LOCAL ECONOMIC DEVELOPMENT AND GLOBALISATION: THE INTERNATIONAL COMPETITIVENESS OF CERTAIN SOUTH AFRICAN MUNICIPALITIES

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THESIS

Presented as fulfilment of the requirements for the degree

PHILOSOPHIA DOCTOR

(Ph.D)

in

Economics

in the

School of Economics, Risk Management and International Trade

at the

North –West University (Potchefstroom Campus)

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Potchefstroom

2004

PREFACE

The South African economy has been undergoing a process of fundamental economic transformation as a result of policies promoting global integration within global economy. I believe that through wisdom, insight, knowledge and the tools we posses today, South Africa have the potential, ability and capability of shaping its economy and social policies to chart a path towards an economic outcome that can heighten South Africa's international recognition and through the help of our mighty GOD and the belief in ourselves this is achievable. It is now the duty of our leaders to search for those means, as this thesis attempt to contribute towards that potential and means.

The following people deserve my unconditional sincere and honest appreciation for their contribution and assistance in the completion of this thesis. From the bottom of my heart I wish to express my sincere gratitude to:

- First and foremost, to GOD the Almighty, who endowed me with the ability, motivation and sustenance to complete this research.
- Prof. Wim Naudé, my most esteemed supervisor, for his constant guidance, motivation, support, formative criticism, organising financial help, language editing and assistance. Without you Prof, I could have not completed this study and your contribution towards my personal development makes a difference in my life today-THANK YOU, may the Lord bless you and keep you.
- Mrs Mariana Kleynhans, secretary of school of economics, risk management and international trade at the North West University (Potchefstroom campus), for going out her way to be there all time for me. May GOD bless you.
- Dr Suria Ellis of the Statistical Consultation Services of the North West University (Potchefstroom campus) for concrete and reliable computerised statistics, thank you and may GOD also bless you.
- Susan Smit for the professional editing of the text, thank you and may GOD also bless you.

- Dr Ewert Kleynhans, my appreciation for the motivation and encouragement I received from you and never limited any effort to assist me, thank you and may GOD bless you too.
- My special studying partner Shepherd Malefane for his assistance and encouragement
- Personnel of Ferdinand Posma Library for their assistance in finding research material.
- My children, Thabo, Keamogetswe and Retshwanetse, for their love and understanding at those times when they had to do without the attention of their father.
- My loving wife Ntombifuthi, without whose love, support and encouragement I could not have completed this task.
- Special thanks to National Research Foundation for financial assistance.

Vincent Monti Malebo Mongake
Potchefstroom
2004

Financial assistance has been rendered by the National Research Foundation. Opinions and conclusions in this thesis are those of the author, and should not necessarily be associated with the National Research Foundation.

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ABBREVIATIONS

ABSA	-Amalgamated Banks Of South Africa
ACIT	-Commercial And Industrial Association
ACSA	-Airports Company of South Africa
ANC	-African National Congress
APTC	-Asia Pacific Trade Centre
ARIT	-Amsterdam Advisory Council For Information – Technology
BIT	-Bureau for the Stimulation of Information Technology
CAP Index	-Capacity for Innovation Index
CCI	-Current Competitiveness Index
CDI	-Cities Developed Index
CDS	-City Development Strategy
COSATU	-Congress Of South African Trade Unions
COIND	-Industrial Council Of Cambe
CSIR	-Council of Scientific Industrial Research
DCC	-Durban City Council
DLR	-Dockland Light Railways
DTI	-Department of Trade and Industry
EC	-European Community
ECI	-Economic Creative Index
EDI	-Electronic Data Intrechange
EDTTT	-Economic Development and Tourism Task Team
EU	-European Union
GCI	-Growth Competitiveness Index
FDI	-Foreign Direct Investment
GDP	-Gross Domestic Product
GEAR	-Growth, Employment and Redistribution strategy
GEDA	-Gauteng Economic Development Agency
GGP	-Gross Geographic Product
HHI	-Hirschman-Herfindahl Index
HSL	-Household Subsistence Level

IDP	-Integrated Development Plan
IDZ	-Industrial Development Zone
ILO	-International Labour Office
IMD	-World Competitiveness Yearbook
IMF	-International Monetary Fund
ISDN	-Integrated Services Digital Networks
JHB	-Johannesburg
LDC	-Less Developed Country
LDDC	-London Docklands Development Corporation
LED	-Local Economic Development
LEDP	-Local Economic Development Plan
NIC	-Newly Industrialising Country
OECD	-Organisation for Economic Cooperation and
Development	
OMP	-Osaka Medis Port Corperation
OJ	-Operation Jumpstart
PCC	-Pretoria City Council
PIMMS	-Planning and Implementation Management Support System
PPP	-Public Private Partnership
PSC	-Project Steering Committee
R and D	-Research and Development
RDP	-Reconstruction and Development Programme
RZI	-Relative Specialisation Index
SABS	-South African Bureau of Standards
SADC	-Southern African Development Community
SANCO	-South African National Civic Organisation
SANPAD	-South African Research Programme on Alternatives in Development
SARS	-South African Revenue Services
SAPS	-Structural Adjustment Programmes
SME	-Small and Medium Enterprise
SMME	-Small, Micro and Medium Enterprise
SPV	-Special Purpose Vehicles

UDC	-Urban Development Corporation
UK	-United Kingdom
US	-United States
UNICEF	-United National International Children Emergency Fund
UNCTAD	-United Nations Conference on Trade and development
UNIDO	-United Nations Industrial Development Organisation
VAN	-Value Added Network
WEF	-World Economic Forum
WEFA	-Wharton Econometric Forecasting Associates
WTO	-World Trade Organisation

ABSTRACT

In today's global competitive environment, a city or a town more than ever needs a strategy that articulates how its international competitiveness is to be improved. Since 1994, following its first democratic elections, South Africa started processes of significant local government reform, as well as fast integration into the global economy. These processes will place significant challenges in the way of South Africa's local government (municipalities) since they now not only have to transform themselves into more democratic structures, they also need to address the legacies of apartheid such as poverty and unequal access to services as well as raising international competitiveness. This last requirement is important to ensure that economic ground and development in South Africa's cities and towns are sustainable. The competitiveness of South African municipalities is investigated in this study. The various aspects that determine their international competitiveness are studied and the strengths and weaknesses as perceived by the municipal managers of these municipalities, are investigated.

Municipal LED strategies must strengthen the competitive platform offered for businesses in their areas of jurisdiction. The competitive platform embraces all aspects relevant to competitiveness that enable firms to compete and industries to develop so as to make cities and towns more competitive. Municipalities must adopt flexible structures to remain competitive in the changing environment. The solutions required might include related and supportive businesses and institutions, good and relevant government policies, quality of human capital, and advanced and latest levels of technology. However, they must include a change in the culture of municipalities, that includes the development of its people, systems and organisational structure, to optimise the response.

The study commences with an investigation into the theory of local economic development (LED) stressing the importance of competitiveness in an effort to develop municipalities. Together with the economic and political changes experienced since 1994, there has been an increasing awareness of issues such as a free market

economic system, privatisation and global competitiveness. With paradigm shifts such as these, the emphasis on local and regional economy also changed. Renewed interest in local economic development (LED) came to the fore and was considered, together with ways in which it can enhance competitiveness on municipality-level. This was followed by studying Porter's approach to the competitive platform, drivers of competitiveness and the stages of competitive development.

The practice of globalisation was also considered and specific attention was given to its policies and the way it can influence competitiveness. The literature undertaken on this subject indicated that globalisation is having a major impact on local authorities worldwide. This has resulted in multinational corporations seeking property in the competing and competitive local authority centres.

Local government has an interest in attracting investment based on promoting the comparative advantages of the area for competitive industries, as well as supporting the growth of local enterprises. It will become increasingly important for municipalities to find the right balance between competition and cooperation among themselves. While some competition will improve both efficiency and innovation, cooperation between municipalities is necessary to enhance the performance of the national economy as a whole, and to avoid damaging forms of competition between municipalities.

This study also surveys the major literature on locality marketing. The literature notes the changing global economy and political environment and the difficulties faced by localities to mediate these changes. Although some studies are pessimistic about the role of localities to mediate effects of globalisation, especially on issues of distribution, there are those who argue for greater opportunities being created by globalisation processes. It is up to localities to forge "thick" institutional formations in order to have competitive advantage and manage the distribution of wealth. "Thick" institutional formations refer to the forging of widely representative local coalitions in an attempt to mediate effects of global processes. The amount of success achieved in this respect, in relation to the resources devoted to it, needs continuous monitoring.

Through case studies of Durban, Johannesburg, Port Elizabeth, Cape Town and Pretoria, the study attempt to gauge at the "grand plan" of LED in South Africa. Industrial Development in Durban (Ethekwini), Johannesburg including East Rand (Ekurhuleni), Port Elizabeth (Nelson Mandela Metropole), Cape Town and Trade-point Pretoria in Greater Pretoria(Tshwane) seems well supported. As relatively industrialised cities, it makes sense that industrial development be included in the strategy mix. The concept of Coega IDZ in Port Elizabeth provides a proper example of a mechanism to achieve this goal. However, tourism industry has also been growing in these six large cities, justifying in its inclusion of these cities a "grand plan" for LED. It will be important for these cities to attract, develop and support new and existing large business. Particular efforts must be made to encourage small business development amongst the marginalised communities so that a greater impact is made in terms of reducing poverty and unemployment.

An empirical investigation was conducted during 2003 to establish the perceptions on competitiveness of the South African municipalities. The results emanating from this empirical study and the literature study suggest that although most municipalities are not rating themselves as highly competitive, the municipalities' best is more certain with regard to their managerial proficiency, product quality and technological resources and expertise. These results highlight the importance of the reliability and quality of communication services, electrical supply, water and other utilities, which are seen as very important for competitiveness by all respondents. The study reveals much detail, like the need for cold storage facilities that present a problem in many municipalities; the need for more training facilities, especially municipality related training such as workshops and advocacy on new policies. Respondents rated harbour and ocean freight facilities as failing. It was found that distance from the sea present a competitive disadvantages to landlocked provinces and their municipalities. The same applies to the province and municipalities far from large airports. Respondents also perceive civil servants as very co-operative and the government as very competent in the sphere of LED. Laws on environment protection including legislation and guidelines are also seen as very progressive and effective.

SAMEVATTING

In die hedendaagse mededingende wêreldomgewing het 'n stad of dorp meer as ooit 'n strategie nodig om duidelikte stel hoedat sy internasionale mededingendheid verbeter moet word. Sedert 1994, na sy eerste demokratiese verkiesing, het Suid Afrika prosesse van betekenisvolle plaaslike regeringhervorming gevistig, as ook vinnige integrasie in die wêreld ekonomie in. Hierdie prosesse sal betekennisvolle uitdagings op die weg van Suid Afrika se plaaslike regerings (munisipaliteite) stel,anngesien hulle nou nie alleen moet transformeer in meer demokratiese struktuur nie, maar ook die erfinis van apartheid, soos armoede en ongelyk toegang tot dienste en ook toenemende internasional mededinging die hoof moet bied. Hierdie laaste vereiste is belangrik om te verseker dat die ekonomiese grondslag en ontwikkeling in Suid Afrika onderhoubaar is. Die mededingingheid van Suid Afrikaanse munisipaliteite is in hierdie studie ondersoek. Die verskillende aspekte wat hulle internasienale mededingingheid bepaal, is betudeer, en die swak en sterkpunte, soos deur die munisipale bestuurders van hierdie munisipaliteite, waargeneem, is ondersoek.

Munisipale PEO (plaaslike ekonomiese ontwikkeling)-strategie moet die mededingende platform wat vir besighede in hul jurisdiksie-areas angebied is, verstiwig. Hierdie mededingengde platform omvat alle aspekte wat op mededingengheid bettrekking het wat firmasle in staat tel om mee te ding industrieë om te ontwikkel omsodoende die stede en dorpe meer mededingend te maak. Munisipaliteite moet buigsame strukture aanneem om in die veranderende omgewig medidengind te kan bly. Die oplossing wat vereis word, kan dalk verwante en ondersteunende instansies, goeie en relevante regeringbeleide, kwaliteit menslike kapitaal en gevorderde en jonste tegnologiese vlakke insuit. Hulle moet egter verandering in die kultuur van die munisipaliteite insluit, wat die ontwikkeling van sy mense, stelsels, en organisatoriese structure omvat, om die reaksie te optimaliseer.

Die studie neem 'n aanvang met 'n ondersoek in die teorie van die plaaslike ekonomiese ontwikkeling (PEO) met die klem op die belangrikheid van

mededingendheid in hul ywer om munisipaliteite te ontwikkel. Geppard met die ekonomiese en politieke veranderinge wat sedert 1994 ondervind is, kom 'n bewustheid van kweesies soos 'n vryemark- ekonomiese stelsel, privatisering en wêreld mededingingheid toenemend voor. Deur paradigmaverskuiwings soos die het die klem op plaaslike en streeksekonomiese ook verander. Hernude belangstelling in plaaslike ekonomisie ontwikkeling (PEO) het na vore gekom en is oorweeg, tesame met maniere watop dit mededingindheid munisipale vlak kam versterk. Hierop het 'n studie wat Porter se benadering tot die mededingingheid platform, drykragte van mededingendheid en die stadia van mededingende ontwikkeling gevolg.

Die praktyk van globalisering is ook in ag geneem en spesifieke aandag is geskenk aan die beleid daarvan en die wyse waarop dit mededingengdheid kan beinvloed. Die literatuurstudie wat ten opsigte van hierdie onderwerp onderneem is, het aangedui dat globalisering tans wêreldwyd 'n groot uiterking op plaaslike owerhede het. Dit het daarop uitgeloop dat 'n multinasienale körperasie op soek het in na eiedom in die deelnemende en mededinginde plaaslike owerheidsentra.

Plaaslike regering het belang daarby om belegging te lok wat gebaseer is op die bevordering van korporatiewe voordele van die omgewing vir die mededingende industrieë, en ook daarby om die groeie van plaaslike ondernemings te ondersteun. Dit sal vir munisipaliteite toenemend belangrik word om die regte balans tussen mededinging en samewerking tussen hulle te vind. Terwyl sekere mededinging beide doeltrefendheid en innovering sal verbeter, is samewerking tussen munisipaliteite noodsaaklik vir die versterking van die nasionale ekonomie in die geheel, en om skadelike vorme van mededinging tussen munisipalitet te vermy.

Hierdie studie ondersoek ook die belangrikse literatuur oor lokaliteitbemarking. Die literatuur wys op die veranderende wêreldekonomie en politieke omgewing en die probleme waarvoor lokaliteite te staan kom in hul pogings om hierdie veranderinge te bemiddel. Hoewel sommige studies pessimisties is oor die rol van lokaliteit in die bemmideling van gevolge van globalisering, veral oor kwessies rakende verspreiding, is daar diegene wat groter geleenthede wat deur globaliseringprosesse geskep word, bepleit. Dit berus by die lokaliteit om "dik" institusionale formasies saam te smelt om sodoende mededingende voordeel te hê en dieverspreiding van rykdom te bestuur.

“Dik” institutionele formasies verwys samesmelting van wyd verteenwordingende plaaslike koalisies in ’n poging om die gevolge van globale prosesse te bemiddel. Die mate van sukses wat in hierdie opsig behaal is, in verhouding tot die bronne wat daaraan toegewy is, benodig voordurende monitering.

Deur middle van gevallestudies oor Durban, Johannesburg, Port Elizabeth, Kaapstad en Pretoria, trag the studie om die poging tot die “great plan” van PEO in Suid Afrika te peil. Industriële ontwikkeling in Durban (Ethekwini), Johannesburg insluitende die Oosrand (Ekurhuleni), Port Elizabeth (Nelson Mandela Metropole), Kaapstad en Trade point Pretoria(Tshwane) blyk goed ondersteun te wees. Synde relatief geindustriëliseerde stede, maak dit sin industriële ontwikkeling by die strategie-mengsel ingesluit word. Dei begrip Coega IDZ in Port Elizabeth voorsien ’n gepaste voorbeeld van ’n meganisme om hierdie doel te bereik. Die toerismebedryf in hierdie ses groot stede is egter ook aan die ontwikkel, wat hierdie stede se insluiting by ’n “grand plan van PEO regverdig. Dit sal vir hierdie stede belangrik wees om nuwe en opwindende vir groot besighede te lok, te ontwikkel en te ondersteun. Besondere pogings moet aangewend word om kleinsakontwikkelings onder die gemarginaliseer gemeenskappe aan te moedig sodat ’n groter impak gemaak word met betrekking tot die vermindering van armoede en werloosheid.

’n Empiriese ondersoek is in die loop van 2003 onderneem om vas te stel wat die persepsies oor mededingengheid van Suid Afrikaanse munisipaliteite is. Die resultate wat uit hierdie empiriese studie voorgevloie het, gee te kenne dat, hoewel die meeste munisipaliteite hulleself nie as hoogs kompeterend takseer nie. Die muinsipaliteite se bestes sekerder is tenopsigte van hul bestuursvaardigheid, produkkwaliteit en tegnologiese bronne en vakkundigheid. Hierdie resultate laat die belangrikheid van die betroubaarheid en kwaliteit van kommunikasiediense, elktriesiteitstoevoer, water en ander nutdienste wat deur ale respondente as baie belangrike mededingendheid beskou is, sterk na vore kom. Die studie bring heelwat besonderhede aan die lig, soos by die behoefte aan koelbewaringfasiliteite wat in talle munisipaliteite probleme oplewer, die noodsaaklikheid van meer opleidingsfasiliteite, veral munisipaliteit-verwante opleiding soos werkswinkels en die bepleiting van nuwe beleide. Respondente was die mening toegedan dat hawe- en oseaanvragfasiliteite agteruit gaan. Daar is bevind dat afstand van die mededingingsnadeel oplewer vir provinsies wat deur land omring is, en vir hul munisipaliteite. Dieselfde geld vir die provinsies en munisipaliteite wat ver van groot lughawens geleë is. Respondente ervaar beamptes as baie samewerkend en die regering as baie bevoeg op die gebied van LOD. Wette oor die omgewingsbeskerming wat wetgewing en riglyne insluit, word ook bekou as baie vooruitstrewend en doeltreffend.

