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Regional Institutional Structure and Industrial Strategy: Richards Bay and the Spatial Development Initiatives

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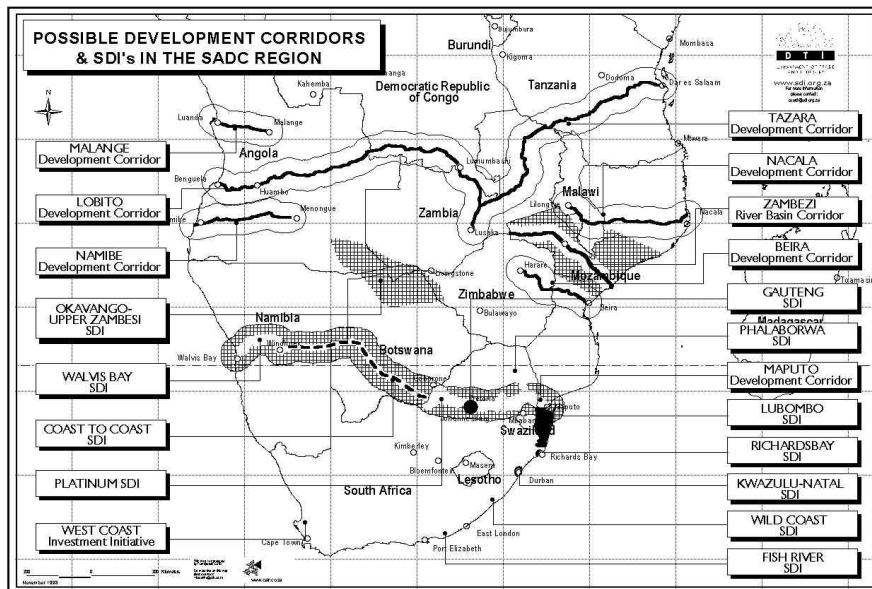
Abstract

This paper provides an institutional analysis of the South African Spatial Development Initiative (SDI) policy. It deals, firstly, with the concept of regional institutional structure, secondly, with the SDI program in South Africa and how it attempts to address national industrial strategy concerns in a spatially redistributive fashion, and thirdly, describes the case study of the growth-pole bulk-export port of Richards Bay.

The central argument of the paper is that the SDI policy has been constrained by the regional institutional dynamics operating in the places where the policy is to be implemented. This leads to a variety of unintended and unpredictable outcomes, as highlighted through the case study of Richards Bay. The paper addresses wider debates about national-local relations, institutions, and the prospects for growth-pole regional development.

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“The Spatial Development Initiative [SDI] programme supports an interdepartmental investment facilitation strategy and is led by the national Department of Trade and Industry [DTI]. The prime objective of the SDIs is the creation of employment through innovative methods of investment facilitation. Regions with high growth potential for internationally competitive industries are targeted, usually linked to a port for easy trade access. After development potential, areas of historic under-investment due to war, apartheid and former import substitution policy are given priority.” (DTI, 1997)

Introduction

The South African Spatial Development Initiative (SDI) policy seeks to attract investors to specific regions of the country. In a country where the official unemployment rate is over 20%, and may be as high as 37% (RSA, 1998), the effectiveness of this ambitious programme is open to question in the current investment climate. However, it is too early to evaluate the program in terms of job creation and other outcomes using for example, the evaluation methodology of Isserman and Raphann (1995). In the absence of measurable outcomes, this paper will present an institutional analysis of the SDI policy.

The central argument presented in this paper is that the SDI policy has been constrained by the regional institutional dynamics operating in the places where the policy is to be implemented. This leads to a variety of unintended and unpredictable outcomes, as highlighted through my case study of the growth pole bulk-export port of Richards Bay. The paper thus addresses wider debates about national-local relations, institutions, and the prospects for growth-pole regional development.

In the first section of the paper I develop the concept of regional institutional structure as the formal and informal relationships between agents which come to constitute the environment within which people take decision and act. Economic behaviour, what we seek to influence through regional development policy, is embedded in regional institutional structure, and thus interventions need to pay attention to institutional issues.

In the second section I introduce the SDI program and show how it attempts to address national industrial strategy concerns in a spatially redistributive fashion. Current South African industrial policy seeks to overcome the country's historically inwardly focused industrial development, its dependence on raw or semi-processed minerals exports, and its highly concentrated ownership patterns. In the context of extreme spatial inequalities, the SDI policy adds a deliberately spatial component to national industrial policy. However, the pursuit of these goals is constrained by current restrictive macro-economic policies, and the partially federalist new South African constitution. This forces the national implementors of the policy to work with local agents.

In the third section I present a case study of the growth-pole bulk-export port of Richards Bay. Here, the relationships between local government, the port authorities and a few large processing industries define regional institutional structure. In the Richards Bay case, the SDI strategy has been quickly and enthusiastically adopted by local organisations and interest groups. However, I argue that the existing regional institutional structure acts as a filtering mechanism that shapes the local implementation of the SDI policy. The result is that without careful attention to regional institutional structure, the SDI policy is most likely to reinforce the existing, and problematic, development trajectory.

Regional Institutional Structure

A useful starting point for understanding the implementation of national industrial policy is Peter Evans' suggestion that "variation in (development) involvement depends on variations in states themselves" (1995: 11). Evans' work on 'embedded autonomy' suggests the need for grounded research into the nature of policy development processes, and it focuses our attention on the way in which political, bureaucratic and economic interests are able to form coalitions around particular approaches to development policy.

