CHAPTER 6: SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 SUMMARY

LED is defined as an ongoing process that is based on local initiatives with the aim of rectifying any socially and economically unacceptable situations within a specific locality. The entire process is managed by local role-players and involves identifying any underutilised local resources and competitive advantages in order to stimulate economic growth and development to address the needs of the community at large.

The success of any LED strategy is determined by the relative strength of the relationships between the community, private sector and local authorities. All key role-players should be willing to work toward creating better conditions for economic growth, income and employment generation and increased welfare for the local community. Through these PPPs, the growth achieved can be sustainable and inclusive, thereby enhancing the competitiveness of a locality.

LED is different from other conventional top-down approaches to development due to the horizontal and vertical co-operation which takes place amongst all local role-players. In traditional approaches to development, the central government would determine the development initiatives to be implemented and these initiatives would fall short on achieving any significant positive impact on economic development. LED identifies local economic potential and utilises value chains and industrial clusters to promote sustainable economic growth and development through collaboration with all relevant stakeholders within the community.

LED has evolved as a result of increased globalisation pressure on regions within a country. In order to experience economic growth, regions can no longer rely on national development schemes in order to increase accessibility of international markets. There has been a decided shift in focus of global markets from a national perspective to a more regional focus on increased competitive pressure, competitive advantages and exploitation of underutilised...
resources. As a result of this, LED has moved through three specific stages. The first stage focused on attracting and mobilising investment. The second stage moved toward growing existing local businesses and targeting specific economic sectors for investment. The third stage heralded the arrival of modern LED practice, which ensured a more conducive environment for investment. PPPs were established and an era of endogenous or inward investment was welcomed.

LED can assist in achieving the economic and social objectives of any locality. Through the utilisation of competitive advantages, wealth creation and increased economic welfare, LED can ensure sustainable economic growth and development for the locality concerned. More importantly, it can act as a locality-based complement to the traditional top-down approaches to development.

The entire LED strategy should operate on specific principles to ensure achievement of underlying social and economic objectives. Some of these principles include prioritisation of job creation and poverty alleviation through targeted strategies aimed at alleviating the economic conditions of previously disadvantaged groups within the country. As such, all local role-players must be involved in the LED process to identify these groups and ensure that the aim of all LED initiatives is the promotion of endogenous investment in those industries where excess capacity exists or where the greatest economic impact can be achieved.

The concept of locality-based development was first introduced in the ANC government’s RDP and then later formalised in several pieces of legislation. Local authorities are now legally mandated to empower local communities and ensure that economic growth and development occurs in their particular locality. The National Framework for LED has been developed as a guide for all local authorities and has instituted a strategic implementation procedure that can be followed in order to improve LED within the region concerned.

As part of the legal mandate for development, each municipality must create an IDP which formalises all LED initiatives to be implemented in the locality
concerned. The IDP should be seen as a bridge between the current level of development within a region and the sustainable development envisioned by all local role-players. The IDP ensures that local resources and competitive advantages are utilised effectively. The IDP planning process is inclusive, meaning the local community, private and public sectors should determine the process of development and growth initiatives to be developed in the locality. Endogenous or inward investment is promoted and realistic and attainable goals are established.

The LED process requires input from all local role-players. The process cannot be managed by local authorities alone as they lack the business acumen and level of performance based on guiding business principles and entrepreneurial dynamics. However, the private sector would be unable to maintain the necessary balance between the various social, economic and environmental goals of a local municipality. Local authorities should create an enabling and attractive environment for investment that would ensure the success of private sector initiatives. Possible roles for local authorities include co-ordinator of developmental activities and initiatives, facilitator and stimulator of economic growth and development and entrepreneur or developer of LED initiatives.

Communities and local businesses have a responsibility to ensure that all excess capacity is created in the local market and that any competitive advantage is exploited in order to meet the LED objectives established through extensive communication with local authorities. Local role-players also have a duty to communicate with local authorities and voice their concerns regarding the economic future of the locality. PPPs ensure that the strengths of local-role-players are utilised to the most efficient degree possible and that efficient and sustainable economic growth and development is attained.

