SECTORS, CLUSTERS and REGIONS

Restructuring the South African Steel Industry: Case-study Newcastle

Faith McDonald
FOREWORD

The first phase of the Industrial Strategy Project commenced in 1992. The Project has its origins in the Congress of South African Trade Union's (COSATU) efforts to develop policy responses to the malaise afflicting South African manufacturing.

The first phase of the ISP submitted its final report in 1995. This comprised 11 sectoral studies, a number of cross-sectoral studies, and a synthesis volume that proposed an overall industrial strategy for South Africa.

The ISP is now in its second phase and comprises four research themes. One of these examines the relationship between industrial development and the environment, a second focuses on firm-level innovation, a third examines issues in human resource development, and the fourth is concerned with identifying mechanisms to strengthen manufacturing competitiveness at regional and local levels.

This paper is one of a series of five working papers that examine regional sectoral agglomerations drawing on the well-documented international experience of industrial districts. These studies, supplemented by additional research in this area, will be synthesised in an overall analysis of regional and local industrial strategies. While the first phase of the Project was cognisant of these issues they have assumed particular pertinence in the context of the new constitutional dispensation. The studies are principally, although by no means exclusively, directed at provincial and local government and non-governmental structures attempting, with few resources and little local experience, to promote industrial development in their areas of jurisdiction.

These are working papers intended to catalyse policy debate. They express the views of their respective authors and not necessarily of the Industrial Strategy Project.

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David Lewis - Director: Industrial Strategy Project
Robin Bloch - Research Co-ordinator: Sectors, Clusters and Regions
EXECUTIVE SUMMARY

The focus of this paper is the impact of industrial restructuring on the town of Newcastle, KwaZulu-Natal. Traditionally a 'steel town', Newcastle has been affected in the last decade by a restructuring programme undertaken by South Africa's major steel producer, ISCOR. This has resulted in considerable down-scaling of its integrated steelworks located eight kilometres from the town. The paper examines both the impact this restructuring has had on the town, and what future potential the iron and steel industry and its satellite sub-sectors - particularly in the form of small business agglomerations - might have in contributing to the economic viability of the immediate locality and broader region.

ISCOR was privatised in 1989 and then adopted far-reaching policies to restructure itself. Employment in all ISCOR plants was reduced from 58,000 in 1992 to 48,000 in 1995. The Newcastle Works was seriously affected with the production workforce dropping from a peak of almost 7,000 in 1985 to under 3,000 in 1995.

In the light of this decline, the provincial government encouraged investment from other sources in order to retain the town's role as a regional centre for employment and economic growth. These moves were undertaken in the mid-1980s following a dramatic increase in the African population, at a time when Western industrialised nations had imposed sanctions on South Africa. Hence, attention was turned to the Far East, notably Taiwan and Hong Kong. This resulted in investment from small entrepreneurs engaged primarily in clothing, knitwear and shoe manufacture - industries removed from the traditional character of the town's steel heritage. Indeed, satellite industries in steel and metal-related manufacture which had located in the town following the opening of ISCOR's integrated steelworks in the 1970s all reported declining levels of employment in the decade.

Empirical evidence suggests that the new jobs created have been in semi- and lower-skilled occupations run by Chinese entrepreneurs, which employ mostly female labour at extremely low wage rates - a consequence not unusual in other parts of the world where steel job losses have resulted in an increasing proportion of low paid part-time employment occupied largely by women, with resultant high male unemployment.

In addition, although other jobs in Newcastle have been created through property investment by the Chinese population, and in service industries, jobs in steel and metals-related manufacturing concerns have continued to contract. From the statistical information available new job creation has been limited when compared with the growth in population, particularly within the local townships of Madadeni and Osizweni.

During the period of state ownership, ISCOR took little responsibility for restructuring assistance in terms of job creation or alternative economic development, although to a limited extent it did assist in promoting small business development in Newcastle by offering retrenched employees (generally skilled white employees) training in business skills at its own training centre. Only recently - and in terms of contribution to the Reconstruction and Development Program (RDP) - has the company increased its investment in education and training both in the town of Newcastle and the local townships.

The present cost of ISCOR steel, which arises from its central pricing policy, is an important factor which has implications for the expansion of small steel and metal-related manufacturing districts. The viability of small businesses depends on local raw material being cheaper than that of imports from trading competitors.
In order to foster the development of small business agglomerations within Newcastle, given that there is a reasonably strong union presence but no effective local chambers of commerce, trade associations or employers' associations active in the area, consideration should be given to the formation of a 'Council' within the region. This council should be representative of all stakeholders including structures such as the KFC and would closely interact with the local authority as well as other civic organisations. It could operate independently from other Regional fora with specific functions and duties, the definition of which should be left to negotiation and consensus between the parties. Such a council could give small companies and trade unions a collective voice on a number of critical issues such as education and training, development, the building of new roads, and the improvements in infrastructural needs. This is an important element of non-hierarchical co-ordination and governance.

Moreover, such a council could be structured in such a manner that it would be in a position to offer assistance to small business development in terms of access to credit facilities, means to purchase property, the provision of a central accounting and administrative service, and, access to technological, profession and promotional support. All are key requirements for small businesses to become competitive.

These services, would be similar to those offered by organisations such as ERVET in Bologna, Italy, and the supply chain network in Sheffield in the United Kingdom.

If local economic restructuring is to be effectively achieved and small businesses are to be fostered, moves by all stakeholders to encourage the notion of inter-firm co-operation between similar manufacturing and/or service concerns is of critical importance. A crucial factor here is defining the appropriate balance between national and local resources to provide 'real services' which include education, skills acquisition, information and technology exchange.

The Newcastle example highlights the fact that 'piece-meal' approaches are both inadequate and ineffective for the longer-term sustainability of a growing community. A more holistic approach needs to be effected which transcends corporate and/or individual interests and encompasses all the facets of the community.

Such an approach should combine both public and private intervention. However, international experience suggests that a prerequisite is the availability of full-time committed personnel to drive processes which foster inter-firm co-operation between similar firms in Newcastle and the townships, as well as to facilitate the provision of key services.
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1. FOREWORD

This paper, as part of the Industrial Strategy Project (ISP) Phase Two, *Sectors, Clusters and Regions* Project researches the effect of industrial restructuring in the town of Newcastle, KwaZulu/Natal. Traditionally a 'steel town,' Newcastle has been affected in the last decade by a major restructuring programme undertaken by South Africa's major steel producer, ISCOR, which has resulted in considerable down-scaling of its integrated steelworks located eight kilometres from the town. This study aims to examine both the impact this restructuring has had on the town, and what future potential the iron and steel industry and its satellite sub-sectors may have in contributing to the economic viability of the immediate locality and the broader region in which it is located.
2. INTRODUCTION

Since its inauguration in April 1994, the South African (SA) government has committed itself, through the Reconstruction and Development Programme (RDP), to a policy of development aimed at both economic growth and social upliftment. This programme necessitates, firstly, an analysis of current prevailing conditions in both national and regional/local economies, and, secondly, an exploration of all existing (as well as potential) avenues which can assist in achieving the aims of the policy. Resource beneficiation geared towards adding value to the raw materials which have historically formed the backbone of the economy is emerging as one focal point of manufacturing growth.

