Non-automotive Manufacturing in the Eastern Cape:

A study of the sector's decline and possible policy solutions

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Lucy Martin
MRTLUC004

Department of Economics
Faculty of Humanities
University of Cape Town
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Supervisor: Professor Michael Morris

COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Abstract

The automotive and automotive components industry has long formed the backbone of manufacturing in the Eastern Cape. Supported by the Motor Industry Development Programme (MIDP) since 1995, the sector has been a major source of industrial growth and employment creation in the province. In contrast, the province's non-automotive manufacturing (NAM) firms, the vast majority of which were attracted to the area by generous apartheid-era incentive schemes in the 1970s and 1980s, are struggling to maintain output and employment in the absence of government support. Since the withdrawal of incentives in 1992, non-automotive subsectors have experienced a contraction in output and employment, few new entrants, little innovation, and a substantial amount of firm closures.

This thesis aims to identify the current constraints facing non-automotive manufacturing firms in the Eastern Cape. Its findings are based on interviews conducted in September and October 2013. 25 firms and 7 key industry representatives were interviewed in the metros and surrounding industrial areas of East London and Port Elizabeth. Interviews were structured loosely around a questionnaire that focused on eight identified constraining factors. The interview process was conversational, aimed at engaging in a meaningful dialogue with firms and industry representatives.

The secondary aim of this thesis is to utilise the information obtained through firm interviews to provide possible targeted policy solutions to address the constraints facing non-automotive manufacturing subsectors in the Eastern Cape. In light of the Eastern Cape Provincial Industrial Development Strategy's (PIDS) scheduled revision in 2015, this thesis makes the case for (1) placing a larger emphasis on regionally and sectorally specific industry policies within the new PIDS; and (2) increasing engagement with the private sector in order to better inform the policymaking process.

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Lastly, I would like to thank my Nana who gave me Peter Pan when all the other girls got cardigans. Thank you.

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List of Abbreviations

BBBEE	Broad-Based Black Economic Empowerment
BIEA	Boarder Industrial Employers Association
CiMEC	Centre for Investment and Marketing in the Eastern Cape
DTI	Department of Trade and Industry
DEDEAT	Department of Economic Development, Environmental Affairs, and Tourism
EC	Eastern Cape
ECDC	Eastern Cape Development Corporation
ECSECC	Eastern Cape Socio Economic Consultative Council
EL	East London
ELIDZ	East London Industrial Development Zone
EPWP	Expanded Public Works Programme
FET	Further Education, and Training
FIRBS	Finance, Insurance, Real Estate, and Business Services
FoodbevSETA	Food and Beverage Sector Education and Training Authority
Fp&mSETA	Fibre Processing and Manufacturing Sector Education and Training Authority
GEAR	Growth Employment and Redistribution
GDP	Gross Domestic Product
HRD	Human Resources Development
IDC	Industrial Development Corporation
IDZ	Industrial Development Zone
IPAP	Industrial Policy Action Plan
LED	Local Economic Development
MCEP	Manufacturing Competitiveness Enhancement Programme
MDP	Manufacturing Development Programme
MEIBC	Metals and Engineering Industries Bargaining Council
MerSETA	Manufacturing, Engineering, and Related Services Sector Education and Training Authority
MIDP	Motor Industry Development Programme
NAM	Non-Automotive Manufacturing
NERSA	National Energy Regulator of South Africa
NGO	Non-Governmental Organization
NGP	National Growth Plan
NMMU	Nelson Mandela Metropolitan University
NSDS	National Skills Development Strategy
PE	Port Elizabeth
PGDP	Provincial Growth and Development Plan
PIDS	Provincial Industrial Development Strategy
PJS	Provincial Jobs Strategy
PSDF	Provincial Skills Development Forum
PSDS	Provincial Skills Development Strategy
QES	Quarterly Employment Survey
QLFS	Quarterly Labour Force Survey
RIDP	Regional Industrial Development Programme
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SDI	Spatial Development Initiatives
SETA	Sector Education and Training Authority
SEZ	Special Economic Zone
SMME	Small, Medium, and Micro Enterprises

Chapter 1: Introduction

1.1 Background to the Study

The Eastern Cape (EC) has a history rich in industrial activity. It's origins lie in the province's vast agricultural resources. Dating back to the early 19th Century, the Eastern Cape's agricultural base developed around the production of animals and animal products, the cultivation of pine forests, and the introduction of fruits and teas to the region. Forward linkages to industrial activity in the metros followed—the processing of citrus, pineapples, mohair, wool, and timber provided the foundation for industrial development.

The region's access to two ports facilitated the growth of the automotive and automotive components industry—currently the largest manufacturing subsector in the EC. The origin of the auto industry dates back to 1924 with the opening of the first Model T assembly plant in Port Elizabeth. The following decades saw the establishment of General Motors, Volkswagen, Mercedes Benz, and Ford assembly plants in Port Elizabeth, Uitenhage, East London, Struandale, respectively. In 1995, the introduction of the Motor Industry Development Programme (MIDP) provided the government support necessary to sustain investment growth in the subsector, which translated into substantial growth in output, exports, and employment.

The auto industry has since served as the backbone of EC manufacturing. The sector currently accounts for 25.2% of the EC manufacturing employment and 30.7% of the province's gross value added (GVA) (Global Insight, 2013).[1] While the automotive sector has grown, largely due to the support of protective measures and incentives provided by the MIDP, non-automotive manufacturing (NAM) has experienced a steady decline—marked by a decrease in GVA, loss of employment, contraction or exit of established firms, and limited entrants into non-automotive subsectors.

The non-automotive and non-agro-industry subsectors in the EC grew as a result of apartheid-era policies designed to attract labour-intensive industries to areas bordering the former Transkei and Ciskei homelands. The escalation of incentive packages offered to manufacturing firms in the 1970s and 1980s spurred a wave of industrial activity in the EC, reaching its height in the late eighties. However, once the generous incentives that attracted firms to the region were withdrawn over a two-year period from 1991-1993, non-automotive manufacturing in the EC suffered severely.

[1] These figures underestimate the dominance of the auto subsector as they do not include the production of goods and services that feed into the auto industry supply chain, but are classified under other subsectors e.g. tires are classified under "Petroleum products, Chemicals, Rubber and Plastics."

While the state has actively supported the automotive industry, NAM has remained largely unsupported. As a result, EC industry is highly dependent on the performance of the automotive sector with the vast majority of activity concentrated in the two municipalities—Nelson Mandela Bay (Port Elizabeth) and Buffalo City (East London).

The 2008/2009 financial crisis caused a contraction in global demand. New domestic vehicle sales and vehicle exports from South Africa dropped by 30% and 22%, respectively, from March 2008 to March 2009 (ECDC 2009: 36). The EC's dependence on the automotive industry made it particularly susceptible to the downturn in consumer demand, both foreign and domestic. Furthermore, nearly two decades of declining activity in the non-auto manufacturing base provided little buffer from exogenous shocks to the economy.

At present, The EC is home to 12.8% of the national population—6.7 million people. The region is marked by high inequality, poverty, unemployment, and food insecurity. In 2012, the EC GDP per capita was R26, 000, just over half of South Africa's GDP per capita, R48,000. From 1996 - 2012, the EC growth rate has fairly consistently fallen below the national GDP growth rate. The average rate of growth for the period 1996 – 2012 for the EC was 2.7 percent—0.5 percent lower than the national average of 3.2 percent. Furthermore, 2013 employment data indicates that, when compared to national indictors, the EC suffers from a higher unemployment rate (30.8 percent compared to the national average of 24.7 percent), a lower labour force participation rate (45.2 percent compared to the national average of 55.7 percent).

The impact of the recession on the EC economy brought to light (1) the glaring structural and spatial weaknesses of the region's economy; (2) the major unemployment problem in the province, which has been exacerbated by the rapid decline of the decentralised nodes, and 3) the necessity for public sector participation in creating policy solutions to support the diversification and development of NAM in the province.

Investigating these provincial weaknesses and possible regional industrial policy solutions is the focus of this thesis.

1.2 Research Aims

The general objective of this study is twofold. It aims to identify and analyse the factors currently constraining the non-automotive manufacturing sector in the Eastern Cape. This thesis also aims to

provide possible targeted interventions to halt the process of deindustrialisation and promote the development of non-automotive manufacturing in the province.

1.3 Methodology

To undertake this analysis, this dissertation drew upon:

Secondary data in the form of (a) published and unpublished literature detailing the historical processes that shaped the current structure of the EC economy with particular emphasis on the repercussions of the state's evolving decentralisation policies; and (b) quantitative data sourced from a number of databases to illustrate the changes that have taken place in the EC economy and the current state of the economy in comparison with national economic indicators.

Primary data collected from interviews with NAM firms in the metros and surrounding areas of East London (EL) and Port Elizabeth (PE). Interviews were also conducted with key representatives from provincial government, associated government agencies, industry associations, and relevant labour unions. These interviews were undertaken as part of a study undertaken for the National Treasury under the project leadership of Professors David Kaplan and Mike Morris.

1.3.1 Secondary Data

Quantitative data was sourced from multiple databases—Statistics South Africa, Quantec, and Global Insight Southern Africa—as well as from Eastern Cape Socio Economic Consultative Council's (ECSECC) ongoing research surrounding manufacturing in the province. The data is utilised in Section 3.3 to first give an overview of the EC's economic performance in comparison to national performance indicators over a span of 15 years. The section then uses quantitative data to illustrate the changes that have occurred specifically in manufacturing and manufacturing subsectors over the past 15 years with regard to changes in the sectoral and spatial composition of manufacturing activities.

Limitations of the Data

The data utilised to give an overarching illustration of the EC's performance—gross domestic product (GDP) growth, development indicators, sectoral contributions to GDP, etc—was consistent across datasets, providing a coherent picture of general economic patterns that have occurred in the province

since 1996. However, when looking specifically at the EC's manufacturing sector, the following problems were encountered:

1. In order to assess the performance of the NAM sector, I had to disaggregate the non-auto subsectors from the transport manufacturing subsectors. When output from transportation manufacturing is subtracted from total manufacturing output in the EC, the result is a higher output than would be expected given the consensus (built prior to this study by multiple government agencies through previous studies, firm interviews, and factory visits) that EC non-automotive manufacturing has been on the decline since the early nineties.

   The most probable explanation for the discrepancy between the story illustrated through the data and that of the opinions of qualified individuals on the ground is the relationship between non-automotive and automotive industries in the EC. Many NAM firms feed into the supply chain, directly or indirectly, of automotive production (i.e. foundries, textile, metals, and plastics firms, etc), but are not classified within the transport manufacturing subsector. These firms often benefit from government support to the automotive sector, either directly as suppliers into the chain or indirectly through the positive effects of the sustained growth of the sector since the MIDP was enacted in 1995.

   Since the data available does not differentiate between non-automotive manufacturers that participate in the automotive industry and those that do not (those firms that are the focus of this study), it can be expected that these "non-auto," yet "auto related" firms provide a boost to the performance indicators for the entire non-auto subsector. Given the limitations of the data, it is assumed in Section 3.3 that if the both auto and "auto related" manufacturing firms are deducted from total manufacturing output in the EC the performance of the NAM subsector would be much lower than the data suggests.

2. Finding reliable data for employment is essential for this study. One of the primary concerns surrounding the decline of NAM in the EC is the fact that the subsectors that have suffered the most (i.e. clothing and textiles and electrical machinery) are the most labour intensive subsectors, resulting in massive job-shedding. That said, finding consistent manufacturing employment data for the EC was a challenge.

   Manufacturing employment data from multiple sources was compared. However, each database measures employment by different specifications, methodology, and sample sizes, rendering it impossible to verify the accuracy of the data. The Quarterly Labour Force Survey

(QLFS) and the Quarterly Employment Survey (QES) on StatsSA therefore proved problematic for the purposes of this study.

- QLFS measures informal and formal employment from household surveys. There are two main issues with this method. First, the survey is subject to sampling errors due to inaccurate or incomplete reporting on behalf of the respondent. Second, due to the fact that the survey measures both formal and informal employment, there is a tendency for the employment estimations to be higher than if data is collected directly from manufacturing firms. QLFS manufacturing data for the EC, disaggregated by subsector, from the year 1996-2011 can be found in Appendix A.
- QES gathers information on employment from the firms themselves and classified by sector. This data, however, often underestimates the number of employed because it omits employees that are not included in the firm's payroll. While this dataset would be the preferred source for employment data—due to both the focus on formal employment and the reliability of the source (i.e. firm payroll data as opposed to households)—StatsSA does not provide data by region, nor by manufacturing subsector.

Due to the limitations of these official datasets, advice was sought from the ECSECC economic research department. ECSECC's work surrounding manufacturing in province utilises employment data from Global Insight's Regional eXplorer (ReX) database, which derives its content from a variety of sources. The database applies national and sub-national verification tests to ensure that the data is consistent. For Section 3.3, the same Global Insight dataset was used, provided by ECSECC, to give as accurate a depiction as possible of state of manufacturing employment in the EC over the past 15 years. The Global Insight data was compared to the data obtained from the QLFS (Appendix A) in order to verify the accuracy of the data. While the employment numbers provided by QLFS were higher than the data provided by Global Insight, they showed similar trends in declining employment in particular subsectors, the analysis of which is outlined in Section 3.3.

1.3.2 Primary Data

Chapter 4 provides a detailed analysis of the qualitative and quantitative primary data collected during two trips to EL and PE in September and October of 2013. Interviews were conducted with 25 manufacturing firms, as well as representatives from 7 key organisations, in the metros and

surrounding areas of EL and PE in September and October 2013 (for a full list of interviewees see Appendix B).

In all cases, interviews with firms were with senior management – for privately owned firms this coincided with ownership. Interviews were conducted with the primary aim of identifying the current constraints obstructing firm growth and gathering interviewee opinions on possible policy solutions to those constraints.

Firm Selection

The firms that were selected for interviews were drawn from particular subsectors. The aim was to avoid interviewing firms that fed into the automotive and automotive components sector, however, there was some overlap (though not significant), especially within the metals, metal products, machinery, and equipment subsector. The subsectors were selected based on the following criteria:

1. The current proportion of total employment in the non-automotive sectors;
2. A trend of increasing employment share since 1995;
3. Relative possibilities for raising employment levels.

According to these criteria the following subsectors were selected:

- Food, beverages and tobacco – 18% of employment, increase of 34%
- Metals, metal products, machinery and equipment – 16% of employment, increase of 37% in employment
- Textiles, clothing and leather goods – 8.5% of employment, suffered severe drop of 43% since 1995, but has substantial labour absorbing capacity.[2]

There were 10 firms interviewed that did not fall into these categories—for the purpose of this study they are classified as "other." These firms are involved in construction, light manufacturing, electronics, and plastics subsectors and were selected due to similarities with the three subsectors (e.g. they exhibit the potential for labour absorbing capacity, they are subject to the same nationally bargained wage rates as the metals subsector, etc).

[2] Employment data are from Quantec as per the SLA

Interviewed firms were also selected with the aim of achieving an equal distribution between firms based in EL and PE, as well as a relatively equal distribution between subsectors. The selection process and selected firm characteristics are detailed further in Section 4.2.1

Research Design

Each interview lasted roughly 60-90 minutes and was structured to gather both quantitative and qualitative data from the interviewee. The vast majority of time was spent gathering qualitative data through a personal conversation with either a small group or single representative from senior management of the firm (this often coincided with ownership for privately owned firms).

Conversations were loosely based on a questionnaire outlined prior to the interviews. The questionnaire (Appendix C) is separated into multiple sections. The first section deals with identifying basic characteristics of the firm—location, age, size, output, subsector, etc. The following section asks the interviewee to give a brief history of the company, with emphasis on the firm's performance (growth or contraction in employment, investment, output, etc.) over the past 5-10 years. The next section then asks more detailed questions surrounding eight constraint categories—labour costs, labour productivity, shortage of skills, transport costs, electricity costs, local competition, competition from imports, and lack of government support. These categories were selected based on previous literature surrounding the challenges facing manufacturing firms both in the EC specifically, and South Africa as whole, providing a broad enough spectrum to allow the firms to voice concerns covering a variety of topics.

It is important to note that the "constraints to growth" methodology has both its strengths and weakness. By selecting eight exogenous factors for the firms to reflect upon, the structure provided necessary focus for the time-constrained interviews. These factors also held the most relevance for a discussion surrounding potential *industrial policy* solutions, with the ultimate hope of creating an enabling economic environment to spur growth in output and employment. However, the framework does so at the expense of a meaningful discussion of the endogenous factors that may have a significant impact on firm performance—e.g. systems of management or organisation of production. Although falling outside the scope of this study, exploring endogenous factors restricting firm growth in the EC is an important topic for future research.

After an in depth discussion surrounding the eight constraint categories, the interviewees were then asked to rank each of these constraints on a scale from 1 to 10, 1 being an unimportant factor and 10 being a very important factor in constraining the company's growth. The previous line of questioning allowed for deeper reflection on the magnitude of the constraints facing the companies. In asking the

firms to rank the constraints after this discussion, the hope was that the quantitative data gathered from the interviews would provide a more accurate reflection of the current realities facing the firm than if quantitative data had been collected prior to the discussion. Analysis of the data collected is utilised throughout Chapter 4 and disaggregated by firm location, subsector, and size, providing a complimentary illustration of the patterns discovered through the qualitative component of the questionnaire.

The questionnaire ends with a final section focused on prospective policy solutions to address the constraining factors. Some questions were tailored at specific policy suggestions (e.g. a youth wage subsidy, a regional procurement policy), while other questions were open ended, allowing interviewees to offer their own opinions on possible actions government can take to enhance their performance.

Throughout the interviewing process, the questionnaire was used as a guiding tool in order to provide structure and coherency to the data collected. It was not used as a strict set of survey questions to limit or restrict the responses of the interviewees. Interviews were conversational and informal in nature, as opposed to following a formal "question and answer" formula. Questions were tailored to each individual firm, allowing each respondent to expand on issues that they felt were important, as well as bring up issues that were not covered in the questionnaire. The decision to allow for flexibility and freedom in the interview process was a conscious one. The technique made it possible to capture a more nuanced narrative of each firm's experience, paying heed to the complexities of the issues at hand. Furthermore, the strategy limited the ability of any preconceived notions held by the interviewer from influencing the interviewee's responses and, thus, restricting both the quality and the range of information gathered from the interview.

1.4 Outline of the Thesis

The thesis is organised as follows:

Chapter 1: Introduction
This chapter introduces the historical background, the focus of the thesis, the research aims, as well as a detailed overview of the research methodology and its limitations.

Chapter 2: Situating the Study
This chapter provides a literature review of industrial policy theory, detailing the evolution of the definition of industrial policy, the connection between industrialisation and development, and the

main arguments for and against state intervention. Additionally, it provides the theoretical framework within which policy suggestions presented in this thesis may be situated.

Chapter 3: Background on Eastern Cape Industrial Development

This chapter consists of three main sections. The first details the historical background of EC industrial development, following the three separate development trajectories of the urban centres, rural areas, and former decentralisation nodes. The second outlines the evolution and impact of EC regional industrial policies post-1994. The third provides a detailed quantitative analysis of both past trends and the current state of the EC economy, with a specific focus on the EC manufacturing sector.

Chapter 4: Interview Summary: Identified Constraints and Suggested Policy Proposals

This chapter presents the information gathered from the interview process. It provides a detailed description of the constraining factors identified by the interviewees, as well as an analysis of those constraints by subsector, firm size, and geographical location. The chapter ends with a summary of the programmes and policies proposed by the interviewees themselves.