In order for the LED objectives identified by local role-players to be realised, there must be a specific strategy in place for the realisation of these goals. The LED strategy provides developmental projects with a defined focus of strengthening the local economy and creating excess local capacity. The LED process itself is continuous and the various stages of the strategy should be fluid in order facilitate changes based on the inherent needs of the community.
at large. Many strategy options exist; however, local authorities must determine
what the overall outcome of the strategy should be. Based on the outcome
required, the initiatives needed to achieve those outcomes will take prime
position in the LED strategy. Possible options include development of local
infrastructure, expanding local market access, poverty reduction and
enhancement of welfare or development of local industries, SMMEs and
available skills.

Stage one of the strategy requires all relevant local role-players to be involved
in the strategic planning process. The skills, experience and resources that
each individual brings to the LED strategy will ensure the overall success of all
developmental initiatives within the region. Stage two requires assessment of
the local economy in order to determine the inherent strengths and weaknesses
of the locality. Using a SWOT analysis, the LED strategy can then determine
the necessary initiatives that would bring about the greatest change within the
region. Stage three involves the actual creation of the LED strategy. All
possible goals, objectives and responsibilities are highlighted by the strategy.
Stage four is strategy implementation and stage five requires a review of the
strategy to evaluate whether or not the goals determined in stage three have
been met by the strategy.

An LED strategy requires a vehicle for the achievement of its social and
developmental objectives. A solution to this is the SDI programme instituted by
local authorities that would create the framework necessary for the
infrastructural development required by the LED strategy. The SDI programme
also ensures that all potential constraints to investment in the locality are
removed and that underutilised local resources are used to their fullest
potential. The SDI programme targets specific localities that have the highest
potential for economic growth. This provides the catalyst necessary for
increased economic development, employment and wealth creation in the
locality concerned.

SDIs are distinguished from other industrial policy programmes due to the
spatial dimension embodied in their objectives. The targeted industrialisation
programmes housed within the SDI allows for the development of municipalities

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as key sites for developmental intervention. As part of the overall LED strategy within a locality, the SDI would then ensure that that the goals established by the various PPPs are met.

The key principle of the SDI programme is to create an environment that is conducive to private sector investment and increased local competitiveness. Co-operation between local and regional role-players is emphasised as one of the components necessary to compete in international markets. The SDI should be able to demonstrate economic potential within a region and ensure that the possible gains of the initiative are redistributed to previously disadvantaged communities within the locality.

There are various strategies under the SDI approach that can be used to ensure success of the overall LED strategy. Co-operation, collaboration and integration of economic policy within the locality are essential for regional development and ensure increased levels of competition through interregional trade. By focusing on existing transport or development corridors, economic efficiency and effectiveness of a region can enhanced through the SDI. PPPs and other institutional relationships are essential for the functioning of the SDI.

The Blue IQ initiative is a more evolved form of SDI planning. Developed in the Gauteng province, Blue IQ was regarded as a means of achieving the economic and social objectives of the province. The achievement of these objectives is facilitated by Blue IQ through the development of economic infrastructure in targeted industries. Blue IQ would essentially act as a project manager, offer SMME support and would focus the commercialisation of the various infrastructural projects housed within its mandate.

An IDZ is another form of SDI with a specific focus on industrial development and the attraction of downstream industries to a locality. IDZs are aimed at establishing conditions for entry into international markets and the promotion of increased competitiveness in the South African manufacturing sector. Essentially, IDZs should serve as a means of optimising underutilised resources, employment and income generation and serve as a catalyst for the establishment of SMMEs in underdeveloped industries within the locality. The
Coega IDZ, East London IDZ and the City Deep Logistics Hub are examples of the most successful IDZ or industrial cluster initiatives in South Africa.

