements of the Fish River SDI are two proposed IDZs, one at Coega (adjacent to the new port) and one in East London (adjacent to the existing East London port). These IDZs are likely to be the first in the country.

The ISP's study of the Fish River SDI followed the progress of the SDI from its early stages at the beginning of 1997, to its official launch in November 1997. The aims of the study were:

- to explore the likely impact of the Fish River SDI, including the Coega and East London IDZs, on the economies of Port Elizabeth and East London;
- to assess the extent to which large anchor projects and infrastructural investments are a helpful and appropriate development strategy for an industrial region in decline;
- to track how the SDI was implemented, paying particular attention to the interaction between the national SDI team and established local and regional institutions and interest groups.

The study was undertaken by Amanda Driver, a researcher at the DPRU.

Saldanha Bay (Western Cape Province)

The Saldanha Steel Project (SSP) in the town of Saldanha Bay is a central focus of the West Coast Investment Initiative (initially known as the West Coast SDI). Saldanha Bay is a relatively small coastal town, heavily reliant on the fishing industry, and less than an hour-and-a-half's drive north of Cape Town. It has recently been the focus of much attention, as a result of the construction of a steel mill, the SSP, close to the town. The SSP, which is nearing completion, will process ore that is currently railed from Sishen in the Northern Cape and exported in its raw form through the deep water port at Saldanha.

The West Coast Investment Initiative is different to other industrial SDIs in that the major infrastructural investments (the Saldanha port) and anchor project (the SSP) are already in place. The aims of the case study were thus:

- to determine the extent to which linkages have developed between the steel plant and the local economy;
- to examine the ability of large anchor projects to generate industrial development in non-industrial regions.

The study was undertaken by Amanda Fitschen, a lecturer in the School of Economics at UCT.

West Coast Investment Initiative (Western Cape Province)

We have already referred to the importance of building local “social capital” as a key instrument for attracting industrial investment. In order to explore further this insight, the project commissioned a paper focusing on the process of implementation of the West Coast Investment Initiative. Hence, while the paper on Saldanha Steel focused on the material linkages between the steel mill and the local economy, this study – undertaken by an anthropologist – examined the broader social impact on the local community.

The specific aims of the study were:

- to document the processes surrounding the implementation of the West Coast Investment Initiative;
- to examine the interaction between the national SDI team and established local and regional institutions and interest groups.

The study was undertaken by Julia Shapiro, an independent researcher, who was a member of the DTI team responsible for the West Coast Investment

Initiative. A first draft of the study has been submitted and it is due to be completed shortly.

Midrand (Gauteng)

The Midrand is widely considered to be one of South Africa's outstanding instances of localised industrial development. It has, on the face of it, been particularly successful in attracting technology intensive multinational corporations. The aims of the study were:

- to examine the emerging high technology cluster in Midrand in order to develop a deeper understanding of its nature, why it has emerged, and the problems it faces;
- to compare Midrand to neighbouring Centurion, which has attempted to attract high tech firms but not been nearly as successful as Midrand.

The study was undertaken by James Hodge, a researcher at the DPRU.

High tech industrial cluster in Gauteng

The above study was complemented by a study examining factors determining the location of high tech industry in Gauteng focusing on the East Rand and Midrand. This case study also draws extensively on international experiences of high tech industrial clusters.

Specific aims of the study were:

- to look at the reasons for the historical establishment and agglomeration of the high technology sector in Gauteng, particularly in Midrand and the East Rand;
- to examine the significance of improved transport and telecommunication facilities for the further development of high technology manufacturing.

The study was undertaken by Prof. Christian Rogerson, Head of the Department of Geography & Environmental Studies at the University of the Witwatersrand.

The Midrand study discussed above and this industrial cluster study form a useful pair, both dealing with high tech industry in Gauteng, but from different points of view and at different spatial scales. Both studies have been useful in informing debates around a potential SDI in Gauteng.

High tech industry in the Cape Metropolitan Region

Conventional wisdom has it that the Cape Metropolitan Region (CMR) is suited to the location of high tech industry, mainly because of "lifestyle" advantages and a relatively skilled labour force. Although there is considerably less high tech industry in the CMR than there is in Gauteng, anecdotal evidence suggests that there may be significant locational advantages for some high tech firms in the CMR. In the absence of systematic knowledge about how much and what type of high tech industry is located in the CMR, the aims of this study were:

- to establish the extent and nature of high tech firms currently located in the CMR;
- to explore their reasons for locating here as well as location-related problems which they face;
- to gather information about the institutional environment in which firms operate, including their linkages with other local, national and international firms;
- on this basis to suggest a strategy for attracting particular types of high tech investment to the CMR.

The study was undertaken in conjunction with Wesgro (the official investment promotion agency for the Western Cape Province) and the Council for Scientific and Industrial Research (CSIR), and with the knowledge and support of the Cape Metropolitan Council.

A questionnaire was sent to 400 firms, including firms which participate in a High Tech Forum co-ordinated by Wesgro. Results of the survey are being processed, and a research report will be produced.

3.2 Workshops and meetings

Meetings hosted by the ISP

In addition to regular internal meetings for members of the research team, the ISP hosted two major workshops to disseminate the results of the research to policy makers and those involved in implementation of SDIs.