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The promotion of local economic development (LED) is one of the core functions of municipalities in South Africa, given that South Africa is an open economy that is increasingly being integrated with the world economy. This study will investigate the competitiveness and comparative advantages of South Africa's municipalities and cities as a means of informing the LED strategies of municipalities.

The structure of this chapter is as follows: First the problem statement, research question and objectives of the study will be set out. This is followed by an overview of South Africa's local government, Local Economic Development (LED) and globalisation. The chapter concludes with methodology, which includes a literature and empirical study.

1.2 PROBLEM STATEMENT

Local economic development is needed in South Africa to create employment and improve the living standards of the people. In order to achieve sustained growth and address the economic development challenges, the country, its municipalities and cities have to be internationally competitive. However, owing to a long period of international isolation, South Africa's municipalities did not have the opportunity to be part of this trend. Whether or not South Africa together with its municipalities will attract such investment will depend on the competitiveness and comparative advantage of the South African economy, how its municipalities are governed and whether international criteria for investment. eg. stability, safety, investment friendliness and expanding market are met (South Africa, 1996).

The importance of ensuring that the South African municipalities and its economy becomes more internationally competitive is due to the fact that growth in municipalities' local economic development is necessary if the serious challenges facing South Africa such as unemployment, poverty and inequality are to be addressed. (South Africa, 1996). Development of municipalities through LED is an important element of a developing country because it creates economies of scale that will benefit the municipalities by creating employment and economic growth (Hirsch and Hanival, 1998: 14).

A need therefore exists to evaluate the competitive platform of South Africa and its municipalities to determine to what extend municipalities can promote economic development. It is therefore important that such a study is conducted to establish the points of strength in South African municipalities to build upon, but also weaknesses and facets that need attention to ensure sustainable local economic development (LED) (South Africa, 1996).

1.3 RESEARCH QUESTION

The research question that this study aims to address is whether the competitive platform of South African municipalities will attract investment and stimulate economic growth in the new global economy. In answering this question, possible perceived weaknesses in the competitive platform in municipalities will be identified.

1.4 OBJECTIVE OF THE STUDY

The objectives of the study are to evaluate the international competitiveness of South African municipalities. The evaluation will be done firstly by using a literature study on the international experience of cities in countries such as Netherlands (Amsterdam), Brazil (Cambe and Toledo) and Japan (Osaka) and South Africa's six main cities which are the cities of Johannesburg, Tshwane (Pretoria), Ekurhuleni (East Rand), Cape Town, Ethekwini (Durban), Nelson Mandela metropole (Port Elizabeth). Secondly, a questionnaire based survey of municipalities in South Africa will be conducted to determine perceptions on the state of the competitiveness platforms.

1.5 LOCAL GOVERNMENT, LED AND GLOBALISATION

Together with the economic and political changes experienced in South Africa since 1994, there has been an increasing awareness of issues such as free market economics, privatisation and global competitiveness. With paradigm shifts such as these, the emphasis on local and regional economy also changed, and renewed interest in local and regional economic development (LED) came to the fore. Specific attention was devoted to the following issues both at local and regional levels:

- Increased support for decentralised structures to take the lead in economic development.
- Creation of an awareness that local and regional government should forge partnership agreements with local, national and international partners from both the private and public sector in an effort to foster economic growth and development
- Promotion of national economic growth and international competitiveness (Lloyd and Horn, 2001: 59).

LED can be defined as an initiative designed to both promote growing local economies and address poverty alleviation. The main objectives are to build quality jobs to the current population, to achieve local economic stability and build a diverse economic and employment base (Dorfling, 2001: 35). Naudé (2001b:8) adds that local governments are paying increasing attention to local economic development. In South Africa LED has indeed become a major trend. Following the December 2000 local elections, most municipalities in South Africa have been drafting some form of LED strategies. This is due to legal obligations on municipalities contained in the constitution and legislation such as the Development Facilitation Act and Municipal System Act. According to section 153a of the South African Constitution, Municipalities have a mandate to promote local economic development. It states that " a municipality must structure and manage its administration and budgeting and planning process to give priority to the basic needs of the community and to promote the social and economic development of the community".

In selecting an approach to the development of a local economy, most municipalities give attention to business attraction through incentives; small business development; human resource development; investing in business ventures; and community based or self-help approaches. Traditional and small business developments are also ubiquitous components of LED (Dorfling, 2001: 36).

Furthermore, the Municipal Systems Act have an impact on LED through the following requirements it places on municipalities:

- Municipalities have to establish performance management systems.
- Municipalities have to have clear and transparent policies on levying of tariffs for services rendered and must take appropriate customer care in the levying of its rates.
- Municipalities have to improve their credit control and debt collection efforts and systems.
- Municipalities are allowed to be service authorities rather than service providers so that different mechanisms for delivery of services are available, such as public-private partnerships, municipal entities and municipal service partnership (Naudé, 2001(a): 9-10).

Globalisation (see chapter 3) will be defined and discussed as a continuous evolutionary process whereby functions and influences cross boundaries from one state to another (Ballard and Schwella, 2000: 737). Based on this theoretical explanation Mittelman (1996: 3) states that globalisation is a world wide phenomenon consisting of varied transitional processes and domestic structures that allow the economy, politics, culture and ideologies of one country to penetrate another. The question is often raised as to whether a country such as South Africa can ignore global influences after years of isolation and integrate positively with the internal community as the global player. The South African Government has initiated the debate on possible benefits of globalisation, especially in the local government sphere (Ballard and Schwella, 2000: 737). Globalisation could, it is believed, facilitate economic and social upliftment in the communities served by local government. The larger local authorities, or Category A municipalities, have supported the idea of globalisation and have began formulating policies on international relations (Ballard and Schwella, 2000: 737).

The impact of globalisation could have implications for the local government transformation process and could facilitate its political, economic, social and physical development. (Mills, 1998: 83).

One of the major challenges that will be discussed in chapter 3, 4 and 5 would be to become competitive by attracting foreign investment, applying new technology and producing goods and services that can compete effectively with other international role players and penetrate industrial markets. The purpose here is much more modest. This discussion will present some baseline data on the economic assets and role of cities and municipalities, as a first step towards understanding their economic potential and contribution to national economy. The purpose here will neither be comprehensive nor conclusive, but rather to provide some initial underpinnings for the much bigger and longer term discussion.

Factors enhancing competitiveness are the following:

- Market based economic policies- an open economy allows international transactions in capital inflows and goods and services, which improves production capacity and enhance productivity.
- Government support for a competitive economy, i.e. government institutions that support a modern competitive market economy, including rule of law and protection of property rights.
- Restructuring of financial and capital markets- mobilising savings and allocating these resources efficiently to the most productive uses and investment options in the economy.
- Provision and maintenance of infrastructure- the provision and maintenance of efficient infrastructure are essential for enhancing competitiveness.
- Improving existing technology- the introduction of new technology can transform the productivity levels, production capacities and capabilities and economic performance.

- Human capital development- this provides the required knowledge, skills and attitudes for product development, quality control, financial operations and marketing (Jordaan, 2001: 84).

1.6 METHODOLOGY

The study will comprise both of a literature and an empirical investigation. An evaluation will be conducted to determine the findings on the state of competitiveness platform of South African municipalities.

1.6.1 LITERATURE

The theoretical part of the study will consist of a literature study. The literature study of the topic globalisation and competitiveness of these cities will be surveyed through literature, which includes books, newspapers, journals, periodicals, government reports, legislation and organised business.

1.6.2 EMPIRICAL STUDY

1.6.2.1 Questionnaires

The participants of this research constitutes the entire pool of 283 municipalities managers from different towns and cities around South Africa (no random sampling was done). In this case, the municipality managers were purposely selected for this empirical study because of the prominent role they play in their municipalities. The rationale was that all these municipality managers would be more motivated to take part in this research, since it was relevant to their immediate future as municipality managers and the future of their municipalities.

This questionnaire is important as it provides both information related to the Porter competitiveness platform and the new geography and competitiveness of municipalities. A copy of the questionnaire is contained in Appendix A. Questions asked are included in parts 1-5 with part 1 containing questions on the classification of the municipality, part 2 containing questions on local economic development institutions, part 3 containing questions on globalisation, part 4 containing questions related to human resource, other resources, demand conditions, related and supporting industries and institutions, firm strategy, structure and rivalry, technology and innovations, quality and environment, and part 5 containing questions related to locational aspects of municipalities.

The questionnaire was sent to all specified municipalities in a way that would be easy and convenient for the respondents to complete and on which respondents can tick the most appropriate answers. Respondents seem to be unwilling to answer long and difficult questionnaires with lots of detail, especially if sent by mail. To enhance easy response to the questionnaire, most questions were based on a five-point Likert scale that leads the respondents to provide a rating using a limiting number of response alternatives. This forces the respondents to take a stance and the tendency to choose neutral position is avoided. For analytic purpose, numeral codes was assigned to the different response categories in order to compute an overall evaluation score that reflects the respondent's attitude towards each object.

The responses to the questionnaire was analysed using SAS programming Statistical analysis aimed at determining the reliability of the results obtained in the questionnaire. The Cronbach Alpha test for reliability was also implemented to determine reliability coefficients and the results were statistically significant. Once the validity of the questionnaire as reliable instrument and the consistency of the respondents were established, descriptive statistical analysis of the data was conducted. Averages and variances were determined. The first part of the statistical data analysis was based on descriptive analysis such as frequency distributions, while the second part considered specific topics studied in previous chapters of the thesis. After the descriptive data was studied for the whole sample, the same was done for all topics as explained in the next title.

1.7 LAYOUT OF THE STUDY

The subject matter will be divided between the following chapters:

Chapter 1: Introduction

Chapter 2: Theory of Local Economic Development

Chapter 3: Globalisation and international competitiveness

Chapter 4: Locality marketing: International case study

Chapter 5: The economic role competitiveness of certain cities in South Africa

Chapter 6: Empirical results

Chapter 7: Conclusion and Review and Recommendations

The study commenced with explanation of local government and its primary purpose, starting first with the problem statement, research question and objectives of the study, followed by an overview of South Africa's local government, Local Economic Development (LED) and globalisation. This first chapter concludes with methodology, which includes a literature and empirical study.

Chapter 2 starts off with general background information on cities, before providing a definition for LED based on literary sources. Attention is drawn to the theories from which LED originates, and it is useful to see which theories form the basis of this approach. LED is then discussed in terms of the key role players involved in executing LED programmes, projects and plans.

In this chapter, the local economic development policy experience is reviewed at two geographical scales: the local government and the city. In both cases, the discussion focuses on policy interventions and discourses on the resolution of uneven development. The standard economic development policy and practice of the last thirty years are reviewed. After looking at the broad realm of economic development policy, recent developments in local economic development are discussed; emphasising the role played by public sector programmes in addressing inner-city decay and persistent poverty. The chapter will explore how economic geographic concepts are embedded in policy prescriptions, often with little regard for the weak links between conventional theories of economic development and the underlying development problems found in inner cities and troubled rural areas.

From the discussion it is clear that new key role players form part of the LED process and the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. Neither the role players nor the roles they play are set in concrete and the extent of their involvement could differ between certain localities and circumstances. This aspect holds numerous advantages for new democracies where there is a need for means by which to increase the involvement of sectors of the economy that were previously excluded from economic decision-making and participation.

Lastly, this chapter considers LED to determine how it is currently implemented and needs to be implemented in South Africa to generate economic growth and development. It is based on an empirical study, which attempted to classify and identify a typical city in South Africa and how LED plans should be implemented in such a city to reap the benefits of LED.

The first section of chapter 3 aims to provide some insight on the international debate surrounding the changing economic order that is linked to phenomena like globalisation and a changing competitive environment, as an indication of the framework in which cities function. These phenomena and other related international trends, namely the technological revolution and rapid urbanisation which have been characterising the post 1970's world economy, have altered the way in which it is appropriate to conceptualise and to operate policies in globalisation, and justifies further discussions.

In South Africa and other less developed countries, economies are characterised by market failures, market imperfections, inefficiency, risk and uncertainty and lack of private initiative often leading to the absence of markets. This puts a responsibility on the government to address these market imperfections in order to move the economies and local governments towards a position where markets could function as free competitive markets. As economic development is only achieved in the long term, this objective cannot be realised immediately and the theory of second best will often force policy makers to intervene in the economy along the development process. Government policy has to address these failures to the point where they could leave the economy on its own, but until that point is reached, government interventions will be needed.

Globalisation has significant potential and influence over growth and development as well as the way policies and strategies are formulated to handle these new developments. Growth and development policies have to take note of modern global developments, and should be designed to exploit it to the full extent. Globalisation as studied in this chapter comprises the rationale of the study.

After studying the phenomena of globalisation and the new economy and the way it is changing industrial development, this chapter further deals with international competitiveness and the effects of globalisation and modern technology on competitiveness. Manufacturing has to grow in order to provide the necessary commodities that are demanded, but its growth is even more important in the provision of employment and income to the population of the world and to alleviate poverty. This will only be possible if the country's manufacturing is globally competitive.

This chapter also reported on a competitive advantage related by Professor Porter (Porter, 1998) from Harvard Business School as he argues that competitive advantage based on factors of production does not sufficiently explain patterns of trade. The chapter explained the importance of competition and how it affects the economy of the country. Competitiveness in Africa as well as in South Africa and its obstacles were also briefly discussed.

The chapter lastly explains how globalisation is transforming the world from the industrial age to an information age with definite effect on costs, production and markets, creating a new global hierarchy and altering the spatial geography.

The last section of chapter 3 explores the brief theoretical economic context of locality marketing, however, chapter 4 has a detailed explanation of locality marketing, its relevance and success. Based from assessment of much of the literature, there appears to be general consensus that there has been a move towards more localised forms of action. Two dominant schools of thought concerning locality marketing emerge. For many proponents who advocate response on the local level, it is the application of such initiatives that they say will ultimately determine its relevance and success. On the other hand, there are those who, when viewing locality marketing within a globalised economic context, are sceptical of its effectiveness in any form. These of course do not necessarily reflect polarised views. Instead, they offer two broad viewpoints on the same subject, observed from different perspectives.

The main purpose of this chapter is also to review raised locality marketing in economic growth, to examine some evidence, and to provide a simple analytical framework to relate the process of locality marketing to economic growth. The chapter further explored the relationships between urban regeneration and locality marketing by looking at the past decade of development in London's Docklands, Amsterdam, Osaka, Cambe and Toledo. It shows how marketing and place promotion became key strands in the strategy to entice private sector-led regeneration to city areas and had an equally key part to play in the boom/slump cycle which resulted. In particular perception, it looks at how this marketing strategy attempted to refashion popular perception on the area and the ideological implications that resulted.

This chapter conclude by explaining how the success of locality marketing and the promotion of localities cannot be assessed only in terms of achievement of congruence between the promoted and received images as this would be too simple. Place images are promoted by organisations concerned with achieving particular management goals. Place-image promotion should be seen as one planning instrument within the market-planning process as a whole, and used in preference to or in combination with other non- market orientated place-management techniques, where appropriate.

Chapter 5 emphasises that this economic challenge provides the context in which South Africa must meet the challenge of democratic development and in which the world must decide how to shape the conditions under which they must perform. Present policies and trends will be scrutinised, since there is so much indication that those who are promoting them are not prepared to learn from experience. It is further claimed that if they were, they would have learned that economic efficiency presupposes social coherence and political stability; and that the institutions and capabilities needed for genuine development must build slowly through state involvement over extended periods of time. Instead of narrowing the scope for that involvement and increasing the economic pressures under which the task has to be fulfilled, the international institutions should be creating space that would allow developing countries to proceed at a pace determined by their historically given circumstances (Adelzadeh, 1996:66).

This chapter further proves that irrespective of the indifferent South African economic background, there are signs that a more competitive space economy is emerging as cities become more intense with growth and development as they join regional and sub-regional marketing associations and in some cases are considering more sophisticated strategies. The use of the media in re-imaging has become extensive in attempting to propel localities into the 'new' South Africa. Cities such as Johannesburg, Tshwane (Pretoria), Ekurhuleni (East Rand), Cape Town, Durban and Port Elizabeth have been advertising extensively on national television, and have take on significant advertising budgets.

Industrial development in Durban, Port Elizabeth, Cape-Town and Tradepoint Pretoria in Greater Pretoria seems to be well supported. As relatively industrialised cities, it makes sense that industrial development be included as strategy mix. The concept of Coega IDZ and port in Port Elizabeth provides a mechanism to achieve this goal. However, tourism industry has also been growing in these five large South African cities, justifying its inclusion in these cities' "grand plan" for LED. It will be important for these cities to attract, develop and support new and existing large business. Particular efforts must be made to encourage small business development amongst the marginalised communities so that a greater impact is made in terms of reducing unemployment and poverty.

Chapter 6 reports on a survey conducted during 2003 on the competitiveness of all South African municipalities. This chapter starts by explaining the importance of validity and reliability in the research itself and the significance of Cronbach- Alpha test to ensure that respondents completed the questionnaire with great care and a high degree of accuracy, followed by a reported survey on the competitiveness of South

African municipalities. Next, the study commenced by reporting the results that we received from responding municipalities.