Chapter 5: Policy Recommendations and Conclusion

This chapter provides summaries of the key constraints identified in Chapter 4, as well as policy suggestions to alleviate those constraints. It concludes with final remarks regarding the relevance of this study for future regional policymaking in the EC.

Chapter 2: Situating the Study

2.1 Industrial Policy Theory

As detailed in the introduction, the aim of this thesis is to identify the current constraints facing non-automotive subsectors in the EC with the goal of providing a foundation of information from which industrial policy solutions can be formed to address the challenges facing these ailing industries. The ultimate hope is that government intervention and support can reverse the trend of deindustrialisation in the province, catalyzing growth of output, employment, and new entrants within NAM. In order to provide an analytic context, this chapter will address some of the key issues in the literature concerned with industrial policy.

2.1.1 The Evolving Definition of Industrial Policy

The vast research surrounding industrial policy is built upon varying definitions of the term itself. Furthermore, the term is used to frame discussions surrounding an even wider variety of issues, including but not limited to: industrialisation, globalisation, internationalisation of finance, innovation, technological change, foreign investment, institutional arrangements, trade policy, labour relations, industrial networks, and capability upgrading. The application of industrial policy theory to a vast number of thematic issues raises a number of questions about the differing definitions of industrial policy and what this ambiguity means for both the theoretical conclusions and policy implications drawn from this growing body of research.

Discussions around industrial policy tend to fall into two categories—single-issue industrial policy or an all-embracing industrial policy. Single-issue industrial policy is centred around one issue, often trade policy (i.e. export oriented regimes or import substitution regimes) or innovation policy (supporting technological change and enhancing capabilities). Literature that focuses on all-embracing industrial policy tends to hold that all economic policies contribute, directly or indirectly, to promoting industrial development and should therefore be encompassed within term.

For Chang (1994), the all-embracing definition of industrial policy is problematic. The definition is often too inclusive, it "overloads the concept," at the expense of providing meaning to the analysis of specific policies applied to promoting specific industrial sectors or capabilities (Chang 1994: 59; see also Corden 1980, World Bank 1994 and 1993). In order to overcome the limitations of viewing industrial policy through the lens of single-issue or as all-embracing, Chang offers an alternative definition for *selective* industrial policy—"a policy aimed at *particular industries* (and firms as their

components), to achieve the outcomes that are *perceived by the state* to be *efficient* for *the economy as a whole*" (Chang 1994: 60).

Chang's model of industrial policy materialised in response to his analysis of the South Korea's successful use of selective state interventions to promote specific industries and firms. His analysis provided a much need explanation for the "Asian Miracle," an explanation that the World Bank stance on industrial policy at the time—limited to general measures to upgrade human and physical endowments and limit market failures—failed to provide. Chang (1994) uses to the South Korean case to identify conditions for successful industrial policy. These conditions are rooted in the viewpoint that industrial policies should be (a) *selective* in terms of choosing to promote specific industries, technologies, markets, and products; (b) *flexible* enough to adapt to changing conditions and failures; (c) *oriented* toward specific social and economic goals; (d) *incentivised* to reward firms and industries are efficient and punish those that are not.

Chang's most significant contribution to the literature is the centrality of capacity building within his model of industrial policy. As a necessary element of industrial development, the upgrading of a country's capabilities becomes both a goal of industrial policy and a subsequent positive input into both the policy-making and policy implementation process. This virtuous cycle is what Chang (1996, 1999) terms a "learning-by-doing" process, a main counterpoint to the orthodox argument that developing countries with little technological, managerial, and institutional capacities are incapable of implementing selective industrial policies well and should, therefore, abstain from doing so at all.

The main argument against Chang's model is his abstraction of policy-making from the socio-political, socio-economic context of the one developing country. He assumes that the state has the ability make autonomous decisions insulated from the influence of both the private sector and public interest groups.

Fine and Rustomjee (1996: 236), recognising this weakness, build their definition of industrial policy from a foundation of first identifying the "underlying economic and political relations upon which the form of industrialisation will depend." While acknowledging that all economic policies—those effecting interest rates, exchange rates, labour relations, etc.—impact industry, they maintain Chang's argument that industrial policy should be viewed as selective interventions in order to achieve specific goals. However, they argue that any analysis of industrial policy must (1) situate itself within the wider domestic and international socio-political context; and (2) acknowledge the vast number of conflicting interests that exist within those contexts. Policies are not simply the output of state decision-making processes. They are the result of a process of complex negotiation amongst multiple stakeholders both within and without the state. Fine and Rustomjee's model rests on the assertion that

industrial policy should "not be generally defined," but rather should understood as a reflection of the underlying socio-political-economic framework and the role that industry plays within that framework (1996: 236).

Dani Rodrik's work surrounding industrial policy in the 21st Century built upon the literature of the nineties, which was written largely in response to the emergence of the Asian Tigers. Applying earlier industrial policy theory to a new era, Rodrik (2004) reconstructs the model to fit an emerging international consensus, one that looks beyond the debate over too much or too little government interference in developing countries to a more pragmatic understanding of the state's role in industrial transformation. Rodrik argues that "developing societies need to embed private initiatives in a framework of public action that encourages restructuring, diversification, and technological dynamism beyond what market forces on their own would generate" (Rodrik 2004: 1). These policies, he hesitantly calls "industrial policies," pointing out that what is defined as an "industrial policy" often impacts, and is often targeted toward, non-industrial activities in the agricultural and service subsectors.

Rodrik greatest contribution to the evolving definition of industrial policy is his perception of industrial policy not as specific interventions aimed at achieving specific outcomes, but as a dynamic process. Industrial policy as a process is defined as a "strategic collaboration between the private sector and government with the aim of uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them" (Rodrik 2004: 2). It is an open dialogue between the public and private sector through which both sides learn from each other and participate in the process of discovering solutions.

Rodrik's description of industrial policy as a "process of economic self-discovery in the broader sense" (2004: 38)—a process of learning that requires the active involvement of both the private and public sector—forms the theoretical foundation for this study. The first step toward creating viable policy solutions is to initiate a conversation with the private sector. Through extensive, in-depth dialogue with key representatives from the private sector, this thesis aims to learn first-hand about the constraints facing NAM firms in the EC. The hope is that this conversation will evolve into a partnership between the private and public sector—to establish an *environment* that fosters well-informed policymaking and "self discovery."

2.1.2 Industrialisation and Development

Before exploring the debate surrounding *what* form industrial policies should take in a developing country and *how* they should be implemented, it is necessary pay heed to the question of *why* the

process of industrialisation is a key component of economic development. More specifically, why is the pursuit of manufacturing growth important for the development of the EC?

The answer to this question is often grounded in historical precedent. Historically, societies that experienced economic transformation and growth followed a similar trajectory—from participating in largely agrarian activities to industrial activities. Growth in manufacturing had positively reinforcing effects, resulting in increased innovation, the adoption of new technologies, and, ultimately, higher productivity.

In the modern era, the traditional trajectory has changed—the road to industrial development is more complex, however, the arguments in favour of manufacturing-led development have not lost their relevance. Heterodox scholars (the debate between orthodox and heterodox economists is summarised in the following section) argue the manufacturing is still an essential agent of economic transformation due to characteristics specific to the sector (Amsden 2001, Kaldor 1967, Page 2011, Verdoorn 1980, Weiss 1985).

Weiss (1985, 2003) summarises the arguments in favour of viewing manufacturing growth, as opposed to growth in the agricultural or service sectors, as central to structural transformation in modern developing economies:

- *Positive externalities*: manufacturing activities generate positive externalities through the acquisition of new technologies, knowledge, and skills, which are then transferred to other firms, subsectors, and sectors. This process translates into expanded innovative and technological capacities from which the economy as a whole benefits, increasing productive capacity, quality of goods produced, and income levels.
- *Linkages:* manufacturing activities require large supply chain networks. The quantity and level of interdependence of firms within these networks provides channels for faster dissemination of new technologies and skills, thus, increasing the multiplicative effects of positive externalities.
- *Productivity growth:* Increased productivity per worker in the manufacturing sectors translates to cheaper capital and goods, both as outputs and intermediate inputs, for consumers and producers alike. This begets higher real income levels, greater investment, and increases in demand.
- *Labour absorption:* unlike agriculture and service sectors, increases in productivity in the manufacturing sector do not necessarily correlate with a decrease in labour employed. Improvements in production and increases in output often lead to increased investment and expansion, generating more opportunities for labour absorption.

While the above characteristics illustrate the manufacturing sector's vital role in accelerating technological change and economic growth, it must be noted that industrial policy, as defined by Rodrik, should not be limited to manufacturing sectors, especially in an African context (Kaplan 2008). Development in agricultural and service sectors can play an essential role in economic restructuring. In a South African context, the potential growth in linkages between agriculture and industry present numerous opportunities for expansion of productivity capacity and employment growth. This potential is of particular importance to the EC, a region with a long history of agro-industrial activity and untapped agricultural potential in the former Transkei and Ciskei homelands.

2.1.3 Rationale for Industrial Policy

As detailed in the previous section, it is widely acknowledged that manufacturing is a key driver of economic growth and development. This general consensus naturally leads to the question of what action should be taken in order to support the growth of industry in developing countries. The debate over how much or how little state intervention should or should not be exercised is one that is exhaustively discussed in the industrial policy literature. For the purpose of this thesis, it is unnecessary to detail every argument and counterargument surrounding the debate over the extent or appropriateness of state involvement in industrial development. However, this section will give a general overview of the arguments posed by those against (or in favour of strict limitations on) the use of industrial policy (orthodox, free market economists) and those in favour of industrial policy (heterodox economists from various specialisations).

Before I outline the arguments on either side of industrial policy theory, it is important to note that presenting the debate as a dichotomy between state-led and market-led industrialisation (as it is often presented in industrial policy literature) is misleading. By organising the following section according to orthodox and heterodox arguments for the sake of simplicity and concision, I do not mean to reduce the debate to a black-and-white issue. To do so, comes at the expense of a meaningful dialogue about *how* the state should respond to the reality of market imperfections and market failures in the context of complex socio-political settings. Discussions surrounding industrial policy in the 21st Century have evolved to a point where, as Rodrik (2007: 2) states, "It's not about whether, but about how."

Orthodox Arguments

Orthodox and free market economists, as well as those aligned with the Austrian school of economic thought, draw their arguments against the adoption of industrial policy from three strains of economic theory:

1. The neo-liberal model minimizes the significance of linkage formation in development and, therefore, sees little need for supporting the coordination of activities. Instead, policy should be focused on creating an environment in which the market can operate efficiently, which will, in turn, allow for the formation of linkages between individual firms to occur organically as a result of decisions made according to comparative advantage (Bayoumi, Coe and Helpman 1996; Lal 1983; Lucas 1990 and 1988; Krueger 1998 and 1990; Little and Mirrless 1997; Tirole 1997).
2. The orthodox trade model asserts that individual firms and industries attain higher productivity levels through specialisation according to comparative advantage. If a market is running efficiently, these comparative advantages will be made known through price signalling. Free trade of capital and goods will accelerate the process of specialisation and, subsequently, higher productivity and economic growth (Balass 1990; Krueger 1974; Lal 1983).
3. The Austrian school of economic thought maintains that economic growth is driven by "creative entrepreneurs" operating in a dynamic market economy. These individual agents, operating independently, each with their own unique fragments of knowledge and skill, have the ability to achieve greater results than top-down coordinated action aimed toward a specific goal (i.e. state-led industrial policy) (Hayek 1949,1978).

These theoretical arguments build the basis of the orthodox stance against industrial policy. Free from exogenous distortions, price signalling will reflect a nation's factor endowments. Independent agents will make rational decisions according to price signals, producing goods and services according to their comparative advantage. The mobility of goods and capital through free trade agreements will accelerate a country's trajectory towards a steady state of economy growth. This entire process occurs without state coordination or support. Moreover, state involvement may actually obstruct market forces and misallocate resources away from activities aligned with the country's comparative advantages, leading to inefficiencies and hindering growth. State intervention, necessary only in response to market imperfections, should be implemented with the goal of achieving outcomes that market forces would have realised if not subjected to exogenous distortions.

Orthodox theory has been revised and revisited by economists from a variety of perspectives, including new-growth and new-institutional economics (Krugman 1995, Krugman and Smith 1994, Stiglitz 1998 and 1996). Their contributions to the literature have adopted many of the orthodox opinions on state intervention, specifically with regard to targeted and selective industrial policies (narrow industrial policy). However, they concede that state intervention is necessary to create an environment in which market forces can operate efficiently to achieve a steady state of economic

growth. This requires broad, general industrial policy—provision of infrastructure, development of human capital, creating a neutral business environment, facilitating the flow of information, and limiting transaction costs.

However, the implementation of even broad-based industrial polices requires state competency in formulating and implementing large-scale public policy. One of the main arguments against the use of industrial policy is the fact that even *if* state intervention has the potential to positively impact the economic structure of a developing country, the state's inability to enact the policy —due to lack of skill, lack of information, rent seeking, predatory behaviour, etc.— will leave the economy in a worse state than if left to free-market devices (Krueger 1974 and 1990, Lal 1983).

This point is relevant to the South African context, where the lack of skilled public workers place limitations on the extent to which policies can be implemented. While this is certainly a national problem, it is *especially* relevant within the context of the EC and is a central issue within the scope of this study. As detailed below the lack of qualified individuals available to fill open positions in the EC's public institutions presents a great limitation to the extent of their success in both policymaking and implementation.

The most obvious answer to this predicament is to simply build public sector capacities. Proponents of industrial policy argue that the lack of state capabilities should not be used as a justification for neglecting industrial policy, but, rather, should stand as an argument in its favour. Low skill levels in the public sector are generally a reflection of the larger issue of low levels of education and training affecting the country as a whole (Fine 1997). Chang's (1996, 1998) "learning-by-doing" theory is just as applicable to the acquisitions of skills in the public sector as it is in the private sector. In order to improve the outputs of industrial policy, it must also be viewed as a learning process, a process of discovery.

Heterodox Arguments

The heterodox arguments in favour of industry policy emanate from a diverse and vast number of sources. Many contributions to the literature emanate from context-specific empirical studies, adding credence to the argument that market imperfections in developing countries are pervasive and require public action (Banerjee and Duflo 2005; Foster and Rozensweig 1995; Ferme 1996; Goldstein 2001; Morduch 1999; Munshi and Rosenzweig 2003; Shaban 1987; Sutton 2005). This section will focus on the theoretical arguments for industrial policy, as the empirical case for state intervention is inconclusive—providing as many examples for industrial policy successes as industrial policy failures.

I will draw mainly from Rodrik's model of industrial policy as a process of "self-discovery" (as described in Section 2.1.1). Orthodox theory maintains that specialisation according to comparative advantage is key to the process of industrialisation. In contrast, heterodox theory contends that structural transformation of the economy is necessary for developing countries to move away from traditional sectors towards new products and industries. Diversification is hailed as the key toward economic growth, not specialisation (Imbs and Romain Wacziarg 2003, Klinger and Lederman 2004).

For developing countries to alter the structure of their economy, they must master a variety of activities. Yet, the process of breaking into non-traditional sectors is a risky undertaking. The existence of information and coordination externalities deters potential entrepreneurs from investing in new activities and results in low levels of innovation. The following description of these externalities offers a counterargument to orthodox theory, illustrating the existence of market failures, the negative impact of these failures on industrial growth, and possible policy solutions to provide incentive for diversification.

1. *Information externalities:* The process of discovering what new activities will prove profitable in a developing economy requires the adaptation of new technologies and new methods of production. Hausmann and Rodrik (2003: 18) detail how foreign technologies are often not easily transferrable to different environments, requiring the innovative firm to undergo a process of "considerable domestic tinkering." Once a new technology has been adapted to local conditions, this technology can be easily transferred to other firms who freely gain from higher productivity levels, while the innovative firm bears all of the cost (Dube et al., 2007). By investing in a new technology, a firm may either (a) fail to adapt it to the local environment; or (b) succeed without benefiting from the comparative advantage due to an influx of new entrants. The assessment of this risk will prevent firms from choosing to innovate, and, thus, inhibit the process of "self-discovery."

   Policy Implications: The reality of information externalities is especially relevant in the contest of the EC, a province that suffers from very few new entrants and little evidence of innovation from established firms.[3] Public policy is necessary to reduce the risk of investing in new technologies and entering into new product markets. This can be accomplished through either *ex post* or *ex ante* subsidisation of non-tradition industrial activities. Rodrik (2007) suggests a "carrot and stick" method, through which firms are encouraged to innovate through subsidies, trade protection, or government provision of start-up capital (the carrot). These interventions

[3] Interviews with CEO of ELIDZ, the EL and PE Chambers of Commerce, and CEO of ECSECC.

should be accompanied by predetermined performance requirements, close monitoring and evaluation, and withdrawal of incentives in the instance of failure (the stick).

2. *Coordination externalities:* Entrance into new industries or production of new products, often requires large investment; the simultaneous upgrading of infrastructure, skills, and technology; and the guaranteed availability of all necessary inputs. If left to market devices, it is less likely that the elements necessary for a non-traditional activity to succeed will align at just the right time.

   Policy Implications: State intervention can be viewed as a way to solve these coordination problems. Coordinating action can be implemented on both a large and small scale. Large-scale coordination efforts may take the form of direct coordination of activities by the government, or through implicit bailouts or investment guarantees by the state. Macro-coordination efforts may also take the form of publicised national goals and long-term visions for the future, providing "a focal point, or consensus, around which decisions can be coordinated" (Chang 1994: 65). Small-scale coordination efforts may involve the formation of clusters around specific sectors or locations, through which collective decision making, knowledge-transfers, and coordination of inputs can be facilitated.

The existence of market failures in the form of information and coordination externalities provides the theoretical rationale for industrial policy and invalidates many orthodox arguments. Yet, the most fundamental argument against the orthodox view of industrial policy is a simple, but important one—the orthodox model is a simply a construct. It fails to reflect the reality that the "market" and the "state" are not isolated, autonomous entities. They are embedded in, and a reflection of, an intricate and dynamic socio-political economic environment that is specific to both time and place (Amsden 1997 and 1993, Cramer 1999, Chang 1994, Fine 1997, Fine and Rustomjee 1996, Gore 1996, Hirschman 1958 and 1981, Khan 1995). The orthodox model is simply not a useful tool when confronted with the realities of the imperfections, conflicts, and compromises inherent in a development context.

2.1.4 Theoretical Structure and State Action

While Rodrik's description of industrial policy a "process self-discovery," forms the theoretical foundation for this thesis, Lall and Tuebal's (1998) categorisation of different *types* of industrial policies provides the theoretical structure. In response to a study analysing the role in which technology policy played in the Asian Miracle, Lall and Tuebal identify three types of industrial policies:

1. *Functional policy*: Policies to improve market efficiency (e.g. lowering of tariffs);
2. *Horizontal policy*: Policies applied generally across sectors (e.g. incentives to promote greater research and development);
3. *Selective policy*: Policies that support the growth of a particular sector or firm (e.g. the promotion of "national champions" in Malaysia).

While South Africa incorporates all three of these types of policies into its industrial policy framework, *selective* industrial policies that tailor specific programmes to promote specific industrial activities are utilised to a lesser extent. The two exceptions are the clothing and textiles subsector and the automotive and automotive components subsector. Exporters within these subsectors receive rebates on imported inputs proportional the amount of final products exported.

This thesis, by focusing on a specific sector in a very specific region, will call for *selective* industrial policy solutions to address the constraints unique to the NAM firms in the EC. That said, many of the constraints detailed in Chapter 4 are not limited to the region—they are national problems that require national attention and *horizontal* policymaking (e.g. inefficiencies in the SETAs, rigidity within central wage bargaining systems). Therefore, Chapter 5 will provide both *selective* and *horizontal* policy suggestions to address the multifaceted nature of the factors constraining EC NAM growth and development.