At the national level, South Africa has been particularly affected in recent years by very high unemployment levels (estimated at between 40 and 50% of the economically active population) and a negative growth rate (which has only begun to reverse in the past two years). South Africa’s international competitiveness has also been hindered by a number of other factors.

These include an historical over-reliance of industry on low-skilled labour (the result of inadequate education and training opportunities for the majority of the workforce) as well as outdated work organisation, production techniques and technology. The result has been very poor productivity performance.

The urgent need for South African manufacturers to focus on productivity enhancement has been highlighted by the country’s inclusion in the Uruguay Round of international trade negotiations on the General Agreement on Tariffs and Trade (GATT) and membership of the World Trade Organisation. This inclusion will have the effect of reducing the tariff protection and import duties which have traditionally provided a cushion for South Africa’s industries. With phasing out taking place over the next seven years, South Africa will be forced to become more competitive, both in domestic and international markets. In the light of this need for world-class competitiveness, much debate has taken place over the past few years in terms of adding value to natural resources and down-streaming mineral and raw materials by extending the production (supply) chain.

At the same time, economic policy makers are giving considerable attention to the potential role of small-and medium-sized businesses (SMEs) in contributing to both employment and wealth creation. Work in this area has been influenced by the findings of researchers who have examined similar initiatives outside South Africa, for example, among others, studies by Pyke and Sengenberger, Becattini, Zeitlin, Amin, Bellandi, Storper and Nadvi. Indeed, 

Bellandi, M., 1993: Structure and Change in the Industrial District, Discussion Paper, Department of Economic Science, University of Florence, Italy.
Nadvi, K., 1992: Industrial Districts: Experiences in the Application, Adaptation and Diffusion of Technology in Developed Countries: Inter-firm Linkages and Endogenous Technological Capacity-building, Report for UNCTAD Secretariat.
considerable research undertaken internationally, and cited by Becattini, reflects quite clearly that large companies often do not correspondingly constitute large openings for job creation. This was borne out by 1981 census figures in Italy which reflected that 53.2% of all employees worked in very small enterprises with less than 20 employees and that the share of employment in large enterprises with more than 500 employees was only 18.5 percent.

The research in this area has explored the feasibility of "flexible specialisation" which, as defined by Capecchi, capitalises on the professionalism and experience of middle-skilled factory workers. Capecchi argues that a combination of experience and professional know-how permits these skilled workers to leave wage employment and become small independent entrepreneurs within the community. The flexible specialisation model of industrialisation thus allows the possibility of social mobility among the working class, a mobility which would not be possible in the Fordist model.

Indeed, the essence of flexible specialisation within small business agglomeration rests upon the adaptability of existing skills, products and services rather than concentrating on new products and/or services which can be provided more cheaply elsewhere. The ceramic tile industry in Northern Italy provides a good example as reflected in Russo’s research which notes that: "In the last twenty years technical developments in the production of ceramic tiles have given rise to the creation of new products that have served to widen the existing ones rather than to replace them".

South Africa, however, faces significant hurdles on the path to such developments, given that it is severely handicapped by the low levels of skill among the majority of the workforce - a direct result of historical educational and training disadvantage for the majority of its people. Nevertheless, it is pertinent to note that between 1981 and 1995 the picture has changed quite dramatically, at least as far as the spread of skills in the steel and metals industry is concerned. In this sector, the lower skilled component dropped from 69% of the total workforce in 1981 to 32% in 1995, while the middle skilled component rose from 17% to 51%. This major shift reflects technological changes which have required higher skills on the shop floor and thus higher entry levels. At the same time though, the long and severe recessions experienced over this period have also played a significant role in terms of the retrenchment of lower-skilled workers.

Hence, the focus of this study rests on the historical circumstances and possible future direction of the iron and steel industry and its satellite sub-sectors in respect of steel products and metal-working concerns. Here, specific reference is paid to the town of Newcastle and to its future potential as growth point for local and regional economic development, both in terms of the contribution of ISCOR itself as well as the possibility of developing a small business agglomeration in the metals sector.

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2 Becattini, G. 1989: Small Firms and Industrial Districts in Contemporary Italy.


3. THE IRON & STEEL INDUSTRY IN SOUTH AFRICA

Iron, steel and metal products comprise one of South Africa’s major manufacturing sectors, in 1993 it provided 16.4% of total GDP as compared to mining’s 9%. The manufacturing sector overall provides 23% of GDP. Furthermore, in respect of overall inputs to manufacturing, as illustrated in the graph below, metals comes only second to food producers, as well as from former socialist states entering the export market at heavily ‘dumped’ prices which led to over-supply.

Still, if South Africa is a minor player when it comes to the finished product, it remains a major producer of the ferro-alloys used in steel production (notably ferro-chrome, ferro-manganese, ferro-vanadium, ferro-silicon, ferro-silicon manganese and electrolytic manganese). Around 95% of South Africa’s production of these ferro-alloys is exported to all corners of the globe. Samancor is the world’s single leading chrome producer providing approximately 38% of production. In terms of manganese and vanadium SA has an approximate world share of 12% and 30% respectively.

Hence, whilst one might argue that there is room for internal expansion of the use of these alloys in steel production, the increasing international competitiveness of the steel market, coupled to the cyclical nature of the industry, could well limit potential export opportunities. However, ISCOR is attempting to take advantage of export opportunities by turning its attention increasingly to stainless steel.

However, South Africa is only responsible for 1% of total world steel production, with the major producers being the Commonwealth of Independent States, the United States, Japan, and various European countries (notably Germany, France and the United Kingdom). These producers are now being challenged by the growing levels of production in the newly industrialised countries of the Far East and South America, notably from China, Korea and Brazil.

Indeed, the steel recession experienced in industrialised countries was due in part to this increased competition from new

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** Samancor, 1996.
largely due to the fact that the latter has considerably higher added-value and an international market worldwide that is expanding by approximately 2% per annum. But it must be noted that even when planned expansion into stainless steel comes on-line, it will only represent approximately 10% of South Africa’s total steel production.

At the present time, basic iron ore is mined by both ISCOR (which was privatised in 1989 after 61 years of state ownership) and the Anglo-American Corporation. Neither ISCOR nor Anglo American’s Highveld Steel produce pig iron (crude iron direct from the blast furnace) any longer: the only pig iron produced in SA is by Richards Bay Minerals on the coast of Kwazulu-Natal.