The subjective nature of this survey can be criticised as most of the municipal managers who responded to the questionnaire seemed to be very careful not to put their municipalities under tremendous pressure when answering the questionnaire. Even though most of the questions were carefully answered and most of the municipal managers rated themselves very high, the ease with which this questionnaire can be completed and the good response did, however, provide a very large amount of useful information that would not have been possible to gather otherwise. The exceptionally high Cronbach Alpha values definitely suggest the response from municipalities to be very significant. The results emanating from this empirical study and the literature study were later reconciled to make some recommendations for improvement in chapter 7.

CHAPTER 2

THEORY OF LOCAL ECONOMIC DEVELOPMENT

2.1.INTRODUCTION

Local authorities around the world face, to different degrees, the same problems of inequality, poverty, unemployment and other shortcomings regarding basic human needs (Horn and Lloyd, 2001: 59). These realities are compounded by international trends and new realities like urbanisation, technological revolution and globalisation, increasing the global competitive environment This impacts on the economies of cities and towns. A combination of these factors forms the new external framework in which local authorities must address their economic destiny. South African local authorities (municipalities) face the same problems as cities around the globe, but most of these problems have been worsened for a section of the population by the country's history of racial segregation. However, South Africa's new found political freedom provides the opportunity to rebuild the economy in a way where even the poorest communities are free to play a part and be able to share in the advantages.

Local Economic Development (LED) as a discipline has received extensive coverage over the last two decades in the field of urban economics as a 'bottom up' approach that aims to promote the economic development of a local area within a context of changing economic circumstances. In order to create a thorough understanding of what LED comprises and how South Africa might learn from international experience in this field, it is meaningful to make a distinction between the substance of LED, and the external environment within which it operates. This chapter will deal with the substance of LED, while the framework of globalisation with emphasis on the effect of economic restructuring on the economic development of localities, will be discussed in Chapter 3.

In this chapter, the discussion focuses on policy interventions and discourses on the resolution of uneven development. The standard local economic development policy and practice is reviewed. After looking at the broad realm of local economic development policy, recent developments in local economic development are discussed; emphasising the role played by public sector programmes in addressing issues such as inner-city decay and persistent poverty. The chapter will explore how economic geographic concepts are embedded in policy prescriptions, often with little regard for the weak links between conventional theories of economic development and the underlying development problems found in inner cities and troubled rural areas.

This chapter is structured as follows- A definition is provided for LED based on literary sources. Attention is drawn to the theories from which LED originates, and it is useful to see which theories forms the basis of this approach. LED is then discussed in terms of the key role players involved in executing LED programmes, projects and plans (see section 2.2, 2.3 and 2.6). Section 2.4 and 2.5 discuss the city as an element in the international system and economic development of a city respectively.

2.2 LOCAL ECONOMIC DEVELOPMENT

Since the dawn of political democracy in South Africa, the country has undergone various changes on both the political and economic front. One significant change is the [devolution] of power to provincial governments, who were given discretionary fiscal powers. Another is the focus on interregional linkages in an effort to promote regional development and prosperity. (Horn and Lloyd, 2001: 59). With these changes, renewed awareness regarding the role of decentralised structures in creating economic prosperity was revived to such an extent that the creation of economic prosperity is no longer seen as the task of national government alone. More emphasis was placed on decentralised structures to create and be active in the promotion of economic prosperity, often through Local Economic Development (LED) (Horn and Lloyd, 2001:59)

Local economic development is not merely new rhetoric, but represents a fundamental shift in the actors as well as the activities associated with economic development. It is essentially a process by which local government and /or community based groups manage their existing resources and enter into new partnership arrangements with the private sector, with each other, to create new jobs and stimulate economic activity in a well defined economic zone. The central feature in locally orientated or based economic development is the emphasis on "endogenous development" policies using the potential of local human, institutional, and physical resources. This orientation leads to a focus on taking local initiatives in the development process to create new employment and stimulating increased economic activity (Horn and Lloyd, 2001:59).

Local economic development is process orientated. That is, it is a process involving the formation of new institutions, the development of alternative industries, the improvement in the capacity of existing employers to produce better products, the identification of new markets, the transfer of knowledge, and the nurturing of new firms and enterprises. As Williams (1986:1), puts it, "when you move beyond importing (jobs) and start a strategy of creative innovation and adaptation, then (local) "innovations" becomes an economic, social, and a local (development) preoccupation, rather than just a technical one".

No matter what form it takes, local economic development has one primary goal, which is to increase the number and variety of job opportunities available to local people. In performing these activities, local governments/ or community groups must take on an initiating, rather than a passive role.

In essence, local government with community participation and use of the resources of community based institutions (where they exist and posses economic potential)-is required to asses the potentials and marshal the necessary resources to design and develop the local economy (Blakely, 1989: 58-60).

2.2.1 Defining LED

In order to avoid confusion in defining LED, it is necessary to distinguish between ad hoc LED projects and LED as a discipline. (Markman, 1995: 6-11). Ad hoc LED projects do not have to be based on LED principles (that would have involved a holistic determination of how to address development in an optimum way in a specific area), but could still reach some of the objectives of LED by contributing to the economic development of a specific locality. LED as a discipline could be described as a process where responsible parties formulate and implement LED strategies, plans and projects within a given framework, with the broad objective to create employment opportunities and stimulate economic activity. The responsible parties involved in LED are usually represented in partnership between Local governments, community based groups and the private sector (see also paragraph 2.2.3).

According to Heymans (1995: 5) successful LED depends on one or more of the following factors; local leadership; a sense of crisis which spurs on local stakeholders to do something about the plight of their city or town; commitment to a vision of success-ranging from very locally bred options to grand approaches related to the global and national economies; the effective mobilisation of key stakeholders in the local community to participate in the planning and possible implementation of a LED initiative and to contribute to the unlocking of local resources in support of the strategy.

LED can therefore be defined as an integrated set of local initiatives through local governments and/or community based groups in partnership agreements with the private sector to:

- Restructure local economies in reaction to the national and international economies; **by**
- Mobilising human, physical, institutional and economic resources and public, private or community based comparative advantages; **to**
- Enhance development opportunities, employment options and quality of life (Blakely, 1989; Markman, 1995; Heymans, 1995).

LED strategies that relate to the building of human capital include job training aimed at specific economic sectors, city/college collaboration, business incubators, youth internship and school –to-work programmes (Clarke, 1997: 6). The OECD's report (1995: 26-27) also makes specific contributions to this latest development in the LED discipline. In the report it is stressed that the local approach needs to be incorporated into long-term regional development strategies by linking local initiatives and strategic regional planning more closely. It therefore seems of utmost importance for a locality not only to establish its role in the regional system, but also the need to ensure consistency and compatibility with regional initiatives.

2.2.2 Background to Local Economic Development Planning

Together with the economic and political changes experienced in South Africa since 1994, there has been increasing awareness of issues such as free market economics, privatisation and global competitiveness. With paradigm shifts such as these, the emphasis on local and regional economies also changed, and renewed interest in local and regional economic development came to the fore. Specific attention was devoted to the following issues both at local and regional levels (Horn and Lloyd, 2001:59):

- Increased support for decentralised structures to take the lead in economic development;
- Improved efficiency in as far as resource mobilisation at local and regional level is concerned;
- Empowerment of local and regional structures to drive economic development;
- Creation of awareness that local and regional governments should forge partnership agreements with local, national and international partners from both private and public sector, in an effort to foster economic growth and development;
- Promotion of national economic growth and international competitiveness.

It is now realised that by decentralising certain responsibilities, scarce resources can be applied more productively by embarking on programmes where private sector initiative is developed to take over activities which were previously exclusively dealt with by public sector authorities (Horn and Lloyd, 2001:59)

With the transfer of responsibility and accountability from a national to a regional and eventually a local structure, there is recognition that those structures closer to grassroots levels know and understand the developmental needs of their respective communities and societies better (Horn and Lloyd, 2001: 59).

Through such a process, creative, thought is stimulated and local people are motivated to play a greater role in developing their own communities to the benefit of the larger whole.

In answering the question "What is LED?" the following definition is useful: "Local economic development is a locally driven process designed to identify, harness and utilise resources to stimulate the economy and create new job opportunities" (Helmsing, 1999).

Therefore, LED is a process of co-operation in which regional and local government, community-based and non governmental organisations, as well as the organised private sector, combine their resources and efforts in partnership agreements to generate economic activity and so create employment and better living conditions for their respective communities.

The exogenous component of LED entails how well the local government in its partnership agreements can respond to national and international processes and incentives to grow its own economies and generate more economic activity and employment. The endogenous component is determined by the capacity of local economies to utilise and develop additional human and physical capital (LED, 2000).

South African cities, towns and rural areas are characterised by divisions. Communities have deliberately been placed a long distance apart. The majority of employment opportunities are located close to a minority of the population. Road and rail networks often do not link people directly to jobs. Levels of service range from the best in the world in wealthy suburbs to the worst slum conditions in some townships and rural areas. People have been governed separately, and the majority has been unable to call the government to account. Historically many people refused to pay rent and rates as they considered the government to be illegitimate and their services inadequate (LED, 2000).

Under these circumstances it takes strong local leadership to conjure up images of a healthy, united community with a common vision, working together to eliminate poverty and achieve greater prosperity for all. Developing and promoting policies, which will have this kind of impact on local areas require considerable determination on the part of councillors and officials. The first step, then, is to establish very clearly the vision, which will guide the economic development role of the municipality. This vision must recognise the close linkage between growth and equity. Without additional economic activity, few localities will have the resources to meet the basic needs of the poor. However, unless past backlogs and inequalities are addressed and poverty reduced, sustainable growth will be impossible (LED, 2000).

LED must, however, be understood in its broader context, namely to form part of the economics of regional development in which economic location theory plays a decisive role. Locational factors such as labour costs, energy costs, suppliers, telecommunications, education and training facilities, road and rail infrastructure, as well as local government commitment, play a vital role. Besides these locational factors, agglomeration factors are also vital. Issues such as being located close to other related businesses or markets are of importance (LED, 2000).

The objective of a local economic development plan (LEDP) is thus to address the service backlogs and economic challenges faced by cities. Key issues such as dwindling central business districts, lack of basic infrastructure, few economic empowerment opportunities, and high levels of unemployment, should be addressed by an LEDP (Bondula, 1997: 12). The further objective of LEDP is, with the help of the national and provincial government, to enhance and build on the capacity of cities and rural towns by co-operative mutual agreements between the local councils, community based organisations, NGOs and organised businesses (LED, 2000).

Through such ventures a common vision and mission for these towns can be developed, which will allow the towns and its stakeholders to be pro-active in addressing future economic growth and employment problems and be constructive in addressing current pressing issues. Successful LEDP requires the development of structures and frameworks in which informal entrepreneurs can operate more effectively; better co-operation and trust among all the role players; as well as a change to a more positive mindset by all concerned (LED, 2000).

2.2.3 LED: Key Role Players

Focusing on the role players and noting the fact that LED emphasises the bottom-up approach to local economic development, the community sector ought to play an increasingly active role in economic growth and development. This could be beneficial and advantageous in the long run, because the community sector is well known for being firstly, part of and in touch with the target groups; secondly, flexible and responsive to changes in community aspirations; thirdly, compromised of a heterogeneous group of individuals; and fourthly having a shared vision and mission and being committed to the common good of their society (Ross, 1997: 7)

In general, the focus of the LED as envisaged for rural towns and cities is to provide a more community-focused approach and less of a bureaucratic central approach. In this process, development will be enhanced due to the building and nurturing of mutual acceptance, trust and understanding amongst all societal stakeholders. It will furthermore, provide information sharing and being committed to the common goal of developing towns and promoting local economic regeneration to the common good of all.

Table 2.1: The three main role players within a LED (Ross, 1997: 8)

SECTOR PUBLIC	ROLE PLAYER	DECISION CRITERIA
Bureaucratic institutions	National	Legislation, rules
Government	Provincial Government	Procedures, Policy
Local Government	Officials in various departments	Guidelines
PRIVATE	Organised business, Employer organisations, producers, consumer, Individuals in general	Profit and Utility , Investors maximisation
COMMUNITY	CBOs, NGOs.	Welfare of community leaders

2.2.4 Local Authorities as Key Actors

Local authorities (municipalities) play a vital role in economic development. Through their participation in shaping policies and bylaws, endorsing programmes and enforcing tender practises, they shape society and thereby either enhance or hamper local economic progression. (Emdon, 1997: 21)

What is important from the side of the municipalities in promoting LEDP, is thus to focus on its core activities, which include providing social, physical and economic infrastructure to facilitate growth and development; and creating an enabling environment by means of legislation, policies and support programmes to guide future growth and development (Louw, 1997: 9).

The underlying focus of these core activities is to foster economic development and employment creation by means of:

- Sufficient investment in infrastructure;
- Effective technical and administrative support for existing and potential entrepreneurs;
- Incentives to investors to build capacity in the local economy with interregional spin-offs;
- Agreements with all stakeholders to market a particular town, its people and its products.

Although most of the tasks performed at local government level are taken from the cues given by national or provincial government structures, in being a decentralised form of governance they need to be innovative, in sync and receptive to the needs and aspirations of the local populations.

2.2.5 The motivation for local economic development

The conceptual framework for LED's origin is founded in base development theories that include the neo-classical economic theory, economic base theory, location theory, central place theory, cumulative theory and attraction models (Blakely, 1989: 61-78). A broad overview of the issues in these theories that relate to LED as a discipline provides a useful background to what LED entails.

LED's drive for communities to ensure that they use their resources in a manner that attracts capital, and that governmental bureaucracy and an absence of a good business climate represents barriers to economic development, could be traced to the neo-classical theory. LED strategies' emphasis on the importance of aid to businesses with a national or international market that go beyond the local market and the attraction and generation of new firms, is based on the economic base theory. The location theory, which focuses on factors that determine the location of firms, can explain communities' attempts to manipulate factors that determine a firm's competitiveness to become attractive to industrial firms (Blakely, 1989: 61-78). The contribution of the central place theory that is based on the hierarchy of places with the underlying concept of support formed by a series of smaller places to the urban centre to LED, is to assist communities to develop their functional role in the regional system. The cumulative causation theories offer insight into the inequality between areas and the resultant disparity in regional performance. The actions of a community to alter its market position by initiating policies and programmes to make their area more attractive is made clear by attraction models.
(Blakely, 1989: 61-78).

Existing development theory is an insufficient template for local economic development activities. Therefore, an alternative approach to development theory is formulated here as a context for local economic development planning and action. The approach advanced here is a synthesis and reformulation of existing concepts. It serves as a basis for thinking about taking action within the local economic development context (Blakely, 1989: 61-78).

2.2.5.1 Knowledge Resources

Research resources are the base for economic development in a "knowledge intensive" world economy. In the modern economy, information, more than goods, is exchanged. The development of new information in, for example, biotechnology, computing, and telecommunications is of enormous value. As a result, the loci of economic innovation and product development have moved from the field to the laboratory (Blakely, 1989: 61-78).

Major research universities, research institutes, and research units in business and industry are of enormous significance to a local economy. Therefore, localities must develop ways to tap the intellectual resource centres of their region or area. These intellectual resource centres can be of major assistance in developing new goods and services or unlocking the potential of existing natural and other resources (Blakely, 1989: 61-78).

The quality of an area's human resource base is a major inducement to all industries. If the local human resource base is substantial, new firms will be created by it irrespective of location, or else existing firms will migrate there. Therefore, communities must not only build jobs to fit the existing populace; they must also build institutions that expand the capability of this population. Rural communities and the inner city neighbourhoods seldom have higher education or research institutions that service them. Indeed, the rural communities and urban neighbourhoods seldom consider the need for such resource beyond teaching function or community problem solving requirements. Local economic development, however, both now and in the future, will be dependent upon the ability of communities to use resources of higher education and research related institutions. Rather than attracting a new factory that may initially employ thousands, a community is better served by attracting and retaining a few small related research labs in leading-edge technologies that will eventually create jobs and stability for the total region (Blakely, 1989: 67-70).

The following table 2.2 outlines a potential framework for the re-modification of existing economic theory, when viewed in the context of LED, shifts the informing strategy from the economic system itself to specific locations or within communities itself.

Table 2.2: Synthetic theory of Local Economic Development

Components	*Old concept*	*New concept*
Employment	More firms=more jobs	Firms that build quality jobs that fit local
Population	Development base Building economic sector	Building new economic institutions
Location assets	Comparative advantage Based on physical assets	Comparative advantage based on quality environment
Knowledge resource	Available work force	Knowledge as economic generator

(Source: Blakely, 1989: 67)

2.2.6 International approaches to local economic development

Municipalities around the world have taken a number of approaches to economic development. Each rests on particular assumptions about local economies and the impact of local authorities therein. The key approaches can be distinguished as follow:

Traditional approaches assert that the key to prosperity is attracting (primarily manufacturing) investment through concessions such as tax breaks, cheap land, reduced rates, and even direct financial rewards in return for locating in the area. The argument is that investment creates jobs and provides taxes, which can be used for service provision. Variations on this theme are attempts to attract other forms of economic activity and funding, such as tourism, government and financial institutions, or spending on national social programmes (LED, 2000).

Entrepreneurial-competitive strategies emphasis the importance of local comparative advantages and small business in job creation. Local authorities play a active role in identifying actual or potential growth sectors and in directly supporting local business through research, loans, grants, consultancy, premises and technical infrastructure. Municipalities have engaged in research to identify the particular economic strengths of their locality, and some have even produced a local industrial strategy (LED, 2000).

Urban efficiency proponents argue that local authorities should raise urban productivity, in part by lowering the costs of living and doing business in the locality. Some have argued that this is best achieved by minimising government intervention, especially by cutting taxes and services charges, and by privatising services where possible. By contrast, others believe that strong government planning is the key to achieving efficiency. This argument has particular relevance in South Africa, where apartheid's spatial planning has led to enduring inefficiencies. For example, the metropolitan corridors in Cape town and Johannesburg aim to bring people and jobs closer together, reducing travelling times and costs (LED, 2000).