Chapter 3: Background on Eastern Cape Industrial Development

3.1 History of Economic Development in the Eastern Cape

The EC's current industrial constraints are largely a result of uneven sectoral and spatial development arising from apartheid era policies. Decades of active deindustrialisation of some areas and targeted industrialisation of others through policies of facilitating homeland decentralisation have had lasting effects on the promotion of uniform, equitable, and sustainable development in the province.

The development of the EC can be categorised into three distinct development trajectories:

(1) Rural areas, including the former Transkei and Ciskei homelands;
(2) The two industrial centres, EL and PE; and
(3) The decentralisation nodes in the Border region.

Policy Implication: Current policy initiatives should be wary of ignoring the specific dynamics underlying these distinct trajectories.

3.1.1 Rural Areas and Homelands

Commercial farming in the rural areas, supported by government subsidies and protective tariffs, was limited to the west side of the province, largely in the Cacadu and Chris Hani districts. Agriculture in the homelands was (and continues to be) widely underdeveloped and restricted by communal land tenure systems, heavily dominated by small-scale subsistence farming. In terms of inter provincial comparisons this is reflected in the fact that the EC has the second highest number of households dependent on subsistence agriculture.

Under apartheid, the EC homelands were effectively a reserve labour pool for the mining industry. Both the Ciskei and the Transkei were identified as priority areas for mining recruitment. This resulted in:

- A heavy dependence on remittances from outside the province;
- Extreme underdevelopment of productive capacities; and
- Minimal investment in infrastructure.

The vast majority of rural household livelihoods are sustained by subsistence farming, which is supplemented by remittances, pensions and welfare grants. The historical decline of the mining sector, and the consequent increased job shedding over the past couple of decades, has displaced

unemployment into these areas, resulting in increasing reliance on government transfers to sustain household incomes.

3.1.2 East London and Port Elizabeth

The two metropoles, East London and Port Elizabeth, have a long history of manufacturing. After World War II, the EC experienced its first wave of industrial growth. Foreign automotive firms, attracted to South Africa due to high protective tariffs, began establishing auto assembly plants in EL and Uitenhage. The establishment of the automotive components industry quickly followed. EL and PE became centres of the growing South African automotive industry.

Industrial activity was not limited to the automotive sector. Historically, EL and PE participated substantially in the agro-processing and clothing and textiles industries. However, since the 1980s, both cities have seen a substantial decline in both output and employment in historically strong non-automotive sectors.

EL and PE, only 300 km apart, share a similar industrial composition, but, historically, have never had strong economic ties. Apartheid policies effectively divided the east (Border) and west (Midlands) regions of the province, thus establishing two distinctive socioeconomic environments.

Policy Implication: This has had substantial social and economic consequences and implications for current industrial policy:

- *The two cities formed much stronger relationships with their respective hinterlands than with each other.*
- *Separate social and economic relationships continue to exist in the Midlands and Border, and shape their development trajectories.*
- *At a policy level the existence of two separate socioeconomic environments have historically been ignored by blanket policies indiscriminately applied to the two metros and surrounding areas.*

3.1.3 Decentralisation Nodes

The industrial decentralisation policy, in its many forms, was a key instrument of the apartheid regime. Although its motives and goals evolved in response to the changing economic and political climate, the policy essentially served the larger goals of separate development. The current state of the EC economy is very much a product of decades under the decentralisation policy.

The policy originated in the 1930s, but was only formalised into a cohesive policy in 1955 with the Tomlinson Commission Report, which proposed development of the Bantustans through the establishment of industrial nodes on the borders of the homelands. These nodes were intended to create jobs, absorb the masses of unemployed labourers, spread economic benefits to the Bantustans, and effectively curb black migration from the homelands to the urban areas.

The government officially launched the Decentralisation Strategy in 1960. The original growth points were established within 50 km of the Bantustan borders, excluding the existing industrial centres of East London, King Williams Town, and Queenstown from the packaged incentives. Industrial activity in nodes like Dimbaza, Butterworth, Ezebellini was incentivized with the goal of both attracting new investments and relocating existing enterprises to the area.

The impact of the initial incentives package was negligible. The incentives in place were not sufficient to compensate for the infrastructural and logistical challenges endemic to the border region and failed to attract industry. The failure prompted a revision of the policy in the late 1960s. In 1967, the Physical Planning and Utilisation of Resources Act was put in place to restrict the growth of industry in the metros. To further promote Bantustan development, the incentives package was improved - further tax breaks, the elimination of a minimum wage, and the barring of unions - and the scope of the policy was expanded to nodes within the homelands themselves.

The areas granted access to decentralisation incentives expanded to such an extent that government realised it was impossible to financially support the infrastructure needs of the industrial nodes. In 1971, the decentralisation policy shifted towards a growth points strategy. Fewer nodes (Butterworth and Mthatha were selected as growth points for the Transkei) meant the government could put in place more comprehensive financing and support structures. In reality, growth points were just added to the list of areas that were supported by government incentives.

The 1975 National Physical Development Plan incorporated all of the previously established development areas into development regions, intended to counterbalance the growth of the urban centres. Within these regions, distinct areas were identified and assigned different incentives packages. Those areas that were less attractive to investors, due to distance from major cities, access to transportation networks, labour productivity, and infrastructure backlogs, were given more generous incentives.

The shift to a more differentiated policy did not produce the intended results. Only after the Regional Industrial Development Programme (RIDP) was introduced in 1982 was there a notable increase in industrial activity in the border regions, marking a second wave of economic growth in the EC. The

1990 Transkei Industry survey shows that 70% of the firms operating in the Transkei in 1990 were established under the revised RIDP incentives scheme (ECSECC 1999: 21).

As in the 1970s, differentiated incentives packages were granted to different nodes. Preference was given to labour-intensive industries and those firms operating on the homeland periphery. Unlike previous packages, incentives were granted as direct payments based on scheduled labour as opposed to tax concessions, including both areas within the homelands and the neighbouring white industrial centres. In addition to the general incentives packages in place for designated points like Butterworth and Dimbaza (Table 1), industrial development nodes benefitted from low wages and banned union activity.

Table 1: Incentive Package for Designated Growth Points

Incentive	Percentage	Duration
Transport Rebate	60% of market interest rate	7 years
Scheduled Labour	80% of total wage bill	7 years
Training Grant	R110 per employee per month	7 years
Interest/Rental Concession	60%	10 years
Housing subsidy	60%	
Relocation Allowance	Unspecified	
Price preference on tenders	10%	
Electricity Concession	Unspecified	

Source: Manual on implementation of RIDP Incentives cited in ECSECC, 1999.

Growth in industry in the Transkei/Ciskei and the border areas was significant, but short-lived. Beginning with the revised RIDP in 1991, government shifted away from state-led development to market-led growth strategies. The decentralisation policy was scaled back and 1982 incentives were withdrawn over a two-year period from 1991-1993. As a result of the withdrawal of incentives, paired with liberalisation and removal of protective tariffs, the number of firms operating in and around the homelands dropped substantially (Table 2).

Table 2: Number of Firms in Decentralised Areas (1983-1993)

Year	Net of Number of New Firms	Total
1983	-	64
1984	15	79
1985	3	82
1986	2	84
1987	6	90
1988	12	102
1989	13	115
1990	-8	107
1991	-10	97
1992	-15	82
1993	-5	77

Source: Transkei Industrial Survey 1990/1993, cited in ECSECC, 1999.

The 1991 RIDP marked a decisive break from the past decentralisation policy. No longer emphasising separate sectoral or regional development, the strategy applied a revised incentives package across all areas outside of Johannesburg, Durban, and Cape Town without distinction. The scheme turned its focus from job creation to supporting the development of profitable firms with an emphasis on greater capital intensity and technological upgrading. Firms were granted access to incentives if they fulfilled the following criteria: (1) planned establishment of new factory (Establishment Grant) or planned expansion of existing factory (Expansion Grant); (2) engaged in the manufacturing sector; and (3) maintained an operating equity exceeding 35% of total assets (Office of the President 1993).

After an assessment of the RIDP incentives scheme in 1996, the incentives were phased out over a 2-year period, ending in 1998. The end of the decentralisation policy, a policy that had been in some form since the 1930s, had drastic effects on the former homeland and border regions within the EC. The industrial growth points that had been propped up by generous incentives schemes - Butterworth, Dimbaza, Berlin, King William's Town, Queenstown, Ezibeleni, Mthatha - quickly fell into substantial decline when the incentives were withdrawn.

The following summarises the effects of decentralisation policy on the EC:

- There were few places left untouched from various expansions and revisions of the decentralisation policy over five decades. With each revision, new areas were designated as

"special" in some right, with varying degrees of incentives attached. This generated a pervasive dependence on state concessions throughout the province that was not limited to Transkei/Ciskei/Border, but extended to the historically 'white' industrial centres of EL and PE as well.

- The policy's primary goal was employment absorption for black workers in Transkei/Ciskei. Until the 1982 RIDP, the policy had the following results - between 1960-1980, an estimated 150,000 - 200,000 jobs were created, substantial but still insufficient in comparison to the 155,000 people who entered the job market each year (DBSA 1989, McCarthy 1983, Platzky 1995). During the 1980s, the RIDP programme created 147,000 jobs in industrial growth points (Bell 1997). This growth was concentrated in the peripheral growth points, attracting low wage, labour intensive manufacturing firms previously located in the city centres.

- Within the context of trade liberalisation, removal of tariff barriers, greater import penetration, increased union activity, rising minimum wages, and greater concentration of industrial development in the metros, the former industrial decentralisation points have struggled to survive without state support. Since the RIDP incentives were withdrawn in 1996, many of the previously industrialised areas (Dimbaza, Butterworth) have collapsed and fallen into near total disrepair. Few studies have been completed which illustrate the extent to which these areas have experienced decline.

Policy Implication: Industrial development directed at historically disadvantaged and previously decentralized areas, such as Dimbaza and Butterworth, would have to begin from a very low level.

3.2 Current Policy Framework

3.2.1 Post-1994 Industrial Policy

After the transition to democracy in 1994, two major shifts occurred within national development policy that had direct implications for provincial economic development.

First, the national government redefined South Africa's development goals. Notions of development previously revolved around job creation, boosting industries with high labour absorption potential. After 1994, there was a shift towards thinking of development in terms of equality, welfare, and poverty.

The new government introduced three interrelated economic policies, which would determine the new trajectory for South African development:

- Reconstruction and Development Programme (RDP), 1994: intended to tackle the issues of economic decline, unemployment, and extreme inequality and poverty.
- Growth Employment and Redistribution (GEAR), 1996: addressed macro-economic reforms, including the reduction of the deficit, the shift to inflation targeting, the end of the financial rand, and the deregulation and privatization of finance and labour markets.
- Micro-economic reforms: liberalisation of trade through the removal or reduction of trade barriers.

Second, decision making shifted from a centralised system of control to one that emphasised local economic development (LED). Under the new constitution for the Republic of South Africa (RSA) local councils were mandated to promote economic development within their region. This was indicative of the larger shift toward democratisation and decentralisation of power within the entire political economic system.

However, attempts to devolve responsibility to lower levels of government were constrained by a number of factors. After 1994, local, provincial, and national levels of government went through a major restructuring and consolidation period. In the EC, the provincial government was formed out of six separate administrations, each with distinct structures, capabilities, and strategies. In the period following 1994, provincial government's focus was on restructuring and rationalisation of administrations, identifying provincial backlogs, and acquiring the necessary capacity to implement provincial policy.

While development policy was intended to be decentralised and locally-led, this was severely hamstrung by a lack of policy formulation and implementation capacity at provincial levels. Moreover, there were serious shortcomings in communication between and within different levels of government. Consequently, in many provinces national departments were still left dictating provincial economic policy. This translated into a development policy with little ownership felt by provincial leaders and often little connection to actual provincial development needs and goals.

Policy Implication: The resulting post-1994 policy consisted of very broad based goals that were not necessarily linked to EC provincial institutional capacities or provincial budgetary cycles, nor were

there any monitoring or evaluation mechanisms in place to gauge policy implementation on the provincial level.

3.2.2 National Development Initiatives of Direct Relevance to the Eastern Cape

Manufacturing Development Programme

After the incentives schemes of the 1991 RIDP were phased out in 1996, they were replaced with the Manufacturing Development Programme (MDP). The programme offered tax holidays to new industrial enterprises with a minimum asset base of R3m. New manufacturing plants could qualify for a 2-year tax holiday if they satisfied the following criteria:

- They were located in one of many designated areas
- They belonged to one of many designated industrial sub-sectors
- They had a labour cost to value-added ratio above 55%.

Manufacturing plants satisfying these criteria could qualify for the tax holiday for up to 6 years.

Designated areas were selected if they served the following goals:

- Reinforcement of secondary cities
- Reinforcement of key urban nodes within a development corridor
- Consolidation of merging agglomeration areas
- Promote diversification of local economies.

The goal of the MDP was to raise fixed capital investment in manufacturing, upgrade existing manufacturing processes, and reorient national manufacturing toward international markets, with the ultimate aim of increasing output and employment. Unlike the 1991 RIDP incentives, which were applied generally throughout the whole country, the MDP returned to emphasising specific areas or sectors. The programme represented a shift back to some of the principles of the 1982 RIDP, however, the tax holidays did not provide enough of an advantage for the programme to have a significant impact on attracting investment to declining regions.

Spatial Development Initiatives

Conceived of in coordination with the MDP in 1996, the Spatial Development Initiatives (SDI) programme was funded with R400m from the RDP and was linked to GEAR. The goal of the programme was to promote investment in export oriented industrial enterprises, with an emphasis on generating growth in underdeveloped regions that were previously disadvantaged under apartheid.

Each project was intended to involve a short intensive intervention by the state, lasting only 12 - 18 months, and then would be handed over to municipal or provincial levels of government. 11 SDIs were selected, two of which were within the EC—the Wild Coast SDI and the Fish River SDI (See Box 1)—each with a specific sector focus and anchor project linked to the perceived comparative advantage of the region.

The programme was relatively successful in completing several key infrastructure projects. However, the programme relied on private sector partnerships to fund initiatives, which proved difficult to attract in the context of the Asian financial crisis. An evaluation of the programme in 2001/01 concluded that the SDIs did not garner as much private investment as had been anticipated (Crush and Rogerson 2001; Platzky 2000). The projects were plagued by land ownership issues in former homelands; poor coordination between multiple departments and multiple levels of government; erratic monitoring and evaluation of the projects; high cost of investment relative to the number of jobs created; poor linkages from the anchor projects to the surrounding communities; and uneven levels of investment across the country (Bond 2002; Driver 1998; Fitschen 1998; Lewis and Bloch 1998; Pretorius 2001; Taylor 2001; Walker 2001). The programme also suffered due to its design as a very short intervention by the government. The hope that local or provincial governments would take over projects after a period of 2 years turned out to be an unrealistic expectation - many projects, even successful ones, were cut off after the initial RDP funding ran out.

Box 1: Fish River SDI

The Fish River SDI was one of the eleven SDIs selected in 1996. The SDI was conceived as a development corridor running between EL and PE, but it immediately became clear that little investment would be attracted to the region between the two cities, so the SDI shifted its focus to promoting industry in the two metros. The SDI addressed five priority sectors—autos and automotive components; textiles, wool, and mohair; timber and wood products; and food processing—and contained two anchor projects, the Coega IDZ and the East London IDZ (ELIDZ). A nationally appointed project manager and technical team were tasked with identifying and packaging investment projects, which were then presented to potential investors with the hope of attracting the private sector involvement.

The main emphasis of the Fish River SDI was to attract investment from outside of the region in order to maintain a sustainable growth path - to avoid creating short term, once off employment during the construction phase and then to have no long term job creation to show for the project. The provincial trade promotion agency, the Centre for Investment and Marketing in the EC (CiMEC), focused on marketing PE and EL to international investors with the hopes of attracting export oriented manufacturing firms.

In terms of implementation, the initiative failed on many levels. The Fish River SDI was a top-down, nationally led drive with little involvement from provincial/municipal stakeholders. Local levels of government treated the project with either confusion as to the nature of the SDI and their role in the project or complete indifference (Driver 1998). There was little communication and coordination

between the different levels of government, which resulted in (1) very little knowledge of the actual context within which these projects were taking place, and (2) very little ownership on behalf of the municipal and provincial teams that were tasked with running the projects after the national technical teams withdrew their support and funding.

The SDI design was also flawed. Little benefit, apart from infrastructure improvements, accrued to people living in the corridor between EL and PE, the development of which was one of its main motivations. Furthermore, by viewing and marketing the Fish River SDI as one unit with urban nodes the project equated the two cities, when there was no logical reason to so. Each city has historically served different hinterland populations with its own distinct socioeconomic characteristics.

The results of the Fish River SDI were thus disappointing (Driver 1998). Its main accomplishment was the construction of the Coega IDZ and ELIDZ.

Industrial Development Zones

The Industrial Development Zones (IDZs) were proposed in 1996 as a part of the SDI programme. Conceived as anchor projects in designated development corridors, the IDZs would be specially built zones linked to a port or airport that would attract external investment for export-oriented industries (DTI 2012). The programme was implemented in 2000 with four licensed zones—Coega, OR Tambo International Airport, East London, and Richards Bay.

The zones were designed to offer the following incentives: world class infrastructure and utilities linked to an international port of entry; streamlined administration and custom controlled areas that would allow duty free entry of raw materials; tax holidays and access to government supply side programmes; and service areas for service and supply-side industries. However, many of these did not come to fruition and some incentives were available outside of the zones. The IDZs have yet to offer any meaningful concessions for transport, labour, or energy costs, which have become major obstacles in attracting foreign direct investment to South Africa.

By 2012, the Department of Trade and Industry (DTI) had spent R6 billion on three operating zones in Coega, EL, and Richards Bay, all publicly owned and operated entities (Table 3). Between 2002 and 2012, a total of 48,758 jobs were created, the vast majority under the initial construction phase. Only 5,169 direct long-term jobs have been created in the three operating IDZs. The most successful IDZs, Coega and ELIDZ, have been able to attract investment due to their proximity to the South African automotive industry. Most firms operating in these IDZs are in the auto components sector or serve the sector in some capacity.

Table 3: Expenditure and Employment by IDZ (2002 – 2012)

IDZ	Number Investors	Value Investment	DTI Transfers	Direct Employment	Construction/ Indirect Jobs	Total Employment
Coega	20	R1,132m	R4,365m	3778	37156	40934
ELIDZ	21	R1,083m	R1,395m	1179	6379	7558
RBIDZ	1	R650m	R331m	126	54	180
Total	42	R2,864m	R6,091m	5169	43589	48758

Source: DTI 2013

The programme has been heavily criticised and deemed unsuccessful by a number of measures (CDE 2012; Chinguno 2009; DTI 2012; McCallum 2011; Nel et al. 2013). The original goal of the Fish River SDI, of which Coega and ELDIZ were considered two anchor projects, was to create 46,000 permanent jobs (IDC 1997). Direct job creation in the two IDZs totalled 4957 in 2012. The majority of the firms located in the IDZs are capital intensive with limited potential for job creation and limited potential for backward linkages into the metros and communities surrounding the IDZs[4].

The IDZs were proposed in coordination with the SDI programme, which at its root was an initiative aimed at targeting specific regions that were underdeveloped, but had untapped potential for industrial growth. However, the goals of the two programmes were incongruent. The IDZs were set up as detached nodes from the two metropoles with little involvement from provincial or municipal stakeholders and no strategy for building linkages into the existing economic community. From their very conception, the IDZs were not structured in a manner conducive to regional development.