Industrial clusters are a group of interconnected companies in close geographical proximity. As with IDZs, the industrial cluster is developed through agglomeration economies and industry-specific development initiatives. Downstream industries tend to locate close to their main productive input so as to take advantage of the shorter production chain. Being in close proximity to competitors is an advantage in the case of industrial clusters as increased availability of skilled labour, the opportunity for technology and skills transfer as well as the possibility of developing complementary products far outweighs the negative consequences. Industrial clusters benefit local communities through higher wages resulting from increased productivity gains in the production process. The potential increase in income and employment generation may be far greater than other development initiatives.

The success of industrial clusters is based on Porter's diamond model of national advantage. Factor conditions determine the level of innovation required in order to compete in global markets. Firms would have to develop new methods of production should shortages occur, which could lead to a national comparative advantage and the development of economies of scale. Related and supporting industries also aid this process of industrial development and the enhanced local competition ensures that local firms are better equipped to deal with foreign competitors.

The most important task for local authorities is to identify potential clusters within their region. Information regarding the presence of clusters within a locality is a crucial element to the success of sustainable LED strategies. Local authorities should conduct a value chain analysis to aid in identifying the links between firms in industrial clusters. These value chains exist wherever there is a network of production activity within a certain industry. As the value chain is not relegated to only one firm, whether domestic or international, an efficient transport network is required to utilise the benefits of the value chain.
The value chain is seen as an excellent framework for the identification of industry constraints and a roadmap for the utilisation of existing market opportunities. A value chain analysis identifies the weaker links in the chain and can assist in determining the developmental strategies needed to increase their effectiveness. Once the analysis has been complete, industrial cluster upgrading can take place in order to enhance the competitiveness of local industrial clusters. Clusters can be upgraded by increased systems efficiency, improved product quality and the development of differentiated products and the facilitation of an enabling environment through good social and environmental practices.

The Vaal region is comprised of the Emfuleni Municipal Area (EMA), The Metsimaholo Municipal Area (MMA) and the Midvaal Local Municipality's (MLM). These regions cannot be separated by political boundaries as people living in these regions are shopping, working or living in one or the other municipalities. For this reason, unemployment, poverty and developmental initiatives instituted in one locality will have a definite effect on the surrounding localities. For these initiatives to have an effect, the population must be analysed in order to determine the basic developmental needs of the community at large.

Based on Census 2001 data, it is clear that Emfuleni has the largest concentration of the Vaal population at 78%. Of the total population, 81.7% is African and 16.5% is White with Asian (0.8%) and Coloured (1.0%) groups making up the remainder of the population. There is a relatively even gender spread between all three municipalities with the bias leaning toward the male population. Of the three municipalities, Midvaal has the highest percentage of males (51.2%), while Emfuleni and Metsimaholo hold the highest concentration of females (49.0%).

A large percentage of the Vaal population is spread over the job-seeking ages (older than 19 years). With 11.0% of the population within this age group, there is considerable strain on the local job market. At 53.5% unemployment, it is clear that the Vaal cannot accommodate all school-leavers. Of the Vaal population, 16.4% only have a Grade 12 certificate, while less than 5% have
some form of tertiary education while 9.49% have no form of formal education at all. This significantly impacts the availability of skilled labour in the Vaal region.

Of the Vaal population, 8.93% earn between R401 and R800 per month. Less than 2% of the population earn amounts higher than R12 000 per month. This significantly impacts the level of poverty within the region. With the headcount of the Vaal region at 0.516 for 2003, 51.6% of all households within the Vaal earn an income which is below the respective poverty lines of the region. A higher percentage of females are unemployed (50%) or informally employed (66%) than males within the Vaal.

The sectoral composition of the Vaal region has determined the pattern of employment within the area. Due to the heavy reliance on the steel and petrochemical industries, there is little call for skills outside the realm of the manufacturing sector, which constitutes 22.2% of all employment within the region. Despite this specialisation, there is still a 54% unemployment rate within the Vaal that cannot be compensated by the 16.7% and 18.9% employment in the trade and services sector respectively.