Crude iron is produced through the melting down of iron ore through furnace and smelting operations. Iron must then be combined with some form of ferro-alloy to produce the various types of steel required for specific applications. For example, titanium is required for extremely high strength steel such as that used for helicopter rotor blades. Carbon or milled steel is produced from iron ore, ferro-manganese and carbon. As previously noted, all the major ferro-alloys used in steel production are in rich supply and, in their raw state, are formed into lumps or pellets, mainly for the export market.

ISCO has now refined its process operations to produce ‘sponge iron’ which is a more versatile and efficient product than either pig or cast iron in the production of carbon steel.

In terms of carbon steel production, ISCOR produces 75% of SA output, while 25% is produced by Anglo-American and its subsidiaries, primarily the Highveld Steel and Vanadium Corporation at Witbank.

Crude steel is processed through other smelting and refining operations into ingots or slabs and, in the case of stainless steel, into billets. All crude steel is cast and rolled into either ‘flat products’ or ‘long products.’ ‘Long’ or profile products are formed into wire and shapes such as angles, beams and rails while flat products comprise two primary groupings, plate and coil. Plate is used mainly for heavy construction such as shipping, pressure vessels and bridges. Hot rolled coil forms the base material for all downstream flat products which comprise cold rolled steel used for automobile body panels, coated coil for tin and galvanized plate, sheet or coil.

Integrated steelworks produce what is known as ‘virgin’ steel, a high quality product. Mini-mills, on the other hand, eliminate the smelting process by melting down steel scrap in order to produce rolled steel. These mini-mills have become a feature of modern steel production over the past two decades and have had the effect of inducing a world-wide shortage of scrap metal. While integrated works are renowned for producing high quality steel, the advantage of mini-mills rests with the fact that they produce steel at a lower cost, as well as being more environmentally friendly.

Extrusion processes are also required for products such as seamless steel tubes and rails. ISCOR converted its Vanderbijlpark plant into a continuous casting process, partly in order to produce rods for seamless tubes. These have the advantage of not suffering from weakness caused through joined welded seams.

Currently, ISCOR’s integrated steelworks have the capacity to produce 5.8 million tons per annum of carbon steel, of which the Newcastle works produce
and restructuring in Northern Hemisphere steel towns as well as in Australia. It is interesting to note that during the 1970s and early 1980s, nationalisation, or some form of state subsidisation, was perceived as the only way of meeting the crisis facing the steel factories in those countries.¹⁰

For a variety of reasons, by the mid-1970s national states (and in the case of the European Community, an embryonic supranational state) had often become deeply involved in the organisation of steel production, most visibly via nationalisation or other forms of public ownership.

ISCO, while not escaping the effect of this recession, remained state-owned during this period and received heavy subsidisation which assisted in maintaining high manning levels. Hence, it was not until after privatisation and the priority placed on reversing the lack of efficiency and improving profits, that the company embarked on a major industrial restructuring plan. As part of this restructuring ISCOR has introduced pulsed coal injection technology into its Vanderbijlpark plant in order to reduce the need for coking coal as well as a continuous casting process. Furthermore,

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the company is also converting the Pretoria plant from carbon to stainless steel production. When completed, the capacity of the Pretoria stainless steelworks will be 55 000 tons of stainless steel slab. Preliminary plans are being developed for down-streaming into more finished products.

At the same time, ISCOR is investing R1 billion in a stainless steel billet mini-mill in Durban, which will produce approximately 100 000 tons per annum of products such as sections, bars, rods and angle irons. These moves are all aimed at taking advantage of international and domestic markets where, as previously mentioned, the demand for stainless steel is greater than that for carbon. Moreover, the Saldanha Bay mini-mill, the subject of heated environmental controversy, has gained government approval for its construction. This mill is aimed to replace lost production through the rationalisation undertaken within the older works by utilising higher technology and producing thin slab casting and continuous hot rolling. This will enable the production of steel coil of below 2mm as a final product. This is used largely in high value-added manufacture of ‘white goods’ such as refrigerators and other domestic appliances. The majority of the proposed Saldanha production is planned for export in order to take advantage of port facilities available in the area.

The South African iron and steel industry is geographically fairly spread out given that the raw materials are located in specific areas, notably Gauteng and the Northern Province, although other concentrations are situated in KwaZulu/Natal - such as Newcastle and Cato Ridge. However, the heaviest concentration of steel and alloy plants is still inland. The implications of the proposed mills in Durban and Saldanha Bay may well contribute to the viability - or otherwise - of the Newcastle integrated works.

These moves by ISCOR aimed at improving capacity through efficiency, modernisation and rationalisation, have resulted in considerable job losses, particularly over the past three years.

Employment within all ISCOR plants dropped from 58 000 in 1992 to 48 000 in 1995 with the Newcastle works one of the most seriously affected. The Saldanha Bay development may have further implications for Newcastle which in 21 years of operation, has only shown a profit in two years, 1989 and 1991. It is also relevant to point out that over a decade ago other major international producers moved plant capacity to coastal areas for export advantage, making inland plants redundant in some cases. Thus, although ISCOR claims there are no plans for any further reduction of the Newcastle plant, the potential long-term implications of the new developments should not be underestimated.\textsuperscript{11}

\textsuperscript{11} Interviews conducted with ISCOR’s Head Office and Newcastle Steelworks.
4. NEWCASTLE - A STEEL TOWN

Newcastle, situated in Northern KwaZulu/Natal, is an inland town equi-distant from Johannesburg and Durban, which has been engaged primarily in iron and steel production since 1919.

The town owes its origin to the need for extending the administration of the Natal Government in the last century. Its future as a steel town emerged as a result of a Mr J. Eaton, who started early in 1917 to prospect for iron ore and coking coal in both KwaZulu/Natal and the former Eastern Transvaal. As a result, a blast furnace was constructed in 1919. This undertaking was floated as Newcastle Iron and Steel Ltd in March 1920.

In 1924, the Union Steel Corporation (USCO) purchased Newcastle Iron and Steel Ltd. It proved to be a further four years before the Union Government was to accede to proposals that it should give support to large-scale development of the industry. Then, in 1928 the South African Iron and Steel Corporation was constituted under an Act of Parliament. However, in the meanwhile, USCO had proceeded with the completion of the Newcastle blast furnace which had been ‘blown in’ in June 1926. From then until the time it was ‘blown out’ in November 1934, the furnace produced 170,000 tons of pig iron and 3,092 tons of ferro-manganese.