However, the problem with this approach is that it suggests that we can understand the impacts of development policy through analysis of a set of national government strategies alone. Doner (1992) is critical of developmental theories that place too much emphasis on the state, and ignore non-state forms of institutions. His case studies of the Asian auto industry show that collective action problems have been solved in a variety of ways, and thus he argues for a more diverse and inclusive institutionalist view of economic development.

Similarly, to characterize the SDI's as nothing more than a top-down investment promotion strategy does not explain why regional SDI Managers invest so much time in generating local support for the program. Rather, differences in regional implementation of the national program reflect regional differences in the outcome of negotiation and bargaining processes between national and local interests (Selznik, 1984). Such a view highlights the importance of research into the similarities and differences between the SDI's, and exploring how the values and imperatives of the national program are communicated to, and mediated by, regional actors and institutions.

Since, we are also interested in understanding what effects the policy might have, two questions remain: what do we mean when we speak of the (regional) institutions that mediate the national policy, and how do we understand their connection to regional development? In addressing these questions, I want to advance a tentative and synthetic definition of regional institutional structure.

My starting point is to define institutions as the guiding norms or frameworks for human action that are the outcome of regular human interactions and relationships, and that may or may not be formalised in organisational, legal, contractual or some other conscious form. In more general terms, this definition reflects the concept of "duality of structure, which relates to the fundamentally recursive character of social life, and expresses the mutual dependence of structure and agency" (Giddens, 1979: 69). Economic behaviour, what we seek to influence in regional development practice, is embedded in networks of inter-personal relations (Granovetter, 1985). These networks are simultaneously enabling and constraining. Using Granovetter's terminology, the approach developed here is critical of both under-socialised views of human action (specifically neo-classical economics which presents an image of independent rational actors), and over-socialised views of human action (such as social theory that emphasises only legal and formal organisational structures).

This view of institutions has two policy implications which relate to Giddens' insight that time and space are critical components of social analysis (Cassell, 1993). Firstly, institutions have territorial dimensions. By concentrating upon human relationships, ideal-typically repeated face to face contacts, in the formation of institutions, we are alerted to the importance of proximity (Storper, 1996). This idea has been used to argue that regions have a special place in learning and innovation. Amin (1998: 7) notes that "in a world in which codified knowledge is becoming increasingly ubiquitously available, uncoded knowledge, rooted in relations of proximity, attains a

higher premium in delivering competitive advantage owing to their inimitability." But proximity only confers a premium insofar as this uncodified knowledge has some value. In arguing that institutions, as the basis for human action, are importantly localised, this is not to say that they necessarily lead to desirable developmental outcomes. The spatiality of institutions does not free us from establishing causal relationships between regional institutions and particular patterns of development.

Secondly, it is important to note that institutions, as networks of human relationships, are to some extent historically path-dependent, in the sense that they develop through repetition, and they are shaped by identifiable pre-existing relationships. However, while I explicitly reject the idea that institutions are only formally and consciously created, or that they are exogenously given, it is equally true that formal organisations, legal and administrative frameworks can and do play a key role in defining the nature of the relationships between humans. In other words, formal institutions such as particular contractual relationships and industrial structures, professional associations and communication mechanisms do shape informal institutions and human relationships. Furthermore, political agents, operating from national to local levels, do act to shape these formal organisations, legal and administrative frameworks (Polanyi, 1944). The point is that social institutions are deeply interpenetrated with, and not independent of, politics and policy.

Our working understanding of regional institutional structure thus includes both the formal (contractual, organisational, technical) and informal (norms, networks) relationships between agents which emerge from different production activities, patterns of ownership, administrative systems and decision-making forums. Regional institutional structure is important because it constitutes the environment within which people take decisions and engage in action with real development consequences. It thus has the power to shape, or at least filter, policy interventions, but is at the same time an arena for policy intervention. As a conceptual tool, it provides a framework for understanding the actual implementation and potential effects of the SDIs.

Spatial Development Initiatives in Theory and Practice

In this section I discuss the SDIs as a component of national industrial policy with an explicitly spatial orientation. I show however that the policy is constrained by a lack of resources in the current macro-economic policy context, and by the constitutional framework which requires national-local co-operation on key development issues. The section starts by highlighting the key features of the SDI policy.

The SDIs seek to attract private investment to various parts of the country, or in the words of Paul Jourdan, co-ordinator of the SDIs within the Department of Trade and Industry, they "are a proven means of giving government more job-creating bang for its very limited bucks" (WGM, Nov. 7, 1997). He goes on to explain that the SDIs "are a package of measures that aim to attract investors into a bundle of economically sustainable projects in a region with the potential for growth". However, due to fiscal constraints, "governments' financial investment in an initiative is limited to less than 10% of the total amount". Thus "areas where initiatives are set up identify themselves. They must have a proven economic base because the program simply aims to loosen constraints and allow them to grow to their maximum potential". The idea of inherent potential is an important part of making the policy politically acceptable within the macro-economic policy and constitutional constraints; it serves to justify both the limited number of places selected as SDIs (see Hirschman, 1958), and the limited public resources applied in each case.

Most SDI's have been oriented towards connecting the inland mineral-industrial heartland of the country (i.e. greater Johannesburg) to Mozambique and other neighboring countries (see DBSA, 1997), and towards export-oriented production in the port-industrial cities of Durban, Richards Bay, Cape Town-Saldahna (see Fitschen, 1998), and Port Elizabeth-East London (see Driver, 1998). In these SDI projects, transportation, infrastructure and industrial development concerns predominate, and thus the Departments of Transport and of Trade and Industry have played the leading role. In the more rural Wild Coast and Lubombo areas, the SDI's have been targeted towards rural development through agriculture, tourism and transportation oriented investments.