Human resource development is also identified as a key focus for local economic development strategies. The argument is that low skill levels, especially among the poor, are a key constraint facing potential investors. Furthermore, poor people are unlikely to benefit from whatever new jobs there are unless they have appropriate skills. Local authorities can either support the establishment of local training bodies or focus the activities of national training agencies in the local area. In addition, conditions can be imposed on companies doing business with the municipality, requiring that firms provide a minimum amount of training for their employees (LED, 2000).

Community-based strategies emphasise the importance of working directly with low-income communities and their organisations. Investment is all very well, but the benefits are unlikely to accrue to the most needy unless they are active participants in new development, with the capacity to plan, monitor and enforce wider benefits. Support for institutions such as local credit unions or development corporations, is a key feature of this approach (LED, 2000).

Progressive approaches explicitly aim to link profitable growth and redistributive development. An example is construction linkage (also known as planning gain), where planning permission in profitable areas is linked to investment in more impoverished neighbourhoods. Another example of a progressive approach is a requirement that banks or other institutions opening a branch in an area must invest a certain proportion of their turnover in local small businesses. Where banks are hesitant to open branches in low-income areas (such as many townships), municipalities have been known to make such branch openings a condition of access to municipal funds and accounts. Over the past few years, several municipalities in the United States have introduced living wage legislation at local level, to outlaw exploitation (LED, 2000).

In reality, to achieve the right balance between these approaches is based on priorities and circumstances. The key issue is to have clear objectives against which to prioritise plans. Figure 2.1 shows conceptual building blocks for local economic development that might be used together.

Figure 2.1: Building blocks for local economic development

LED BUILDING BLOCKS

ATTRACT

- Production
- Consumption
- Government and finance
- National Surplus

LEAD

- Good Governance
- Efficiency
- Economical Strategy
- Spatial Plan

BUILD

- Skills and Institutions
- Entrepreneurship
- Trust and Participation
- Information Flows

CIRCULATE

- Buy local
- Cross-subsidise
- Linkage
- Local Partnership

(Source: LED, 2000).

2.2.7 A new approach in local government: Changing the way business is done

The tradition of activities of municipalities have a major impact on economy. In charging rates, providing services, planning and controlling land use, purchasing supplies or employing municipal workers, municipalities influence local economic outcomes. Hence, the most important means by which to realise economic development objectives is by changing the way core business is done. For example, buying more from local entrepreneurs; planning mixed income neighbourhoods and ensuring that local people and business have good, reliable services (LED, 2000).

The economic vision and objectives established can be used to re-evaluate all our core policies and programme and to make changes. This will have more impact than a special local economic development unit with a small budget trying to intervene in the economy alone.

2.2.8 Lesson for Developing Countries

From the issues brought up under the discussion of LED, some specific key elements could prove to enhance the current understanding and implementation of LED in developing countries like South Africa, specifically those that have not yet looked towards LED as a means to actively address the local economy in light of changes in the external environment. In convincing a locality to take on an LED approach to address local problems, a good track record will serve as a means of persuasion, also for the governments of developing countries (Vosloo, 1998: 16). The nature of LED projects and the benefits derived from it, are however quantifiable, so that the worth of these projects is hard to justify in terms of hard numbers. One of the most important reasons for assessing the worth of LED projects is listed as the refinement of policy. Developing countries stand to benefit from international experience if they could learn from LED experience elsewhere and avoid making the same mistakes other countries made in the course of LED (Vosloo, 1998: 16).

This point holds relevance to the discussion on the phases of LED. The progressive phases have each added value to the previous phases. The culmination in this phases emphasises globalisation and human capital. These phases have witnessed a shift in emphasis in its underlying rationale (Stressing the importance of the regional context to LED initiatives), the methodology (with amongst others: region-specific innovation and the linking of training programmes and market needs), and its objective (of adapting structurally to the changed economic order and increasing the quality of the social and physical environment). An assessment of developing countries' situation should give an indication if the newest developments in LED have been incorporated in policy initiatives and other measures Vosloo, (1998: 17).

This background to LED could provide valuable insight for South Africa and other countries that have not yet gone through these stages in identifying areas where they should focus in determining the key issues that need to be incorporated in any policy initiative related to LED.

2.3 CITIES AND LOCAL ECONOMIC DEVELOPMENT

An important type of municipality is the city, which is defined as a place inhibited by a large, permanent, organised community and being economically viable and competitive. Looking at cities complements looking at countries and states in three ways.

First, unlike countries, cities are completely open economies; there are tremendous movement of capital, labour, and ideas between cities. Cities are more specialised economic units than states, and hence it may make more sense to study the movement of resources and convergence between cities than states. National boundaries that bar factor mobility and national policies that encourage industrial diversification eliminate the gains from factor mobility. These factors complicate work on national cross studies. Cities allow us to look at economic growth without these concerns.

Second, many of the cross sectional studies, particularly the cross national studies of growth, argue that ideas are important for growth. Various versions of this theory focus on the external benefits of physical capital or disembodied knowledge (Romer, 1986), human capital (Lucas, 1988), particular industries such as manufacturing or high technology industries (Porter, 1990), and other spillovers. Glaeser, Kallal, Scheinkman and Scheifer (1992) found evidence that cross industry intellectual externalities were particularly important for urban growth. The focus is now on whole cities rather than individual industries, and on the sources of citywide externalities, such as those from human capital.

Third, recent studies of economic growth across countries have focused on political and social, as well as economic determinants of growth. For example, several studies starting with Barro (1991) have shown that political instability is bad for growth, while Alesina and Rodrick (1994) and others have argued that inequality is bad for growth. Delong and Shlrifer (1993) have shown that limited government, as opposed to absolutist government, strengthened the growth of medieval cities. This research will use the political and social characteristics of cities of cities to provide further evidence on the importance of political and social factors for growth and development.

2.3.1 Urbanisation and the development process in underdeveloped countries

City growth appears as an irrepressible accompaniment of modern development experience in underdeveloped countries. The statistical evidence leaves little question on this score. The data for nearly all the developing underdeveloped countries also show that large cities tend to grow at faster rates than smaller ones and that the national capital complex is particularly favoured. But statistical associations constitute no proof of a causal relation. It is to this question of causality that we shall therefore turn by examining three fundamental forces in the process of development: the passage from tradition to innovation, from a limited culture to one constantly expanding opportunities, and from an elitist to a mass system striving for national integration (Friedmann, 1973: 74).

2.3.1.1 Political transformation and urbanisation

Industrialisation and urbanisation are not always parallel phenomena. Migration to cities in underdeveloped countries generally takes place at faster rates than the absorption of new labour force into employment of high productivity. Accelerated urbanisation in this sense will inevitably lead to the formation of a massive urban proletariat whose members, lacking special skills, are only partially within the labour market, if at all, and for this reason are excluded from most of the material and spiritual benefits of the developing, participant society. The political significance of this situation derives from a heightened visibility of the city proletariat that, being looked at and looking at the world from which it is excluded in any but the strictest functional sense, may acquire a keen sense of its own "marginal" condition and become potentially available as a potent political force to whatever leadership is capable of capturing its confidence (Friedmann, 1973: 74).

The second result of political development is the emergence in cities of innovative groups that pose challenges to the established powers in their attempt to legitimise new claims and create a social climate favourable to further innovation, insofar, at least, this would be consistent with their own schedule of values. In this endeavour, innovative counter-elite may seek alliances among successively larger, more inclusive sectors of the population: the upper middle class, the lower middle strata, the workers, and the urban proletariat of the periphery. As their base for political action expands and the masses become politicised, the politics of innovation first turn populist, and later integrationist, on national scale. Strongly doctrinaire and ideological during the struggle for power with the established elite, Innovative groups will tend to become open to compromise once they have risen to power. Political parties may consequently become transformed into giant bartering systems striving to aggregate ever widening circles of multiple and overlapping interests (Friedmann, 1973: 76).

2.3.2 Development process and changes in spatial organisation

One of the salient facts of international economic development has been of a spatial nature, namely the persistent urbanisation across countries over the last 200 years. In most cases urbanisation has been accompanied by sharp declines in fertility an unprecedented increases in the growth of per capita output. Henderson (2000: 1) reports that the simple correlation across countries is between the level of urbanisation. Persistent urbanisation has led to the formation of huge concentration of people and economic activity in the cities. This high density of people and firms can promote efficiency through information spillovers amongst producers, more efficiently functioning labour markets and savings in the transport costs inputs and final products (Henderson, 2000: 1).

Two pervasive forces underlie a change in spatial organisation. The first is a steady improvement in the overall accessibility of the system that comes as a direct result of the five universal characteristics of modern development:

- a progressive expansion of transport and communication capacity over larger areas,

- an increase in the number of possible interconnections within the system,
- a reduction in the unit cost of transportation and communication,
- a rise in real incomes per capita, and
- an increase in the speed and efficiency of the transport and communication system.

Changes in the location propensities of firms and households are the second force determining the spatial transformation. The tendencies will differ with the experience of each country, but among the more significant changes in the location propensities of industrial and commercial firms-as development proceeds-will be shifts from predominant resource to a market orientation, from a single to multiple firm corporations, from an emphasis on the presence of economic to social infrastructure, from small to large firms (in employment), and from isolated firms to clusters of related enterprise (Friedmann, 1973: 77).

2.3.2.1 The transformation from simple to complex structures

The spatial structure of underdeveloped countries is, by comparison to later periods, a very simple one. Regional economies show relatively little specialisation, since most of the population obtains its living from agriculture. Farming activities may be grouped into broad ecological or production zones, but the cities that organise the national economy show only minor functional distinctions. One or two of them, however, will eventually stand out from the rest, evolving to the point where they can be unambiguously identified as core regions that will reduce the rest of the country's economy to a peripheral status. Development comes to be concentrated in these potent spatial forms through which the former national peripheries are reorganised into elaborate patterns of interdependency. As larger and larger areas are brought into the structure of core regions, the national periphery is trimmed to a vestigial status. Most of the population eventually comes to live within these new foci of development (Friedmann, 1973: 77).

2.3.2.2 Transformation from imbalance to balanced structures

The initial spatial imbalance may be observed not only in the pronounced core periphery structure of underdeveloped countries, but also in the relationship of population size to rank of cities in the system. According to a widely accepted rule, the size of each city in a fully developed system is determined by its rank, so that by dividing the size of the largest city, its population size is obtained. There is a second rule that connects the size and function of cities with regional income. This states that the number of central functions of a city will increase with regional per capita income-holding size constant- but will also increase with an increase in city size, for constant income. Combining these two rules with what has been said about growing functional specialisation in the preceding paragraph, it may be asserted that, whatever the initial structure, continued development would be accompanied by an increase in the rank size ordering of cities. If the posited relationship is extended horizontally across the settled space of the nation, the result of a process of increasing rank size will be a fully developed, hierarchically ordered spatial system, in which all places have approximately equal access to similar urban functions. The system minimises distances and is stable in its overall configuration, even though it may continue to evolve internally. Thus lower order functions may be recombined in larger centres, thereby eliminating the smaller places in the hierarchy, while, at the top, entirely new urban forms come into being (Friedmann, 1973: 78).

2.3.2.3 Transformation from narrow impact of urban life styles

The spread of urban life styles is not coincident with the pattern of cities, though it is strongly influenced by it. Initially, the gradients of urban influence are very sharp: urbanism is typically a large city phenomenon, but the population affected by it will tend to live in very close proximity and in constant interaction with the centre. Development, however, acting through the forces of equalising access and location propensities, will work to reduce these gradients and to introduce elements of urban life styles into the remotest corners of the nation. Vast zones of an engulfing urbanism thus appear as the large city penetrates smaller towns and even the countryside with mass information media and modern forms of large scale organisation (e.g.) commercialisation of agriculture, unionisation of farm labour, and industrial production). Since urban life styles may set up expectations that cannot always be fulfilled in the locality, massive population readjustment occur as migrant streams move from peripheral areas lightly touched by urbanism to more thoroughly urbanised development regions of the country (Friedmann, 1973: 78).

2.3.2.4 Transformation from partial to complete regional integration

Each of the preceding three transformations of spatial system- functional specialisation of areas, increasing urban balance, and incorporation of most of the population into the culture of urbanism- contributes to the full regional integration of the nation. They do so not only by forging multiple and stronger linkages among all parts of the country, but also by encouraging greater geographical mobility of labour, capital, and commodities in expanding national and regional markets. At this point, the classical economic law of equal factor remuneration comes into full force, allocating resource in an efficient way according to the returns expected in each case (Friedmann, 1973: 79).

But regional integration has an even more basic meaning. It suggest the transformation of an entire nation into an innovative system with great capacity for self renewal, the integration of most of the population into a social realm of constantly expanding opportunities, and the creation of a truly national policy whose individual members have roughly equal access to decision making centres. These results will also tend to lead to less authoritarian patterns of social organisation and to a society held together by forces of innumerable strands of crisis-crossing communications, producing a “new man”.

The system of cities thus appears as a dynamic agent of development, not only generating but also mediating development impulses-an agent subject to change no less than changing, whose structural elements may be arranged in optimal ways to facilitate the process of national transformation (Friedmann, 1973: 79).

2.4 WHY LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICAN CITIES?

Hunter (1994), states: " There are a number of reasons why attempts to promote a local economic strategy may appear an attractive option. Perhaps the most compelling of these is related to the depth of the current depression and the extent of unemployment... With little substantial economic revival, there is little sense in relying on national economic policy alone for the situation." (Hunter, 1994 in Tommilson, 1994: 217).

More particular and focused reasons for proposing LED in South African cities might be :

- For several decades, the previously disenfranchised population in this country has had no or limited say in their future. In addition, there have been no forums for localised collective commentary. Historically, the medium of self-expression has been through channels opposed to the existing order. Advocacy for change has come in the form of dissent, and can consequently be seen to have primarily reactive. Through LED practices, individual communities are in a position to influence and participate in process that concern their social and economic futures. This can involve proactive measures to generate change, and not be limited to politics of resistance.

- National priorities differ sharply from local ones. Accordingly, there has been a tendency for national criteria to ignore the nuances within local areas. Given this, localities are more capable of defining their own needs. Through collective consensus, LED initiatives can provide the structural framework and vehicle for implementing a wide range of local objectives.

- Although policy formulation that guides and defines the parameters for growth is very often conducted on the national level, it is through local initiatives and sub national structures that concrete delivery is most easily realised. "While national initiatives may be able to deal more easily with circulation than with production, local initiatives and governments are closer to the particular and the detailed, and can therefore perform specific planning, animating and financing functions more effectively. They are also in a better position to have an effective on industrial restructuring" (Murray, 1989, in Hunter, 1994: 217).

- One single organisation or institution does not conduct LED. Instead, it relies upon the collective collaboration of a diverse range of community organisation, civics, labour organisation, local government and private sector institutions. In this way, it not only allows for a broad range of opinions, but also through the need for consensus, enhances democratic principles.

- Local processes are also more likely to engender a commitment and enthusiasm for projects and programmes identified by the local community. They also allow for the generation of local ideas where local knowledge and local practices, traditions and customs can be expressed and accommodated.

In essence then, local development implies 'local ownership'. It allows for the previously ignored sectors of the population to express opinions, participate in and have control over their socio-economic destinies.

If, in the light of the above, LED can be seen as an applicable response, what can local communities do to enhance their immediate environment and better equip themselves to contend?

2.5 THE CITY AS AN ELEMENT IN THE INTERNATIONAL SYSTEM

An international system may be defined as a set of social organisations or organised groups of people whose relations are governed mainly by threat and the perception of threat (Mcgregor and Maxey, 1997:133). Defined broadly, the international system goes back a long way in human experience, and the primitive international system of the Palaeolithic era may seem to have little resemblance to the complex international system of today. Nevertheless, in social evolution something like an international system has nearly always been presented and can be thought of as a segment of the total ecological system of mankind that is at least moderately recognisable and has something of an evolutionary pattern of its own.

In spite of the observation that even very primitive people have organised groups, -the relations among which are governed by some kind of threat system, -a case can be made for the proposition that the international system as we would recognise it today emerges only with the development of cities and civilisation, of course being associated with cities. The next stage of development of the city and the international system is empire, which begins when one city conquers another without destroying it. In the empire, there is a sharp distinction between the capital city and the provincial cities. The capital city is more purely exploitative, though the empire as a system usually involves the collection of surplus food by the provincial cities, some of which is retained and some of which is passed on to the capital city. There is probably more incentive, however, for the provincial cities to become producers of specialised manufacturers and to begin exchanging these with food producers for food (Boulding, 1968;150-160).

Finally, with the advent of the so called industrial revolution and the rise of science-based technology, political cities like Birmingham (England) and Detroit (USA) were established, and grew a basis of pure production and exchange, usually outside the old political structures.

These commercial and industrial cities play virtually no direct role in the international system, though their indirect influence may be great in strengthening the power of the nation state and the capital city, to which they happen to be attached. Thus the rise of cities like Birmingham, Manchester and Sheffield undoubtedly increased the power of Great Britain in the international system from the eighteenth century on. This increase in power, however, was largely accidental in the sense that it was not particularly planned by the central authorities and owed little to the success or failure in war. What was found here was a quite independent dynamic of exchange system that had the spillover effect on the international system (Boulding, 1968;150-160).

The United States is an example of a country that has risen to power in the international system largely because of economic development through production and exchange. In the United States, the fact that the capital city of Washington was insignificant for most of its history and even today is far from being the largest city, symbolises and illustrates the peculiar nature of this political organism. In the ideal type of a national state, the capital city is the largest city in the country and dominates the life of the country, acting as a centralised focus for inputs of information and outputs of authority and, as the derivation of the word implies, as a "head" to the body of the rest of the country, thinking of Paris, Rome, Madrid, Vienna, Warsaw, Copenhagen, and Tokyo. By contrast, Washington, Canberra, Ottawa, and Brazil play a different role in their respective countries. These might almost be called "economic" as opposed to "political" countries in which the major centres, such as New York, Montreal, Sydney, Sao Paulo are commercial and industrial cities rather than administrative and military centres. In this connection, it is interesting to note that even the state capitals of many American states are relatively minor cities like Lansing, Springfield and Sacramento, and it is highly significant that the capital city of Germany is Bonn. (Boulding, 1968;150-160).