The Vaal is heavily reliant on the secondary economic sector, particularly the production of metal and metal products, which contributes 78.0% to the overall GGP contribution of manufacturing services. The tertiary sector contributed 52.5% to the GGP of the Vaal, with transport and financing recording the highest levels of growth at 8.6% and 4.4% respectively. The average growth rate of the Vaal economy was recorded at 3.2% during 2003, which is still insufficient to decrease unemployment and poverty within the region.

Due to its heavy reliance on a particular industry, the Vaal region shows a definite concentration of economic activity that creates clear backward and forward linkages between the various sectors of the Vaal economy. Historically, upstream or lead firms would locate in areas where there is a high possibility of downstream firm relocation, which would in turn, attract even more ancillary activities to the region. In order to determine the greatest possible economic impact that a development initiative would have on a particular region, the
sectoral linkages and multipliers must be analysed. The degree of linkages has a direct impact on the multiplier effects and provides clear information regarding existing developmental constraints. The higher the multiplier, the greater the impact on the economy will be. This impact is measured in terms of output gains, income and employment generation.

The linkages and multipliers of the primary sector do not highlight very promising avenues for development. As agriculture has relatively weak backward linkages, the multiplier effect of a R1 000 000 increase in demand would not create a significant change in the overall economy of the Vaal. Only 8 employment opportunities and an increased GGP contribution of R240 000 would result. The multiplier effect of an investment in mining and quarrying would result in a GGP contribution of R268 000 and 5 employment opportunities.

The secondary sector of the Vaal economy provides greater avenues for development as the backward linkages of all three subsectors (manufacturing, electricity/gas/water and construction) are much stronger than that of the primary sector. The mining sector provides the highest inter-industrial linkages (72.3% of total inputs) and provides a clear path for further growth and development. GGP contribution of the mining sector would increase by R396 000 per annum as a result of a R1 000 000 increase in demand. Construction activities have the second lowest (when compared to transport) forward linkages at 11.3%, however, an increase of R434 000 in GGP can be attributed to construction services as a result of a R1 000 000 increase in demand.

The tertiary sector experiences some of largest changes to income, output and employment as a result of a R1 000 000 increase in demand. Trade has the highest forward and backward linkages at 83.2% and 88.7% respectively. Trade, services and tourism could create more than 14 new job opportunities as a result and each would be able to contribute over R865 000 to the Vaal GGP.

A nation’s ability to increase the welfare of its citizens is dependent on its ability to increase capital investment, labour productivity and the increased
competitiveness of its key industries. In order to this, the infrastructure available to the economic participants of a nation must be efficient and productive in order to enable sustainable growth within the region concerned.

Transport infrastructure, in particular, is seen as one of the most important catalysts for growth and ensures regional, national and international integration. An efficient transport system ensures enhanced market accessibility, enhanced competitiveness, increased job creation and endogenous investment within the region. In order to ensure these outcomes and the upliftment of its impoverished citizens, South Africa must improve its underutilised and inefficient transport networks.

The economic impacts of transport infrastructure should be considered as a direct or indirect impact that takes place at the macro or microeconomic level. The direct impact relates to changes in accessibility whereas the indirect impact relates to the multiplier effects that can be felt across various industries as a result of the enhanced transport infrastructure. At the macroeconomic level, transport is essential for the mobility of the economy, while at the microeconomic level; transport ensures that certain industries are mobile enough to link with all consumers, producers and products in the value chain.

The transport system within a country supports the transition from a manufacturing to a service-driven economy and contributes to the overall GDP of a country. Road and rail (41.5%), as well as supporting land transport activities (33.5%) form the largest components of transport’s contribution to the GDP of South Africa as of 2002. Logistics is also one of the largest cost components for the primary and secondary sectors of the economy with 47% and 58% being recorded in 2008 respectively.