The preparation and marketing of investment projects is the key activity of the SDI's that is supported by public funds. In the infrastructure field, investment opportunities include various public-private arrangements for toll roads, port upgrading, telecommunications, and urban / industrial services. In the industrial SDI's, there is heavy emphasis on identifying projects that involve manufacturing of semi-processed raw materials for export, in keeping with some of the key tenets of national industrial policy. In the tourism SDI's, there is an emphasis on hotels, game parks and other tourist attractions that appeal to the international tourist market.

Some SDI areas may include 'Industrial Development Zones' (IDZs), the only component of the SDI program that is likely to gain legislative status. A draft policy document states that "the aim of IDZ development is to establish an environment conducive to predominantly export production and attractive to both international as well as local investors" (DTI, 1998: 4). The government has been anxious to avoid the 'Export Processing Zone' image, and the draft policy includes proposals for human resources development and labor dispute resolution, and an Integrated Environmental Management Strategy.

The SDI program, which is co-ordinated from an SDI Office within the Department of Trade and Industry (DTI), relies extensively upon horizontal and vertical mechanisms of co-operative governance to achieve its goals. An Overall SDI Co-ordinating Committee (OSDICC), chaired by the DTI, provides a forum aimed at ensuring intra-governmental co-operation. OSDICC includes representatives from most national government departments, the parastatal finance and investment agencies, the national transport enterprises, parastatal Research Councils, and the managers of the individual SDI projects. Of these agencies, the parastatal finance agencies have been the most active participants, seconding staff to act as Interim SDI Managers (e.g., the Development Bank of Southern Africa), and in identifying 'bankable' investment projects (e.g., the Industrial Development Corporation), while others have re-oriented some of their activities to support the program (e.g., with research in the case of the Council for Scientific and Industrial Research).

The SDI Office, in consultation with regional organizations, appoints Managers to implement the various SDI's. There is some variation in the implementation of the various SDI's, but officials in the SDI Office of the DTI do now speak of a generalized "SDI Methodology".¹ A key task of an SDI Manager is to identify local 'champions' and stakeholders to provide the program with legitimacy, and to ensure that they leave behind an organization after the 'exit phase' to continue the

¹ An internal DTI document titled "Planning Procedures for SDIs" identifies the following implementation phases, which may run concurrently:

Gathering information on a potential SDI area.

Pre-feasibility appraisal of data and development of a strategic conceptual framework.

Establishment of institutional structures at political, official and technical levels.

Identification and appraisal of lead projects and development of program of action.

Finalisation of detailed project perspective document, called 'project packaging'.

Launch of the SDI, usually in an Investors Conference and establishment of investment promotion mechanism.

Exit phase, which involves the establishment of regional cluster process for selected sectors in the SDI area.

investment promotion work. Individual SDI Managers thus rely heavily upon the use of political capital and informal co-operative mechanisms to do their work.

The SDIs combine notions of corridor or polarised and infrastructure-led development (see Gore, 1984) with an implicit assumption of considerable informational market failure in the investment arena. Thus the policy is predicated on the belief that concentrated investment promotion activities, supported by key infrastructure investments, can deliver much-needed jobs. However, the SDIs do not appear to be informed by a strong theoretical basis, and SDI Managers admit that they are learning by doing. If the SDIs do not derive directly from regional development theory, what is the origin of the SDIs as a formal national policy? At a national level, the SDIs reflect the pursuit of two goals, industrial policy and spatial redistribution (Lewis and Bloch, 1997), constrained by macro-economic policy and the constitution.

Firstly, the SDIs have clearly been motivated by the industrial policy objectives of the national government, implemented by the DTI. Platzky (1998) summarises these as export orientation and earning foreign exchange, sustainable job creation, better utilisation of existing infrastructure and resources and broadening the ownership base of the economy. The attraction of foreign direct investment, and the re-orientation of production and key infrastructure towards the export market are key components of this industrial strategy.

Secondly, the spatiality of the SDI policy reflects a recognition of the profoundly unequal historical pattern of spatial development in South Africa. In his classic study of Apartheid-era industrial decentralisation policies, Trevor Bell (1973), argued that "there is a sense in which the South African economy may be said to be 'dualistic' ... there are of course striking inequalities in South Africa between the living standards of whites and Africans within all regions. But this should not be allowed to obscure the fact that in respect of their material wealth, the inhabitants of the Bantu areas are much worse off than the urban Africans" (p11)². The spatial dimensions of the inequality in South African society remained, unsurprisingly, extremely resilient to the attentions of Apartheid economic planners who sought to prevent black urbanisation³.

In part, the Reconstruction and Development Program (RDP) can be understood as an attempt to come to terms with this reality. It was from within the RDP Office (based in the office of Deputy President Thabo Mbeki) and later from within the Department of Constitutional Development and Provincial Affairs, that the idea of a National Spatial Development Framework (NSDF) emerged. The NSDF "was an attempt to illustrate to provinces and line departments the spatial implications of their plans and programmes in an attempt to rationalise their spending" (Platzky, 1998).

Currently, the NSDF has not gained legislative status and its future is uncertain; it is also unclear whether it succeeded in increasing inter- and intra-governmental planning coherence. However, it is clear that the NSDF contributed importantly to the spatiality of the SDI idea. The NSDF, and indeed much current South African spatial development planning thinking, draws heavily on notions of corridor development (Harrison and Todes, 1996)⁴.

The SDIs thus reflect the pursuit of industrial policy and spatial development goals. However, the pursuit of these goals is constrained by two factors. Firstly, the Growth, Employment and

² This reality was confirmed in the 1984 Second Carnegie Enquiry into Poverty in South Africa, again in the 1994 World Bank-sponsored Survey of Living Standards and Development, and in every Central Statistical Services / Statistics South Africa annual October Household Survey since 1995.