Both the economic and the political structure of the modern world are dominated by the reduction in cost of transport of people, commodities, information and violence. Clustering of any kind is a result of the cost of transport of products. If cost of transport were zero, an activity of any type is expected to be uniformly spread over space. The lowering of costs of transport, therefore, inevitably reduces clustering and increases dispersion. This is seen very clearly in what is happening to cities. The central cities are decaying and disintegrating. The level of amenity in them has fallen, while the level of violence has risen. The central cities may decay completely, and an urban structure may emerge that looks like something like chicken wire; a network of ribbon development enclosing areas of country and rural settlement. The automobile, the telephone, the television, and the missile with a nuclear warhead-all move the ecological system in the same direction (Boulding, 1968;150-160).

The problem of integrating the city into the world community is much more difficult than the problem of reorganising it locally. Nevertheless, the future of the city as an institution probably depends more on the future of the international system than it does on any other aspect of social life. More than any other aspect of sociosphere, the international system is destroying the city -either physically by bombing or more critically by eroding its problem solving capacity through the withdrawal of both intellectual and physical resources into the international system itself. The brain drain into the international system and war industry is one of the principal reasons why the city receives so little attention and why the attention it has received in such efforts as urban renewal and public housing, has been largely disastrous. The impact of urban renewal and of throughways on a city is physically not unlike that of a small nuclear weapon, but with less damages to bodies and perhaps more damage to minds. The cities by themselves, of course, cannot solve the problem of the world community, though one would think they might exercise a little bargaining power on it (Boulding, 1968;150-160).

The essential key to this process may be the development of self-consciousness in the city dweller as a member of a world city. It is suspected that the unexploited bargaining power of the city is great simply because the city, disorganised as it is, is inevitably a focus or nodal point of the world network of communication. Airports are the synapses of the world communications network; so in a sense are the television stations and the newspapers of the city. This is also the case for universities. It is a pretty fair generalisation in the theory of location to say the synapses, the gaps, or the switches in the communications and transportation network produce the city in the first place. This is why, for instance so many cities have risen at ports, at heads of navigation, and at points of transhipment. In a world in which the transportation of communication is beginning to overshadow the transportation of commodities because of its position in the communication network – cities have real power that is as yet not exploited, mainly because it is not self-conscious (Boulding, 1968;150-160).

2.6 ECONOMIC GROWTH AND DEVELOPMENT OF A CITY

2.6.1 Introduction

The forces feeding national growth and development are as potent and ineluctable as deep ocean currents and like them, requires a navigator with an abiding respect and instinct for change of pace and direction. It has been learned, at some cost, to respect the extent to which growth and hence population movement are channelled by a host of nominally unrelated policies concerned with highway building, defence expenditures, taxation, and the like. "National growth and development" really means directing these "hidden" forces to advance conscious objectives (Ruhiiga, 2001: 41-42).

The main determinants of economic growth include a growth in the supply of labour, growth in the stock of capital and technical progress. The first condition may be a result of natural increase in population, and hence, labour participation rates. It may also arise as a result of migration. The latter presupposes a restraint on aggregate demand through policies that curtail disposable income and encourage savings behaviour at household level. Investment in the production of capital goods allows for an increase in the stock of capital on and above that segment required to replace absolute capital. The third condition, technical progress, includes improved production techniques, inventions, innovations, better machinery, equipment and improvements in education. Anything that improves the quality of labour and capital becomes a component of technical progress. The effect is to raise the productivity of capital and labour (Hardwick, et al, 1994: 444). In the long run, investment is a component of aggregate demand in addition to the stock of production resources. This is the objective of the Harrod-Domar model that extends the short run Keynesian model. In addition to these three determinants, government growth policies are very critical. These are either monetary or fiscal. Tax increases restrain aggregate demand by freeing resources for re-deployment into capital-creating projects. Once aggregated consumption is cut, this should increase aggregate investment. Monetary policies commonly target the lowering of interest rates and relaxation of access to credit. Unfortunately, both fiscal and monetary policies often produce counter reactions that may undermine growth possibilities in the economy (Ruhiiga, 2001: 41-42).

As mentioned in the previous paragraph, urbanisation and economic growth in developing countries goes hand in hand. There is also a dynamic component to this discussion of optimal urban concentration. In the development literature of Williamson (1965), as adapted to an urban context in Hansen (1990), a high degree of urban concentration in the early stages of economic development is viewed as essential to efficiency. By spatially concentrating industrialisation, often in coastal cities, the economy conserves on "economic infrastructure"- physical infrastructure capital (transport and telecommunications) and managerial resources. Such spatial concentration also enhances information spillovers at a time when the economy is " information deficient" and it may similarly enhance knowledge accumulation (Lucas (1988), Black and Henderson (1999)). As development proceeds, eventually deconcentration becomes efficient for two reasons. The economy can afford to spread economic infrastructure and knowledge resources to hinterland areas. Second, the cities of initial high concentration become high cost, congested locations that are less efficient locations for producers and consumers. On the positive, empirical side, Wheaton and Shishido (1981: 20-24) find the pattern of increasing and then decreasing urban concentration across countries as income rises, to be a result consistent with findings of regional convergence within countries over time.

Whatever the best degree of urban concentration at any point in time, there is a presumption in the literature, that urban over concentration is costly to economic growth. Williamson (1965) initial concentration proceeds too far and deconcentration is delayed too long. There are three strands in the literature. The urban literature argues that, at any point in time, the various city sizes across the economy will only be efficient if national land development markets work perfectly (Henderson (1974), Becker and Henderson (1999). That perfect working requires new cities to be able to form freely, usually through the initiative of large scale land developers and local governments, in a context where there are strong institutions governing land markets and contracts and there is complete local fiscal autonomy. If these conditions are not in place, cities will be oversized, resulting in excessive urban concentration as in self-organised world (Fujita et al. (1999) where no developers/local governments act to aid the development of cities. In all models, having undersized cities does not constitute a stable equilibrium; cities are either of efficient size or oversized. Caveats in Williamson (1965) contends that efficient city size is defined for a given level of technology and amenities and cities are assumed to efficiently subsidise industrial location so as to internalise local scale externalities. A city can be too small relative to its efficient size in a better equilibrium.

The second strand of the literature tries to assess the costs and benefits of increasing city sizes (Tolley, Gardner, and Graves (1979) and Richardson (1987). Tolley et al.'s (1979) empirical work tends to suggest that in large cities the social marginal costs of increasing city population exceed the marginal benefits and such cities are oversized.

Richardson (1987) focuses on the investment costs size. Based on work on Bangladesh, Egypt, Indonesia, and Pakistan, he argues that the social investment costs of absorbing and extra family in typical large urban areas are threefold that of rural areas, and even more for the largest city in the country. As related evidence on private costs, UN data for 1996 on metro area rents and commuting costs for a sample of 80-100 cities across 15-20 countries world wide suggest that, if urban area size increase from 25,000-2.5 million, commuting and costs rise by 115% (Henderson 1999b)). This literature tends to presume that the social marginal benefits of moving a family to large urban areas do not justify the various costs, implying these cities are over sized.

The final strand of literature (Renaud, 1981 and Ades and Glaeser 1995) argues that often the political institution in countries encourages over concentration. The idea is that, in many countries, there is a lack of a level playing field across cities. Typically, such cities are national capitals (Bangkok, Mexico City, Jakarta, or Seoul, not to mention Paris); but there may also be Sao Paulo, the seat of national elite. Such favouritism can involve the allocation of local public services in favour of national capitals, where decision-makers live. That problem can be exacerbated if hinterland cities do not have power to determine their own public service levels, either because of a unitary national constitution or because local autonomy has been suspended. (as in Korea from 1961 to the 1990's).

All analysis suggest that favoured cities are oversized with attendant efficiency losses for the country. Migrants and firms flow to a favoured city, until it becomes so congested and costly to live in, that these costs offset the advantages of the favouritism. Moreover, the excessive resources devoted to one or two favoured cities detract from the quality of life in the rest of the urban system. Henderson (1999b), based on the UN data set for 80-100 cities in 1996 world-wide, shows that high urban concentration in a nation increases child mortality, pupil-teacher ratios, use of non profitable water and other poor quality of life dimensions in typical medium size metro areas, after accounting for size, income, and growth differences among cities. For example, a one standard deviation increase in the national measure raises child mortality in typical cities by 1/3 of a standard urban deviation of the child mortality rate across cities in the sample. So the costs of excessive urban concentration are felt throughout the whole urban system, not just in very large cities (Henderson, 2000: 2-4).

2.6.2 Economic determinants of a city growth

Primarily, the measurement of city growth is the growth of population. Population growth might not be appropriate for a country because population is relatively immobile and differences in population growth mainly reflect differences in fertility. Across cities, population growth captures the extent to which cities are becoming increasingly attractive habitats and labour markets. Income growth is a natural measure of productivity growth across countries because labour is immobile. When labour is mobile as it is across United States cities-and across United States' states-the situation is radically different. Within the United States economy, migration responds strongly to growth opportunities and income growth will capture some portion of productivity growth, but it will also capture declines in the quality of life. Income growth is therefore a less straightforward measure of urban success (Glaeser et al,1992: 127).

One concern about population measure is the movement of population to city suburbs, even when people continue to work in the city. For example, when people avoid pollution, bad schools or racial tension in a city, they move to the suburbs. Because of this suburbanisation, the city's population falls even if its employment doesn't drop. Since cities' differences are not created by different savings rates or labour force endowments, the results suggest that higher education levels influence later growth not through savings, but through influencing the growth in technology (Glaeser *et al*, 1992).

Many of the explanations for the connection between growth and initial human capital levels across countries have focused on productive externalities generated by schooling. Since these externalities should be particularly prevalent in cities, finding a connection between growth and initial schooling across urban centres supports the view of schooling as a generator (through spillovers) of growth. The robust relationship between schooling and growth for SMSAs, city employment, and city income growth provides more evidence supporting the positive role of education in economic expansion (Glaeser *et al*, 1992: 140).

Cities are subject to powerful international forces and compete with each other across the globe for investors, business, skilled people, entrepreneurs, visitors, consumer and image. This raises the stakes. Opportunity for growth and prosperity expand dramatically as cities and their entrepreneurs look beyond national boundaries for new markets. Simultaneously, the possibilities of decline and impoverishment are more pronounced as the competition increases (Bernstein, 1998).

Key issues of urban success, as illustrated by international experience, are:

- Leadership and Vision. To survive and compete in the global arena, cities must have strong leaders. It is difficult for a city to be marketed in the face of stiff opposition from its rivals if its leaders (politicians, planners, managers, business people, trade unions) do not have a clear vision of its future. This vision needs to be supported by the city's inhabitants-it provides the framework for choices about priorities as the city position itself for more effective regional and international competition (Bernstein, 1998).
- Governance. Cities must be liveable, competitive, well governed and financially sustainable (or bankable). These requirements place big demands on urban governance and management, which need to address public responsibilities with know ledge, skills, resources and procedures that draw appropriately on partnerships. A city that operates in a global economy links the flow of goods, people, information and finance to distant sources and destinations (Bernstein, 1998)
- Economic Knowledge. City governments needs to understand the dynamics of their own economies and the forces affecting them so as to play a catalytic role in new forms of economic growth (Bernstein, 1998).
- Priorities. Cities need to comply with acting standards if they wish to compete as locations for foreign and domestic investment. They must provide solid public services and a business-friendly environment to retain their traditional firms and attract new ones. The new global economy is built on access and connection. This means infrastructure, particularly transport and

communication, is a top priority. The other key ingredients in competitive advantage are the education, skills and health of a city's workforce (Bernstein, 1998).

- New powers. Few cities anywhere in the world have the powers they need to deal with the issues affecting their prosperity. Cities need to lobby national government for the powers and authority they must have if they are to compete successfully. (Bernstein, 1998).
- Global vision, local neighbourhoods. Cities need to project themselves into the competitive global arena and combine this with a passionate concern for equality for life citizens and enterprises. Successful cities are a "collection of cosmopolitan, functional and living neighbourhoods" and must be managed as such (Bernstein, 1998).
- Hope and opportunity for the poor. Cities-especially developing nation cities-need strategies for providing the poor with affordable housing and ensuring that, over time, shack areas become suburbs. This can happen only if people are employed (Bernstein, 1998).
- Strategy and image. A strategic plan for global competition must strengthen or reposition the image a city has of itself and how others perceive it. Cities must identify natural advantages and exploit them. Cities need their citizens to be proud of their city and positive about its future (Bernstein, 1998).

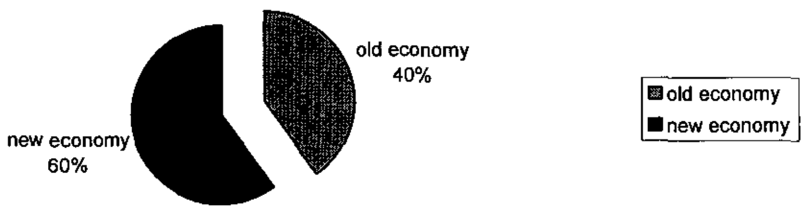
In essence, cities need strong leadership; a strategic, pragmatic vision of their potential competitive advantages; and an achievable, believable programme for getting there. The challenges facing any city in an era of global competition are formidable. South African cities will have to perform better than most because they are located in a region that has many negative attributes. The main thrust of spatial development strategy in South Africa should be to strengthen all major cities, including Johannesburg, Cape town, Pretoria, Port Elizabeth, East-Rand and Durban as efficient, safe and attractive economic centres. This is where the greatest latent economic potential of the country lies.

2.6.2.1 Types of cities economic activity

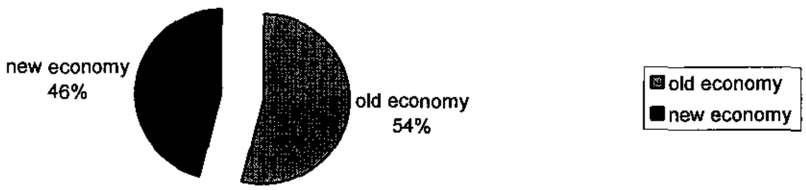
Just as examining cities in the aggregate masks key differences between types of cities, examining aggregate economic indicators can mask key differences between economic sectors or types of activity. Cities play a role in the national economy far more critical than even the static snapshort reveals. City economies are disproportionately composed of the most important and highest growth types of economic activity, and cities also house many activities that act as hubs, and even drivers, of metropolitan economies, making cities important far beyond their static percentage of assets and productivity (Weissbourd. *etal:* 2001).

Figure 2.2: City Economies

CITY ECONOMIC BASE



SURBURBAN ECONOMIC BASE



(Source: Weisbrod etal, 2001:14)

Looking at this data in a different way, the cities have 60% of their economic activity in new economic sectors, compared to 46% for the suburbs.

The economic activity of the cities is concentrated in what is generally accepted as the most important and highest growth sectors to the new economy. Cities have a proportional amount of high technology activity, and significantly higher than expected concentration in services, and TCU (transportation, communications and utilities). While TCU, for example, constitutes 6.5% of metropolitan economies overall, it constitutes 7.5% of city economies, creating a "city multiplier", indicating the disproportionate concentration of city economies in this sector (Weissbourd. *etal:* 2001)

2.6.2.2 Cities are hubs for metropolitan areas

Not only are city economies concentrated in many of the most critical sectors. They are also concentrated in sectors on which metropolitan economies particularly depend. In other words, cities also disproportionately house some types of institutions or infrastructure that make them the economic hubs of their metropolitan areas. Features ranging from museums to hospital have been cited in highlighting varied "hub" roles for cities: as idea and innovation centres, corporate command centres, financial centres, key sources of infrastructure or cultural amenities (Weissbourd. *etal:* 2001)

However, the key point with respect to cities as "hubs" is not really how big their share is, but rather the special role played by the activities. This is a grossly simplified version of a theme amply demonstrated in the "new economic geography" (e.g., Krugman). Cities are important in many ways that data may not fully reveal: even if their economic share were dominant, they could still be the central node holding metropolitan economies together (Weissbourd. *etal:* 2001)

2.7 THE CHANGING CONCEPTS OF LOCAL ECONOMIC DEVELOPMENT AND RESTRUCTURING

"Local development" refers to the mobilisation and management of resources in order to create wealth in a community. It is linked to economic policy measures adopted by the authorities in a community or region. Local development, like the concepts of economic restructuring, is an ambiguous concept. New concepts of local development have emerged in recent literature. According to Conti (1993: 118) the concept of local development implies a process of activation of specific territorial factors of transformation. In this light, it is far from those restrictive interpretations of a normative nature according to which a process of local development is understood as endogenous development activated almost exclusively to local actors. Local development, on the contrary, does not refer to the idea of "localism", which theoretically and practically, regards a problem of territorial rooting in the strict sense, and does not even coincide with the idea of small peripheral area.

This means that local economic development and ensuring the continuity of a resource community (in the sense of retaining its common identity and culture) are not necessarily synonymous. Local economic development refers only to the development of the economic basis of a community or simply to the promotion of the competitiveness of enterprise.

"Restructuring refers to fundamental changes in the organisation of a community; for example, changes in the mode of production, major changes in the economic basis of a community (such as the closure of a mine), or changes in the interplay of market mechanisms and local actors. The restructuring concept thus contains a wider theoretical and more fundamental perspective than the policy-orientated concept of local development.