3.2.3 Provincial Industrial Policy Framework

The following section describes the EC industrial policies, strategies, and plans that are currently in place. The purpose of this section is to provide the specific context within which the policy critiques, implications, and suggestions presented in this thesis must be situated.

The Provincial Growth and Development Plan 2004-2014 (PGDP)

The PGDP has a long-term vision (2004 – 2014) to "make the EC a compelling place to live, work and invest in" (Office of the Premier 2004:1). It provides an assessment of the province's development challenges and opportunities for growth, sets specific targets, and identifies six strategic focus areas for state intervention including "the development and diversification of the EC

[4] CEO of ELIDZ, as well as other interviews.

manufacturing sector". The PGDP lays out the following objectives and strategies to achieve the latter aim:

- Develop agro-industries to spread opportunities to rural communities
- Transform the auto sector to enhance local content and increase competitiveness
- Diversify manufacturing by enhancing export capacity and downstream beneficiation
- And promote provincial tourism to create employment in rural areas.

The plan identifies four areas of potential for manufacturing growth: (1) export-oriented, high growth industries centred around the automotive industry; (2) subsectors with a historical presence in the province; (3) subsectors linked to raw materials sourced from the province; and (4) small, medium, and micro enterprises (SMMEs). These areas were selected based according to their (a) labour absorbing capacities; (b) potential for growth and linkages (especially with regard to raw material inputs sourced from the province); and (c) potential for linkages to export-oriented sectors with a special focus on those located within the IDZ. Specific growth strategies and interventions should be developed for each of the four areas of potential.

The PGDP also sets broad goals and general outlines of the responsibilities of the provincial government and its associated agencies. Further planning for targeted interventions should be carried out in the following areas: (1) industrial planning for high-potential manufacturing subsectors; (2) sourcing of funding for research and development; (3) upgrading of infrastructure and provision of rail links; (4) application of a provincial government procurement policy; and (5) building a better relationship with the Sector Education and Training Authorities (SETAs) in order to promote skill development.

Provincial Industrial Development Strategy 2010-2025 (PIDS)

The PIDS was produced in March 2010 in response to the National Growth Plan (NGP) and the Industrial Policy Action Plan II (IPAP2) as a regional expression of the national goals outlined in the two documents. The strategy aligns itself with the national industrial policy strategy of utilising targeted public interventions to transform the economic structure of the province to promote both growth and a wider distribution of industrial activity.

The strategy's overarching vision, "a state-led industrialisation path towards a robust, resilient and sustainable industrial base by 2025," is to be achieved through the pursuit of three goals—economic growth, labour absorption, and job retention (DEDEAT 2010: 3). The PIDS prioritises the following policy objectives in order to achieve those goals:

1. Stabilise the rate of deindustrialisation in the region;
2. Retain the productive and employment capacity of established industries;

3. Diversify the investment in a wide range of manufacturing activities;
4. Expand productive capacity by promoting innovation and upgrading of infrastructure;
5. Widen the spatial and structural distribution of income, capital, and industrial activity.

The most significant aspect of the PIDS is its application of *sectoral* industrial policy. The strategy identifies priority sectors with the largest potential to transform the structure of the economy according to the following criteria: alignment with national development goals; labour absorption capacity; diversification into non-commodity, export-oriented sectors; potential for horizontal and vertical linkages; and potential benefit to Broad-Based Black Economic Empowerment (BBBEE).

According to these criteria, the PIDS identifies six priority sectors, three of which are classified as non-automotive sectors:

- Agro processing
- Capital goods
- Automotive
- Green industries
- Tourism
- Petrochemicals

According to the PIDS, Priority Industrial Action Plans are supposed to be developed for each of the selected priority sectors, detailing a strategy of intervention and specific objectives for each sector. This has not been accomplished, nor does it appear the EC Department of Economic Development, Environmental Affairs, and Tourism (DEDEAT) office has made any progress toward the development of sector-specific strategies or sector-specific objectives.

Provincial Jobs Strategy 2012-2015 (PJS)

The purpose of the PJS is threefold—to provide "quantified and disaggregate job targets for 2012-2015," to identify the key challenges and opportunities for job creation in the EC, and to define and prioritise provincial government interventions to achieve the targets (Office of the Premier 2012: 1). The ultimate goal of the PJS is to create 150,000 jobs and equip 30,000 new skilled workers through artisan and learnership placements by 2015. The main implementing agent of the strategy is DEDEAT.

The strategy is divided in to five pillars (Office of Premier 2012: 2):

1. Retain jobs in established industries;

2. Create new jobs in priority sectors (Agriculture, Aquaculture, Minerals, Energy, Forestry, and Tourism);
3. Expand social economy through the creation of "livelihood opportunities and EPWP [Expanded Public Works Programme] full-time equivalent jobs;"
4. Increase the pace of infrastructure investment as a means of temporary job creation;
5. Improve the skills development process.

The PJS outlines 19 key intervention programmes, each provided with job creation estimates, an oversight agency, and prioritised objectives. These programmes remain at an infantile stage of planning and implementation. The critical issue with such an ambitious strategy is the lack of prioritisation of intervention programmes—a key shortcoming when dealing with the limited institutional capacity of DEDEAT (as detailed in Section 4.4.6).

One of the strategy's most important and feasible contributions is its suggestion to establish a Labour Market Research Unit within DEDEAT. This unit would be tasked with monitoring and evaluating the impact of the PJS; assembling a reliable and up-to-date provincial employment database that could be disaggregated by districts and subsectors; and researching specific labour market issues in order to provide policy feedback. This is an essential contribution due to the current level of reliability and specificity of employment data in the EC.

Provincial Skills Development Strategy 2011-2016 (PSDS)

The PSDS, a framework spanning 5-7 years, was prepared by the Provincial Skills Development Forum (PSDF) as a provincial response to the National Skills Development Strategy III (NSDS3) published in 2011. The Forum consisted of key stakeholders from provincial government, the IDZs, the SETAs, organised labour, and Eastern Cape universities and colleges. The goal of the strategy is to improve the provincial training delivery system to ensure that the skills produced in the EC meet the needs of the private sector in order attain higher productive levels necessary for the growth of industry (PSDF 2011).

The PSDS outlines the current weakness specific to the EC skills delivery system (PSDF 2011: 1):

- Limited capacity to monitor and evaluate the impact of training;
- Poor alignment between training outcomes and the needs of the private sector;
- Urban bias with regard to location of training institutions;
- Poor dissemination of information regarding training and employment opportunities;
- Unreliable sources of funding for training facilities;
- Low retention of skilled labour within the province.

In order to address these weaknesses the PSDS, identifies the following desired outcomes by the year 2016:

1. Create a credible information platform for planning and reporting skills development, specific to each district and sector;
2. Ensure learners have access to quality training programmes and are equipped with relevant skills for economic environment;
3. Partner with key stakeholders to that Further Education and Training (FET) colleges provide the necessary quantity and quality of training workers to meet the employment needs of the EC;
4. Increase the foundational level of knowledge throughout the province, with a special focus on lagging rural areas;
5. Support cooperative, SMME, non-governmental organisation (NGO), and community based training initiatives;
6. Develop a Human Resources Development (HRD) Forum to build public sector capacity and coordination between provincial and municipal public service workers;
7. Establish a career path guidance system to map out and communicate necessary qualifications for all sectors and subsectors.

Each goal is directly aligned with the 7 national goals of the NSDS3 and is broken down into multiple province-specific objectives. Each objective is then divided further into desired outcomes, requirements to achieve each outcome, and stakeholders responsible for the implementation of each outcome.

3.3 State of the Economy

3.3.1 Key characteristics of the EC Economy

The EC is home to 12.8% of the national population—6.7 million people. The region is marked by high inequality, poverty, unemployment, and food insecurity. In 2012, the EC GDP per capita was R26, 000, just over half of South Africa's GDP per capita, R48,000.

In the aftermath of the 2008/9 global financial crisis, the precarious position of the EC has become increasingly evident. The EC has a number of characteristics that make it especially vulnerable to economic downturns:

- EC manufacturing is highly **dependent on the automotive industry**, concentrated in PE, Uitenhage and EL. The automotive subsector, dominated by Daimler Chrysler, Delta Corporation, and Volkswagen, currently accounts for 25.2% of EC manufacturing employment and 30.7% of the province's GVA (Global Insight, 2013). The lack of diversity in the EC economy and continued reliance on the automotive sector provides little buffer from exogenous shocks and exacerbates the effects of a global downturn.

- **Non-automotive manufacturing GVA has been in decline.** This is especially worrying as the EC attempts to maintain its manufacturing base and to diversify into new areas. After the removal of the apartheid-era decentralisation policy incentives, the low wage, high labour jobs that were drawn to the province steadily declined. For example, in the period 1995 to 2008, in the textiles, clothing and leather goods sector, once a very strong sector in the EC, the sector's share of total GVA declined 14.1%, while employment dropped 45.9% (Quantec 2009).

- The EC has **highly unequal spatial development**. The EC is characterised as a rural province - 72% of the population lives outside of the two metros. The rural areas, including the former Transkei and Ciskei homelands, suffer from infrastructure backlogs, an underdeveloped agriculture sector, and little productive capacity. Outside of the commercial farming areas in Cacadu and Amatole districts, households rely on remittances and grants to supplement small-scale subsistence farming.

- The EC's population is **highly dependent on grants and remittances**. Average household incomes in the EC are very low. In 2010, the median monthly earnings of employees in the EC was R2,000, which is 20% less than the South African average. (StatsSA Monthly Earnings of South African, 2010). 50% of the EC households did not have a wage earner, compared to 37% for South Africa (StatsSA General Household Survey, 2011). 57% of EC households receive social grants (45% for South Africa). 22% of households receive remittances (StatsSA General Household Survey, 2011). In many areas, mostly concentrated in the former Ciskei and Transkei grants and remittances, surpass local GDP.

3.3.2 Economic Growth

From 1996 - 2012, the EC growth rate has fairly consistently fallen below the national GDP growth rate (Table 4). The average rate of growth for the period 1996 – 2012 for the EC was 2.7 percent—0.5 percent lower than the national average of 3.2 percent.

Table 4: Percentage Growth in GDP (1996 – 2012: EC/RSA)

	EC growth rate	RSA growth rate
1996	3.3	3.9
1997	1.7	2.6
1998	-0.5	0.5
1999	2.3	2.2
2000	4.3	4.0
2001	2.7	2.7
2002	1.6	3.6
2003	2.6	2.9
2004	3.6	4.6
2005	4.9	5.3
2006	5.4	5.6
2007	5.4	5.5
2008	3.7	3.6
2009	-1.1	-1.5
2010	2.4	3.1
2011	3.4	3.5
2012	2.5	2.5

Source: Statistics South Africa, 2013

3.3.3 Development Indicators

Table 5 gives a general overview of EC development indicators over the period 1996 – 2010. The EC has experienced only a marginal improvement in the Human Development Index (a composite measure of welfare and development) and in the poverty rate. Moreover, the EC trails the national average for every development indicator.

Table 5: Development Indicators (1996 and 2010: RSA/EC)

	EC 1996	EC 2010	SA 1996	SA 2010
Human Development Index	.49	.51	.56	.57
Poverty rate (%)	55.5	52.0	40.6	41.3
Gini Coefficient	.62	.64	.62	.65
Unemployment rate (%)	32.3	26.8	24.5	25.1
Labour force participation rate (%)	53.3	44.1	62.0	52.0

Source: Quantec

It is important to note that, while the provincial unemployment rate has declined, the labour force participation rate experienced a substantial decrease, signifying an increase in the number of working-age citizens that have become discouraged and have dropped out of the labour market. 2013 employment data indicates that, when compared to national indictors, the EC suffers from a higher

unemployment rate, a lower labour force participation rate and a lower share of the population that is employed (Table 6). According to the most recent QLFS, less than one third of the EC population is employed.

Table 6: Unemployment Rate and Labour Force Participation Rate (Q3 2013: RSA/EC)

	RSA	EC
Unemployment rate	24.7	30.8
Labor force participation rate	55.7	45.2
Employed/population ratio (Absorption)	41.9	31.3

Source: Quarterly Labour Force Survey, Quarter 3, 2013 (PO211)

3.3.4 Economic Structure

The economic structure of the EC differs from the rest of South Africa (Table 7). The primary sector is small and is the least developed sector in the province, contributing an average of 2% to provincial GDP. The contribution of the primary sector to provincial GDP is lower in the EC than any in any other province. In contrast, the contribution of the tertiary sector to GDP is significantly higher than any other province.

Table 7: Sectoral Contribution to GDP: South Africa and Provinces

	Primary %	Secondary %	Tertiary %
South Africa	12.0	21.2	66.7
EC	**2.4**	**20.0**	**78.2**
Free State	17.3	17.3	65.5
KZN	6.3	25.9	67.8
NW	39.9	9.1	51.0
Gauteng	3.3	24.9	71.6
Mpumalanga	25.6	26.3	48.1
Limpopo	35.3	8.3	56.4
Western Cape	4.3	22.7	73.0
Northern Cape	41.5	6.8	51.7

Source: StatsSA 2010

Primary Sector

The EC primary sector is small in comparison to the national contribution and has been in decline since 1995 (PIDS 2010). The dominant contributing subsectors are agriculture, forestry, and fishing, representing 94.6% of all output in the sector. These activities are mainly concentrated in the Cacadu, Amatole, and Chris Hani districts—districts that contain the vast majority of commercial farming enterprises and were historically favoured during apartheid-era agriculture subsidies. The former

homeland districts of OR Tambo and Alfred Nzo, where farming is limited to small-scale subsistence farming and land is greatly underutilised, contribute the least to the primary sector.

Secondary Sector

The secondary sector has contributed an average of around 20% to the provincial economy since 1995. Manufacturing activities make up the vast majority of the sector, comprising 83.4% of the secondary sector (DEDEAT 2010). The EC is responsible for 7.8% of the output of the national manufacturing industry. Spatially, activity in the secondary sector is largely concentrated in the East London (Buffalo City) and Port Elizabeth (Nelson Mandela Bay) metropoles. The two metropoles currently account for 87% of all manufacturing activities.

Tertiary Sector

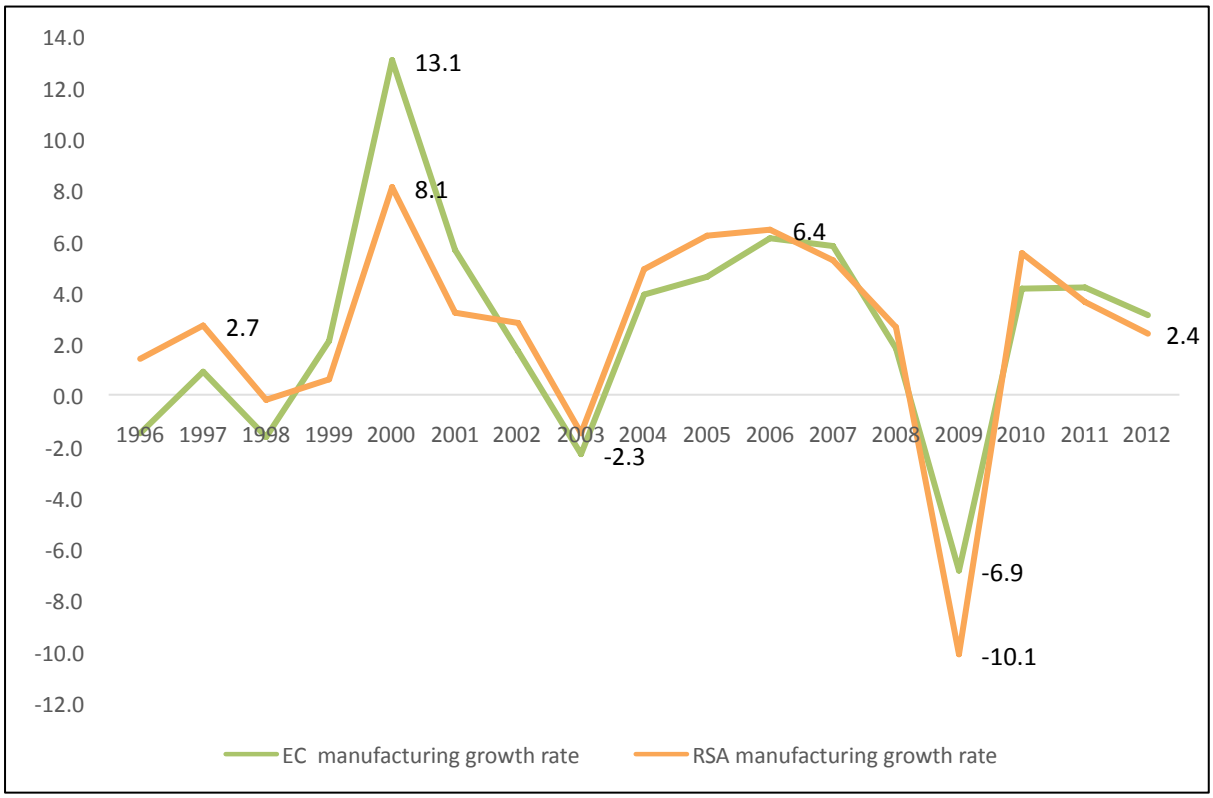
The largest tertiary subsector is general government services. General government services account for over one-third (34%) of EC GDP. Particularly since 1995, in line with national trends, finance, insurance, real estate and business services (FIRBS) have grown substantially - by 140% in constant prices. This is almost three times the real growth in GDP (ECPC Working Paper 2013). The inflated tertiary sector, bolstered by EC's reliance on the government services sector's contribution to provincial GDP, renders the EC vulnerable to any contraction in national government spending and is a point of serious concern.

3.3.5 The Manufacturing Sector

Manufacturing Growth Rate

The growth in manufacturing in the EC closely tracks that of the national (Figure 1). However, it is important to note that, while the EC GDP performs below the national average almost consistently from 1996-2012, the EC manufacturing growth rate more often outperforms the national and faired better than South Africa through the recession and subsequent rebound period (2008-2012). The EC aggregate manufacturing growth rate (over the period 1996 – 2012, grew by 54.3 percent as compared to 50.8 percent nationally (Quantec 2013).

Figure 1: Manufacturing growth rate (Gross Value Added) (1996 – 2012: EC/RSA)



Contrary to expectations, the EC's share of national (RSA) manufacturing output, as measured by GVA, has increased. When compared to other measures of manufacturing output (value added at factor cost and output at basic prices), the EC share has declined. However, this decline is very marginal (Table 8). EC manufacturing output has consistently contributed roughly 8 percent to national manufacturing output since 1995. It is worth noting that, while these statistics demonstrate a clear trend, they are based on statistics heavily influenced by the last official manufacturing census, collected in 1996, and, therefore, may underestimate the real changes in share of manufacturing output (this limitation of the data is discussed further in Section 1.3.1).

Table 8: EC as share of RSA Total Manufacturing Output (%), 1995 - 2011

	1995	2000	2005	2007	2009	2011
GVA at basic prices	7.93	7.92	7.76	7.78	7.99	7.79
Value added at factor cost	7.97	7.94	7.76	7.78	7.79	7.83
Output at basic prices	8.57	8.97	8.77	8,7	8.4	8.52

Source: Data supplied by Quantec

According to aggregate manufacturing data, the EC has faired relatively well from 1995-2011. Given the perception that the province's manufacturing sector has experienced a steady decline (conveyed by multiple EC public development agencies), the data is surprising. However, the sector's performance can be attributed to the high rates of growth in the automotive and automotive and automotive components sector.