³ For a review of regional development policy under apartheid see Pretorius, Addleson and Tomlinson, 1993a and 1993b.

⁴ The corridor idea has been enthusiastically applied by South African planners to local (eg pedestrian-oriented high-density urban development as a way of compacting urban development), metropolitan (eg transit-oriented development to integrate townships into the urban fabric), regional (eg extending development into rural areas along transport arteries between major urban centers) and international (eg establishing or re-establishing linkages with Southern African neighbours) level analyses. It also features prominently in the Department of Transport's recent Moving South Africa (DOT, 1998) study.

Redistribution (GEAR) macro-economic policy. In seeking to improve foreign investor confidence, the GEAR policy is fiscally restrictive, and seeks to reduce the deficit before borrowing to 3% of GDP from its present 6% (RSA, 1996a). The implementation of the GEAR macro-economic policy limits the public resources that may be applied to the SDIs, and thus in part explains the aggressive private investment orientation of the policy.

Secondly, the framing of the SDI policy cannot be understood without reference to the new, partially federalist South African constitution. The new constitution of South Africa establishes provincial governments and local authorities as equal tiers of government (RSA, 1996b). How these constitutional directives are interpreted in practice is of course something that is still being determined. One clue to understanding how this issue will be played out can be found in analysis of the defined areas of functional competence at the local level. The constitution includes a list of functional areas of concurrent national and provincial / local legislative competence (Schedule 4) and of exclusive provincial legislative competence (Schedule 5) (RSA, 1996b). Part A of each schedule lays out the areas of concurrent and exclusive Provincial competence⁵, and Part B the areas of concurrent and exclusive local government competence⁶. For the purposes of this paper, it is important to highlight that harbours are an area of concurrent local-national competence.

In granting these powers, the constitution has created possibilities for aggressive territorial competition at various spatial scales, something that particularly the NSDF policy-makers (see Platzky, 1998) sought to avoid. Given that certain key regional development decisions have been moved into the inter-governmental arena, the constitution forces national policy-makers to enter into relationships with local agents. It is this fact which then opens up the possibility of important regional variations in the implementation of national policy, and forces us to look within regions to understand how the SDIs might be implemented in practice.

Richards Bay

This section presents empirical material for the case study of Richards Bay. I first describe the town in conventional analytical terms, highlighting the prominence of the port and a few large processing industries. I then reconstruct the conventional analysis of the local economy in institutional terms highlighting the tight regional institutional structure that reflects and reinforces the development trajectory of the town. Finally I show how the agenda of the local SDI program has been shaped within this institutional context, and thus argue that the SDI policy is currently unable to fundamentally shift the development trajectory of Richards Bay.

Richards Bay occupies a special place in the minds of many South African regionalists and is regarded as one of few successful growth poles. Many residents of Richards Bay incorporate this idea of success into their identities. Some see themselves as having tamed a wild frontier, and will remind visitors of how they built the town from 'nothing'. A promotional brochure tells us that "until the 1960's, Richards Bay was a small fishing village nestling on high ground overlooking the natural Mhlathuze estuary and wetlands" (RBTA, nd). In 1997 the population of Richards Bay and

⁵ Exclusive areas of provincial legislative competence are limited mostly to cultural matters (eg provincial sport, museums, libraries, archives), but do include provincial planning (without specifying what this means). Concurrent areas of national and provincial legislative competence include a huge range of issues relevant to regional development, including: casinos, racing, gambling and wagering, excluding lotteries and sports pools; education at all levels, excluding tertiary education; environment; health services; housing; industrial promotion; public transport; some public works; regional planning and development; tourism; and trade.

⁶ Exclusive areas of local government competence include important areas for local economic intervention, such as street trading, markets, beaches and public recreation infrastructure, and a range of urban amenity services. Concurrent areas of local government competence include municipal planning, tourism, some public works, harbours (excluding international shipping matters) and trading regulations. The new constitution thus creates considerable space and a responsibility for, local economic development strategy-making and implementation.

the some 20-km distant dormitory township of Esikhaweni was an estimated 98 000 (RB, 1998), and Richards Bay accounted for around 1% of South Africa's GDP in 1993.

The Port of Richards Bay was developed in the early 1970s by Portnet, the national transport agency in terms of an act of parliament (Act 28 of 1972) (see Fair and Jones, 1991). When it was officially opened in 1976, the harbour included four clean- or general-cargo berths (the combi terminal) and two private bulk-coal berths. It had been dredged to accommodate ships in the 150 000 dwt range, and was connected to the interior coalfields by a largely purpose-built rail link of 525km. Since then, various infrastructural additions have been made, including expansion of the privately-owned Richards Bay Coal Terminal which now has 4 berths, and the addition of a private chemical terminal, 4 dry-bulk terminals which handle a range of minerals, fertilizer and woodchips, and a bulk-metal terminal.

As a port, this is a highly successful development. The Port of Richards Bay handles in the region of 81mt of cargo per annum, more than all other South African ports combined. These figures are dominated by the approximately 60mt of coal which are exported annually; but the value of cargo moved is relatively low. It is important to note that much of the infrastructural investment in the Richards Bay harbour is dedicated to particular product types. Conversely, the general cargo capacity of the port is limited. For example, even though the port is able to move containers in the general-cargo terminal, the port has no dedicated container-handling facilities. In 1997, the port handled only 13 471 TEUs⁷ (POR, 1997) which represents less than 1% of the national quantity. Thus most Richards Bay companies make use of the Durban Port when moving containers.