There was, however, little growth in the town during the period 1921-46 despite the establishment of an iron foundry by the American Metals’ Company (AMCOR) in 1937. Prior to World War II, ISCOR’s only plant - in Pretoria - was producing 345,000 tons of raw steel per annum. By the end of the war, production had risen to 520,000 tons through expansion of the plant in order to cope with the war effort. After the war, space for further large scale expansion at Pretoria was limited. It was decided to build a second integrated steelworks at Vanderbijlpark. In 1969 the government decided to erect its third integrated steelworks at Newcastle.

During the apartheid era, Newcastle was designated one of the decentralised growth points where industrial development could be stimulated by regional incentives through the Regional Industrial Development Programme (RIDP). Indeed, when the government decided to erect ISCOR’s steelworks in the town, Newcastle was perceived as the major growth point in the decentralisation of industry away from the Pretoria-Witwatersrand-Vereeniging (PWV) area (now the province of Gauteng) to promote development in the then Natal.

Newcastle was chosen by the government for a number of reasons besides the decentralisation of industry. The town, situated in the lush Tugela River basin, is served by a major railway line and national roads which at the time provided an adequate infrastructure for supplies and distribution. Furthermore, essential services such as water and electricity were well catered. In addition, there was an adequate supply of local labour. The previous Amcor ironworks were taken over to save on capital costs as well as providing an outlet for iron which was at that time - being exported to Yawara, Japan.\(^{12}\)

Although ore had to be transported from the Northern Province (formerly the Transvaal), coking coal was available from nearby mines. The overall economic

picture seemed favourable. Initially, the plan was to produce both flat and long products in a plant with an ultimate capacity of eight million tons per annum of liquid steel. But the subsequent decline in steel markets internationally resulted in the indefinite postponement plans to produce flat products. The first steel from ISCOR’s Newcastle works was produced in March 1974, by when other countries had already begun to feel the effect of recession prompted by the oil crisis which continued into the early and mid-eighties. South Africa, of course, did not escape the recession, and a decline in domestic demand as well as falling export prices due to a world over-supply, forced ISCOR to close two blast furnaces at the Pretoria works as well as the South Works at Newcastle, which had been taken over from AMCOR ten years previously.

However, from 1986 the Newcastle works witnessed a decline in employment with the number of production workers currently standing at 2 881. South Africa’s nationalised steel industry thus retained and even increased employment during a world-wide recessionary period - this in sharp contrast to other countries which in restructuring their steel industries during the 1970 and 1980 decades experienced planned major cutbacks and plant closures despite union campaigns and opposition. The following table, illustrating the British Steel Corporation’s performance between 1973 and 1987, provides a good contrast.

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14 Hourly paid workers are defined as all workers involved in the production process, but excluding supervisors and foremen.

15 SEIIFSA, Employment statistics.


17 BSC Annual Reports.

ISCOR (undated). From Mine to Market Place, Newcastle Booklet.
Following the completion of the Newcastle steelworks, the town’s manufacturing sector experienced considerable growth, with a number of satellite industries locating in the area to serve the needs of the steelworks and the local community.

The Venco Works was built for ISCOR as early as 1972 with the purpose of providing the steelworks with plant and equipment. Although this agreement fell away shortly afterwards, given the curtailment in expansion plans, its business was replaced with another contract by the Japanese company Komatsu. Other steel and metal-related private companies which located at the same time included those engaged in the manufacture of hydraulic equipment for the coal mines, light engineering, the manufacture of stoves and cast iron commodities, drain and stove pipes, doorframes and components for plant machinery.

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit/Loss (Sterling mill.)</th>
<th>Liquid Steel Output (mill. tonnes)</th>
<th>Capital Expenditure (Sterling mill. Net of grants)</th>
<th>No. Of UK Employees year-end (1,000)</th>
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<td>1987-88</td>
<td>410</td>
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\(^{18}\) Figures affected by strike action January-March 1980.
5. JOB CREATION IN NEWCASTLE

Available statistics reveal that between 1980 and 1995 the Newcastle Magisterial District witnessed an "explosion" in the African population, as well as an approximate 70% increase in the Indian population, while the White and Coloured populations remained relatively static.  

However, these figures are somewhat misleading as the majority of the black population located in the nearby townships of Madadeni and Osizweni is calculated separately. A 1984 projection was for a total of 222 000 by 1990. But the 1991 census figure was 313 559. This expanded to 351 497 by 1995.

In the light of this decline, the provincial government clearly perceived a need to try to encourage investment from other sources to retain Newcastle's role as a regional centre for employment and economic growth. However, given the presence of sanctions against South Africa by the western industrialised countries, attention turned to the Far East, notably Taiwan and Hong Kong. The concerted effort in the mid-eighties drew considerable interest from these countries and resulted in a 'flood' of small entrepreneurs in the clothing, knitting and shoe manufacture industries to open factories in Newcastle and its surrounding industrial centres. These companies were encouraged by the Regional Industrial Development Programme which offered incentives to these companies over a period of five years.

Nevertheless, the current situation is that, the major employer within the locality remain the steelworks which employs approximately a total of 4 000 employees, together with Karbochem, a chemical plant which located in Newcastle in 1981 and employs a total workforce of approximately 1 000. The Venco Works employs approximately 200 workers, having retrenched almost half its workforce in the past few years, although it does

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Population Statistics

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<tr>
<th></th>
<th>1984</th>
<th>1991</th>
<th>1995</th>
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<td>Blacks</td>
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Newcastle Employment: 1983 and 1986

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<th>1986</th>
<th>Annual % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
<td>22 934</td>
<td>26 123</td>
<td>4.6</td>
</tr>
<tr>
<td>Coloured</td>
<td>186</td>
<td>225</td>
<td>6.98</td>
</tr>
<tr>
<td>Indian</td>
<td>2 636</td>
<td>2 835</td>
<td>3.55</td>
</tr>
<tr>
<td>White</td>
<td>8 965</td>
<td>9 673</td>
<td>2.62</td>
</tr>
<tr>
<td>Total</td>
<td>34 721</td>
<td>38 856</td>
<td>3.96</td>
</tr>
</tbody>
</table>
employ other workers on a temporary basis as and when contracts are obtained.

In interviews conducted with other manufacturing concerns within the metals or allied industries established since the late 1970s or early 1980s, all reported declining levels of employment in the past few years. Indeed, with the exception of Falkirk industries and Venco, each of the rest of these companies employ under 20 people. Contract labour has become a common practice which makes it difficult for the industry as a whole to determine accurate employment levels. Falkirk Industries dates back to 1948 and manufactures stoves and cast iron pots. Following liquidation in 1992, the company was purchased by a privately held Zimbabwean concern, Apex, which also owns 23 other companies in Zimbabwe. Falkirk employs 350 people, mostly semi- and low-skilled. It perceives its workforce as stable and non-unionised. All the other companies interviewed are covered by the SEIFSA Main Agreement and pay the minimum wage for the appropriate job level as negotiated through the National Industrial Council.