Restructuring is the process that leads to a new or different structure or arrangement of the system under consideration. In earlier geographical and regional studies, the word was employed to describe the behaviour of a firm in its endeavour to improve its competitive position (Cooke, 1986: 4). It is now used in a broader sense to describe structural, economic led changes in a society (Friedmann (1991), Welch (1993)including countries in transition (Scholtes (1996); Stenning (1997). The closure of an old plant, the growth of a new system of production based on new economic base, drastic shifts of employment from one sector to another, continuous depopulation of rural areas, the unmanageable growth in cities, the privatisation of industrial capital, and changes in the bases of the electoral systems of local councils are all examples of structural change in societies (Tykkylainen and Neil, 1993: 6-7).

2.7.2 The pressures to restructure

The processes that generate the need for resource communities to restructure are numerous and often interrelated. They may stem from international, sectoral, national, or local factors. Some of these processes, such as the exhaustion of non-renewable resources, are inherent to the very nature of many resource communities of the 1990s and are not new. Transition, sectoral transformation, different policy related factors, and the attributes of a locale and locality are all highlighted in the case studies, one process often reinforcing another. The key process associated with the fundamental restructuring that have affected the researched communities are:

- Changes in national policies and prevailing political economies-the collapse of the socialist regimes, the playing down of the welfare economy concept, deregulation, and the reinforcement of other market economic principles
- Shortcoming in public policy-continuing budgets deficits, high unemployment rates, and unstable exchange markets-leading to uncertainty in the examined communities;
- The globalisation of economies;
- The collapse of the socialist bloc, and the reorganisation of international trade and tourism;
- Economic pressures leading to the search for more efficient production through the introduction of robotisation, computer-mediated communication, and telecommunications into industrial processes; and
- The revival of local economic policies in many countries, and an associated restructuring of the socio-economic institutions and philosophies.

2.7.1.1 The revival of local economic policies

A considerable shift in regional policy doctrine has taken place in the past two decades. Investments in infrastructure, various private/public and local/central partnerships, and the deregulation and opening of local economies for competition have replaced Keynesian-type regional policies, which emphasised regional assistance through financial incentive to growth. In contrast, in accordance with the now widely accepted supply-side approach, one country after another has employed applied research and technology in its less developed regions, improved communications networks, ameliorated market rigidities and attracted foreign capital to communities. Authorities and development corporations at the local level develop housing, infrastructure, cheap premises, and favourable business environments. Development authorities are often ready to support companies to train labour in greenfield projects. Local economic policy concentrates on enabling a community to remain a viable candidate in the international competition between localities seeking to sell themselves as suitable localities seeking to sell themselves as suitable locations for industries (Neil and Tykkylainen, 1993: 15).

This kind of policy opens many countries to foreign competition, and it increases the specialisation of production. Former socialist countries have joined in the competition between localities. So far, inexpensive skilled labour has been their advantage, and a poorly developed institutional business environment their disadvantage. Throughout the world, local economies are creating opportunities for integration in the worldwide production chains. If successful, this development leads to increased wealth. In the event of failure, it may lead to social dumping and the emergence of low wage factories and sweatshops. Successful or otherwise, this process leads to resource communities becoming more and more sensitive to the economic fluctuations originating from international markets. This reveals how the more open and market-led policies work in practice and what their consequences are (Tykkylainen and Neil, 1993: 15).

2.8 SUMMARY

The aim of this chapter was not only to provide sufficient information on LED from a literature perspective to develop a sound understanding of the concept, but also to identify the latest developments in this approach. This was done by providing answers to questions relating to what LED is, its background, who is involved, what does it aim to achieve and how applicable it is to the problems cities face today.

In defining LED it is clear that it remains in essence a local initiative in reaction to changes in the internal and external environments by effectively allocating available resources to reach LED's objectives. A distinction is made between ad hoc LED projects and LED as a discipline. LED's origin is rooted in recognised base development theories and LED as a discipline incorporates essential elements of these theories. LED incorporates crucial elements of these theories that relate directly and indirectly to local economy.

From the discussion it is clear that new key role players form part of the LED process and the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. Neither the role players nor the roles they play are set in concrete and the extent of their involvement could differ between certain localities and circumstances. This aspect holds numerous advantages for new democracies where there is a need for means by which to increase the involvement of sectors of the economy that were previously excluded from economic decision-making and participation.

The fact that the latest wave of LED incorporates phenomena like globalisation and stresses the importance of locality marketing, gives some indication to the question of LED's applicability to the problems cities face in today's day and age. This question and other issues relating to the importance of the effect of the external environment are highlighted in the next chapter.

It was illustrated in section 2.2.2 of this chapter that LED will not function in practise as a theory if other related issues are neglected. LED policy could not stand alone, but should involve various other policies and other state departments in an integrated strategy. Better utilisation of modern technology requires skilled labour to promote LED, which is the responsibility of the Department of Labour. An integrated strategy will require the participation of all role players as illustrated in section 2.2.3 and well planned propaganda might be to some advantage to get everyone to play their role in building the economy.

Local governments should exploit LED to the best of their advantage. What is required is not a total absence from all economic activity, but rather the designing of smart policies that can utilise the advantages of LED in their favour. LED and its policies must strive actively to develop modern technology competence for the local government so that it would able to compete on the international platform. Local governments and South Africa should not only absorb everything from the western countries but should develop their own economy through LED.

In attempting to explain how cities can complement LED in section 2.3-2.5, several trends in economic thought seem especially relevant. Thus if the distribution of cities in a country follows the laws of economic efficiency, greater scale economies should result in cities being completely open economies. City growth appears as an irrepressible accompaniment of modern development experience in underdeveloped countries. The statistical evidence leaves little question on this score. The data for nearly all the developing underdeveloped countries also show that large cities tend to grow at faster rates than smaller ones and that the national capital complex is particularly favoured.

Primarily the measurement of city growth is the growth of population. Population growth might not be appropriate for a country because population is relatively immobile and differences in population growth mainly reflect differences in fertility. Across cities, population growth captures the extent to which cities are becoming increasingly attractive habitats and labour markets. In essence, cities need strong leadership; a strategic, pragmatic vision of their potential competitive advantages; and an achievable, believable programme for getting there. The challenges facing any city in an era of global competition are formidable. South African cities will have to perform better than most because they are located in a region that has many negative attributes as explained in subsection 2.5.1

The chapter concluded in section 2.6 by giving special attention to the changing concepts of local development and restructuring. LED, through industries and especially through manufacturing, has to grow to provide necessary commodities that are demanded on the market. Growth is even important in the provision of employment to society to earn a living and alleviate poverty, which will only be possible when a country is globally competitive.

CHAPTER 3
GLOBALISATION AND INTERNATIONAL COMPETITIVENESS

3.1 INTRODUCTION

As was discussed in the previous chapter there has been a shift in local economic development literature over the last two decades away from the perception of a locality as a passive receiver of economic activities. In chapter 2, it was pointed out that local economic development needs to take globalisation into account. In particular, municipalities (local authorities) need to focus increasingly on the international competitiveness of their locality in order to attain sustainable economic development.

The focus in this chapter is that competitive platform should enable municipalities through local economic development (LED) not to withdraw from the global world, but to position themselves strategically so that they can benefit from globalisation, since international trade is becoming increasingly important to municipalities wealth as the volume of cross border trade is increasing. This will also help municipalities to develop global economic strategies. The developments in the South African economy, and in particular the development of local economic development (LED) in municipalities described in the previous chapter, should be seen within the context of globalisation, which means that this chapter will consider the effect of globalisation on South African municipalities. The different views on globalisation will also be considered in section 3.2, 3.3, 3.4 and 3.5. as well as the way in which it is transforming the economic space and technology. In the new economy, as explained in these chapters, the new economy, people, cultures, regions and economies are melded into a global market through the advances in transportation and information and communication technology.

Owing to improved telecommunications, a decline in the relative prices of some forms of transportation and an increased integration and liberalisation of international economic relations- a globalisation of economies -has taken place. For resource-based municipalities, globalisation, together with changes in government control, has led to a new market situation.

The first section of this chapter will therefore aim to provide some insight in the international debate surrounding the changing economic order that is linked to phenomena like globalisation and a changing competitive environment. These phenomena and other related international trends, namely the technological revolution and rapid urbanisation which have been characterising the post 1970s world economy, have altered the way in which it is appropriate to conceptualise and to operate policies in globalisation, and justifies further discussions.

The second section on this chapter will concentrate on international competitiveness. One of the most important ways of getting the much-needed investment and becoming competitive is for the domestic economy to become attractive to investment. In section 3.6 of this chapter competitive advantage related by Professor Porter from Harvard Business School is reported as he argues that competitive advantage based on factors of production does not sufficiently explain patterns of trade. The chapter further explains the importance of competition and how it affects the economy of the country together with competitiveness in Africa as well as South Africa and its obstacles.

The balance of this chapter will explore the influence of the determinants individually and jointly, on the ability of South African municipalities to achieve competitive advantage economically, which includes how the entire national economy develops in international competitive terms, and finally, attention is given to international competitiveness and the effect of globalisation and modern technology on competitiveness.

3.2 GLOBALISATION

"Globalisation is a reality, and people who speak in terms of wanting it to happen or not are living in a fantasy world"- Jean –Francis Troglic, National secretary of

International Affairs for the Democratic Confederation of French Labour (Walsh, 1997: 38)

Nations, regions, cities and communities alike are being warned by Jean-Francis Troglic that they need to take heed of the rise of the global economy, because it holds consequences for the national and local economy and also the quality of life of communities. But what is the important phenomenon and what are the consequences it holds for the city?

3.2.1 Defining globalisation

Globalisation is one of the most powerful and pervasive concepts in the world today. Globalisation is often used as a reason, or an excuse, for almost anything. Nearly all private actions or public policies can be justified in some way as a response to the effects of globalisation, be they positive or negative, real or perceived (Veseth, 1998:12).

The root cause of misunderstanding globalisation is that of ignoring its complexity. Complex social issues that are difficult to understand are simplified; Facts are taken into account while ignoring others (or taking them as a given fact). If the issue is complex enough, it is possible to see exactly what people wants to see (Veseth, 1998: 90).

Globalisation conveys the widely accepted idea that people are living in the borderless world. According to this view, globalisation signifies the end of geography. Notice is no longer taken of distance or national policy, and national governments must accommodate what global markets dictate (Veseth, 1998: 21). On the political map the boundaries between countries may be very clear, but on the competitive map that shows the flows of financial and industrial activity, such boundaries have largely disappeared. National economies are no longer immune to external influences and cannot be insulated from global effects (Jordaan, 2001: 80). This definition accords with that of Little (1996: 427), who represented the possible future vision of globalisation as follows: central to the concept of globalisation are the notions that economic, political and cultural arrangements transcend national boundaries and achieve integration on a world scale; that a single culture and society will, in time, come to occupy the planet; that geographical territoriality will no longer be a fundamental organising principle of society and culture; that economic, political and cultural arrangements will be highly differentiated with many forces of power. Local aspirations, which have been subdued or suppressed by national ideology, may find expression within economic, political and cultural arrangements supported at a global level.

According to the New Oxford Dictionary (1998: 780), globalisation is to "develop or be developed so as to make possible international influence or operation", and a global village is one where the "world is regarded as a single community linked by telecommunications". Petrella (1996: 65) finds globalisation too vast an idea to express in a single sentence and therefore tries to capture its meaning through a list of related concepts:

- Globalisation of finance and capital ownership.
- Globalisation of markets, strategies and competition.
- Globalisation of technology, research and development, as well as knowledge.
- Globalisation way of life and consumption patterns (culture).
- Globalisation of regulation and governance.
- Globalisation as the political unification of the world.
- Globalisation of perception and consciousness.

Global consciousness has been defined as "receptiveness to (and understanding) of cultures other than one's own, often as an appreciation of world socio-economic and ecological issues"(Robertson, 1992: 8). In general terms, globalisation imparts a notion of compression or shrinking. It is also the process of economic, political and social change that occurs when all participants in a system have access to a common pool of resources. This common pool includes markets for capital, science, technology, goods and services and cultural goods. Access to the global resource pool changes the dynamics of the system, as well as the nature of competition (Veseth, 1998: 26).

The nature of competition changes if individual firms benefit from the resources that they draw from the global pool, especially if they do not bear all the costs. Costs will be reduced if firms are able to employ labour and utilise natural resources without having to invest in a region's education, training and environmental protection. In a global market, a firm can move on if resources in a specific region have been depleted. In this sense, a temporary competition advantage is experienced and a "free rider" problems arises (Veseth, 1998:26). Financial markets constitute that element of the common resource pool that comes closest to being truly global. It is therefore important to realise that financial markets constrain what governments can do, and not the other way round.

A common resource pool implies that a country has the necessary means to share in that pool. In southern Africa's case, however, owing to inadequate access to global resources, among other things, this cannot be taken for granted. Therefore it cannot be assumed that southern Africa will be able to reap the perceived benefits of globalisation in the same way as other regions. For the purpose of this research, it is taken that no country or economy can function in total isolation, but that it does not necessarily have automatic access to global resources and may influence or be influenced by the rest of the world.

The concept of globalisation is explained qualitatively as the degree of integration among geographically dispersed activities as opposed to the extension of activities across boundaries, which is referred to as " internationalisation".

Based on this theoretical explanation, Mittelman (1996: 3) proposes that globalisation is world-wide phenomenon consisting of varied transnational process and domestic structures that allow the economy, politics, culture and the ideologies of one country to penetrate another. Mittelman (1996: 3) states further that, through changing modes of competition, globalisation compresses the time and space dimension of social relations. Globalisation is a market induced and not a policy led process.

On the basis of this explanation of globalisation, authors such as Held (1992: 192-202) maintain that most states no longer have a choice but to assimilate and integrate with the new developing world order for their own survival.

In order to put this theoretical explanation into perspective it must be noted that, according to Berner and Korff (1995: 208), an awareness of the global interconnectedness of social, economic, political and ecological problems has been emerging since the 1970s. These authors state further that the ongoing process of globalisation is a recognised phenomenon and many writers regard it as synonymous with "westernisation" or "Americanisation", especially since the demise of the communist bloc.

Despite the acceptance of globalisation as being a fait accompli by most political economists, Hirst and Thomson (1996: 2) regard globalisation as perceived by most authors, including those referred to above- as a myth and argue from their economic perspective as follows:

- Genuine transnational companies appear to be relatively rare.
- Capital mobility is not producing a massive shift investment from the advanced to the developing countries.
- It is generally recognised that the world economy is not genuinely "global" as trade, investment and financial flows are concentrated in the triad of Europe, Japan and North America, and that this dominance seems to continue.
- The major economic power, the G8, has the capacity, especially if it co-ordinates policy, to exert powerful governance pressures over financial markets and other markets and other economic tendencies.

Despite the existence of international bodies such as the International Labour Organisation, UNICEF, the United Nations and the World Trade Organisation, issues regarding rights of women, fair labour laws, freedom from discrimination, land reforms and policy reforms regarding disability, ageing, street children and youth are largely carried out within boundaries. Ife (1995) advocates an ecological, holistic perspective that ensures that the "global implications of local actions can be addressed". The impact of global phenomena at local levels must also be recognised and addressed. There are various interdependent dimensions of globalisation, including the economic, cultural, communication, educational, political and psychological dimensions. Despite the rejection of the idea that economical growth will, in itself, contribute to development and alleviation of poverty, it is economic activity that has come to constitute the dominant discourse in globalisation (Hall, 1993; Ife, 1995; Dava, 1993; Midgley, 2000). The process of economic globalisation is not new. However, information technology has dramatically altered the speed, scale, inclusiveness of the global economic order and the nature of global economic activity (Ife, 2000). Writers such as Hoogvelt (1997) and McMichael (1996) have associated economic globalisation with mordenisation, colonialism and imperialism.

3.2.2 Information

The flow of information plays a major role in eliminating boundaries between countries. Information that was monopolised by governments was often treated as they saw fit and redistributed in forms that suited their own purpose. Such monopoly of information about what was happening in the world "enabled them to fool, mislead or control the people, because only the governments possessed real facts in anything like real time" (Ohmae, 1991: 19). Today, people are increasingly able to acquire information from all corners of the world. Consumers want to buy the best products at the best prices, no matter where in the world these products are produced. The direct flow of information to the consumers is eroding the ability of governments to pretend that their own interest are in harmony with those of their population (Ohmae, 1991: 185). According to Edoho (1997: 5), the information revolution is:

"......hurrying the collapse of the old orders, accelerating the velocity of social and political change, creating informed and politically active publics and inciting conflict by publicising the differences between people and nations."

In some countries, a lack of information may still represent serious limitations to the establishment of an environment populated by well-informed citizens. Successful development therefore entails acquiring and using knowledge between societies. Developing countries who wish to position themselves and take advantage of the existing opportunities basically have a threefold task (World Bank, 1998/9):

- The acquisition and adaptation of global knowledge.

- Investment in human capital to improve the ability to absorb and apply the knowledge.
- Investment in technology to facilitate both the acquisition and the absorption of this new found knowledge.

3.2.3 Technology and Employment

Less developed countries, still producing goods largely derived from their land, continue to hanker for more territory. In economies where capital, labour, technology and information are mobile and have risen to predominance, no such craving for land remains. According to Veseth (1998: 23), "the world is embarked on a progressive emancipation from land as a determinant of production and power".

Howells and Wood (1993: 3) noted that:

> "Technology is a basis, stimulant and medium for collaboration among firms, for investment and trade and for organising and managing international operations. Reciprocally, globalisation is changing the ways in which knowledge is produced, converted to technology transformed into goods and services."

It may be assumed that the innovation and expansion of technology will have some as yet unknown effect on the level of employment. Some people are convinced that there will be a dramatically negative effect on the creation of employment. According to the advocates of the 20:80 society, 20 per cent of the world population will suffice to keep the world economy going in the next century. More labour power is not necessary as one-fifth of all job seekers will produce enough to meet world demand. The remaining 80 per-cent will remain unemployed (Martin and Schumann, 1996: 3). This is an alarming factor that can already be seen in a country such as Germany, where 6 million job-seekers-more than at any time since the founding of the Federal Republic-could find no secure employment in 1996. Similar trends have been reported in Austria, where 10 000 industrial jobs disappear every year (Martin and Schumann, 1996).