Another reason why local companies do not use the port to ship containers has to do with the Richards Bay's insertion into global shipping networks; the fact that this is a bulk-export harbour implies a particular relationship between the port and the international shipping industry. In general, bulk carrier vessels do not follow fixed routes, and are chartered by shipping agents to handle specific cargoes. Thus, unlike container and general-cargo ports, the Port of Richards Bay is generally not on the regular route of any shipping line. Since one firm is unlikely to fill a container or general cargo vessel alone, local companies make use of the Durban hub which offers a wide variety of destinations at comparatively low cost⁸.

As is typical of much 1970s growth pole development, government-owned and large industrial conglomerates played a key role initially (Aniruth and Barnes, 1998). Today the economy of Richards Bay continues to be dominated by a handful of large raw material processing industries, and a rather undeveloped network of supporting service industries. Gross geographic product provides an initial way of understanding the structure of the local economy⁹. Manufacturing accounts for 57% of the R3bn of local output, while the Transport sector accounts for 18% (in the national economy, manufacturing accounts for 24% and transport for 8% of GDP). The dominance of these sectors is even more remarkable considering that the statistical region includes significant

⁷ Containers generally come in two sizes, twenty- and forty-foot. The standard measure of the number handled is the Twenty-Foot Equivalent Unit or TEU.

⁸ This pattern may be shifting slightly due to the increase in trade within the Southern African region. This trade has opened increasing possibilities for regular coastal routes between Durban (and perhaps even Cape Town) and Mombassa by smaller geared (ie with their own ability to move containers and other cargo) vessels. However, while this implies greater access to regular shipping routes, it does not necessarily imply direct insertion into global trade networks. This will only occur if the Port of Richards Bay is able to capture a significant proportion of all Southern African container traffic, which seems unlikely given Durban's dominance, and the stated unwillingness of inter-continental shipping lines to stop at more than one port on South Africa's east coast.

⁹ The most recently available figures are for 1993. These are available for the Lower Umfolozi magisterial district which includes the agricultural service center town of Empangeni and surrounding sugar cane / forest plantations in addition to Richards Bay. The data are only available at 1-digit SIC code level due to confidentiality considerations in this small economy.

agricultural lands (resulting in a location quotient for agriculture of 1.3). These statistics point to the highly undeveloped local tertiary sector, although this has changed to a small degree with some successful shopping center development in the past 5 years.

Although Richards Bay has grown very rapidly, there are considerable structural problems in the local economy. The local economy is dominated by a few low value-adding large firms which offer limited employment opportunities and limited backward and forward linkages (Lewis and Bloch, 1997), while the small firm sector is undeveloped. The local economy is subject to boom-bust cycles that are associated with the construction of mega-projects; for example, respondents report that the local housing market collapsed following completion of the Billiton Hillside aluminium smelter in 1995. A document prepared for the Launch Workshop of the Richards Bay SDI (RBSDI, 1997) identifies a series of lacking infrastructure attributes that might make the area more attractive to inward investment. These include a dedicated container-handling facility at the port, cheaper land and utilities, a water supply unaffected by drought, improved road connections, a toxic waste dump-site and improved policing.

Various commentators have pointed to the institutional basis of these development shortcomings. Aniruth and Barnes (1998) argue that “there appears to have been very little exceptional co-ordination between the various institutions in the historical development of Richards Bay, except in the initial phase”. They go on to argue that while individual organisations had been efficient in the execution of its own duties, co-ordination was lacking; “it is therefore quite probable that greater co-ordination between the various institutions would have accelerated development within the locality”. The problem with this argument is that it tends to view institutions in formal organisational terms only. In fact we find in Richards Bay a very tight institutional structure concentrated in the relationships between the port and other actors and agencies.

For Lewis and Bloch (1997: 16), Richards Bay’s institutional problems revolve around the observation that “an entrepreneurial local bureaucracy, and a private sector engaged in the development of the region have not materialised to any significant degree”. The result is that Richards Bay has not “endogenised a capacity to attract industrial investment”. Thus, the policy challenge (for the SDIs) is that “if specific effort is not made, and institutions not designed to develop local civic and technical capacity in the early phases, important learning opportunities will be sacrificed and patterns of interaction will be established which will skew the industrial development of the region” (p18). While certainly agreeing that a capacity to innovate has not been endogenised in Richards Bay, I argue below that the challenge is not simply to create a new institutional structure, but rather to reconfigure the existing relationships between various actors. There are two aspects to the existing nexus of relationships.

Port-Industry Relationships

The relationship between the port and the large industries that dominate the economy is strong. Most large local industries are intimately connected to the port; this applies to the two aluminium smelters¹⁰, the fertiliser plant¹¹, and to the mineral extraction¹² and wood processing¹³ industries. There are a few firms that depart from the pattern described above. The only 'high-value added' jewel in the Richards Bay crown, Bell Equipment¹⁴ uses the Durban port, while the few other local firms of note mostly produce for the domestic market¹⁵.

Similarly, the undeveloped small firm sector has a limited relationship with the port, although there may be some potential for change here. In the course of interviews, it emerged that some of the large corporates, notably Billiton by way of its Hillside Smelter, had implemented a downsizing program supported by more modern supply-management techniques. Although this cannot yet be verified quantitatively, it appears that this has stimulated a series of local supply firms to provide services and hold inventory that was previously held in-house. This has increased competitive pressures on local small firms, while creating opportunities for growth. For example, one firm that supplies wooden palettes for exporting aluminium ingots has recently applied its existing plant and machinery to construct furniture for the European market. Similarly, a local industrial cleaning chemicals packaging firm has started repackaging waste chemicals, a by-product of the Mondi Paper Mill, for export to east Africa. However, since both these firms export in containers, they currently make little use of the local port.