When the EC and RSA transport manufacturing subsector outputs are deducted from EC and RSA aggregate manufacturing outputs (respectively), the EC's contribution to national NAM falls to roughly 6.6 percent. This share remains relatively constant from 1995-2011 (Table 9).

According to the data, the performance and consistency of EC NAM is still better than expected. The most probable explanation for this discrepancy is the close alignment of non-automotive firms with the automotive industry in the EC. Many firms classified in "non-automotive" subsectors benefit, either directly or indirectly, from government support for the automotive and automotive components subsector. For example, the production of tyres and leather seats feed into the auto industry supply chain, but are classified under "Petroleum products, Chemicals, Rubber and Plastics" and "Textiles, Clothing, and Leather Goods," respectively. Due to the limited level of manufacturing data disaggregation, this thesis can only assume that if "auto related" firms were also deducted from total EC manufacturing output, the performance of the EC non-auto subsectors would be significantly lower.

Table 9: EC as share of RSA Total Manufacturing Output *less* transport sub-sector (%), 1995-2011

	1995	2000	2005	2007	2009	2011
GVA at basic prices	6.65	6.44	6.35	6.42	6.77	6.65
Value added at factor cost	6.66	6.44	6.34	6.40	6.75	6.63
Output at basic prices	6.67	6,48	6.37	6.44	6.67	6.62

Source: Data supplied by Quantec

When the manufacturing sector is disaggregated into subsectors, the EC outperforms the national in terms of GVA growth from 1996 to 2012 in only two of the ten subsectors—textiles, clothing and leather goods and metal products and machinery (Table 10). It is important to note that these two

subsectors are very closely aligned with the automotive and automotive components subsectors. Overall, EC subsector performance generally follows the national output growth trajectory—the differences between the provincial and national subsector growth patterns are not significant.

Table 10: Growth in Output (Gross Manufacturing Value Added) (1996 – 2012: EC/RSA)

	RSA Manufacturing GVA				EC Manufacturing GVA		
	% Share, 1996	% Share, 2012	**% Change 1996-2012**		% Share, 1996	% Share, 2012	**% Change 1996-2012**
Food, beverages and tobacco	19.3	16.9	**32.7**		17.1	14.6	**31.3**
Textiles, clothing and leather goods	4.9	4.2	**31.7**		8.9	7.8	**36.4**
Wood and wood	10.2	8.4	**24.4**		4.7	3.7	**23.3**
Fuel, petroleum, chemical &rubber	19.7	25.7	**97.0**		17.3	20.3	**80.7**
Other non-metallic mineral	5.2	3.3	**-3.3**		3.7	2.3	**-3.4**
Metal products, machinery	20.1	19.0	**42.0**		9.2	8.8	**47.2**
Electrical machinery and apparatus	2.4	2.8	**75.2**		3.5	4.0	**74.8**
Electronic, sound/vision, medical	1.5	1.7	**72.0**		1.0	1.1	**71.1**
Transport equipment	7.8	9.8	**89.5**		26.6	30.7	**78.1**
Furniture and other items	8.9	8.0	**36.0**		7.8	6.6	**29.0**
TOTAL	**100.0**	**100.0**	**50.8**		**100.0**	**100.0**	**54.3**

Source: Data supplied by ECSECC

3.3.6 Spatial Overview

Industrial activity is highly concentrated in the two metros (Table 11). 87% of all manufacturing is concentrated in the two metros, Buffalo City (EL and its surrounding areas) and Nelson Mandela Bay (PE and its surrounding areas). Moreover, the concentration is increasing— Nelson Mandela Bay and Buffalo City and Cacadu (Uitenhage, Grahamstown) are the only districts that have registered any significant growth in manufacturing from 1996-2012.

Table 11: Growth in Manufacturing (1996 - 2012: By District)

% change GVA 1996 - 2012	Total Industries	Manufacturing	Agriculture
Nelson Mandela Bay	63.7	59.9	27.0
Buffalo City	73.7	68.7	26.7
Cacadu DM	62.7	65.6	27.5
Amatole DM	44.0	20.2	30.4
Chris Hani DM	34.2	4.3	27.9
Joe Gqabi DM	21.4	-16.6	27.0
O.R.Tambo DM	40.7	10.3	34.9
Alfred Nzo DM	27.4	0.7	30.3

Source: Global Insight, 2013

3.3.7 Sectoral Composition

Table 12 shows a break down of the EC manufacturing sector as compared to the national composition. There are two outstanding features of the sectoral composition of manufacturing for the EC as opposed to the national (RSA):

- Significantly greater share of the labour intensive sectors – textiles, clothing and leather goods – (and to a lesser extent electrical machinery and apparatus)
- Significantly greater share of transport equipment (autos and components)
- Significantly lower share of raw material intensive products – metal products, machinery; fuel, petroleum, chemicals and rubber; wood and wood products.

Table 12: Percentage of GVA (2012: EC/RSA)

	% EC GVA		% RSA GVA
Food, beverages and tobacco	14.6		16.9
Textiles, clothing and leather goods	7.8		4.2
Wood and wood	3.7		8.4
Fuel, petroleum, chemical &rubber	20.3		25.7
Other non-metallic mineral	2.3		3.3
Metal products, machinery	8.8		19.0
Electrical machinery and apparatus	4.0		2.8
Electronic, sound/vision, medical	1.1		1.7
Transport equipment	30.7		9.8
Furniture and other items	6.6		8.0
TOTAL	**100.0**		**100.0**

Source: Global Insight, 2013

3.3.8 Employment

Sourcing reliable and consistent formal manufacturing employment data the EC province is a considerable challenge. This challenge is addressed in Section 1.3.1.

The best estimate for total formal employment in the EC manufacturing sector is 90,297 at the end of 2011, constituting a 7.8 percent share of national formal manufacturing employment, down from a 7.9 percent share in 2005, and an 8.7 percent share in 1996 (Table 13). When the transport-manufacturing subsector is excluded, the EC NAM employment is 67,499, a 6.4 percent share of the national NAM employment, down from a 6.5 percent share in 2005, and a 7.6 percent share in 1996. These figures reflect a similar pattern to the share of EC manufacturing and NAM output described in Section 3.3.5.

The decline in manufacturing employment in the EC since the early 1990s is in line with the national downward trend. However, the EC's manufacturing employment has declined at a much faster rate than national manufacturing employment. From 1996-2011 EC total manufacturing employment declined 31 percent, compared to the national decrease of 23 percent. During that same period, EC NAM declined 36 percent, compared to the national decrease of 24 percent. The comparison between provincial and national rates of employment contraction stands in contrast to the relatively constant share of manufacturing output over the same period (Section 3.3.5).

Table 13: Formal Manufacturing Employment RSA & EC total manufacturing & total manufacturing *less* transport sub-sector, numbers & % changes, 1996-2011

	1996	2005	% Change 1996-2005	2011	% Change 1996-2011
RSA					
Total Manufacturing	1498941	1321676	-12	1150667	-23
Transport	118024	121593	-3	102490	-13
Total Manufacturing less Transport	1380924	1200083	-13	1048177	-24
EC					
Total Manufacturing	130949	105090	-20	90297	-31
Transport	25885	26909	4	22798	-12
Total Manufacturing less Transport	105064	78181	-26	67499	-36

Source: RSA Manufacturing employment – Quantec

EC Manufacturing Data Global Insight (supplied by ECSSEC)

Table 14 disaggregates employment numbers by manufacturing subsector. From 1996-2012, every manufacturing subsector in the EC has demonstrated a decrease in employment. The two largest

percentage decreases are in the textiles, clothing, and leather goods subsector, a 59 percent decrease, and the electrical machinery and apparatus subsector, a 61 percent decrease. The contraction is significant due to the fact that these two subsectors are regarded as the most labour-intensive industries with the greatest capacity for unskilled labour absorption. These two sectors alone were responsible for 55 percent of all EC manufacturing job losses (22,481 jobs) from 1996-2012.

Table 14: EC Manufacturing Sectors - Number of formally employed 1996-012

	1996	2000	2005	2009	2012	'96–'12	% -
Food, beverages, tobacco products	15 816	13 003	11 567	13 339	15 044	- 772	- 5%
Textiles, clothing, leather	25 989	21 999	17 790	12 942	10 744	- 15245	- 59%
Wood and wood products	8 960	9 901	7 198	7 366	6 369	- 2491	- 28%
Fuel, petroleum, chemical and rubber products	16 195	17 087	14 120	11 674	10 958	- 5237	- 32%
Other non-metallic mineral products	4 283	2 403	2 841	2 780	2 555	- 1728	- 40%
Metal products, machinery and household appliances	14 895	11 888	12 031	13 181	12 230	- 2665	- 18%
Electrical machinery and apparatus	11 949	11 476	6 472	4 681	4 623	- 7236	- 61%
Electronic, sound/vision, medical & other appliances	2 033	1 772	1 168	1 213	1 042	- 991	- 49%
Transport equipment	25 885	22 508	26 909	27 816	22 798	- 3087	- 12%
Furniture and other items NEC and recycling	4 944	4 163	4 994	4 347	3 934	- 1010	- 20%
Electricity, gas, steam and hot water supply	3 029	2 836	2 765	2 774	2 592	- 437	- 14%
Total	**130949**	**116200**	**105090**	**99339**	**90297**	**- 40652**	**- 31%**

Source: Data supplied by ECSECC

3.4 Concluding Remarks

The data highlights three significant trends that have important policy implications for the EC manufacturing sector:

1. Post 1995, the EC has marginally outperformed the national total manufacturing output growth. The province's share of national manufacturing output, as well as national NAM output, has remained relatively constant. With respect to disaggregate manufacturing subsector performance, the EC exceed national growth in textiles, clothing, and leather goods and metal products and machinery; however, the province has generally followed the national pattern of subsector growth since 1996.

2. In contrast with output performance, EC manufacturing employment as declined at a much faster rate than the national trend. Every EC manufacturing subsector has experienced a contraction in employment. The two subsectors that have faced the most significant job losses—textiles, clothing and leather goods and electrical machinery and apparatus—are the two subsectors with the greatest potential for labour absorption in unskilled, labour-intensive activities.

Nationally, the combination of moderate output growth and declining levels of employment signifies an increasing reliance on capital-intensive production processes. On a provincial level, moderate output growth paired with an even greater decrease in employment levels, suggests a more significant increase of capital intensity in the EC. This trend is demonstrated across both automotive and NAM sectors.

3. The EC has significantly higher levels of unemployment and lower rates of labour force participation when compared to the national level. This fact, when paired with the trends of rapid job shedding and capital intensification, indicates the true source of the crisis occurring in the EC.

The current state of the EC economy must viewed within the context of the historical processes that have shaped the structure and spatial concentration of industry in the province. Apartheid-era policies, drawing labour-intensive manufacturing industries to the area with generous incentives that were withdrawn abruptly after 1992, have left a large pool of experienced labourers without jobs.

Post-1994 provincial industrial policies have accomplished little with regard to addressing this crisis. The policies in place are largely a reflection of national industrial policy. While this is significant for the sake of coherence and national alignment, it is important to avoid a blanket application of national policies to a regional setting. It is necessary for the EC to create policy tailored to the issues specific to the region and sensitive to the historical processes through which those issues were created.

Moreover, it is necessary for the regional policies to reflect the institutional capacity of the province's developmental agencies. The current provincial policy framework, on paper, provides a long list of possible public interventions. These interventions check all the boxes—specific objectives, responsible agencies, timelines, and concrete outcomes—however; the lack of policy prioritization in the context of limited public sector capacity renders the prospect of meaningful implementation unlikely.

Chapter 4: Interview Summary of Identified Constraints and Suggested Policy Proposals

4.1 Firm Selection and Characteristics

4.1.1 Firm Selection

The firm selection process is detailed in Section 1.3.2. Firms were selected from 3 subsectors—food, beverages, and tobacco; metals, metal products, machinery and equipment; and textiles, clothing and leather goods—as well as a fourth category, labelled "other" in this section, which includes NAM firms involved in the construction, light manufacturing, electronics, and plastics subsectors. The auto and auto components sector was generally excluded. These subsectors were selected based on current levels of employment, evidence of an upward trend in employment levels since 1995, and prospects for raising future employment levels.

Within each sector, it was attempted to interview firms of different sizes – small, medium and large as denoted by employment levels (see Table 15). We attempted to get a relatively even distribution of firms by location and by sector. The following table summarises the firm selection:

Table 15: Selected Firm Distribution

	Small (<100)	Medium (100-500)	Large (>500)	Total
Nelson Mandela Bay	3	9	1	13
Buffalo City	3	8	1	12

	Small (<100)	Medium (100-500)	Large (>500)	Total
Clothing, Textiles, Footwear	2	3	1	6
Food/Bev	0	3	1	4
Metals and Metal Products	3	2	0	5
Other	1	9	0	10
Total	6	17	2	25

4.1.2 Firm Demographics

An outstanding feature of the firms interviewed was how long they have been established. There was very little sign of new firm entry. Table 16 indicates the date of each firm's establishment in the EC —highlighted firms are those that were established after 1991. 21 out of the 25 firms interviewed were established before 1991 (the oldest firm dates back to 1937). Only three of the twenty-five firms were established within the past 15 years—1999, 2001, and 2006—an indication of the limited number of new entrants into the EC manufacturing sector. The two firms that were most recently established, in 2001 and 2006, Fred Footwear and Inca Bricks respectively, are both black-owned

firms. The remaining firms are either white-owned family businesses or part of large multinational companies.

Table 16: Date of Firm Establishment

Candy Tops	Sunningdale Dairy	Summerpride Foods	Dynamic Commodities	Da Gama Textiles	Castellano Beltrame	Eltex	Fred Footwear	CGH Woolcombers	The Little Slipper	Dinky Manufacturing	Xmeco Foundry	Aveng/Trident Steel	Natstan Wire	Stateline Pressed Metal	Prism Products	Inca Bricks	The Fibreglass Shop	Vektronix	Floorworx	Supreme Moulding	Rhino Plastics	Howden Donkin	Behr Climate Control	Everready SA
1984	1981	1948	1996	1947	1965	1983	2001	1947	1991	1977	1951	1972	1987	1983	1999	2006	1970	1974	1953	1972	1973	1956	1986	1937

Most of the firms were established when the EC benefitted from a series of large government incentives programmes. Many firms interviewed were established during the height of the decentralisation policy (Table 17). 12 firms were established between 1971 and 1991, during the most generous period of government incentives under the Revised Decentralisation Policy and RIDP I. Now that those government support systems are gone, many of the firms are struggling to stay afloat. A typical refrain was "We are here by a historical accident." "The cost advantage that we had is long gone here."

Table 17: Number of Firms Established and Average Age of Firm by Period

Time Period	Incentive Programme	# of Firms Est	Average Age
1930-1960	Informal Decentralisation	7	65
1960-1970	Original Decentralisation Policy	2	46
1971-1981	Revised Decentralisation Policy	6	38
1982-1991	RIDP I	6	27
1991-1998	RIDP II	1	17
1998-2013		3	11
		Total Average Age	34

There was a strong preponderance of firm owners and manager who were born and/or grew up in the region. They professed strong loyalties to the region and expressed a strong desire to stay in the region even though, as they put it, they might have "done better elsewhere."

4.1.3 Firm Growth

Of the 25 firms interviewed, 10 firms indicated growth in turnover within the last 5-10 years.

The firms that have expanded their output are evenly split between EL and PE locations. There was no apparent pattern of growth or contraction differentiated according to sector. Interviewees identified a number of factors as contributing to firm growth. These included: ability to respond flexibly to the market; to produce specialised orders, and to deliver timeously, Expanding firms stressed that they also enhanced the quality of their product and moved to higher value-added products. These firms regarded their understanding of the needs of the African market as superior to that of their competitors.

A notable feature, however, of firms that increased output was how few of them simultaneously increased employment. Only 4 of 10 firms that had increased output had also increased employment. These 4 firms had, on average, increased employment by 56% over the past 5- 10 years. All of the firms that had decreased employment while growing output were clear that they had turned to increasingly mechanised production processes in order to cut down on labour costs. They saw increased mechanisation as the primary explanatory factor listed for their growth.

The remaining 21 firms have all decreased employment. For these firms, the overall decrease in employment was an average of 47% in the past 5-10 years. This ranged from a 95% decrease to a 20% decrease. One outlier, in food processing, excluded from the average, decreased its employment from 1000 employees to 160 over the past 10 years. The major factors in the firm's contraction were increased cost of local inputs, cost of labour, and lack of local raw materials available.

There was a noticeable pessimism as to future prospects. Only 6 out of the 25 firms are planning on expanding in the near future.[5] Of those that indicated hope for expansion, 4 planned to grow by expanding exports to African countries specifically and 2 planned to move to more diversified and higher value added products. The remaining 19 firms did not express any intention to expand. 11 of those firms have been significantly contracting over the past 5-10 years and indicated that they expected that downward trend to continue.

Table 18 divides the number of firms interviewed in each sector in terms of exports as a share of total turnover. Twenty firms only sell to the domestic market. Nine export less than 10% of turnover and, of those 9 firms, 4 firms have experienced a steady decline in their share of exports to less than 5% with no plans or hope of reversing this trend. The 4 firms that export 10-50% of turnover all export primarily to African countries and they all expressed interest in continuing to grow exports to the

[5] As a percentage of total firms interviewed—just under 25 percent—this may not be a strong indicator of pessimism unique to the Eastern Cape, but rather a reflection of the national sentiment given the current economic climate. Furthermore, during the interview process, the definition of "expansion" was left open-ended, posed as expansion in output, employment, or turnover. Interviewees were left to define the term according to the definition they deemed most relevant for their current position.

continent. The 2 major exporters, exporting 85% and 98% of their turnover, are both in the food/beverage sector and primarily export to first world markets in North America and Europe.

Table 18: Share of Exports in Turnover by Sector

	Non-Exporter	< 10%	10%-30%	30%-50%	>50%
Clothing, Textiles, Footwear	4	2			
Food/Bev	1		1		2
Metals and Metal Products	2	3			
Other	3	4	2	1	

Of the 10 firms interviewed that have expanded their output, 6 exclusively supply the domestic market. Of the 4 exporting firms, 3 export to the African market. These firms have experienced an upward trend in export growth and all 3 intend to expand further into the African market in order to grow their business. 2 of the non-exporting firms supply directly to distributors that are significant exporters and are, therefore, indirectly affected by export performance. Ultimately, 6 out of the 10 growing firms are direct or indirect exporters.

Accordingly, a high proportion of firms that have expanded their output are exporters – direct or indirect. This is not surprising. The share of South African manufacturing output exported has increased from 15% in 1995 to almost one-third currently. Manufacturing for export has grown far more rapidly than manufacturing for the domestic market. Moreover, significant shares of exporting firms, by contrast with non-exporting firms, express optimism as to future prospects for expansion.

This underlines the importance to EC manufacturing prospects of strategies designed to enhance exports.

Three of the firms that have expanded output are in the clothing, textile and footwear sector. Only one of these firms is subject to metro wage rates. The three growing food/beverage firms all negotiate wages at plant level. A further three firms located in metals, plastics and electronics sectors firms are subject to MEIBC wage rates. However, one firm is non-complaint with MEIBC wage standards. There appears, therefore, to be an association between firms that have flexibility as to wage determination and expansion in their output.

Two of the four firms that increased employment had some flexibility with respect to wages paid. One firm has plant level bargaining. Another belongs to the MEIBC, but is non-compliant. The number of firms increasing employment is too small to give any clear indication of an association between firms that have increased their labour complement and flexibility with respect to wage determination.