A study undertaken by the International Labour Office (ILO, 1999) provides empirical evidence that trade liberalisation in South Africa may have shifted production in favour of capital intensive sectors and to the detriment of labour intensive ones. The study also states that the chronic shortage of skilled labour had a negative consequences in terms of economic growth and may have hindered the development of labour intensive sectors. It concludes that this hampers the ability of the labour market to adapt to the instability often associated with globalisation.

The effect that international information technology will have on employment has not yet been clarified. Blignaut (1999: 7) argues that although some observers are convinced that information technology creates as many jobs as it sheds, others feel that its positive impact on employment is exaggerated.

This implies that in a globalised world, business will become relatively smaller but more dynamic. Opponents of this view argue that much of the current economic success the United States is experiencing is due to the availability and role of technology. Blignaut (1999: 8) agrees: "There is talk about the possibilities of economic growth under conditions of inflation and zero inflation and zero unemployment".

Such a situation was considered impossible after the global economic turmoil of the early 1970s. The development of new technologies had always played a major role in the movement towards social and economic globalisation. It is also often argued that the current process of globalisation would have been impossible without technologies.

An important task of a government is create jobs, in other words, governments must create new domestic markets and protect existing domestic markets from illegal foreign products and capital (Ohmae, 1991: 15). As markets are liberalised, wage rates normally increase in the long term. The consuming habit caves in, the economy shifts rapidly to the service sector, and latter comes to provide more and more of the total employment. It is all about adding value and not production per se. To open up an economy, a country can take advantage of the job opportunities created in this way. This only holds if the companies invest, train, employ, pay taxes and build up infrastructure in the domestic economy (Ohmae, 1991: 195). What nations need, however, is the determination to succeed in the global marketplace. Some successful nations have learned to live with the door unlocked.

3.3 THE GLOBALISATION OF MARKETS

As illustrated in the previous section, globalisation refers to the unprecedented degree of freedom in the international exchange of goods, services and capital that now exist worldwide and that forges ever-increasing integration among national economies. The basic philosophy of the 1944 Bretton Woods conference, at which the International Monetary Fund (IMF) and the World Bank were created, centred on free trade and open, competitive economies that eschew protectionism. That philosophy became the cornerstone of the rapid growth and international prosperity of the half century, encouraging producers to focus on their comparative advantage and efficiency, thereby providing consumers with more and better goods at competitive prices. The conclusion of the Uruguay Round and the creation of the World Trade Organisation (WTO) earlier in this decade, as well as the development of major trade agreement, have further consolidated global economic integration (Van Houten, 1998: 74-75).

The internationalisation of financial markets, which at first proceeded slowly, acquired momentum in the second half of the 1980s, spurred by the unification in Europe and by the revolution in communications technology. As a result, there has been a rapid dismantling of remaining capital controls in the industrial, as well as in many developing countries. Freedom of capital movement is the logical complement of free trade: it raises savings and investment world-wide, lowers the cost of capital, improves its allocation among investment options and provides investors with a wider choice of financial instruments. Capital flows to developing countries, which had remained modest during most of the 1980s, rose rapidly thereafter to annual levels of close to US$200 billion in 1995 and 1996, before falling back to lower levels as a result of the Asian crisis. Capital mobility and financial globalisation have thus been a major force of growth, structural change, increasing employment and rising prosperity in many developing countries (Van Houten, 1998: 74-75).

The key implications of financial globalisation are the requirement for increased discipline of governments to maintain sound and consistent macro-economic and structural policies, and the extra premium that it will generate for wise investors. Indeed, in today's markets, investors, in their search for profit optimisation, exercise their critical judgement, and practice "surveillance" over the quality of government policies. Globalisation will strengthen the benefits of good policies and raise the costs of bad policies. Good policies are mutually reinforcing and can create a virtuous circle in balanced growth. Policy weaknesses carry the risk of adverse market reactions. Market confidence cannot be taken for granted; it must be nurtured (Van Houtven, 1998: 75).

Thus far in the past decade of globalisation, the world has experienced three global financial crises: the European Monetary System (EMS) crisis of 1992-3, the Mexican crisis of 1994-5 and the Asian crisis of 1997-8. Each of these illustrated the impact of sharply increased private capital flows. In each of them, lapses in policy, structural weaknesses and excessively slow response to external shocks caused investors to lose confidence in the policies of the authorities. And, as we have learned, the response of the markets has been sharp and brutal. The financial crisis in the 1990s are an indication that the implications and the systemic importance of capital mobility and financial globalisation have not yet been fully understood by the financial markets, the public or by governments (Van Houtven, 1998: 75). It will return to this point, but it is clear that the maintenance of sound policies is essential to prevent financial crises in a globalised environment.

3.4 CHALLENGES OF GLOBALISATION FOR MUNICIPALITIES

The question now arises: How can developing countries particularly South Africa, become a global role player and, in doing so reap economic benefits for the whole region? A sound understanding of the characteristics, dynamics and significance of global developments, as well as an appreciation of the realities and challenges facing their economy, is necessary to answer this question. The answer should be based on a realistic appreciation of strengths and weaknesses. South Africa and the region have the opportunity to co-operate without the impediment of major political differences. Mutual interdependence should be increased with imports of services such as electricity, water and oil from the region in order to ameliorate the imbalances. South Africa for example, can provide technical support in agriculture, veterinary science, medicine and industry, to mention but a few. Despite South Africa's current political and social transformation, its present economic structure is characterised by an entrenched dualistic nature. The advantages of the country's large diversified natural resources can be utilised by its modern, formal industrial economy, but foreign participation in its economy is much needed to expand its capacity and simultaneously address the underdeveloped informal sector of the economy (Van Houten, 1998).

In this regard, three requirements are essential in a globalised world, not only for South Africa but also for the underdeveloped and developing countries as a whole. The most important is the creation of an environment conducive to tourism, business and foreign investment, supported by regional integration and co-operation and an improved outward-orientated economic outlook. Not only would the formal domestic economy then move toward enhancing its unrealised potential, but it may also benefit from capacity building owing to increased foreign participation (Van Houten, 1998). Given the background discussion on globalisation, the following challenges that globalisation raises for local economic development can be identified:

3.4.1 Investor-friendly environment

The creation of an investor-friendly environment by municipalities is important. A negative perception of ineffective government can be redressed through flexible institutional arrangements that promote accountability, responsibility and the rule of law. An institution can be defined as a society or organisation established for some object, especially charitable of beneficent (New Oxford Dictionary, 1998). There can be little doubt that southern Africa needs a credible institutional structure which investors and aid agencies are confident is a stable one. This is also one of the best guarantees of a regional spread of investment. Developing counties do not need to create these institutional structures from scratch; they can use existing international agreements and accepted global standards to guide them in establishing credible institutions (World Bank, 1999/2000). The region could, as a starting point, build on its institutional strength provided by its regional structure e.g. Southern African Development Co-operation (SADC) in the case of Southern Africa.

A survey by the World Bank (1997: 5) shows that many governments are failing to perform their core functions, which include the protection of property, ensuring law and order and applying rules and regulations in a predictable manner. This affects the international credibility of these countries, and their economic growth and investment suffer as a consequence. Although the contents of policies and regulations are important, it is the predictability and consistency with which they are applied that are essential. The creation of a favourable environment is therefore not a luxury pertaining exclusively to industrial countries; it is also a vital element for emerging developing economies. The creation of flexible and meaningful institutions is therefore extremely important to establish an investor-friendly environment conducive to economic growth. This would enhance trust and confidence between nations. This is emphasised by the following statement by Napoleon (cited in World Bank, 1997: 29):

> "Men are powerless to secure the future; institutions alone fix the destinies of nations."

It is therefore evident that a proper institutional framework should be provided. Moreover, attractive incentives to draw not only foreign, but also domestic investors, should be established and be aimed at encouraging effective long-term investment. Truu (1997: 55) argues it that "if nothing else, is far cheaper to run the economy by means of incentives than controls". One of the greatest dangers inflicted by a government is the spread of uncertainty. Foreign as well as domestic business and labour should have confidence in the system, in the knowledge that the rules of the game will not be changed overnight. A very important aspect of government is that its ambition should not exceed its capability. This is true especially of weak governments (Jordaan, 2001: 87).

3.4.2 Self-reliance

Municipalities in South Africa should, within their legal constraints, strive for greater self-reliance in terms of funding and capacity. One of the most important guiding principles for developing countries, as well as their subnational governments, should be to attain greater self-reliance. One dimension of greater self-reliance is increased regional integration and co-operation amongst countries (Pirages, 1978: 269). Countries have the best prospects for successful integration if they pursue certain objectives. According to standard theory, countries should be at similar levels of economic development with competitive industries so that trade can be created within the region. Also necessary is the potential to develop complementary industries to spread the benefits of integration. Lastly, countries should have a history of substantial trade among themselves (Maasdorp, 1994: 3).

Edoho (1997: 21) states that:

> "There will be verbal assurances of help from the global community, but the region must not depend on them. Africa should not allow itself to be misguided into thinking of development as a game of catching up with the west. It should not think of the development process as costless and painless. Development involves sacrifices."

Municipalities in South Africa might benefit from regional integration in Africa. Regionalisation and globalisation may be see as complementary processes occurring in a specific chronological order. World regions, rather than nation states, may in fact constitute the basic units of a future multilateral global order (Hettne, 1997: 225). The problem facing underdeveloped regions that struggle to integrate owing to unequal economic strength between member countries is that they may be left behind altogether in the process of globalisation. This may call for regional flexibility in that different parts of the region should be able to move ahead at a different pace, depending on their readiness for closer economic relations. Caution should be taken, however, that some countries in the region are not winners and others are losers.

The challenge of globalisation for a region should strengthen the desire to co-operate in the economic matters to the maximum possible extent. However, the process of integration can only be based on what is realistic and achievable. All countries will not benefit equally from integration, but should at least be better off inside than outside the group. The framework for the whole process should take the difference of economic development between countries in the region as essential, and policies, promoting solidarity and unity aimed at economic prosperity for the region as vital.

Moreover, integration should be mutually beneficial and promote economic development in all the countries without fear of domination by the larger economies. One way of circumventing this is through counter trade. The imbalance of merchandise trade favouring South Africa, for example, could be offset at least partly by a greater flow of services such as electricity and water supply from neighbouring countries. Intraregional trade and investment flows should be promoted in anticipation of eventual global awareness and participation in the region. Strengthening the competitiveness of not only individual countries but also the region as a whole will be the intermediate objective, in order to be able to meet the challenges of globalisation.

The process of regionalisation implies a change from relative heterogeneity to increased homogeneity with regard to member countries. The most important aspect here is culture, security, economic policies and political regime (Hettne, 1997: 229). These may collectively be one of the major stumbling blocks in the process of successful globalisation in southern Africa. Regional problems involving neighbouring nations at similar stages in their development are usually easier to solve through co-operation than problems involving nations at different stages of development (Sandler, 1997: 213). The core of the problem is thus endogenously, and not exogenously determined.

3.4.3 Outward-orientated approach

Municipalities ought to promote trade, especially international trade, to a greater degree. This will assist their business forms to find external markets and so obtain economics of scale. There is a little doubt about the link between export performance and economic growth. The question at this point is whether Southern Africa has a comparative advantage in some goods or services that has the potential to become truly competitive internationally. Every country, over time, tends to proceed toward comparative advantage in its more specialised goods. Initially exports rely heavily on basic factors such as natural resources and unskilled of semi-skilled labour. Over time, however, more specialised factors such as modern technology and highly skilled labour comes to form the backbone of exports. The former type of exports is based on "natural" comparative advantage and the latter on "created" comparative advantage (Meier, 1995: 457).

3.4.3.1 Tourism

Tourism is one of South Africa's fastest growing industries. In the short term, given the constraint of financial capital, labour rigidity and lack of modern technology, for example, Southern Africa would have the best chance by focusing on its "natural" comparative advantage first. The ultimate goal in real globalisation would still be to proceed to its "created" comparative advantage. In terms of its "natural" comparative advantage, initially tourism and related sectors would probably play the leading role. Consider the fact that the natural beauty already exists-the "product" therefore does not need to be produced, only the supporting infrastructure needs to be addressed. This is the link to the creation of the favourable visitor- and investor friendly environment mentioned earlier. The promotion of communications and financial services should take priority, and in this context, for example South Africa, has a major role to play in the region. For example, the average number of telephone mainlines in the region is 41,14 per 1000 people, whereas South Africa has 106 telephone mainlines per 1000 people (World Bank, 1998). South Africa also has a highly developed financial and transport infrastructure, not simply in the regional context.

The region has a surplus of labour and these unemployed resources can be channelled into tourism and related sectors, provided the correct training is given and financial resources allocated correctly. Given the labour multiplier of tourism in South Africa, it is estimated that 33 foreign tourist are necessary to create one job opportunity directly and two indirectly. In 1998, 1,4 million overseas tourists visited South Africa and this can be translated to 43 285 job opportunities maintained by tourism during 1998 (tourism South Africa, 1999). If tourist attractions can be enhanced with a concurrent improvement in the creation of a tourist-friendly environment, the perceived perception of South Africa for example, can be improved. A report released by the World Tourism Organisation (1998) suggests that Southern Africa will experience growth rates in tourism, with forecasts of almost 8 percent per annum for the decade 2000-10. According to the report, by the year 2002 the region's level of tourism will be five times that of 1990.

3.4.3.2 Export promotion

In keeping with an outward orientated approach, the long-term objective would be to address South Africa's "created" comparative advantage. As the benefits of "natural" comparative advantage bear fruit, the inflow of modern technology and skills could contribute to the promotion of more specialised goods. Sachs (1998: 23), a prominent American economist says:

> " There is no way other than through export growth that Africa, or any other region, can achieve growth. For that I will put everything that I know in economics on the line."

This, of course, implies a great deal more than is said here, in a few simple sentences. The dependence on single natural resource based exports needs to be changed into a focus on manufactured or processed exports. This would lessen the effect of erratic price fluctuations experienced by commodity exports. If the principal exports of South Africa for example, are evaluated, they certainly reflect the dominance of natural resource-based exports. Municipalities such as KOSH (Klersdorp, Orkney, Stilfontein and Hartebeesfontein) (minerals), Nelson Mandela metropole (minerals and some vehicles), Cape Town (textiles and flowers), Durban (minerals, fish and sugar) are examples (SADC, 1998). The real challenge is to develop structures and adopt appropriate policies to establish a productive capacity in manufactured products for export. Macroeconomic stability and appropriate technology policies are also crucial for export growth and diversification. These include trade liberalisation (which is talked about in the previous paragraphs), diversification of exports, infrastructure management and investment in human capital development. The success of trade liberalisation, in turn, depends on necessary reforms in the domestic economy, especially finance and labour. Given the low literacy rate, human capital development is unmistakably one of the top priorities in the region and municipalities if an outward-orientated approach is to be followed.

Productivity improvement is also dependent on the level of training and expertise of the region's human resources. Higher levels of domestic investment in the region and South Africa's municipalities are also necessary before it will be able to attract more foreign direct investment. According to Mbuende (1998: 14), the saying that charity begins at home is also true of investment.

The challenge is to help nations through organisations such as the SADC to establish linkages with economies at a pace their governments can manage (Ohmae, 1991: 186). If the pace of liberalising an economy is too rapid, it may tear the social fabric and the result will benefit no one. Truu (1997: 55) argues that the advice to policy-makers in this regard would be to "conquer your fear for freedom!". This involves a mind change, because it is difficult to let go of old beliefs. People are familiar and comfortable with them; years went into the development of systems and habits that generally worked well.

South African municipalities must remember that they will not be compensated simply because they are poor. They have to earn their rightful place in the global economy by doing the right things, learn from the past and international experience, and adopt internationally credible policies. Municipalities that do not comply cannot expect any handouts in a globalised world, "where the official North does not appear to be interested in the welfare of the South" (Cheru, 1997: 220). What hinders economic development is the illusion that effort is irrelevant and that participation in the borderless and global economy is unimportant. It is a question of ambition, will power and management skill. Fervent nationalism can hide a multitude of sins; it cannot, however, fuel growth of provides a better way of life (Jordaan, 2001: 90).

3.5 LOCAL GOVERNMENT AND GLOBALISATION

The primary purpose of local government is to provide essential and emergency services effectively and efficiently so as to improve the general welfare of the community. In order to achieve this purpose effectively in South Africa, in terms of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) for example, greater autonomy has been granted to local government than previously. Furthermore, globalisation, or the internationalisation of capital, production services and culture, will have an impact on metropolitan areas. This is because economic transactions and the integration of system of production occur on a worldwide basis, and the rapid development of information technologies has resulted in the emergence of a global economy. In this context, large local authorities become the nodes or points of contact that connect economies across the globe (Ballard and Schwella, 2000: 739).

The powers and function of local governments should be exercised in a way that has a maximum impact on the social development of communities-in particular meeting the basic needs of the poor- and on the growth of local economy. Through its traditional responsibilities (services delivery and regulation), local governments exert a great influence over the social and economic well being of local communities. Each year municipalities set the agenda for local politics, and the way they operate gives strong signals to their own residents to prospective investors. These functions give local government a greater influence over local economies. Municipalities therefore need to have a clear vision for the local economy, and work in partnership with local business to maximise job creation and investment as explained in chapter 2 on LED (S.A., 1998: 38).