The first workshop, held on 7 and 8 May 1997, was attended by, among others, key individuals from the DTI and the DBSA (including SDI project managers), international experts, and representatives of the Mozambican government involved in the Maputo Development Corridor (the first SDI to be implemented).

Interim research results from the Richards Bay, Fish River and Saldanha Bay case studies were presented, as well as a first draft of the overview paper. The discussion that followed was highly productive, both for the researchers and for those involved in formulating and implementing the SDI programme.

The second workshop, held on 13 November 1997, was again attended by a range of people, including government officials and DBSA representatives. Completed research on the Fish River, Saldanha Bay, Midrand, and high technology cluster case studies was presented, as well as interim results from the West Coast Investment Initiative case study.

Meetings attended by members of the research team

In March 1997, a national SDI conceptual workshop was organised by the DTI and the Department of Transport, for representatives of a large number of national government departments, SDI project managers and others. At this workshop, David Lewis, Director of the ISP, outlined the ISP project and led discussion of the conceptual underpinnings of the SDI programme.

Members of the ISP research team attended the workshop. ISP researchers also participated the regular monthly meetings of the national SDI co-ordinating team.

Launches of the various SDIs which formed part of the case study series were attended by the researchers involved.

3.3 International co-operation and experience

Several opportunities arose during the course of the project for international contact and co-operation. Trips were undertaken to the Philippines and the United Kingdom, and closer to home, there was contact with Mozambican officials.

The Philippines

The conversion of Subic Bay, the vast former US naval base in the Philippines, from a military installation into a highly successful industrial location is one of the outstanding international role models of local industrial investment promotion.

At the suggestion of the DTI, David Lewis and Jurgens van Zyl, a senior DBSA economist working on the SDI team, visited Manila and Subic Bay in November 1997. The Subic Bay visit was hosted by the Subic Bay Metropolitan Authority (SBMA), the agency responsible for managing the port and other facilities and for investment promotion. The Manila leg of the visit was hosted by the Asian Development Bank (ADB).

At Subic Bay we met with members of the SBMA as well as private investors. The visit established the importance of local capacity in investment promotion. Although blessed by sophisticated infrastructure, this would not have proved sufficient in attracting and sustaining industrial investment.

Nearby Clark Airforce base, with similar infrastructural capacity, had, because of the absence of competent, legitimate local leadership, not proved capable of making the transition from military base to industrial zone. Subic Bay has made the transition and, in contrast with the embryonic South African experiences, has done so on the basis of a large number of relatively labour-intensive manufacturing and service sector investments by multinational companies.

The ADB has a strong history of supporting regional industrial development initiatives largely through the mechanism of "development corridors" and "growth triangles". We interacted closely with ADB officials engaged in these initiatives, contacts which will stand us in good stead for the further work that the ISP will undertake on regional industrial strategies.

Wales and Scotland

In July 1997, the ISP was visited by Brian Morgan, then Chief Economist at the Welsh Development Agency. Wales experienced industrial decline in the 1970s and 1980s and is a less favoured region in the European context. The Welsh Development Agency has had noteworthy success in attracting investment to the region, and in building cluster initiatives which support its investment attraction drive.

Scottish Enterprise, the Scottish equivalent of the Welsh Development Agency, has also had considerable success in promoting investment in Scotland, but is structured differently from the Welsh Development Agency.

In order to learn further from the Welsh and Scottish experiences, Amanda Driver, a researcher at the DPRU, spent three weeks in Britain in November 1997 to visit and interview people involved in promoting investment and innovation in these two regions. The focus of the trip was on building up knowledge on regional development institutions, which could usefully be fed

into the SDI research programme as well as future ISP research programmes dealing with regional development.

Mozambique

As mentioned earlier, several Mozambican government officials attended the first workshop hosted by the ISP to report back results of the research.

The co-ordinator of the Southern African SDI research programme, who is based at the DTI, attended the second workshop hosted by the ISP. Because the Maputo Development Corridor was the first SDI to be implemented, the Southern African SDI programme has, at this stage, a strong focus on Mozambique.

3.4 Journal articles

Reworked versions of a number of the working papers described in Section 3.1 have been submitted to *Development Southern Africa*, a journal published by the DBSA. It is intended that these articles will be published in a special edition of *Development Southern Africa*, in July 1998, dealing with SDIs and related issues. Our current experience suggests that the lead time for publication in academic journals does not suit the applied policy research in which the ISP is engaged. Moreover the conversion of a research report into an academic journal article is time consuming and is generally not budgeted for. One of our research reports – the Richards Bay study – has already been published in our Working Paper series.

3.5 Related research

Alongside the ISP's research on industrial SDIs, the DBSA undertook a research programme on tourism and agriculture SDIs. As mentioned above, there was formal interaction between the DBSA and ISP's researchers at

report back workshops, as well as informal interaction on a more regular basis.

A number of the papers resulting from the DBSA's research have been published as ISP working papers.

4. Plans for further research

Given that the SDI programme is commanding increasing attention and resources from government, and is being extended into the Southern African region, the ISP considered it important to build on the research which has been conducted up till now.

We will undertake a large three year study of regional industrialisation of which the SDIs will be an important component. A range of issues tackled in this project require more detailed examination including, detailed work on regional transport infrastructure and on the role of regional development institutions in promoting and supporting industrial investment.