The relationships between the large industries and the port dominate both quantitatively (i.e. they are important to many firms), and also qualitatively; they are not merely contractual, and are reinforced at many levels. The result is that the 'institutional distance' between the port authorities and the large industries is short. Firstly, in many cases, the relationship involves considerable investment in infrastructure. This is true both for the port (eg, the specialised commodity terminals)

¹⁰ The Billiton (formerly Alusaf) Bayside and Hillside Aluminium Smelters. The Bayside smelter was developed in 1971 as one of the original anchor projects. The Industrial Development Corporation (IDC), the national electricity producer (Eskom) and mining conglomerate Genmin (now called Billiton) were the initial stakeholders in the project. The Hillside smelter which was built in the early 1990s also relied on IDC loan and export credit finance (Aniruth and Barnes, 1998). Both these smelters import bauxite to produce aluminium ingots, for the domestic and export markets. In the case of the older Bayside smelter, the bauxite is transported on a dedicated rail link (on which Alusaf used to operate its own rolling stock), while in the case of the newer Hillside smelter, bauxite is transported by conveyer belt.

¹¹ Indian Ocean Fertilizers, a fertilizer and phosphoric acid plant; the national parastatal Foskor (or Phosphates Corporation) played an important role in the formation of this plant in the 1970s. The plant makes use of the privately-operated Richards Bay Bunker Terminal and Bulk Storage for liquid chemicals, and the Portnet-operated dry-bulk and combi terminals to ship rock phosphates and fertilizers.

¹² Richards Bay Minerals which mines sand dunes around Richards Bay to produce a range of metals including rutile, zircon, monazite, titanium and magnetite. These minerals are used in the local market or are exported through the Richards Bay bulk metal and dry-bulk terminals.

¹³ The Mondi Paper Company, an Anglo-American subsidiary produces paper and some 300,000 tons of pulp per annum. Much of the pulp is exported with pulp produced elsewhere in the province through Durban harbour, but paper products are exported through the Richards Bay combi terminal. The Central Timber Co-operative chipping mill was established in 1981. It is the sixth largest such plant in the world. In 1993 this was joined by the SilvaCell plant that produces woochips for export to the Far East. Both of these plants make use of the Richards Bay dry-bulk terminal.

¹⁴ Bell Equipment produces heavy articulated equipment for sugar cane, mining, forestry and construction industries. The firm relocated to Richards Bay from Empangeni in 1984 to gain industrial incentives on offer at the time. Even though over 90% of its inputs (by value) are imported, and over 40% of its revenue comes from exports, virtually all shipments are handled through the Durban port because of the container facilities and shipping routes available there. Bell has exclusive use of 2 articulated trucks for hauling goods between Durban and Richards Bay. Although the firm is an important local employer, it has almost no local suppliers. The firm has not performed well in recently years, and it is has recently closed both its international plants (in Mauritius and New Zealand).

¹⁵ These include Suncrush, a company which produces and bottles carbonated cooldrinks for the domestic market, and which was attracted to Richards Bay by incentives in 1981 and Syncat, a producer of zeolite catalysts for domestic and export markets. Syncat is 60% owned by the government Central Energy Fund (Aniruth and Barnes, 1998).

and the firms (eg, conveyer belts). This implies co-operation in technical operations, as well as long term contractual relationships. Secondly, although over 20 transportation intermediaries (eg, clearing and forwarding, ships agents) operate in Richards Bay, due to the specialised nature of the cargoes handled, generally only one such agency mediates the relationship between the port and individual large industries. For example, the Billiton smelters have a long-term relationship with the Strange-Rennies shipping agency that handles all the aluminium exports.

There are also various fora within which the relationship between the port and the large industries is entrenched. Firstly, the local Port Manager is a member of the Zululand Chamber of Commerce, and the Richards Bay large industry 'branch' of the Chamber provides a forum for deepening the relationship between the port and particular business concerns¹⁶. Secondly, the port management facilitates a series of regular meetings with key clients, including an annual client conference. There is also a history of joint port-industry working groups addressing specific sectoral issues; for example, the Ferro-alloy Producers Association currently meets with the port in a regular working group. This level of local involvement by Portnet management is unusual. Thirdly, there are regular but unscheduled forums for the building of relationships at non-executive level. Since the vessels that visit Richards Bay are generally chartered for specific cargoes, each ship visit becomes an occasion for at least one meeting between middle-management and technical staff of the producer, port and shipping agents.

The relationship between the port and key sectors of local industry is facilitated by the scale of the port operation, the nature of the goods handled, the attitudes and behaviour of key individuals within the port management, particular contractual and technical relationships, and other agencies which have come to reflect and entrench the relationship. Altogether this relationship constitutes a defining dimension of regional institutional structure.

The Role of Local Government

There is also an important political basis for the tight institutional structure being described here. I have already referred to the 'frontier mentality' found amongst many of the residents who first settled in the Richards Bay growth pole. This construction is often personified in Theo Tolme, the highly entrepreneurial Town Clerk of Richards Bay Local Council until the mid-1990s. Unlike many local governments in South Africa, local government in Richards Bay has played an explicit and important role in shaping the development trajectory of the town, and it seems likely that this institutionalised role will continue. Development in Richards Bay is guided within a very ambitious and clearly defined Structure Plan framework that is compatible with long term port expansion plans, and a forecasted residential population of over 1 million people in 30 years (RBTLC, 1997).