There are signs of development of small business zones. The present industrial locations within the town’s environs include two main industrial areas, one on the outskirts of Newcastle itself and the other midway between Madadeni and Newcastle. In addition, there is some scattered manufacturing within the town itself, including clothing manufacturers as well as a hive sponsored by the Small Business Development Corporation (SBDC). This includes one metal-working concern which manufactures security installations.

According to information supplied by the local municipality, there are presently 117 industrial and manufacturing concerns in the Newcastle area and a further ten in the Madadeni industrial zone. Of this number, only 36 companies existed prior to 1988. And, only seven of these companies are directly related to metal industries production. In addition to these seven, there are a further 60 companies involved in wholesale and retail supply, as well as the servicing and repair of metals industry products. Moreover, on the basis of statistics provided by the Department of Urban Planning from the Borough Engineer’s office, it can be safely concluded that 13 of the 45 manufacturing establishments in existence in 1986 had ceased to operate by 1988.

However, the efforts of the KwaZulu/Natal Marketing Initiative to encourage investment, have resulted in 63 of the 127 manufacturing companies currently in operation being of Taiwanese and Hong Kong ownership.21

Other figures supplied by CSS and the municipality in respect of job creation indicate that since 1988 72 companies (apparently only nine of which are South African-owned) were established. Total

21 These statistics must be treated as provisional, as they may not be entirely up-to-date, given the inevitable flux in small business development. Interview with Town Secretary, Newcastle Municipality.
investment amounted to R84 million, creating 6478 jobs. However, these job opportunities have to be offset against job losses incurred over the same period as well as the growth in population particularly within the townships. The only reliable retrenchment figures available come from ISCOR and Venco and reflect a figure of 3961. But, although it is difficult to obtain precise numbers from smaller companies, the research suggests that most companies in the Newcastle area shed jobs over this period. Furthermore, metal-related companies engaged in hydraulics and mining equipment experienced drastic cuts in turnover due to the cutbacks in the coal mining industry.

Empirical evidence, as well as research conducted by Todes (1995), demonstrates that approximately 43% of new jobs in industries that have been created are semi- and lower-skilled occupations largely within foreign-owned firms.22 These firms employ mostly female labour at extremely low wage rates. This mirrors developments in other parts of the world where steel job losses have also resulted in an increasing proportion of low paid part-time employment occupied largely by women, with resultant high male unemployment.

In this regard, Consett in the United Kingdom, Lonwry in France and Youngstown in the United States, provide examples of this kind of potential fate for "ex-steel" towns.23 In the introduction to their book Hudson and Sadler point to the fact that:

political strategies devised nationally and fought for locally


23 Hudson and Sadler, ibid., Page 2.

Furthermore, whilst it must be acknowledged that additional jobs in Newcastle have been created through foreign investment, together with an increase in concomitant service industries - including restaurants or fast-food outlets, banks, hotels, new retail establishments and a cinema complex currently under construction - the fact that jobs in steel and metals-related manufacturing have drastically contracted merits further exploration.

This raises the issue of what contribution has been made by ISCOR to job-creation in the area. During its period of state ownership, ISCOR took little responsibility for any restructuring assistance in terms of job creation or alternative economic development. Although it claims to have assisted in promoting the development of small businesses in Newcastle through offering business skills training to retrenched employees at its own training centre, this is disputed by both the SBDC and the representative unions within the area. They maintain that ISCOR has only facilitated nine such small businesses in eight years and that a figure of R60 000 severance pay for retrenched workers is insufficient to buy or set up a small business.

However, more recently in terms of a contribution to the RDP, the company is expanding its investment in education and training. ISCOR's Technical College - one of three in the area - is located within Newcastle and during 1995 the company spent R1.5 million to provide 152 blacks and 52 whites with an opportunity to study further. In terms of the career development of its own employees, the company claims to have a structured
training programme for technical staff which combines both on-the-job and formal training at the college. However, this is also disputed by NUMSA which represents mainly black low and semi-skilled workers. The union maintains that very few opportunities for development are available for its members.

Additionally, ISCOR has funded the Goodwill Evening School in Madadeni and has also entered into a joint venture with an ex-employee to provide a careers centre at the same location. This contribution towards Adult Basic Education - a crucial factor for human resource development - is now underway through a programme called Operation Upgrade, with ISCOR sponsoring the training of five instructors to offer such courses at its own Technical College.

Other recent initiatives taken by the company are the introduction of a 'Buddy' system which aims not only to teach people business and technical skills, but also to provide back-up and to extend sub-contracting for plant repair and the manufacturing of parts to small businesses. In addition, easily constructable steel housing units have also been manufactured. Four stands have been purchased in Madadeni for the erection of these houses which it is argued will also offer opportunities for entrepreneurial sub-contracting. The concept of encouraging small business development through sub-contracting operations is stated ISCOR policy.
6. UNION AND EMPLOYER ORGANISATION AND INFLUENCE

Given that meaningful reconstruction has to involve all the key stakeholders, it is important to discuss the levels of organisation and influence that exists within both union and employer organisations as well as their interaction with the local council and other civic organisations.

6.1 Unions

The unions represented in the Newcastle region include a number of COSATU affiliates, namely:

- The National Union of Metalworkers (NUMSA)
- The National Union of Mineworkers (NUM)
- The South African Textile Workers Union (SACTWU)
- The South African Catering and Commercial Workers Union (SACCAWU)
- The Food and Allied Workers Union (FAWU)
- The South African Municipal Workers Union (SAMWU)
- The Transport and General Workers Union (TGWU)
- The National Health and Allied Workers Union (NEHAWU)

In addition to these COSATU unions, the South African Chemical Workers (SACWU), a National Council of Trade Unions (NACTU) affiliate, has majority membership in Karbochem. A “fifth generation” of the South African Allied Workers Union (SAAWU) has also been attempting to mobilise under the new name of the United Peoples Union of South Africa (UPUSA). This union is aggressively pursuing attempts to organise the smaller plants engaged in the clothing and metalworking industries with little success. The NUM represents approximately 4,700 workers in the surrounding coal mines, 1,349 of whom are employed by the Hlobane and Dornakol coal mines which supply the ISCOR steelworks with coking coal.