Nevertheless, the majority of firms interviewed held the opinion that, where the bargaining council imposed stringent wages, and failed to take account of local conditions, firms struggled to grow.

4.2 Identified Constraints – Firm Perceptions

Interviews with firms and key informants focused on the factors that were constraining firm output and employment growth.

While there were differences--by sector, by metropole and by size of firm (see below)--interviewees consistently raised the same issues albeit with some difference of emphasis. Moreover, there were no surprises – although encouraged to identify other constraints than the ones posed to them, firms did not identify anything that was unexpected.

The similarity of response strongly suggests that, although the number of firms interviewed was limited (25) and firms were not chosen via a randomised sampling process, the responses obtained with regard to constraints are representative of the non-auto manufacturing firms in the two EC metropoles in general.

4.2.1 Ranking of constraints

Firms were asked to rank 8 constraints to growth—labour costs, labour productivity, shortage of skills, transport costs, electricity costs, local competition, competition from imports, and lack of government support—on a scale from 1-10, with 1 being not constraining at all and 10 being very constraining. Table 19 summarizes the average scores across all interviewed firms and average scores by metropole. The number of firms that responded above 7 in respect of each constraint is listed as well. Interviewees in both regions identified transport and electricity costs, and competition from imports as the most important constraints**.**

Table 19: Constraints by Metropolitan Area

Constraint		Buffalo City n = 12	Nelson Mandela Bay n = 13	Total n = 25
Labour Costs	Average Score	6.4	6.3	6.3
	7 & Above	54%	50%	52%
Labour Productivity	Average Score	5.8	6.2	6.0
	7 & Above	38%	60%	48%
Shortage of Skills	Average Score	5.0	5.5	5.2
	7 & Above	38%	30%	35%
Transport Costs	Average Score	7.9	5.6	6.9
	7 & Above	92%	40%	70%
Electricity Costs	Average Score	7.9	7.1	7.6
	7 & Above	92%	60%	78%
Local Competition	Average Score	4.2	2.9	3.7
	7 & Above	30%	10%	17%
Competition from Imports	Average Score	8.1	7.6	7.8
	7 & Above	54%	70%	61%
Lack of Gov't Support	Average Score	7.5	4.7	6.3
	7 & Above	77%	10%	48%

Firms were also asked to list any other constraints that were not on the questionnaire list, although they were not asked to rate them on a scale of 1-10. The most common additional constraints were: (1) limited flexibility of labour, difficulty in hiring/firing (a consensus across all firms in all sectors); (2) lack of demand (especially apparent in the Metals and Metal product sectors); and (3) lack of raw materials (in the Food/Beverage sectors).

When asked to elaborate on the constraints that are currently most binding on any future expansion, firms invariably came back to issues of wage rates and the difficulties and costs entailed in dismissing workers. These were the pre-eminent factors that both constrained growth and, more particularly, constrained firms from increasing employment in the event of any growth. There was a feeling of resignation by firms that government would never address these issues and that, their position, with regard to labour constraints, would continue to get worse. Most firms held the belief that wages were likely to continue to rise and the labour market would become more inflexible over time.

Manufacturers also complained about a lack of demand – to be expected in an economy where growth is currently little over 2%. Poor demand conditions at home combined with continuing economic difficulties in many export markets – especially in Europe – is a key constraint. To counteract this lack of demand, a few firms proposed that provincial and local government in the EC give preference in procurement to local (regional) manufacturers.

4.2.2 Constraints by Metropole

The two regions differ significantly in terms of their ranking of transport costs and lack of government support as constraints:

Firms located in EL scored transport costs far higher than firms in PE. This is expected due to PE's access to two ports. While both areas have to bear the cost of transporting finished goods to Gauteng and Cape Town, firms in the EL area have the added cost of transporting their inputs from ports in PE or Durban.

A feeder vessel is offered from PE to EL. However only 2 of the EL firms interviewed mentioned utilising the port. Where they did utilise the feeder vessel, use was minimal. The proposal of establishing a second feeder vessel that would operate at a subsidised rate was not met with any enthusiasm by the firms. The main mode of transporting local goods, both inputs and outputs, is by road, offering the fastest, most flexible, and most cost effective method of transport.

The EL port is the only river port in the country. Its deepest point is 11.3 metres. The port is very shallow and narrow and cannot handle deep-sea vessels. This is not only an issue for firms transporting inputs and outputs out of EL, it is an issue for drawing potential export-oriented firms to the area, especially to the ELIDZ: "Unless we have someone taking our port seriously, it is hard to convince any exporter to come here."

Lack of government support is rated much higher as a constraint in EL compared to PE. This could be the case for a number of reasons. EL and the surrounding regions contain many previously industrialised areas that benefitted from the apartheid-era decentralisation policy. The firms currently located in these areas were firms originally drawn to the area because of these incentives or, alternatively, firms that had deep historical roots and were able to grow as a result of these incentives. In the absence of any incentives, they are now struggling to survive. There is understandably a strong feeling that the abandonment of regional decentralisation initiatives in the post- apartheid era has led to neglect of industry and an exacerbation of unemployment in this sub region. The historical record of government support to manufacturing firms in EL is seen as being in sharp contrast to the current lack of any significant support.

There was also a perception amongst the firms and key informants (i.e. the East London Chamber of Business) that PE is favoured when it comes to government involvement. It was frequently claimed by EL firms that the Coega IDZ receives much more government attention and support than the ELIDZ. This point was also reiterated when it came to the amount of attention government and

government enterprises, like Transnet, pay to the rail and port links to and from EL in comparison to PE.

4.3.3 Constraints by sector

Clothing, Textiles, and Footwear

As expected, for firms in the clothing, textiles and leather sector, the labour costs and competition from imports were identified as the two most binding constraints. Despite high levels of protection, this sector, both nationally and even more so in the EC, has seen the largest reduction in employment.

Table 20: Average Constraint Scores – Clothing/Textiles/Footwear Sector

Clothing, Textiles, Footwear			
	Small (2)	Medium (3)	Large (1)
Labour Costs	5.5	6.7	7.0
Low Productivity	4.5	7.7	10.0
Shortage of Skills	2.0	8.0	8.0
Transport Costs	5.0	8.0	6.0
Electricity Costs	8.0	9.3	7.0
Local Competition	3.0	4.0	6.0
Competition from Imports	8.0	9.0	10.0
Lack of Gov't Support	7.5	4.3	7.0

Food and Beverages

Firms in the food and beverages sector identified securing supply of inputs as *the* key constraint. Some of the most successful firms, both in terms of output and employment growth, are located in this sector and extensively utilise local agricultural inputs. Difficulty in expanding local supply is currently curtailing their future growth.

Table 21: Average Constraint Scores – Food/Beverage Sector

Food/Bev			
	Small (0)	Medium (3)	Large (1)
Labour Costs		5.0	7.0
Low Productivity		7.0	10.0
Shortage of Skills		8.0	4.0
Transport Costs		7.5	5.0
Electricity Costs		7.5	5.0
Local Competition		4.5	2.0
Competition from Imports		5.0	0.0
Lack of Gov't Support		6.0	1.0

Metals and Metal Products

Firms in this sector placed a particular emphasis on costs of transport. These firms have a double transport burden – transporting heavy inputs from "up country" and transporting the finished products to domestic customers, most of whom are located at some distance from the plant. Rail is expensive and is widely perceived to be unreliable. As a result, firms invariably use road transport.

Table 22: Average Constraint Scores – Metals/Metal Products Sector

Metals and Metal Products			
	Small (3)	Medium (2)	Large (0)
Labour Costs	6.0	8.0	
Low Productivity	6.3	3.0	
Shortage of Skills	5.3	3.0	
Transport Costs	6.0	9.0	
Electricity Costs	7.0	5.0	
Local Competition	3.0	1.0	
Competition from Imports	8.0	9.0	
Lack of Gov't Support	4.7	8.0	

Other Sectors

The 10 firms that are non-automotive manufacturers involved in the construction, light manufacturing, electronics, and plastics sectors, identified transport costs and electricity costs as their main constraints. These firms have many of the same characteristics as firms in the metals and metal products subsector, especially with regard to high transport requirements for both inputs and outputs, so it is not surprising that the constraint scores are comparable between the two subsectors.

Table 23: Average Constraint Scores – Other Sectors

Other			
	Small (1)	Medium (9)	Large (0)
Labour Costs	10.0	5.9	
Low Productivity	5.0	5.1	
Shortage of Skills	1.0	4.9	
Transport Costs	7.0	7.0	
Electricity Costs	6.0	7.4	
Local Competition	5.0	4.1	
Competition from Imports	10.0	6.7	
Lack of Gov't Support	10.0	6.9	

4.2.4 Constraints by Firm Size

The largest disparity in the average constraint score by firm size was in the category of low productivity (Table 24). While low productivity scored relatively low (5.5 and 5.8) for small and medium size firms it scored a 10 for both large firms. Many of the small and medium size firms interviewed made note of the very close relationships they have maintained with their employees. Many firms employed multiple generations within one family and these families have formed close ties with the owners over decades of employment. The formation of close working relationships may translate into increased levels of skill and efficiency built over time in the workplace.

Table 24: Average Constraint Scores by Firm Size

All Sectors			
	Small (6)	Medium (17)	Large (2)
Labour Costs	6.5	6.1	7.0
Low Productivity	5.5	5.8	10.0
Shortage of Skills	3.5	5.9	6.0
Transport Costs	5.8	7.5	5.5
Electricity Costs	7.2	7.7	6.0
Local Competition	3.3	3.9	4.0
Competition from Imports	8.3	7.4	10.0
Lack of Gov't Support	6.5	6.2	4.0

Somewhat surprisingly, small firms did not have an issue with finding skills. Many of these firms were previously much larger in terms of turnover and employment and have downsized over the years. They indicated that they have access to a pool of labourers who were previously employed and trained by their firm that they can draw from if the need arises. They also indicated very low levels of employee turnover, which decreased their need to search out skilled workers.

4.3 Assessing the Constraints

4.3.1 Electricity

Complaints about increasing electricity charges over the last few years and the constraints that it placed on their business were universal amongst the firms interviewed. The complaints were focused on costs. Firms did not regard electricity disruptions as a problem nor did they have a view that the EC suffered more from disruptions of supply than other areas. Disruptions in electricity provision were not indicated as a problem for any of the firms interviewed.

A number of firms have seen very large increases in electricity costs. Firms claimed that their electricity costs had increased anywhere from four to five times over the past five years. Firms recognised, correctly, that the municipality mark-up is a major factor in the increase. A typical response was "The municipality lives on the mark-up." In addition, the agro-processing firms all faced increases in costs relating to effluent charges. All agro-processing firms listed effluent charges as one of their major constraints.

There is a widespread view that municipalities in the EC charge relatively higher electricity rates than the national level. And indeed this is borne out by the data. PE charges the third highest rates in the country (Minutes from meeting between MEC Jonas and NERSA [National Energy Regulator of South Africa] April 2013). Table 25 shows a comparison between PE, Cape Town, and Eskom reduced Megaflex rates. The PE rate is R.81 per KWh, compared to R.68 per KWh for Cape Town—almost a 20% differential. Table 26 gives an indication of how much rates have increased from 2000 for PE (Nelson Mandela Bay Municipality) compared to Eskom price increases. PE electricity prices have increased at a much higher rate than Eskom prices, resulting, by 2012, in a 21% difference in the yearly rate of increase.

Table 25: Halberg Guss PE Foundry Electricity Usage 2011/2012

PE municipality rates Large Urban	Total	R 32 955 892
	KWh	R 23 172 556
	KVA	R 9 760 500
	Admin costs	R 22 836
	R/KWh	**R 0.81**
PE municipality rates Time of Use	Total	R 33 021 564
	KWh	R 23 243 232
	KVA	R 9 760 500
	Admin costs	R 17 832
	R/KWh	**R 0.81**
CapeTown rates Time of Use	Total	R 27 467 997
	KWh	R 20 897 997
	KVA	R 6 570 000
	Admin costs	R 1 708 200
	R/KWh	**R 0.68**
Eskom Megafl ex local authority	Total	R 22 430 314
	KWh	R 19 696 114
	KVA	R 2 734 200
	Admin costs	R 58 856
	R/KWh	**R 0.55**

Source: NMB High Electricity Users presentation, 15 September 2011 (data supplied by ECSECC)

Table 26: Price Escalation in Nelson Mandela Bay Metro 2000-2012

	NMBM electricity price	Eskom electricity price	PPI domesti c output
2000	100%	100%	100%
2001	107%	106%	108%
2002	113%	111%	120%
2003	126%	118%	129%
2004	139%	128%	129%
2005	145%	133%	133%
2006	152%	140%	140%
2007	159%	148%	155%
2008	207%	189%	171%
2009	259%	248%	187%
2010	316%	309%	192%
2011	**404%**	**388%**	**203%**
2012	**509%**	**488%**	**223%**

Source: National Foundry Technology Network presentation to NERSA, 23 February 2012

In response to the electricity increases, many firms are taking steps to reduce their electricity bill.

- Energy-intensive firms use boilers to supplement Eskom power. However, they have to transport heavy furnace oil (from PE or Durban for those in EL), which adds to transportation costs. One large firm switched from oil to coal to relieve the cost of transport, other firms are

reluctantly considering doing the same, noting that, although coal is less environmentally friendly, it is cheaper to transport.

- One large firm shut down a product line because the cost to produce in terms of electricity was too high.

- One firm hired a specialist consultant to negotiate with the municipality to bring their rates down.

- A number of firms are looking far more closely at installing solar power.

Firms also noted that they get charged the same price for electricity during a 24 period. They asked for a price differential as between night and day usage.

4.3.2 Transport

The cost of transport is more of a burden for firms located in EL and its surrounding area. EL firms have to get inputs from ports in either Durban or PE and transport them by road to EL. Two firms noted that they use the feeder vessel from PE to the EL port, but none of the firms were enthusiastic about the proposal of an additional feeder vessel at subsidised rates. All responded that they would continue to use road transport as their primary means of transporting inputs and outputs due to the flexibility, timeliness and cost.

In general, firms whose many competitors were local, found themselves disadvantaged by their location. It cost them more and took them longer to get finished products to the main markets in Cape Town and Gauteng. Firms whose main competition in the domestic market is foreign competition from imports, listed proximity to market as one of their advantages. They could get an order to their customer in South Africa much faster than an order coming in from their Asian competitors. Those firms that had cornered the South African market and had little domestic competition could not beat their foreign competitors on price, but they could offer quicker response times and more specialised design to meet customer demands.

Cost of transporting personnel—airline travel—was consistently listed as a major cost. Flights to/from EL and PE are among the most expensive flights in South Africa per km. Flights to Cape Town, Johannesburg, and Durban to/from PE and EL are dominated by South African Airways. Low cost price flight options are relatively scarce. As result, the cost involved in air travel, a necessity in order

to visit clients, meet customers face-to-face, meet international clients, visit showrooms, etc - all of which occur outside of the EC - is very significant. One medium-sized textile company located in the EL metro claimed that it cost them R250,000 a year to meet with clients around the country. Firms noted that they often have to fly technicians and specialised workers down from Cape Town or Gauteng because they cannot find anyone in the EC who is qualified to do a particular job.

Frequency is also a major problem – flights in and out of PE and, particularly, EL are far less frequent than flights in/out of other centres of manufacturing. South African Airways offers 3 flights a day between Cape Town and EL; and 5 flights a day between Johannesburg and EL. British Airways and South African Airways offer 3 direct flights a day between Cape Town and PE; 12 a day between Johannesburg and PE.

4.3.3 Labour

Wages are determined differently for each of the different subsectors interviewed. Regardless of the manner in which they are determined, for most of the firms interviewed, wages were identical or very similar to wages paid in the more "advanced" manufacturing areas, namely Cape Town and Gauteng.

Clothing/Textiles

Wages are determined by a centralised bargaining system, but differentiated between metro and non-metro. However, the metro/non-metro differentiation only operates in clothing and not textiles. As a result, textile firms located outside of the metros do not benefit from non-metro wage rates. None of the clothing and textile firms interviewed operated under non-metro wage rates. Textiles firms located outside of the city centres were adamant that this put them at an "unfair" disadvantage. They argued that costs of living were lower than in the other manufacturing areas and that this dispensation was a major factor constraining their growth, curtailing their hiring, and, in many cases, has resulted in major lay-offs.

Metals/Plastics/Machinery

High wage rates were by far the largest complaint by firms in the metals/machinery/plastics sub-sectors. These firms were most vocal in their condemnation of the wage bargaining system. In this sector, wage rates are centrally determined by the MEIBC. Representation in the bargaining council is based on number of employees. As a result, the council is dominated by the five big metal corporations. Plastics have been trying to separate themselves from the MEIBC for the last 4-5 years, but without effect.

A number of firms have applied for exemptions from the bargaining council. Firms claim that the process is cumbersome and does not run efficiently. If an exemption is granted, it is for one year only, and, thereafter; the firm is expected to play catch-up. This is an unrealistic expectation and firms granted exemption often become non-compliant the following year: "The exemption process does not work full stop."

Agro-processing

In the agro-processing subsector, wages are bargained on the shop floor at plant level and are, therefore, viewed as less of a constraint on growth. Benefiting from the absence of a central bargaining system, wages tend to settle below those in Cape Town and Gauteng, giving the EC somewhat of an advantage. While not conclusive, the argument could be made that relatively lower wage levels have been a contributing factor to the minimal job losses in the subsector—the food and beverage subsector has had by far the lowest job losses in the EC.

Labour Flexibility

Apart from wages, firms were also concerned about hiring and firing regulations. The difficulties and costs entailed in firing are a very significant problem for firms across all sectors that have cyclical demand or large variations in order volumes. Many of these firms rely on labour brokers for seasonal or part-time workers, but can only keep them for a maximum of 3 month. This places limits on the volume of orders they can take on at one time.

4.3.4 Shortage of Skills

None of the firms, regardless of sector or location, had any difficulties finding low skilled or semi-skilled labourers. Both EL and PE have long histories of manufacturing. Job shedding, especially in the clothing and textiles sector, has resulted in many labourers, trained at previous jobs, with the necessary skills, but without opportunities for employment. Most firms reported that they had access to pool of skilled labourers with experience in manufacturing. If the firm was in a position to expand, they were confident that they could easily draw on this pool to meet their needs.

The main issue for every firm interviewed was finding skilled labour. Qualified artisans, tool and die makers, engineers and managerial/administrative skills were particularly identified as in very short supply. Each firm reiterated that there was effectively *no* local supply of skilled artisans. If firms required an artisan they are forced to look for qualified individuals nationally, or even internationally,

and then try to "woo" them to relocate to PE or EL. This was very hard to do—"People won't come and live here."

The alternative was for the firms to train their own artisans in-house. However, by training artisans in-house, the firms risk (a) losing that investment to another firm (most often to the auto sector where wages are considerably higher) or another city; or (b) not getting the training approved, recognised or reimbursed by the SETA. Most firms do get their levy back from the SETA, but they are not fully reimbursed for apprenticeships or learnerships. Firms claimed that reimbursements ranged from 10% to 50% of total spend.

Firms interviewed generally belong to one of three SETAs – MerSETA (Manufacturing, Engineering, and Related Services); FoodbevSETA (Food and Beverage) and Fp&mSETA (Fibre Processing and Manufacturing). Firm feedback on each of the SETAs is summarised in Box 2.

Box 2: Interviewee Perception of the SETAS

MerSETA: Unanimously regarded as completely inadequate. Described as: "it doesn't work at all," "horrendous," "absolutely useless," "too much of a cumbersome process."

FoodBevSETA: Regarded as "very good."