The relationship between transport and economic development is crucial to a country. As transport infrastructure becomes more efficient and reaches higher levels of investment, increased capacity, efficiency and reliability occurs. This creates time and cost savings for the industries within the region due to shortened value chains. These productivity gains are transferred to increased competitiveness which would ultimately increase economic growth. This would
ensure that regions which have the greatest potential for growth within a country reap the benefits of expanded market opportunities.

Gauteng remains South Africa’s main industrial hub and contributes 33.9% to the overall GDP of the country (as of 2010). Two of the most important freight corridors in the country, namely the Gauteng – Durban (N3) and Gauteng – Cape Town (N1) corridors intersect within the province. Both corridors are expected to increase capacity by 38% and 40% respectively by 2020. This growth cannot be supported by the existing infrastructure. The Moving South Africa survey concluded that the South African freight system must enhance the capacity of corridors through the creation of economies of scale and increased integration between the various modes of transport in order to take advantage of this potential growth. The VLH would be in a prime position to utilise the excess potential capacity and underutilised transport infrastructure of both theses corridors.

A logistical hub is seen as a means of both multimodal and intermodal transportation that overcomes the economic and social challenges present within a region. Improved accessibility to markets, enhanced reliability, reduced transport costs, economies of scale, enhanced efficiency and production capacity are a few of the potential benefits that would accrue as a result of the establishment of the VLH. By taking the economic impact of other similar projects into account, then it can be assumed that the VLH would have similar results should it be implemented in the Vaal region. Of the examples given, Tambo Springs was used as a yardstick with which to measure the outcome of the establishment of the VLH. On average, it can be expected that the VLH would create between 28 000 and 42 000 direct jobs (those relating to the actual VLH) while 9 000 to 14 000 jobs would be created from the downstream activities located in the VIDZ. It can be further estimated that approximately R 1 billion in investment would be created within the Vaal region as a result of the project.

In order to further highlight the need for an LED project within the Vaal and to promote the establishment of PPPs, an industry survey was conducted within the Vaal region. Of the goods produced within the region, 73.7% has South
Africa as point of origin, while 70.1% has South Africa as the final destination. The Vaal region has the highest percentage as a destination for goods produced within the region. Road is the mode of choice for good delivered to (53%) and procured within (56%) the Vaal. An average of 42% of the goods produced in the Vaal is containerised, which would ensure the use of the VICD.

Of those industries that took part in the survey, 51.2% take part in secondary economic sector activities while only 3.6% are primary industries. The majority (68%) of undertakings within the region are small undertakings, 22.7% are medium-sized enterprises and 9.3% are small undertakings. The industries most likely to make use of the VLH are those that are medium to large undertakings in the secondary sector. However, small industries cannot be discounted as the majority of downstream activities that would relocate to the VLH would be small in nature. This clearly indicates that there is a viable market for the establishment of the VLH.

The respondents that were surveyed indicated that they would participate in the activities of the VLH and fully support its establishment in the Vaal region. The most positive responses from respondents were with regard to higher levels of job creation, higher business confidence and industrial development that would result from the establishment of the VLH. Respondents had indicated that the VIDZ would bring about an increase in the diversification of production activities (79% of respondents), while 85% indicated that the project would eventually increase the GGP of the Vaal region and 80% indicated a reduction in poverty within the Vaal.

As industries within the region are not the only undertakings that would be making use of the VLH, freight forwarders (who would make use of the VIA and VICD) within the region were surveyed in order to determine current industry constraints and to test the feasibility of the VLH. Of the respondents, 90% indicated that capacity constraints exist at City Deep. Administrative complaints and equipment failure were cited as the most common causes of delays.

Of the respondents, 64% indicated that they would make use of the VICD. Should there be less administrative constraints, 44% indicated that they would
channel goods through the VICD, with 43% indicated that they would do the same if a lower fee structure was in place. Of the respondents, 90% indicated that they would still make use of the VICD even if there was not enough origin/destination demand as the project would still not be operating under the same constraints as City Deep.