NUMSA, however, only represents approximately 2,000 workers in the manufacturing industry with the majority - 1,400 of these workers - employed by ISCOR. (ISCO also has representation from the more traditional unions including the Mine Workers Union (MWU), Ysteren Staal, the South African Boilermakers Society and the Amalgamated Engineering Union). The remainder of NUMSA membership is largely located at Venco, Vaal Pottery, Malcolm Hydraulics and Blowmoulders (a company engaged in plastic moulding). The union has recognition at all these plants and also claims a scattering of individual membership in other small businesses. However, discussions with organisers revealed that the union experiences considerable difficulty in organising small business due to the resistance of employers and the lack of union capacity in terms of organising and servicing small concerns (this latter is a problem for unions across the country). SACTWU is also unable to make any significant inroads into the Chinese-owned textile and clothing

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24 An example is DK Fabricators, a small company in the metals sector employing six which had been previously organised by NUMSA. Its owner was deeply concerned over the “threatening” manner in which he had been approached by UPUSA which purported to be acting on behalf of an ex-employee whom it claimed had been unfairly dismissed. The same employer expressed the opinion that he would prefer to have NUMSA representation in his works.
firms. Nonetheless SACTWU membership of 3 000 is among the highest in the area.23

While interviews showed that some employers ‘did not perceive a need for unions,’ one company had recently sent two of his employees to a Productivity Seminar in Durban, mounted by NUMSA, and was extremely positive in terms of the union’s presence in the company.

The overall impression gained with regard to union organisation and effectiveness in the district was that - with the possible exception of the NUM - the movement as a whole is neither strong nor influential. However, in this respect cognisance must be taken of the context in which the emergence and growth of the black trade union movement took place during the decade following the Wiehahn proposals of 1979. Thus, given obvious constraints of mobilisation, it is not surprising that NUMSA, at the time that the steel industry went into decline in the mid 1980s, was not in a position to mobilise the kind of national protest and pressure which, although ultimately unsuccessful was a feature of steel and metal union campaigns against cutbacks and closures in Western European and American towns. Examples are the British Steel strike from January to March 1980 and the Wheeling Pittsburgh - United Steelworkers Union strike in the United States which also lasted for three months.

6.2 Employers

The steel and metal manufacturing concerns which operate in the area all fall under SEIFSA. They thus pay the rates negotiated centrally on an annual basis through the Industrial Council. The Natal Engineering Employers’ Association (which represents all the concerns in the region) does not have an office in the town and from all accounts is not an association with much influence.

The Newcastle Chamber of Commerce is active but in a very limited manner - run on a part-time basis by a secretary. Of approximately 450 companies in the area, the Chamber has a membership of 150, of which 30% are small businesses engaged in activities such as tea-rooms, restaurants and pawnbrokers. Approximately 18 businesses are engaged in some form of metalworking but, with the exception of ISCOR, Falkirk Industries and Fred’s Sheet Metal, the remainder are engaged in dealing, repair work or sales. Although the Chamber does purport to offer legal and financial advice, evidence from the interviews conducted reflected either no knowledge of such services, or that they were extremely minimal in nature. Although meetings are held on a regular basis, they were poorly attended and it was generally stated that the Chamber provided little support in terms of networking or information.

However, a new national association in the foundry industry has been formed in the past year. The Davcor Institute has recently formed a committee called The South African Casting Association which boasts 30 members in its one year of operation. This Committee provides information on new technology. Local member companies perceive this move as being very beneficial to the provision of services.

Nevertheless, apart from ISCOR and Venco which have access to information and technology transfer through the resources of national corporations, other smaller businesses have little or no means of accessing information of developments in the industry. Again, with the exception of ISCOR and Dorbyl which have updated technology and are using CAD/CAM.

23 Interviews with Union Officials.
systems and computer driven machines, the other employers were heavily reliant on older equipment, a low-skilled workforce, and virtually no use of computer technology or systems.  

6.3 Transitional Local Council

The Transitional Local Council which came into place in February 1995 and is the third largest in the province has identified RDP projects to a cost of approximately R80 million. No more than R40 million is expected from central government. These projects include four clinics for Madadeni and Osizweni, sporting facilities, community halls, libraries and the upgrading of roads and bus routes. (It is interesting to note that, presently, the only bus services in operation are those to and from the townships. There is no service in the town itself.) In addition, projects for sanitary land-fill sites and water-pipe lines are underway.

6.4 Newcastle Sub-Regional Development Forum

Notwithstanding these above-mentioned independent initiatives, it is quite clear that a broader, more representative structure is required if reconstruction and development activities within Newcastle and its surrounding environs is to have any meaningful impact. To some extent this has been recognised by the establishment of a Newcastle Sub-Regional Development Forum. This consists of 80 community based organisations. In April 1995 this forum commenced attempts to encourage participation from companies, non-governmental organisations and government departments, with a view to co-ordinating efforts into a comprehensive business/investment strategy which would facilitate access to national, provincial and local funding. Among the key issues identified were:

- infrastructure (roads, water, electricity, telecommunications);
- housing (planning, construction, financing);
- job creation (entrepreneurial development); and
- social services (education, health, etc).

Whether this sub-forum will prove effective in developing efforts to address these concerns remains open to question, particularly in view of the lack of clarity with regard to RDP funds available from central government, the political uncertainty prevailing in the province, and the lack of any substantial cohesiveness between the stakeholders.

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26 Interviews with manufacturing companies and the Secretary of the Newcastle Chamber of Commerce.
7. FUTURE DEVELOPMENTS AND POTENTIAL INTERVENTIONS

There are no immediate plans of further employment downscaling at ISCOR’s plant. But the possibility cannot be ignored. Priority attention must therefore be focused on economic restructuring. Here, careful consideration should be given to the potential for developing small firm agglomerations or ‘industrial districts.’ As a number of international studies have shown, in relation to the steel industry this requires both national and regional Government intervention. As far as Newcastle is concerned, as discussed earlier, the KwaZulu/Natal marketing initiative has resulted in some active - although limited - investment promotion, albeit in industries unrelated to steel, engineering or metals. However, far more needs to be done, notwithstanding a prevailing political climate within the region as of late 1995 which can hardly be described as conducive to the requisite levels of co-operation between the parties.

As Becattini, Pyke and Sengenberger have argued in examining the Industrial District (ID) model and its dependence on inter-firm co-operation, the success of the districts lies in more than merely the economic realm: the social, political and economic spheres are interdependent and mutually reinforcing. Moreover, Marshallian theory as recently revisited and articulated by Bellandi and Becattini, centres around the concept of a local ‘industrial atmosphere’ of which four features are the most predominant: product specialisation and inter-firm dependence; the relationship of geographical proximity and local containment of labour; the consolidation of an area as a centre of knowledge creation, inventiveness, entrepreneurial capability and information dissemination; and the presence of “institutional thickness,” defined by Amin and Thrift as “an elaborate network of institutions whose task is to represent, mediate conflicts and collaborate with each other.” Such institutions include chambers of commerce, innovation centres, financial institutions, training agencies, trade associations, trade unions, local authorities and government agencies. 27

As yet, Newcastle’s steel sector fails to meet these criteria. Firstly, there is no product specialisation and inter-firm dependence. While there is a minimum informal level of inter-firm co-operation such as when a company cannot fulfil a contract and passes work on to a neighbouring concern in the same industrial area, all the firms typically act totally independently and compete rather than co-operate. Furthermore, there is no visible ‘chain’ of production (or supply) - merely satellite metals and engineering companies which act independently from each other, and have no direct working relationship - except in certain instances of sub-contracting - with the manufacture of steel at the ISCOR steelworks. Indeed, no visible element of any local beneficiation of steel produced at the Newcastle plant was evident from the companies that were surveyed.