Fp&mSETA: Regarded as inefficient, very slow, with too much administrative red tape for no results.

4.3.5 Lack of government support

Table 27 summarises the EC's extensive participation in ten Department of Trade and Industry (DTI) grant programmes. The EC is ranked as the number one recipient in six out of the ten programmes. This statistic is impressive, illustrating that, when government support is offered, the EC, as a province, makes a considerable effort to take advantage of the opportunities at hand. The EC's current participation in government support programmes bodes well for the prospective success of future grant programmes in the region.

Table 27: EC access to 10 DTI grant programmes

SUPPORT PROGRAMMES	AMOUNTS AND APPROVALS	RELATIVE POSITION OF EC
Black supplier development programme	R40.6million. 114 approvals	4th position

Co-operative incentive scheme	R20.8 million, 79 approvals	1st. position
Incubator support programme	R64.3 million. 4 incubators	1st position in amount approved
Manufacturing Competitiveness Enhancement Programme	R70.6 million. 17 approvals	4th position
Export Marketing and Investment Assistance	R2million.	5th position
Manufacturing Investment Programme (provincial)	R571million. 176 projects+	1st position
Manufacturing Investment Programme (national)	2enterprises. 12 approvals	1st position in investment approvals
Business Process Outsourcing	No approvals	
Tourism support programme	25 projects approved	1st position
Critical Infrastructure Programme	No data available	
Automotive Investment Scheme	R221million. 11 projects	2nd position

Source: Data supplied by ECSECC

A number of firms were particularly enthusiastic about the Manufacturing Competitiveness Enhancement Programme (MCEP) and the way in which the Industrial Development Corporation (IDC) had administered the programme. "It has made a difference." "Very successful." "The IDC is very good." All of the firms who took advantage of MCEP held the IDC in very high regard.

However, several firms did take issue with the fact that firms had to be expanding in order to take advantage of the programme and this applies to most of the DTI supports. Only 6 of the 25 firms interviewed are planning to expand in the near to medium term.

With respect specifically to employment**,** the firms interviewed were not enthusiastic about the proposed Youth Wage Subsidy. The vast majority of firms are not hiring. As a result, a hiring subsidy provides no support and is clearly not relevant to firms who are not hiring. Firms also saw the subsidy as a once-off, and were concerned that, once the subsidy ended, they would not be in a position to afford to retain workers hired.

The EC provincial government operates a Jobs Stimulus Fund whereby manufacturers can receive up to R10,000 for each new employee hired. Only a few firms found this helpful. Again, by far the largest number of firms interviewed explained that they made no use of the fund because they were not expanding, and thus not hiring any more labourers. The provincial Jobs Stimulus Fund has had only a limited effect on only a few firms, confined to those that are expanding output.

4.3.6 Institutional Constraints

Many firm interviews raised concerns about the lack of institutional capacity and performance in the EC. Interviews with representatives from DEDEAT, ECSECC, ELIDZ, and the office of MEC Jonas provided valuable insight into the limitations that face the multiple government entities currently operating within the realm of industrial development in the EC.

Each interviewee reiterated the fact that problems related to institutional performance in the EC were *not* a result of lack of political will - provincial leaders were resoundingly characterised as passionate and committed to industrial development, particularly in the non-automotive sector. Interviews indicated that the most prominent issues facing the current institutional landscape can be summarised as follows:

- **Lack of a clear provincial industrial policy that dictates specific roles, deliverable objectives, and formalised implementation mechanisms for each of the operating development entities**. This was especially apparent within the DEDEAT office, which has been relying on an ad hoc bottom-up approach, dealing directly with firms or informal clusters in order to address sector-specific constraints. In the absence of a clear institutional mandate or structure for cluster development, DEDEAT's involvement is limited to providing insight into firm requirements and demands and addressing those demands, where possible, on a firm-by-firm basis. Without an institutionalised structure for an ongoing dialogue with firms, defining "action plans" or "strategies" for policy implementation is limited to informal, atomised, and firm specific interventions.

  For example, a "rapid response team" was created within DEDEAT to aid distressed firms during the recession. The team was able to assist a number of firms on a case-by-case basis, but lacked the institutional foundation - no business plan, no predetermined qualifications for "distressed" companies - to continue effective operation following the emergency period. The "team" could have evolved into a useful mechanism for meaningful action if it had been formally institutionalised within the DEDEAT structure.

- **Lack of a clear institutional alignment between different development entities.** The ELIDZ, Coega IDZ, and the Eastern Cape Development Corporation (ECDC) are separate agencies that operate under the umbrella of DEDEAT. Eighty percent of the DEDEAT budget is transferred to its entities (including, but not limited to the aforementioned entities), while the remaining 20% is divided within DEDEAT for various overhead costs and projects. The

agencies maintain an informal relationship with DEDEAT by informing the department of their activities - meetings ranged from "once a month" (ECDC) to "not that often" (ELIDZ/Coega IDZ). However, there are no expected deliverables stipulated by DEDEAT for these agencies. Moreover DEADEAT has no explicit power over how these agencies function - the agencies are required only to report internally within their own organisation. DEDEAT and its agencies have a working relationship with ECSECC—a separate entity under the Office of the Premier—that is maintained on the basis of service level agreements for specific projects.

The resulting web of relationships is undefined and informally maintained, with no clear power structure or hierarchy. This has made it difficult for DEDEAT to (1) specify the activities of each agency and locate them within a common industrial policy framework; (2) coordinate each agency's activities towards common goals; (3) limit redundancies and duplication of effort; and (4) monitor and evaluate each agency on their ability to deliver set objectives.

- **Lack of capacity.** Within DEDEAT's Trade and Industry Development department there are two sector desks for renewable energy and for manufacturing, with plans to employ an agro-processing specialist and automotive sector specialist. The manufacturing specialist is technically supported by both IDZs as well as the ECDC. Within ECSECC, there are five positions dedicated to economic development, two of which are dedicated to industrial development, ranging from automotive to agro-processing. Neither organisation has the personnel to achieve focused desk operations aimed at specific sectors. In the case of DEDEAT, positions have been designated, but filling these posts has proved difficult. The result, in both ECSECC and DEDEAT, is one or two people responsible for each project that falls within the realm of "industry," "manufacturing," or "economic development."

4.4 Interviewee Proposals for Policy and Support

Firms and key informants were asked to give their opinion on possible solutions to ease the constraints detailed in the previous sections. The suggestions ranged from very broad to very specific, but there was a high degree of consensus amongst the firms and informants in both PE and EL. The specific policy suggestions are mainly drawn from interviews with members of the BIEA (Border Industrial Employers Association), the CEO of the ELIDZ, and ECSECC. Their suggestions are organised below by the specific constraint being addressed.

4.4.1 Labour

Across the board, firms subject to centrally bargained wages were very unhappy with the current system of wage rate negotiations. The most vocal firms were those subject to the MEIBC rates. The BIEA, an association whose membership predominantly consists of MEIBC firms, presented their complaints about the current system and possible solutions at a meeting in a meeting with the association in September. Their proposals can be summarised as follows:

- A new employee wage rate at 60% of national rates for at least 10 years as a way of averaging down the wage bill. The new rate would mean a basic new entry rate and would apply to only companies that choose to implement it without applying for exemption through the MEIBC.

- Current employees would receive wage increases in the future that are 2% less than national for at least 5 years.

- Wage increases to be given on MEIBC rates not actual to prevent the wage gap for those earning more than minimum wage from widening.

- There should be a normal 44-hour workweek before any overtime is paid. This would be in line with the motor industry's 44-hour workweek. Currently, the non-auto manufacturing workweek is 40 hours.

- Public holidays should be moved to a Monday or Friday to prevent factories from stopping and starting twice a week.

- Worker flexibility should be addressed with the right to fire. To counter the right to fire, the BIEA proposes a minimum pay out to workers of 4 month's pay or a week per completed year of service.

The BIEA noted during the discussion that they are in favour of centralised bargaining. Many of the firms, not just in the BIEA, mentioned that it was often a relief that they did not have to deal with wage negotiations on a plant level and centralised bargaining made their lives easier. However, the BIEA supported centralised bargaining *within* the confines of similar industries and similar regions. They requested the MEIBC system be addressed and overhauled to allow for representation of small and medium firms. They were unanimously of the opinion that the current system caters to a few very

large and very powerful firms, with little acknowledgement of the needs of small and medium firms. They specifically requested the following changes to be made to the MEIBC:

- The council should be split into two councils - (1) primary steel producers and their distributors and (2) general manufacturing and plastics. These councils should then be localised and wages should be bargained on a regional basis.

- Formerly decentralised areas like Dimbaza and Butterworth should be de-linked from national collective bargaining. Wages should be based on rural textiles worker wage rates and labour law significantly reduced. Local communities should be asked to vote on the acceptance of such a system.

In addition to the suggestions received from the BIEA, the 3 clothing and textile firms interviewed in EL proposed that EL and its surrounding regions be reclassified as a non-metro region in order to lower their wage rates. Their argument was on the basis of lower costs of living in EL as opposed to Cape Town or Gauteng.

4.4.2 Electricity

All of the firms unanimously agreed that the rate of electricity cost increases needs to be addressed in some form or another. The firms in both EL and PE agreed that the rate of increase on municipality mark-ups for the two metros should be less than the national rate of increase in order to start scaling down electricity costs. Many of the firms in the formerly industrialised areas around EL suggested that Eskom provide a "special power rate" to the Border region.

The BIEA suggested that electricity costs and labour costs should count for a double tax deduction in order to bring down the rate of taxation on non-automotive manufacturers in the EC and ease the burden of increasing electricity and labour costs. The association hoped that the tax relief would promote employment and "bums in seats" manufacturing instead of the increasingly mechanised production processes that companies are resorting to in order to cut costs and improve efficiency. The BIEA proposed that this deduction would be capped at R15 million for labour costs and R5 million for electricity costs per company per annum. They stressed that capping the deduction is very important to avoid abuses from large companies and to ensure that the subsidy is sustainable for government.

4.4.3 Transport

Most firms, especially in the EL area, requested a subsidy on transport costs. The BIEA specifically suggested the following subsidy scheme to apply to the EL area:

- Local government should introduce a VAT and tax free transport subsidy to non-automotive industry that is based on scheduled labour, which is easily verifiable through pension returns. The hope is that this subsidy will also have the indirect impact of encouraging employment expansion.
- This subsidy should be 30% of scheduled labour costs for non-auto manufacturers. 50% of the transport subsidy should be required to be reinvested into plant or equipment or business expansion in order to encourage sustained investment.
- The subsidy should be capped at R3.5 million per company to avoid companies taking advantage of the subsidy and making sure that it is sustainable for government to maintain.

The firms, as well as the CEO of the EL IDZ and the CEOs of both Chambers of Business, agreed that there should be a cheap, efficient, and timely train line from Johannesburg to PE and EL.

In terms of the EL port, there was some disagreement about solutions to the limitations of the port. Few firms supported the idea of expanding the port in order to accommodate deep-sea vessels. Most interviewees saw this project proposal as a "white elephant" that was not within the realm of possibility for the port. Representatives from ECSECC as well as the Border-Kei Chamber of Business agreed that the EL port should at least become a viable feeder port and expand its feeder vessel operations in order to decrease the reliance on road transport, Both parties claimed that the volume of goods coming in and out of the port were high enough to support the operation of an additional feeder vessel.

4.4.4 Incentivizing Exports

The main exporting firms, as well as the firms whose share of exports has been steadily declining over the past 10-15 years, agreed that government should give non-automotive firms more incentives to export. They proposed a rebate on goods exported. The BIEA suggested that exports outside of the African customs union should be tax free, but that this exemption should only apply to specific areas and non-automotive sectors.

The topic of export incentives was especially relevant to the firms operating in the IDZs. The CEO of the ELIDZ reiterated the fact that the IDZ needs to be made "special" in some respect with incentives to attract exporting firms; however, he did not advance any specific proposals in that regard.

With respect to the IDZ, both ECSECC and the CEO of the ELIDZ proposed integrating existing industrial estates and formally decentralised areas into the IDZ to form a new Special Economic Zone (SEZ) with micro-sites in Butterworth, Dimbaza, and Mthatha. Their view was that any incentives or exemptions that would be applied to the IDZ in the future should be applied to these depressed areas as well.

While the firms interviewed were concerned with promoting exports and attracting export-oriented firms to locate in the EC, they also asked that equal emphasis be placed on both retaining existing firms and attracting new firms. They were concerned that too much emphasis has been placed on enticing new investment to the area with not enough focus on retaining the businesses that have been in the area for decades and are struggling to survive.

4.4.5 Addressing the Lack of Demand

In order to address the lack of demand, an issue that was heightened in the wake of the global recession, many of the firms interviewed, both CEOs of the Chambers of Business, and ECSECC were very supportive of a formalised provincial procurement policy that would guarantee a steady stream of demand for local firms.

Currently, the provincial government's procurement policy is limited to the "Proudly SA Campaign" (a national programme) and the "Buy Eastern Cape" policy promoted by ECSECC. Both of these programmes offer vague guidelines with no real "teeth." Some interviewees proposed they should be revised to include enforceable targets for procurement from firms within the region. A number of firms indicated that a provincial and local government procurement policy that gave preference to local manufacturers would help guarantee their firms a minimum level demand and help counteract the effects of the global recession.

Although there was enthusiasm for a revised procurement strategy, the firms (especially those represented by BIEA) and the key informants noted that, while this policy would be helpful at sustaining levels of demand, it should not be used as a crutch. The EC should work towards a competitive and sustainable manufacturing base that does not rely solely on supplying government.

4.4.6 Skills, Research & Development, and General Support

Specific suggestions regarding skills development from the firms were limited. There was a consensus that the SETAs (especially the MerSETA) need to be run more efficiently. There needs to be greater reimbursement for in-house training programmes, less administrative red tape, and faster response times from the SETAs. The firms were also adamant that more artisan training centres needed to be established in the EC.

In terms of government support for Research and Development initiatives, many firms asked for more incentives to innovate. A number of firms noted that the tool-making sector in the EC is uncompetitive and dying and this would have an adverse impact on manufacturing in the region. Some firms argued that incentives should be introduced for product development and tool making. Representatives from ECSECC suggested that the EC should make better use of its universities, especially Nelson Mandela Metropolitan University (NMMU). More investment should be made in science and research at NMMU and there should be a stronger linked established between the university and provincial industry.

ECSECC also proposed the establishment of a better communication network regarding government support measures that are available to firms in the non-automotive industry. A full-time position should be established (either within ECSECC or another regional organisation) to provide assistance to firms applying for government incentives, aid in the SETA administrative processes, and lobby on behalf of the non-automotive sector's interests to higher levels of government. When this idea was posed to the firms, it was met with great enthusiasm.

Chapter 5: Conclusion

5.1 Introduction

The issues plaguing EC are in many ways a reflection of the issues plaguing South Africa writ small. South Africa is currently faced with high levels of poverty and unemployment, paired with low levels of labour force participation. National policies are needed to address these national issues. Public sector participation in the creation and implementation of policy solutions to support the diversification and upgrading of manufacturing activities is an essential step in reversing these trends (Rodrik 2006).

The EC economy reflects national patterns of stagnate industrialisation and increasing capital intensification, however; the preceding chapters demonstrate that the province also suffers from constraints that are specific to the region in both substance and scale. These constraints are manifestations of the region's unique historical, geographical, and socio-political context and can only by adequately addressed through policies tailored to this environment.

While the EC automotive subsector has benefited from the government support, NAM firms—especially those involved in low skill, labour intensive activities—have failed to grow in the absence of the generous apartheid-era incentives that drew them to the region in the first place. The EC's lack of industrial diversification, resulting in a continued reliance on the automotive sector to bolster manufacturing output and employment, is an issue that requires public intervention.

This thesis set out to engage in a dialogue with representatives from both the private and public sector in order to identify the specific constraints limiting the growth of non-automotive firms in the EC. The following section will briefly summarise the constraints identified by the study and will offer selective policy suggestions, taking into account interviewee proposals, as well as the current institutional limitations of the EC provincial government.

5.2 Policy Recommendations

In light of the Provincial Industrial Development Strategy (PIDS) revision in 2015, this section will provide suggestions for new policies to address constraints specific to the NAM sectors of the EC. This section does not address *all* of the constraints analysed in the previous chapter. Instead, it focuses on the most crucial areas necessary for NAM development. Given the limited institutional capacity of

the EC provincial government, it is necessary to prioritise issues and interventions, rather than present an impractical "wish list" of policy interventions that have no hope of being realised.

Furthermore, it is important to note that many of the constraints can only be addressed through national channels of policymaking and implementation. While provincial industrial policy cannot play a significant role in alleviating these constraints, it is still necessary to draw attention to issues unique to the EC in the hope that national government may provide regional policy solutions to these regional problems.

5.2.1 Wage and Labour Market Disadvantages

The Constraint Problem Summarised

Central bargaining systems (with a special emphasis on the MEIBC) determine wage levels and labour market regulations with no regard for the locational disadvantages (i.e. input and output transport costs) faced by firms located outside the main industrial nodes. The wage levels in the primary industrial areas—Gauteng, Cape Town, and Durban—are the same as those in PE and EL. This prevents firms in PE and EL from capitalising on a differentiated wage rate that could potentially provide the region with a comparative advantage relative to firms situated in more optimal locations.

Furthermore, these national bargaining councils are dominated by a few large firms, providing little-to-no room for small and medium sized firms to influence the decision-making process. These firms are then required to adhere to wage levels generally applied without consideration for the unique needs of firms operating within a variety of subsectors, locations, infrastructural conditions, production scales and levels of competition.

Under these conditions, EC manufacturing, with a large pool of unemployed, experienced labourers—one of the province's most significant assets—is shedding labour and increasing capital intensity at a faster than the national aggregate.

Policy Recommendation

This issue lies outside the control of the EC provincial government. Transforming the way South Africa deals with issues of labour legislation and wage bargaining institutions is a problem that extends outside of the scope of this thesis. Ideally, the central bargaining system could be reconstructed to account for differences in location, subsector, and firm size. Instead of a blanket

application of a wage rate determined by a select few, the system could allow for greater representation of small and medium enterprises from a variety of locales.

5.2.2 Skills and Training

The Constraint Problem Summarised

The EC has a large supply of unemployed labour that has previous experience working in manufacturing—finding unskilled or semi-skilled labour is not the crux of the issue. The main problem is the shortage of skilled labour—artisans, engineers, administrators, etc. While this issue is definitely considered a *national* problem, its effects are more severe in the EC due to:

(a) Salary limitations: Firms in Cape Town, Gauteng, and, significantly, the EC automotive sector, are better capitalised and able to pay more to attract skilled labourers away from positions in NAM firms.

(b) SETA performance: As detailed in Box 2, firm experiences in dealing with the SETAs were generally extremely negative—a lot of red tape with very little results. Lack of assistance from the SETAs deters firms from implementing their own training programmes.

Policy Recommendation

The only response to a lack of skills is to create more skills. Unfortunately, there is no quick fix—this is a long-term goal that requires long-term policy solutions. Similar to the issue of centrally bargained wage levels, SETA inadequacy is a national problem. The current SETA system needs to be evaluated and restructured in order to better meet the needs of small-to-medium size firms. There is evidence of SETAs that work efficiently (the FoodBevSETA was highly regarded). These SETAs should be studied in order identify the factors that contribute to their success with the hope that this information can then be used to the benefit of the SETA system as whole.

In the interim, provincial government can engage with the SETAs that operate within the EC. A survey should be completed by ECSECC, which focuses solely on firm opinions and interactions with the SETAs. The results of this survey should be presented to the local SETA offices in order to initiate a flow of information. Additionally, provincial government should establish a forum to provide a medium for SETA-firm interaction with the ultimate goal of creating innovative solutions to skill and training problems unique to the EC.