An interview was conducted with Arcelor Mittal's logistical manager to determine the feasibility of the VLH from the perspective of one of the lead firms within the region. As indicated, the unit price for steel in South Africa is amongst the highest globally due to the high cost of transporting the goods to the international market. Should the VLH ensure a lower cost per unit this would assist the industry in becoming more internationally competitive. Mittal also offers an incentive to customers that do export their products. This export rebate ensures the lower cost per unit needed by competitive firms.

Any storage facility would have to be in a constant state of export-readiness as Mittal often dispatches orders well in advance to meet delivery deadlines. Storage space would also have to be available at a discount as the amount of stock needed is determined by global demand, which may slack off resulting in lower inventory quantities needed. As the VLH would be able to offer these facilities to Mittal Steel, there is a clear need for the establishment of the project.

6.2 CONCLUSIONS

As mentioned, LED is an ongoing process that is driven by partnerships between local authorities, private undertakings and the community at large within a locality. Each region should focus on the activities in which it has a competitive advantage and establish LED programmes and initiatives based on those activities. As the Vaal region is heavily dependent on the steel and petrochemical industries and has a competitive advantage in these industries, any LED initiative should have these industries at the core of the programme.

There is a definite need to take advantage of the excess capacity illustrated by the multiplier analysis of the various sectors in the Vaal. Dominant economic activities in the region should be the focus of developmental initiatives in order
to overcome the high poverty and unemployment rates found within the locality. Secondary and tertiary activities, particularly manufacturing, trade and tourism require the greatest focus. The VLH would be able to combine both the services and manufacturing sectors into one specific industrial cluster, thereby ensuring the multiplier gains of both industries are experienced in the Vaal.

The VLH would be established with this in mind. The project is intended to support the activities of the major industries within the Vaal region and create excess capacity in order to increase growth and output within the locality. Establishing the VLH as an SDI or Blue IQ initiative would ensure the eventual development of cluster industries within the region. Industrial clusters bring about cost savings due to shortened supply chains and increase the level of competitiveness of the industries concerned. The VLH would ensure these positive benefits are realised and that all industries and undertakings located within the hub become internationally competitive.

Given the possible growth that will be experienced along all major transport routes in the next few years, the VLH would be in a prime position to take advantage of the excess capacity and underutilised infrastructure offered by the Gauteng – Durban and Gauteng – Cape Town corridors. Offering multimodal and intermodal transport services would bring about cost savings and economies of scale for the industries concerned.

Given the level of poverty and unemployment within the Vaal region, any initiative that can increase employment and income within the region would lead to an eventual increase in economic growth and development for all citizens within the locality. Based on the assumption that the VLH would create the same number of employment opportunities and investment income as any similar project previously instituted then it can be concluded that the VLH would bring about, on average 28 000 and 42 000 employment opportunities and over R 1 billion in investment to the region. As a measure of the success of an LED strategy, any initiative that increases the welfare of the community at large and ensures sustainable growth for the region concerned would lead to an increase in LED within the region concerned. Clearly, the VLH would be an excellent...
initiative that would make use of the existing competitive advantages within the region in order to bring about a decided increase in LED within the Vaal.

6.3 RECOMMENDATIONS

Based on the information contained within this study, the following recommendations can be made:

- As there is existing local government interest in the proposed VLH, as evidenced by its existence on regional plans, the need for establishing relationships with the private sector is essential in determining the success of the programme;

- The lead firms within the Vaal region should be made aware of the possible benefits of the programme and their participation in the project should be secured:

- Community support for the project should be gathered;

- Funding for the project needs to be generated through collaboration with local authorities and the public sector; and

- A feasibility study must be conducted in order to determine the actual impact of the project in terms of job creation and levels of investment within the Vaal region.