In terms of geographical location, there are of course vast historical disparities between Newcastle itself and the

Becattini, G. 1990: The Marshallian Industrial District as a Socio-Economic Notion. Industrial Districts and Inter-firm Co-operation in Italy. Ibid.
development of Madadeni and Osizweni. Apart from engineering and metalworking companies located in the industrial areas between Newcastle and Madadeni, other companies operate within the town itself. But the small ‘backyard survival’ businesses in the townships are not integrated in any way with businesses in town. In other words, the present geographical pattern reflects spatial diversity rather than a true metalworking agglomeration in which the companies and labour are situated in close proximity. The ISCOR steelworks is situated eight kilometres out of the town while other metalworking, fabrication and engineering works are situated in the main industrial area, or within the town itself.

Furthermore, it could be postulated that over and above the decline of ISCOR, the regional government’s decision to encourage investment in the low-wage clothing sector and the consequent influx of clothing manufacturers has further inhibited possibilities for a thriving manufacturing metalworking agglomeration.

With regard to another important feature of ‘industrial atmosphere,’ while entrepreneurial ability may be present, no evidence has come to light in this research in respect of inter-firm dependence, or any form of consolidation or information dissemination within the steel and metalworking sector. Similarly, the presence of ‘institutional thickness’ in terms of a network of institutions including chambers of commerce, innovation centres, financial institutions, training agencies, trade associations, trade unions and so forth which aim to support the growth of small business districts is notably absent.

Certainly the future of any metal agglomeration would require intervention. But there is no reason why a more vibrant metalworking industry cannot be encouraged in the area, particularly if assisted through investment and assistance from all levels of government. This should concentrate heavily on the provision of adequate education, training and technological services.

If ISCOR does not downscale any further in the future and retains its position as the major employer in the town, then some moves towards viable ‘down-streaming’ capacity would seem a sensible option. At present, the only connection between the steelworks and other engineering and metalworking concerns is mostly that of sub-contracting plant and machinery repairs. But if efforts were made by ISCOR to develop a more integrated relationship with local businesses, there would appear to be no reason why it should not expand its operations. Not least crucial in developing such a relationship is a total overhaul of the present central pricing policy which makes the cost of steel inputs prohibitive for many small businesses and impedes any moves towards beneficiation.

Infrastructural improvements are also of key importance, particularly with respect to the transportation of goods. Currently the town is served by a major railway line, but all the companies interviewed, including ISCOR, complained bitterly about the cost of transporting with Spoornet. Although the N12 highway provides a route to the coast, the road to Johannesburg is far from adequate for heavy trucks. It is old, narrow and unable to cater to the demands of the businesses. Although one merchant, Baldwins Steel, is represented in Newcastle, the majority of small companies obtain their inputs from the Reef. Indeed, many complained that not only inputs had to be purchased on the Reef, but that simple consumables such as paraffin and rags were also not in sufficient supply in Newcastle.
The role of the newly formed Ntsika Enterprise Promotion Agency (NEPA) and the KwaZulu-Natal Development Corporation (KDC) could be expanded to assist small and medium-sized enterprise (SME) development in the area. The Small Business Development Corporation (SBDC) does provide loans for a variety of micro-businesses and has promoted a small ‘hive’ on the outskirts of town, but the only actual manufacturing which takes place in this hive is that of security gates and bars. The KwaZulu-Natal Finance Corporation (KFC) has a similar operation within Madadeni with similar small business “clusters” which concentrate on clothing manufacturing, car repair and security gates. Apart from such clusters in Madadeni there are also a number of other small, largely informal backyard businesses in the townships. Aside from spaza shops and retail outlets, these businesses are also for the most part involved in car repair and panelbeating. There is one company manufacturing security equipment and gates which is profitable and which besides serving the immediate local market ‘exports’ to Pietermaritzburg and Durban.

An interesting fact emerged in terms of where some of these informal concerns obtain their raw materials. Whilst ISCOR was adamant that it did not supply raw materials directly to the consumer, it does permit employees to purchase 500 kilograms per annum, which seems to find its way into an unofficial cartel within the townships. However, all the micro-businesses interviewed in Madadeni and Osizweni reported no linkage with businesses in the industrial area or in the town, except for certain basic purchases. Moreover, in terms of the back-yard operations, people were unable to offer any reliable information in respect of their turnover, costs and profit. An integrative approach and co-operative climate between such concerns could have been promoted by organisations including the SBDC and KFC, which could also improve the quality of assistance and services offered. The KFC claims to provide substantial assistance to the businesses to whom they have loaned money, as well as those within its hives. But visits to some of these micro-businesses would suggest this was not the case and that the main activity is that of providing finance on which they expect a return on investment. No premium seem to be placed on the working environment or on health and safety.
8. CONCLUSION

The findings of this study do not paint a very optimistic picture for Newcastle in terms of its continued viability as a thriving manufacturing town anchored by an integrated steelworks. The fact that the population has “exploded” beyond all forecasts while job opportunities have shrunk is perhaps the most powerful inhibitor for future economic viability.

Despite an acknowledgement that relocating to coastal locations has characterised international steel restructuring, the question should still be posed as to why a decision was made by ISCOR to erect a new steel mill at Saldanha Bay rather than utilising the space; facilities and infrastructure already existing at Newcastle. Certainly transportation costs to port facilities are a major factor in the equation but, surely, so is the economic survival of a regional economy centred on the town of Newcastle, which is only approximately 300 kilometres from the coast. Indeed, no aspect of the research revealed any reason other than the port and transportation facilities previously mentioned - for erecting a mini-mill at Saldanha Bay.

Other steel producing countries moved plant production to port facilities during the recession in the 1970s to enable more efficient imports of raw materials and the exporting of steel products. Two decades later ISCOR is following suit. With its sights set on increasing its share in world markets, the Saldanha and Durban mills are perceived as necessary for fulfilling this objective. The future down-streaming of steel into finished products for domestic and Southern African regional markets, could arguably have been far more feasible from an established base such as Newcastle.

The decisions have already been taken. But the question of what can be done to assist the local communities in developing a sustainable economy remains.

The Newcastle predicament is perhaps not as gloomy as it appears. The international experiences of declining steel towns do provide some illustrations of alternative policies which merit consideration. Sheffield in the United Kingdom provides a good example.28

In 1971, half the population of 281 000 in this northern England steel town was employed in the manufacturing industry. By 1987 the sector provided fewer than 58 000 out of the 225 000 jobs.