Aniruth and Barnes (1998) suggest that in the past, local government has not played an active role in pursuing development, pointing to the fact that the incentives which attracted key industries to Richards Bay were administered by national government. Similarly, some local respondents have commented that the local authority discouraged certain industries from locating within the town. However, this view is incomplete since it misses some of the key areas in which local

¹⁶ The Zululand Chamber of Business is organised into four geographical branches (the northern and southern districts, and the towns of Empangeni and Richards Bay). The Richards Bay branch is divided into small (ie commercial and service firms) and large industries branches. The Chamber was formed under the auspices of the South African Chamber of Business when the South African Chamber of Industries and Association of South African Chambers of Commerce merged. These organisations historically represented white, English-speaking industrial and commercial interests respectively. It is thus not unusual for the amalgamation between manufacturing and commerce to be partial as is the case in Richards Bay.

government has, and continues, to positively shape certain forms of local development, while discouraging others.

Firstly, the local council has unusually large land-holdings (by South African standards) and has used these in an entrepreneurial way. All the land within the town of Richards Bay was granted to the municipality in the 1970s (Aniruth and Barnes, 1998). The council has operated as developer of the Alton industrial estate, and actively markets a 'portfolio' of industrial land that includes some large sites adjacent to the harbour and Richards Bay-Empangeni highway (known as the John Ross highway). By including a clause in the sale of industrial land, the council ensures that industrialists are compelled to purchase water and electricity from the council, thus ensuring an important income stream. While there has been some debate about the pricing of these utilities, it is unclear whether this has deterred investors. Furthermore, when potential investors approach the local council, they are apparently asked to fill in one questionnaire that is then processed within the bureaucracy according to an established system. The fact that such an investor reception procedure exists reflects an unusually pro-development orientation by South African standards.

Secondly, local government co-operates closely with the port authorities in a set of relationships that have a long history. Currently, every two months there is a port liaison meeting. The meeting includes the Port Manager and Town Clerk, the Port and City Engineers, the Port and City Property/Estates Managers and the Port and City Electricians. The connection between the port and the city is largely at the professional and technical level, and has a long history; the current meeting grew out of the old South African Railways Council meeting which apparently started with the first port construction in the 1970s. The results of this relationship are institutional in the sense that they contribute to the ongoing prominence of the port in the way development is conceptualised in Richards Bay.

The results of this political aspect of institutional structure can be seen in the compatibility of long-term port and council planning frameworks. For example, the council has not sub-divided the largest properties adjacent to the port, arguing that these may be needed for large processing industries. For example, apparently the SilvaCell wood chipping plant struggled to secure its location near the port because it wanted a relatively small site. However, it is incorrect to interpret the resistance of the council to smaller industrialists as reflecting an anti-growth bias; this rather reflects the privileging of industries that enhance the utilisation of existing and planned port infrastructure investments.

Local government in Richards Bay has not been left unaffected by the political changes in South Africa. However, there are reasons for arguing that the new balance of political forces is unlikely to rapidly or dramatically change the relationships described above. Local government re-organisation in Richards Bay was defined by two decisions. Firstly, the historically white town of Richards Bay was amalgamated with the black dormitory township of Esikhaweni in order to ensure joint administration of the two functionally linked, but spatially dislocated, places. Secondly, due to various political factors, the town of Richards Bay did not amalgamate with the nearby white town of Empangeni, nor were the city boundaries extended to incorporate adjacent Inkatha Freedom Party controlled tribal areas.

The result is that the largest party (without an absolute majority) in the current Richards Bay Transitional Local Council, the African National Congress, here represents an essentially urban working class constituency. Based on a limited number of key informant interviews, it seems reasonable to argue that this council, while concerned with living conditions in the black residential areas, is unwilling to fundamentally challenge the developmental agenda of the 'old' council. In other words, jobs in large industries, rather than other development agendas, continue to have political appeal.

Figure 1 summarises the institutional structure described above. The institutional analysis adds new insights as to why Richards Bay has developed in a particular way, and connects to other analyses of the limitations of growth pole development elsewhere in the world (see Gore, 1984). It seeks to uncover the underlying institutional structure that conditions the decisions that are taken in public and private spheres. What the institutional analysis highlights is that the ability of local actors to capture resources of national government and parastatal agencies, to seek and attract investors, to efficiently and rapidly develop land, and provide certain well run infrastructure is not the problem. Rather, the Richards Bay port authorities, city council and large industries do these things so well that they preclude development forms that require other 'inputs', or a different institutional environment.

The Richards Bay Spatial Development Initiative

Richards Bay, as a growth pole, has grown on the basis of inward investment of large manufacturing concerns and infrastructural investment. Given this history and the regional institutional structure I have described, it should be no surprise the SDI program has been enthusiastically received in Richards Bay. Even Richards Bay's vocal environmental lobby appears to be satisfied with the program, while perceptions of exclusion in the neighbouring town of Empangeni have apparently been pacified. The SDI Manager, on secondment from the DBSA, has support from key local actors.

However, it is also clear that key dimensions of the program have been absorbed into the existing institutional structure. An SDI Trust has been formed to implement the program, and the port and local council have jointly chaired the trust to date. Other key local economic actors are represented in this Trust. The formal organisations represented include Portnet, the Mhlatuze Water Board, Business Against Crime and the Community Policing Forum, the Utungulu District Council, Richards Bay and Empangeni local councils, the provincial Department of Economic Affairs, the national Department of Trade and Industry, the local branch of the Congress of South African Trade Unions, and the Inyanda and Zululand Business Chambers (representing black and white business-people respectively).