5.2.3 Electricity Costs

The Constraint Problem Summarised

Escalating electricity charges over the past five years has placed a burden on South African industry as whole. However, the EC municipality mark-ups are amongst the highest in the country (as documented in Section 4.3.1), adding an extra strain on NAM firms that are heavy energy users. The escalation of municipality mark-ups is rooted in (a) the monopoly that municipalities have over electricity distribution; (b) the two municipalities using the mark-up as means to subsidize other operations; (c) inefficiency caused by the badly maintained electricity distribution infrastructure.

Policy Recommendation

Decreasing the municipality mark-up would require a massive investment in upgrading the electricity distribution infrastructure of the two municipalities in order to increase energy efficiency and cut costs. This is a long-term goal and requires capacities and funding that the local governments simply don't have.

An alternative solution is to create a regional policy initiative within the EC to support collective participation of industries in advancing renewable energy solutions As a primary goal, the EC provincial government should create and implement a regional policy to provide support for collective initiatives aimed at installing wind and solar energy farms within established industrial areas (e.g. Wilsonia, Coega IDZ, ELIDZ, Uitenhage, etc). The cost and risk of installing a alternative energy source are too great for a single firm to bear. Public sector involvement is necessary to coordinate the investment and expertise necessary to make such a policy a reality. Such a policy, if implemented correctly, would go a long way in reducing energy costs in concentrated industrial areas.

5.2.4 Transport and Logistics

The Constraint Problem Summarised

One of the major location disadvantages of being located in the EC is the fact that manufacturing firms have to transport most, if not all, of their inputs into the province and then incur that cost again when they transport their outputs to major distribution centres located in Gauteng, Cape Town, and Durban. Due to the inefficiencies and unreliability of rail transport, the vast majority of input/output transport is done by road. This cost is considerably more for firms located in EL. Without a deep-sea

port, EL firms are forced to use either (a) a feeder vessel that operates once a week from the PE port; or (b) truck their materials to and from ports in Durban and PE (most firms utilise the latter mode).

Policy Recommendation

The only viable solution to this problem is to tackle the issue of the South African railway system. This is already a key item on the national government's agenda. In order for national railway upgrading to positively impact the EC, priority needs to be given to upgrading existing rail links from PE and EL to the industrial nodes of Gauteng, Durban and Cape Town. Future upgrading should also be considered for the link connected PE to EL via Queenstown. This is issue is especially significant for the future growth of the IDZs—both in Coega and EL—and would enhance their ability to attract new investments and industries to the region.

5.2.5 Lack of Demand

The Constraint Problem Summarised

Though not one of the original constraints posed to the interviewees in the questionnaire, the lack of demand came up repeatedly in interviews as a major constraint to firm growth. Lack of demand largely emanates from the uncompetitive cost structure of products—a reflection of the location disadvantages of producing in the EC (i.e. added transport costs, electricity costs). For many firms, comparative advantage lies in the proximity to the local market; however, the EC regional market is currently too small to sustain output growth.

Policy Recommendation

In order to boost demand from the region, this thesis recommends the implementation of a regional public procurement policy. Currently, the provincial government has established a "Buy Eastern Cape" campaign, which aims at promoting government procurement of local goods and services. However, this policy currently has no real enforcement measures and is still in the early stages of implementation. In order to transform this campaign into a catalyst for economic growth and job creation in small-to-medium local businesses, the policy needs to be supplemented by the following:

- Incorporation in to the larger EC industrial policy framework, paired with the establishment of a regulating agency that is trained to ensure that the process is fair and transparent.
- The adoption of a tendering mechanism, that gives preference to local firms, but does not necessarily exclude firms from other provinces.
- The creation of a database of all local firms that meet tendering requirements in order to maximise the efficiency of the tendering process.

5.2.7 Institutional Constraints

The Constraint Problem Summarised

The EC has a variety of agencies involved in the industrial development of the province. Interviewees described leadership within the province as "committed" and "passionate"—the institutional constraints are not a result of a paucity of political will. Rather, the agencies operating into the EC suffer from a lack of:

1. A clear industrial policy that dictates specific roles and deliverables for the separate agencies, as well as outlines their relationship to one another within a clear industrial policy framework;
2. A clear industrial policy that allows for the institutionalisation of clusters and ad hoc programmes. In the absence of such a framework, DEDEAT is left to rely on "bottom up" tactics to provide support to distressed firms and sectors through informal cluster and firm-based interaction;
3. Capacity within the operating agencies to allow for focused, sector-based desk operations.

Policy Recommendation

Revisions to the PIDS in 2015 to should encompass all government agencies currently involved in EC industrial development, clearly outlining:

(a) Each organisation's role and objectives in both the short term and the long term;
(b) The alignment of these objectives within the province's larger industrial policy aims;
(c) A clear hierarchy of command and inter-agency relationships in order to enable proper monitoring and evaluation of each agency's activities;
(d) A formalised process for the institutionalisation of sector clusters within the broader policy framework; and
(e) A strategy to urgently address the need to enhance and expand institutional capacity within DEDEAT.

With respect to the lack of capacity, this is a constraint felt on national scale and requires a national response in the form of increased access to education and training for the public sector. However, this is a long-term solution. In the short-term, the only way to build capacity and skills in the province is by engaging in the process of "learning by doing." The EC development agencies must continue to move forward in the implementation of policies, even if those policies fail. Institution building is a learning process.

5.3 Concluding Remarks

When faced with the magnitude of the current economic issues facing the EC, the prospect of finding policy solutions may seem daunting. However, if one focuses on getting the *process* right, the pressure to find immediate successes recedes, and the task becomes more surmountable. The process of *good* policymaking requires a meaningful dialogue between the private and public sector to identify present constraints and new opportunities. Both the public and private sectors are required for economic transformation. Cultivating this relationship is the first step towards getting the *process* right.

The Provincial Industrial Development Strategy (PIDS) is scheduled for revision in 2015. This presents an amazing opportunity for the EC government to create meaningful policy that addresses the province's current crisis—a crisis rooted in stagnant manufacturing output, little diversification of industrial activity, and rapidly declining employment and labour force participation levels.

The new policy strategy, rather than simply reflecting national aims and directives, should focus on developing specific and targeted solutions that reflect the current needs of the province. Within this new strategy, the decline of NAM industries must be adequately addressed; both in terms of supporting struggling established firms and attracting new entrants. By working to alleviate the constraints outlined in this thesis, the EC government can make significant steps towards unlocking the region's potential for manufacturing growth, resulting in greater diversification and employment opportunities.

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Appendix A

QLFS Employment Data: Yearly Average Employment by Sector
October Household Survey, Labour Force Survey

RSA

	OHS		Average of 2 LFS Samples per year				Average of quarterly LFS surveys		
	1996	**1998**	**2000**	**2002**	**2004**	**2006**	**2008**	**2010**	**2011**
Food, beverages, tobacco products	269167	296495	311175	290311	305944	265935	302798	322697	345457
Textiles, clothing, leather goods	278914	312474	358561	358182	325925	302191	286639	252269	251828
Wood/wood products	152045	166715	179812	171671	181673	223258	251556	233823	189070
Fuel, petroleum, chemical rubber	202734	166963	166323	198982	197264	186986	249686	204469	219792
Other non-metallic mineral products	69200	104288	96219	110151	115239	117520	128907	1101434	106808
Metal products, machinery & household appliances	235725	285444	323461	356090	338992	421310	487731	387708	417022
Electrical machinery & apparatus	48468	31825	38055	37577	46215	39578	31929	20171	24267
Electronic, sound vision, medical	24343	10362	13584	22620	14152	29313	39731	24798	18963
Transport equipment	104366	80783	92830	108567	105936	143402	161243	131302	152026
Furniture and other	107515	52505	71629	96899	119637	115290	122118	108323	84636
Total	1492477	1507854	1651647	1751049	1750975	1844781	2062337	1795703	1809867

Eastern Cape

	OHS		Average of 2 LFS Samples per year				Average of quarterly LFS surveys		
	1996	**1998**	**2000**	**2002**	**2004**	**2006**	**2008**	**2010**	**2011**
Food, beverages, tobacco products	19056	17981	25939	23147	25696	14284	37155	25941	33365
Textiles, clothing, leather goods	29592	16379	26434	33299	30853	32014	26644	21462	17290
Wood/wood products	10107	4777	9513	8309	10493	16820	18558	19259	20980
Fuel, petroleum, chemical rubber	19036	12454	8370	17415	15532	17045	25698	21405	16369
Other non-metallic mineral products	8260	5477	7568	11796	14202	9963	13432	9131	9556
Metal products, machinery, household appliances	20498	10750	10074	10104	13194	31178	19635	14194	22009
Electrical machinery & apparatus	9580	3155	2551	5289	4533	3981	3493	3592	3208
Electronic, sound vision, medical	2723	1040	1804	631	869	1312	1411	1664	
Transport equipment	27487	16988	21305	26215	24374	31603	41666	33689	56212
Furniture and other	26712	753	5550	2691	7010	8143	11573	5349	6261
Total	173051	89756	119108	138897	146755	166343	199264	155687	185251

Appendix B

List of Interviewed Firms and Key Informants

Firm	Sector	Location	# of Employees	Contact Person	Contact Details	Date Interviewed
Candy Tops	Food/Bev	Wilsonia, East London	360	Gary Cadle; Thabisa Moleshe	gary@candytops.co.za; 082 334 7604	27/9/2013
Sunningdale Dairy	Food/Bev	IDZ, East London	450	Pierre Van Rensberg	043 702 8272	26/9/2013
Summerpride Foods	Food/Bev	East London	160	Pierre Tilney	pierre@summerpride.co.za; 082 822 6530	26/9/2013
Dynamic Commodities	Food/Bev	IDZ, Coega	500-1000	Adrian Vardy	adrian@dynamicfood.com; 041 405 9888	21/10/2013
Da Gama Textiles	Clothing, Textiles, Foc	King William's Town	600	Kevin Wright	kwrightf@dagama.co.za; 083 234 5337	25/9/2013
Castellano Beltrame	Clothing, Textiles, Foc	East London	25	Franco and Vic Beltrame		26/9/2013
Eltex	Clothing, Textiles, Foc	East London	240	Roderick and Hein Ketterer	hein@eltex.co.za; 043 722 0607	26/9/2013
Fred Footwear	Clothing, Textiles, Foc	Port Elizabeth	120	Fred Eboru	info@fredfootwear.co.za; 082 353 4219	21/10/2013
CGH Woolcombers (Segard Masurel)	Clothing, Textiles, Foc	Uitenhage	50	Riaan van Rensburg	riaan.vanrensburg@cghwc.co.za; 041 992 3412	21/10/2013
The Little Slipper	Clothing, Textiles, Foc	North End, Port Elizabeth	400	Chris Horne	chrishorne@littleslipper.co.za; 041 484 7207	21/10/2013
Beck Trading	Clothing, Textiles, Foc	Dimbaza	644	Kevin Schroeder	082 899 5371	26/9/2013
Dinky Manufacturing	Metals, Metal Product	Berlin	20	Leon Fourie	leon@dinkyman.co.za; 043 685 2121	25/9/2013
Xmeco Foundry	Metals, Metal Product	Korsten, Port Elizabeth	30	Rob Exley	rexley@xmeco.co.za; 041 401 4800	23/10/2013
Aveng/Trident Steel	Metals, Metal Product	Struandale, Port Elizabeth	140	Patrick Sparrow	patrick.sparrow@trident.co.za; 041 405 6213	22/10/2013
Natstan Wire	Metals, Metal Product	Uitenhage	73	Peet Claassen	peet@natstan.co.za; 041 922 9032	22/10/2013
Stateline Pressed Metal	Metals, Metal Product	Korsten, Port Elizabeth	120	Paul Truter	pt@spmza.co.za	23/10/2013
Prism Products	Other	Wilsonia, East London	140	Larry Schewitz	larry@prismlighting.co.za; 083 2617336	26/9/2013
Inca Bricks	Other	Mdantsane, East London	210	Zolile Tini	tiniz@incaeasterncape.co.za; 043 745 1215	26/9/2013
The Fibreglass Shop	Other	Mdantsane, East London	70	Brett Dalbock	brett@fgshop.co.za; 043 761 3106	27/9/2013
Vektronix	Other	Wilsonia, East London	259	Craig Tyzack	ctyzack@vektronix.com; 043 707 1163	26/9/2013
Floorworx	Other	Wilsonia, East London	106	Andy Halls	ahalls@floorworx.co.za; 043 701 5836	25/9/2013
Supreme Moulding	Other	Wilsonia, East London	120	Franz Schultz	franz@smda.co.za; 011 086 8888	27/9/2013
Rhino Plastics	Other	Korsten, Porth Elizabeth	160	Andrew Barton	andrew@rinhoenergy.co.za; 079 891 7668	23/10/2013
Howden Donkin	Other	Struandale, Port Elizabeth	108	Karin Knoesen	karin.knoesen@donkin.co.za; 041 409 1422	22/10/2013
Behr Climate Control	Other	Markman, Port Elizabeth	220	Pieter Jerling	pieter.jerling@za.behrgroup.com; 041 408 3476	22/10/2013
Eveready SA	Other	Struandale, Port Elizabeth	270	Johan Ferriera	johan.ferreira@eveready.co.za; 041 401 2646	21/10/2013

Key Informants			
Ismail Makapula	NUMSA/COSATU	083 754 7475	27/9/13
Simphiwe Kondlo	East London IDZ	simphiwe@elidz.co.za; 043 702 8200	26/9/13
Andrew Murray	ECSECC, CEO	andrew@ecsecc.org; 082 871 6532	29/10/13
Cingashe Nogaya	ECSECC, Econ & Rural Dev Mngr	cingashe@ecsecc.org; 082 941 4964	27/9/13
Nkosohlanga Mboniswa	MEC Jonas Office, Chief of Staff	Mboniswa.nkosohlanga@gmail.com; 082 570 0489	24/7/13
Kevin Hustler	PE Chamber of Business CEO	ceo@nmbbusinesschamber.co.za; 082 783 4422	29/10/13
Les Holbrook	Border-Kei Chamber of Business	043 743 8438; 083 453 5324	29/10/13

Appendix C

Sample Questionnaire

We are seeking to know the following:

1. What are the factors that are currently (a) facilitating and (b) constraining firm growth?
2. What are the factors that are currently (a) encouraging and (b) discouraging firms from taking on more workers?

TYPE OF FIRM

Firm Location

Where is the firm located?

Firm Size

How many employees? How has this changed over the last 10 years? Roughly speaking what percentage of your workers are below 25 and over 50?

What is the firm's turnover?

Firm Sector

What is the firm's principal product? TOP 3 PRODUCTS. What markets are you feeding into?

What is the firm's ISIC (or other sector designation)

Firm Age

When was the firm first established?

Exports

What percentage of the firm's output is exported?

Ownership

What is the form of ownership – private/public?

Is the firm part of a larger group?

Is the firm owned in whole or in part outside of SA?

OUTPUT AND EMPLOYMENT GROWTH/CONTRACTION

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1. Has the firm expanded/contracted over the last 5 years – turnover growth/contraction. (% will do). Over the last 10 years?
2. How has investment expanded or contracted over the last 5 years? Over the last 10 years?
3. How has employment expanded or contracted over the last 5 years. Over the last 10 years? Has your profile of unskilled, semi-skilled, skilled labour changed over the last 10 years?

FACTORS EXPLAINING GROWTH/CONTRACTION

LABOUR

Costs

1. Do you fall under a bargaining council? Which one?
2. Are your labour costs (e.g. wages) determined nationally or regionally?
3. Is there a possibility in the bargaining wage council of a dispensation to decrease labour costs due to firm size/location? In practice does this actually happen?
4. What are your labour costs as compared to say Gauteng? Is there an overall differential? And what is the differential for different categories of workers (unskilled; semiskilled; technical; professional)?
5. Has the wage altered dramatically over the last 5 and 10 years for the different categories of labour?

Skills and productivity

1. Can you obtain the skills that you require? How long does it take you fill a vacancy for skilled worker/ a technician/ a professional (e.g. manager)? Do you need to train or retrain the workers that you have recruited?
2. Has the situation improved or gotten worse – 5 and 10 years?
3. What share of turnover do you invest in training? How has that changed over time? Is this on the job training or off the job training? Can you differentiate between on the job and off the job training?
4. Do you utitlise the SETA? Does it function well in supporting your training efforts
5. How great is the differential between what you invest in training and what you receive back from the SETA? How adequate are the training institutions?

Turnover

1. What are your turnover rates for labour – different categories [production, administrative, technical]?
2. How has this changed over time – 5 and 10 years?
3. What are your absenteeism rates?

UTILITIES AND TRANSPORT

1. Are the utilities adequate? Expand if there is a problem. Do you experience significant breakdowns?
2. Do you think that your utility/transport costs disadvantage you compared to other competitions in different regions?
3. What percentage of your costs relate to transport – road, rail and ports? How has this changed over time?
4. What percentage of your costs relate to electricity – how has this changed over time?
5. What percentage of your costs relate to local government services – water, rates and taxes? How has this changed over time?

COMPETITION

1. Where are your main competitors located?
2. Who are the dominant players in your market and where are they located?
3. Has your market become more concentrated in the last 5 and 10 years?
4. What advantages do your competitors located elsewhere in SA have over you?
5. Do you have any advantages in your present location? [Relate this question to Butterworth, Dimbaza, King William's Town]

IMPORTS/EXPORTS

1. What share of your products are exported? Where do you export to? How has this changed in 5 and 10 years?
2. Where do you source your inputs? [locally, nationally, foreign]

SUPPORT SERVICES

1. Are you able to get the support services that you need locally e.g. repair and maintenance? How has the situation changed over the last 5 and 10 years?

GOVERNMENT POLICIES AND SUPPORTS

1. What government supports do you access – investment subsidy; sectoral support programmes; IDC; R&D? Do you get support from Metro? Regional? National?
2. Of those that you access, which are the most important?
3. What does the IDZ do for you? Do you think that it could do more for you?
4. Do you belong to any clusters/ INDUSTRY ASSOCIATIONS? If so, what are the major advantages?
5. Do you know any firms that belong to any other clusters (e.g. EC Benchmarking Club, the Auto Cluster) and has that given them any perceived advantage?
6. Do local or regional government officials visit/engage with you on industry issues? Do they have dedicated desks to engage with firms? Do they have priority sectors to provide support to?
7. Are their sector forums where gov officials interact with firms/sectors to tackle industry problems and challenges?

ORDERING THE KEY CONSTRAINTS ON GROWTH

On a scale of 1 (unimportant) to 10 (important), what are the factors that currently constrain growth

High labour costs	Electricity Costs
Low productivity	Local competition
Shortages of skills	Competition from Imports
Transport Costs	Lack of support from government

KEY POLICY MEASURES

If you had to select the most important thing that you would like government to do that would enhance your growth (not prohibit imports) what would that be?

If you had to select one thing that you would like government to do that would lead you to hire more labour what would that be?

In the event that labour costs were reduced by 20%, would that lead you to grow more? and hire more labour? Is it possible to give an estimate (e.g. how many workers)?

In the event that you were able to layoff workers at will, would that change your approach to hiring more workers?

If the government implemented a youth wage subsidy, would you employ more young workers?

If there was a subsidy to hiring young first time entrants so that you only paid 50% of their salary how many additional workers would you hire?

Are you aware of regional/local government procurement policies? If you had a local procurement policy in Buffalo City what impact would that have on your output/hiring prospects?