With the establishment of a Department of Employment and Economic Development, the City Council, backed by the regional County Council, pursued a range of often innovative policies. Given the realisation that a new department did not have the resources to create jobs on a scale necessary to match the employment crisis, its objective was to develop training projects, improve the quality of employment, and promote alternative strategies. These initiatives included support for co-operatives, managed workshops and a product development programme. Stringent compliance policies ensured that companies were obliged to recognise trade unions and provide them with access to information. An employment and environmental plan was developed for the areas where steel closures had predominated.

In the early 1980s, Sheffield was thus at the forefront in the development of alternative industry. This was confirmed by a ‘job audit’ in 1985, which demonstrated the significance of local

28 Hudson and Sadler, ibid.
authority spending to employment in the city by directly or indirectly supporting almost one-fifth of all jobs. However, by the mid-1980s, changes began to occur and the Council’s efforts became increasingly directed to preventing the creation of an Urban Development Corporation, whereby local government’s planning powers would be usurped by central government. However, even support from the local business community failed to prevent the establishment of this body. This severely curtailed the role of the City Council and local authorities in the field of their own economic regeneration at that time.

Relationships between the private sector, local and national government are critical for the effectiveness of re-industrialisation policies in steel closure areas. But perhaps the lesson to be learned here is the striking convergence of ideas on the need for local intervention in the economy.

This point is echoed by Amin in a chapter of an as yet unpublished book. He notes that:

The empirical evidence mobilised by associative socio-economics to link economic success with social equity and economic democracy is well-known. Invoked are among the world’s most dynamic and successful economic constellations from technopoles such as Silicon Valley, Japanese Businesses, quality-seeking transnational corporations, small firm industrial districts and the German and Scandinavian social market economies – as proof of the powers of association. All the examples are considered to place a premium on skills, job stability, training, partnership, decentralised autonomy and non-hierarchical co-ordination and governance, as a basis for deriving competitive advantage.²⁹

²⁹ Amin, A. Socio-economics, State and Economic Democracy, chapter from unpublished book.

In the Newcastle situation, given the fact that there are no effective local chambers of commerce, trade associations or employers’ associations active in the area at present, perhaps consideration should be given to the formation of a “Council” within the region. This council should represent all stakeholders. It would closely interact with the local authority as well as other civic organisations. It could operate independently from the Sub-Regional Forum with specific functions and duties, the definition of which should be left to negotiation and consensus between the parties. Such a council would give small companies and trade unions a collective voice on a number of critical issues such as education and training development, the building of new roads, improvements in infrastructural needs and so forth. This is an important element of the non-hierarchical co-ordination and governance discussed above.

Such a council should be structured in such a manner that it would be in a position to offer assistance to small business development in terms of:

- access to credit facilities;
- means to purchase property;
- co-ordination of transportation and distribution facilities;
- provision of a central accounting and administrative service;
- the supply of small businesses with the technological, professional and promotional support required in order to make them productive, and
- setting-up links with the local technical colleges and other training institutions to upgrade and improve worker skills.

The services above that a council could perform for its members would, although on a smaller scale, be similar to those performed by the Regional Government and the Regional Board for Economic
Development (ERVET) in Emilia-Romagna, Italy (McDonald 1994). The Emilia-Romagna Technological Agency (ASTER) was set up in 1985 by the Regional Government and the Regional Board for Economic Development (ERVET) and now forms part of ERVET. The major shareholders of ERVET are the regional government, credit and financial institutions, local chambers of commerce, entrepreneurial concerns, co-operatives and artisan associations. It is this organisation which forms the core network of specialised services offered to small businesses.

In the United Kingdom, under the aegis of the Department of Trade and Industry, a series of Supply Chain Network Groups have been introduced which supply information and support to local firms on “best practice” and are supported by local universities and business schools.

Networks in England, Scotland and Wales aim to bring together existing company-based organisations and groups, companies of all sizes, and local business support and educational establishments. The groups operate through steering committees representing these organisations and a co-ordinator has the role of encouraging the involvement of all local parties with special emphasis on small business assistance. The basic concept is to encourage inter-firm cooperation by identifying issues of relevance to member organisations and assisting them with overcoming problems related to best practice performance.

Innovative Supply Chains and Networks (SCAN), which serves the York and Humber regions, emphasises the importance of the steering committee and the co-ordinator in the success of such a project. In this example, an academic from the Sheffield Hallam University has been seconded to the network, purely for the purpose of “driving” the process. This network in Sheffield was the initial “pilot” and is now replicated by 19 other such networks.

To conclude, the research findings suggest that if regional and local restructuring is to be effectively achieved in the longer-term and small businesses are to be fostered, major moves by all stakeholders to encourage the notion of inter-firm cooperation between similar manufacturing and/or service concerns is of critical importance. Equally important is the crucial factor of defining the appropriate balance between national and local resources to provide what Sebastian Brusco defines as ‘real services’.

Brusco argues strongly that the provision of such services should come from public bodies rather than private enterprise. He offers three reasons:

Firstly, the expertise needed to supply the real services in question is not to be found in the social environment in which the Industrial District operates and, therefore, has to be drafted in from outside. The need to bring in outside expertise is one of the main motivations behind the measure of industrial policy under discussion.

Secondly, even when – however well concealed – the appropriate expertise is present within the district’s social environment,

31 Interview with Sue Johnstone, Innovative Supply Chains and Networks (SCAN), Sheffield, England.

Considerable investment is needed to produce the services required and returns on this investment may take a long time arriving. This is due to the fact that the patchy expertise available does not easily create much demand for the services or goods that it might eventually manage to provide.

Thirdly and lastly, the private sector is ill-placed to provide the services that are demanded of "real service" centres because the very nature of the information involved is that of a public asset.

But Brusco also warns that considerable research is required to determine the requirements of a particular district and to translate complicated information and sophisticated technology into terms comprehensible for small businesses - a factor which possesses significant implications for South Africa in general, and Newcastle in particular.

Policy makers must take all these factors into consideration when defining strategies for regional economic regeneration - especially in terms of promoting small businesses. The research into the Newcastle example highlights the fact that "piecemeal" approaches are both inadequate and ineffective for the longer-term sustainability of a growing community. A more holistic approach which transcends corporate and/or individual interests and incorporates all the facets of the community needs to be taken.

A dualistic approach similar to the British Network system which combines both public and private intervention is an option which merits serious consideration. However, a pre-requisite for such an option is the availability of full-time committed personnel to drive processes which foster inter-firm co-operation between similar firms in Newcastle and the townships, as well as facilitating the provision of services which encompass education, skills acquisition, information and technology exchange.
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