The approach of the SDI Trust and Manager has been to resist political pressures for a high-profile investors conference. Rather, the Trust has identified a series of infrastructural projects that are perceived to be required to improve the investment climate. These include, improving the John Ross highway that links Richards Bay and Empangeni, increasing the bulk water supply and securing supply during drought periods, reducing crime through improved policing, improved refuse removal facilities and a toxic waste site, and development of a dedicated container-handling facility at the port.

At the time of writing, the SDI Trust and Manager had succeeded in convincing the South African Police Service to build a new police station in the Richards Bay, and was negotiating financial packages for the water and highway developments. However, it seems likely that lobbying by Durban-based shipping firms has stopped the container terminal proposal in the Portnet head offices.

The SDI Trust is now marketing a series of investment projects, most of which attempt to process raw materials produced in the large local extraction industries¹⁷. Investors are also being

¹⁷ The list of projects on the SDI Web Site (RB, 1998) for which investors are being sought includes:

- From aluminium, a components foundry, and production of cast wheels, extrusion billets and components for residential buildings.
- From sugar by-products, citric acid and bagasse particle boards-based factories.

sought for a dry-dock and ship repair complex which has been planned for several years. The SDI has also been working to attract tourism investments through the development of a passenger terminal at the port and the development of waterfront facilities near the mouth of the port. These developments would be linked to tourism investment possibilities being marketed under the auspices of the Lubombo SDI. There are proposals for the establishment of a Richards Bay Investment Centre that would be responsible for information dissemination, a one-stop investor service, and regional marketing, and for an Industrial Development Zone adjacent to the port.

The Richards Bay SDI is regarded as one of the more successful SDIs. A local organisation has been created with demonstrated local legitimacy, and implementation has thus far emphasised real infrastructural improvements rather than moving prematurely to investment promotion. However, it is most likely that these infrastructure improvements will only succeed in attracting more of the same kind of investors that currently populate Richards Bay. The problem is that the SDI program reflects, rather than challenges, the institutional structure of the region and thus the decision frameworks of agents. Put simply, the SDI program currently does not contribute to substantial economic diversification, the creation of an entrepreneurial and innovative climate, a shift in the operating environment for small business, the development of a new skills base, or the strengthening of rural-urban economic linkages.

Conclusions

If regional development for Richards Bay is defined as the establishment of large processing industries, then many of the criticisms of the SDI contained in this paper would no longer apply. Clearly in terms of stated industrial policy goals, and in terms of current regional development thinking, this old pattern is not good enough. Certainly, it is too early to evaluate the success of the overall SDI policy or of individual initiatives in terms of outcomes. However, the central argument of this paper is that national industrial strategy is importantly constrained by the regional institutional dynamics operating in the places where the policy has been implemented. Thus, in order to understand the impacts that the SDIs are likely to have on the pattern of regional development, I have looked at the way in which the national program is shaped by regional institutional structure.

Richards Bays' particular regional institutional structure reflects its history as a growth pole; it has successfully advantaged some forms of development while actively excluding others. Here then is the developmental dilemma; *the existing regional institutional structure is both the cause, and the means to a solution, of the problem*. This paper argues that an SDI policy, and indeed any national industrial policy, that only concerns itself with the preparation of investment project proposals will serve to entrench the already institutionalised notion that Richards Bay can only grow through external investments of the kind that have been made previously. Thus Richards Bay will continue to have no endogenous growth dynamic, and will continue to have a distorted development trajectory. This should not be taken as saying that only 'soft' or social interventions are important for regional development. Inward investment and infrastructural improvements are certainly important for sustainable growth; the question is how these reflect, and also may potentially shift, regional institutional structures.

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- From heavy metals extraction industries, a chlor-alkali complex, titanium dioxide pigments, and magnesium and titanium metals manufactures.
 - From iron and steel, an auto-components foundry, a tool steels mini-mill, ferrous metal powders and powder metallurgy components producers.
 - From the chemicals and fertilisers industry, purified phosphoric acid, aluminium fluoride, hydrofluoric acid and fumed silica and sodium chlorate.
 - From forestry products, a saligna hardwood sawmill, a saligna products cluster, and high-quality charcoal production.

The argument of this paper also begins to suggest a more appropriate role for national policy in regional development. An under-developed theme in this paper is the role of national-local relationships in shaping elements of regional institutional structure, in the case of Richards Bay through agencies such as the national departments, the national conglomerates operating locally, Portnet and the Industrial Development Corporation. The challenge for the SDI Office in the DTI is to convince these agencies to provide the correct incentives for changes in the relationships of key local organisations and actors. For example, this view is compatible with Lewis and Bloch's suggestion that the DTI's cluster initiatives and other programs aimed at competitiveness enhancement "develop a clearer regional focus; and that the SDIs need to design programmes with a considerably clearer focus on strengthening regional agglomerations and clusters" (1997; 24).

However, the argument of this paper also suggests limitations to the most 'appropriate' of national programs, since the dilemma is not simply to create new institutions, but rather to work with those that already exist. The institutional approach outlined here highlights the importance of actions by local agents that shift the decision-making premises of other actors in the regional economy (Amin, 1998). The difficulties of achieving this should not be under-estimated, but there is good news in this regard. It is clear that discussions leading to the formation of the SDI Trust have already prompted local actors to think critically about the development trajectory of the town; this start needs to be carefully nurtured and supported.

The institutional approach to regional development also speaks directly to local planners. For example, local planning frameworks and processes have an important role in ensuring that cherry-picked infrastructural and industrial investments are integral components of a wider and more inclusive development agenda. In other words, planners need to realise their potential for impacting on social power relations through the form and content of the planning institutions they structure (Bryson and Charby, 1996).

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