South African local government for example is, in these terms, able to exercise discretion as to whether or not it wishes to merge with the international local government system. This decision will be influenced by the following factors:

- The internationalisation of production, finance and economic resources has resulted in foreign investors examining opportunities within a particular municipal area. This is facilitated by officials of a particular local authority through the provision of incentives (property tax rebates) which, in turn, improves the economic development of the local area. This may be undertaken independently from provincial and national government.
- In terms of local authority sovereignty, global economic relations are supported by the internationalisation of financial transactions and considerable technological advances in communication and transport. These factors are eroding boundaries between local authorities, which are regarded as necessary for demarcating separate areas of municipal jurisdiction.

In terms of these two factors, local government is influenced by global economic factors. This holistic theoretical explanation of globalisation is given in order to provide the context within which South African Local government must operate, from a developing country's perspective. South African government is therefore seen as a global actor with transitional characteristics (South Africa, 1998: 31).

3.5.1 The impact of globalisation on local government

The purpose of this research is not to contest or promote globalisation but merely to provide a theoretical explanation for globalisation and explain its possible implications for local governments' worldwide and in South Africa particularly. These experiences are drawn from international practices. Globalisation as a continuous process will have specific implications for any local government because of its international trends and influences. The literature undertaken on this subject indicated that globalisation has had a major impact on local authorities worldwide. The new challenges facing local government in North America, Europe and East Asia include having to manage the metropolitan dilemma, which addresses the demand for labour and the scarcity of land.

According to Feinstein *et al* (1995: 138), the global trend in respect of industrial development is towards service industries and not manufacturing. This has resulted in multinational corporations seeking property in the competing and competitive local authority centres. This has increased property values and led to rapidly rising rentals in these areas. These increased values have been further compounded by local authority who, in their eagerness to attract investment to their municipal areas of jurisdiction, have sold scarce public land to willing investors. In most world metropolises, this has resulted in the affluent middle class moving to the suburbs on the urban fringes and accepting longer hours of commuting. Local authorities are then faced with a critical shortage of revenue in terms of property tax owing to the relocation of manufacturing and the exodus of the more affluent to the suburbs. This is colloquially termed 'urban flight' (Ballard and Schwella, 2000: 740).

With the advent of the information and technological services industries, a demand has been created for higher levels of skills and expertise. As these are relatively scarce, especially in developing countries, transnational corporations have imported them. Furthermore, the demand for these skills has, in turn, caused and increased the demand for higher salaries, both in private and public sector. This has spurred on the migration of highly skilled labour, which has further deprived the local population of local expertise that could have created job opportunities (Ballard and Schwella, 2000: 740).

The development of new information technologies, printed and electronic media and transport technology has resulted in distances being reduced without an accompanying reduction in social and cultural distances. South African society, which is already diverse, will probably react to this situation by reinforcing its own identity and introducing boundaries that will divide a local authority area into different localities. Berner and Korff (1995: 211), whose basic hypothesis is that metropolises today are characterised by competing demands for globalisation and localisation (Ballard and Schwella, 2000: 740-741), support this view.

3.5.2 Locality marketing

No municipality can ignore the economic changes taking place in its locality, in the surrounding region, in the nation, and globally. The rise or decline of industries can have a marked impact on local income, employment and tax revenue (S.A., 1998 :31). In South Africa the Growth, Employment and Redistribution strategy (GEAR) places greater emphasis on an export-orientated economy, and will lead to increased international openness and competition. The ultimate aim is to achieve internationally competitive industries and enhancing economic growth and wellbeing. In the immediate term, municipalities will need to manage the consequences of globalisation-such as the restructuring and relocation of industries (S.A., 1998 :31).

Local government has an interest in attracting investment based on promoting the comparative advantages of the area for competitive industries, as well as supporting the growth of local enterprises. It will become increasingly important for municipalities to find the right balance between competition and co-operation among themselves. While some competition will improve both efficiency and innovation, co-operation between municipalities is necessary to enhance the performance of the national economy as a whole, and to avoid damaging forms of competition between municipalities (S.A., 1998 :31)

The fact that economic activity is less restricted by interstate borders does no mean that the importance of the locality has diminished. The decreasing powers of the nation state and the shifting of control to the headquarters of major global organisations is said to have transferred the site of economic regulation and institutional organisation to locality. The reality is that processes and economic globalisation still require central places from which to operate (Vosloo, 1998: 29).

Maskell et al. (1998) frame their thought provoking contribution in a local-global context. What is the role, if any, of local capability in a world that is globalising? Their central contention is that knowledge creation of even the most orientated firm or sectors, at least to some extent, influenced by differences in the economic properties of their place of location. Firms are progressively stimulated by and dependent on localised capabilities in order maintain and increase their competitiveness precisely because of the drive towards globalisation and the resulting homogenisation of formely critical factors of production (Maskell et al, 1998).

Maskell et al, (1998) single out institutional endowments and knowledge skills as the crucial factors in the development of localised marketing. Institutional endowments are defined in all embracing manner. They 'embrace all rules, practices, routines, habits, tradition, custom and conventions associated with the regional supply of capital, land and labour and the regional markets for goods and services. It includes the entrepreneurial spirit, moral beliefs, political traditions and decision making practices, culture, religion and other basic features' The institutional endowment simultaneously spurs and confines the development of firms in the region, thereby exerting a strong-but deterministic-influence on the future of the region.

An interesting angle is brought forward when the growth in local entrepreneurship is linked to the growth in urbanisation and the dominance of growing urban regions. Rather than becoming obsolete with the unprecedented growth in local enterpreneurship, cities continue to grow across the world as urbanisation accelerates rather than slackens. Telecommunications can be seen as enhancing the many advantages of large metropole centres, "...both by supporting new levels of complexity in linkages, but also by allowing cities to further extend their reach into hinterlands and global markets." (Maskell et al, 1998).

3.5.2.1 Localised learning and global markets

Local learning is characterised by inter-connectedness of asset stocks. That is to say, it involves a complex web of links across national, regional and local institutions as well as between institutions at each level. Thus, being able to reproduce one subset will turn out to be inadequate, as one will discover that other conditions need to be fulfilled as well (Maskell et al, 1998).

Maskell et al, (1998) adopt an evolutionary, perspective. They use the distinction between tacit and codified knowledge and the association between the two. Tacit knowledge requires cultural and spatial proximity and sharing the same values, background and understanding of implied technical and commercial problems. They argue that the character of knowledge creation and transfer is changing as a result of globalisation. Globalisation allows codified knowledge to be more easily accessed anywhere across the globe. In effect, the previously localised capabilities and local production factors are becoming ubiquitous. Such ubiquity cannot be the basis of local capabilities because of the likelihood of someone else obtaining them at a lower cost. In effect, the ubiquitification of knowledge, together with the internationalisation of factor and inputs markets; destroys local capabilities (Maskell et al, 1998).

According to Maskell et al, (1998) there should be other explanations as to why patterns of industries continue to be stable in their view and the locally embedded tacit knowledge becomes a crucial source of localised capability. These tacit knowledge differences between localities, regions and countries cannot easily be washed away by globalising markets. 'Both the formation of the world market and the process of codification increase the importance of heterogeneous, localised capabilities for building firm-specific competence and thus for variations between firms in competitiveness. In a knowledge-based economy localised capabilities increase the ability of firms to create acquire accumulate and utilise knowledge a little faster than their cost-wise more favourable competitors'(Maskell et al. 1998: 51).

3.6 COMPETITIVENESS

Globalisation has increased competition. This has led to concerns about how firms and localities can change and raise their competitiveness. The concept of national competitiveness has itself been severely criticised in recent years and it is useful to start here. Reinert (1995) argues that competitiveness in a broader sense has occupied policy makers of industrialised countries for centuries even though the terminology was different. The concerns were to increase 'national wealth', promote 'good trade' (exporting manufactures and importing primary products), enhancing 'productive power' by promoting more advanced forms of manufacturing industry, and so on. Governments of the rich countries seem to worry the most, if concern can be measured by the volume of reports on enhancing competitiveness (not just at the national but also at inter-governmental, state and district levels) e.g. in the 3rd and 4th UK competitiveness reports (UK Cabinet Office, 1996 and DTI 1998, respectively) Ireland, Canada, Australia and Scotland have all published similar reports. Their concerns revolve around retaining their technological lead and entering new activities where high wages are not competitive handicap.

While it may appear from the wide use of "national competitiveness" that the term has an accepted economic definition and can be readily measured, this is not the case. The concept of competitiveness and competitive strategy comes from the business school literature. Companies compete for markets and resources, measure competitiveness by looking at relative market shares, innovation and growth and use competitiveness strategy to improve their market performance. National competitiveness is assumed similar: economies that compete with each other in the world markets, can easily measure competitiveness and are able to amount competitiveness strategy. This may make some sense for competitiveness in specific activities and markets. For instance, it is meaningful to say that the USA has become "less competitive" in making television sets or textiles for international markets and "more competitive" in making computers. But is it sensible to say that the USA is becoming 'less or more competitive' as an economy? (Lall, 2002:5). Krugman (1994:44) argues that it is not. To him, "competitiveness is a meaningless word when applied to national economies. An the obsession with competitiveness is both wrong and dangerous"

The basic unit of analysis for understanding competition is the industry. An industry (whether product or service) is a group of competitors producing products or services that compete direct with each other. A strategically distinct industry encompasses products where the sources of competitive advantage are similar (Porter, 1998: 33). It also yields profit and growth to companies, the creation of employment, growth and improves living standards of the community.

3.6.1 Defining Competitiveness

To start with definitions, economies use the term 'competitiveness' in different ways. One is purely macroeconomic: the lack of competitiveness is a real exchange rate problem, referring to a country at full employment "running a persistent (and unwelcome) current-account deficit which would in due course require adjustment, via a mixture of deflation and depreciation" (Boltho, 1996: 2). Competitiveness here is measured by "relative price and/or cost indices expressed in some currency". This definition assumes that underlying structural factors are constant, and focused on the kinds of short-term macroeconomic management that affect relative prices of national goods and services (See table 3.1 below) to other countries. Such analysis serves a useful purpose and is relevant to competitiveness in that it treats nations as "competing" directly with each other in a meaningful sense.

Table 3.1 below illustrates the breakdown of competitiveness factors according to four divisions of economic performance, government efficiency, business efficiency and infrastructure. All these breakdowns supplement each other for further progress in the competitiveness of the economy, eg domestic economy cannot survive without public finance from the government and productivity from business. All these cannot happen without proper infrastructure. The same happens with international trade, international investment, prices and employment

Table: 3.1. The breakdown of competitiveness factors

Economic performance	Government Efficiency	Business Efficiency	Infrastructure
Domestic economy	Public finance	Productivity	Basic Infrastructure
International Trade	Fiscal Policy	Labour Market	Technological Infrastructure
International Investment	Institutional Framework	Finance	Health and Environment
Prices	Education	Impact of Globalisation	Value System
Employment	Business Legislation	Management Practises	Health and Environment

(Source: IMD, 2002 : 667)

Most analysts of competitiveness, however, use the term more broadly. They focus on structural factors affecting long-term economic performance, and tend to be concerned with productivity, skills and innovation (Fagerberg, 1996). Some analysts use national growth to measure competitiveness, but this is only a "poetic way of saying productivity that has nothing to do with any conflict between countries" (Krugman, 1996: 18). If markets are efficient, competitiveness analysis in this sense is a misnomer for the analysis of growth, which is a well established, active and controversial branch of economies that has little to do with 'competitiveness' in the normal sense.

This does not, however, dispose of the concept of competitiveness altogether. In theory, free markets lead to optimal resource allocation only under strong simplifying assumptions. These include (among others) perfect competition, efficient markets, homogenous products, free markets, free and universal access to technology (with no learning costs), no externalities or agglomeration benefits, and no scale economies.

When these requirements are not met-when market failures exist-free markets cannot allocate resource optimally, and nations can improve their position by intervening to remedy (or exploit) market failures. For instance, they can capitalise on monopoly power held by their firms in other markets. They can promote the shifts of resources from low to high return activities where resource mobility or investment is held back by information, unpredictable learning costs, linkages or missing institutions .They can be first to reap economies of scale, scope or agglomeration (or clustering, as it is more commonly known) where these exists. They can co-ordinate activities that are closely linked in terms of technology information flows, but are unable to optimise their decisions individually. They can create new productive or innovative capabilities and strengthen or build supportive institutions. The diverse and widespread nature of market failures in developing countries is well known, particularly in industrial and technology development (Pack and Westphal, 1986, Stiglitz, 1996 and Lall, 1995, 1996).

IDC, (2001) points out that competitiveness is the ability to deliver products and services to the market at lower prices than any other competitor, without suffering opportunity costs and competitively This can be due to the supply of better quality, but imply that it will cost the other competitor more to supply a homogenous product of the same quality to the market.

Competitive strategy must grow out of a sophisticated undertaking of the structure of the industry and how it is changing. In any industry, whether it is domestic or international, the nature of competition is embodied in five competitive forces:

- The threat of new entrants.
- The threat of substitute products or services.
- The bargaining power of suppliers.
- The bargaining power of buyers
- The rivalry amongst the existing competitors.

(Source: Porter, 1998: 35).

The five competitive forces determine industry profitability because they shape prices firms can change, the cost they can bear, and the investment required to compete in the industry. The threat of new entrants limits the overall profit potential in the industry, because new entrants bring new capacity and seek market share, pushing down margins. Powerful buyers or suppliers bargain away the profits for themselves. Fierce competitive rivalry erodes profits by requiring higher costs of competing (such as for advertising, sales expense, etc) or by passing on profits to customers in the form of lower prices. The presence of close substitute product limits the price competitors can charge without inducing substitution and eroding industry volume (Porter, 1998: 35).

The strength of each of the five competitive forces is a function of industry structure, or the underlying economic and technical characteristics of an industry. Buyer power for example, is a function of such things as the number of buyers, how much of a firm's sales are at risk to any one buyer, and whether the product is a significant fraction of buyers' own costs which leads to price sensitivity. The threat of entry depends on the height of barriers to entry, such as brand loyalty, economies of scale, or the need to penetrate distribution channels (Porter, 1998:36).

Industry structure is significant in international competition for a number of reasons. First, it creates differing requirements for success in different industries. Competing in a fragmented industry such as apparel requires greatly differing resources and skills from competing in a commercial aircraft. A nation provides a better environment for competing in some industries than others (Porter, 1998:36).

Second, industries important to a high standard of living are often those that are structurally attractive. Structurally attractive industries, with sustainable entry barriers in such areas as technology , (see chapter 3.sub section 3.10.1.)specialised skills, channel access, and brand reputation, often involve high labour productivity and will earn more attractive returns to capital. Standard of living will depend importantly on the capacity of a nations' firms to successfully penetrate structurally attractive industries. The attractiveness of an industry is not reliably indicated by size, rapid growth, or newness of technology, attributes often stressed by executives and by government planners, but by industry structure. By targeting entry into structural unattractive industries, developing nations have frequently made poor use of scarce national resources (Porter, 1998:36).

A final reason why industry structure is important in international competitiveness is that structural change creates genuine opportunities for competitors from a nation to penetrate new industries. Japanese copier companies, for example, successfully challenged American dominance (notably that of Xerox and IBM) by stressing an undeserved product segment (small copiers), employing a new approach to the buyer (the use of dealers instead of direct sale), altering the manufacturing process (mass production versus batch), and modifying the approach to pricing (outright sale versus capital-intensive copier rental).The new strategy reduced entry barriers and nullified the previous leader's advantages. How a nation's environment points the way or pressure its firms to perceive and respond to such structural changes is of central importance to understanding the patterns of international success (Porter, 1998:36).

In an opened global market place, third world countries' firms need to improve their competitiveness if they are to survive and prosper, considering that unit labour costs deserve particular attention for developing economies that wish to increase their share of manufactured exports. Africa's unit labour costs are generally high, meaning that relative wages exceed productivity. This suggest that wage moderation and a continued real depreciation of the exchange rate are necessary to gain competitiveness against other developing countries and to generate continuous growth of exports and Foreign Direct Investment (Unido, 2001a: 12).

The competitive spirit of a country's business and labour sectors and the creativity of a government in the following innovative strategies in support of the competitiveness platform, have become more important forces in the process of industrial development (Unido, 1995). The generic strategies make it clear that there is no one type of competitiveness strategy that is appropriate for every industry. Indeed, different strategies can coexist successfully in different industries. There may also be different possible variations of the same generic strategy, involving different ways to differentiate or focus see figure 3.1.

Each of these archetypal strategies illustrated in figure 3.1 below, represents a fundamentally different conception of how to compete. In shipbuilding, for example, Japanese follow the differentiation strategy, offering a wide array of high quality vessels at premium prices. Korean shipyards pursue the cost leadership strategy, also offering many types of vessels but ones of good, not superior quality. Korean firms, however, can produce vessels at lower cost than Japanese firms can. Successful Scandinavian yards are focussed differentiators, concentrating on specialised types of ships such as icebreakers and cruise ships that involve specialised technology and which commands prices high enough to offset higher Scandinavian labour costs. Finally, Chinese shipyard (cost focus), the emerging competitors in the industry, offer relatively simple, standards vessel types at even lower costs (and prices) than the Koreans (Porter, 1998:39).

Figure 3.1: Generic Strategies

COMPETITIVE ADVANTAGE

Lower cost	Differentiation
Cost Leadership	Differentiation
Cost focus	Focused Differentiation

(Source: Porter, 1998:39).

The generic strategies make it clear that there is no one type of strategy that is appropriate for every industry. Different strategies can coexist successfully in many industries. While industry structure constrains the range of strategic options available, it is yet to encounter an industry in which only one strategy can be successful. There may also be different possible variations of the same generic strategy, involving different ways to differentiate or focus (Porter, 1998:39).

3.6.2 Creating Advantage

Firms create competitive advantage by perceiving or discovering new and better ways to compete in an industry and bringing them to the market, which is ultimately an act of innovation. Innovation here is defined broadly, to include both improvements in technology and better methods or ways of doing things. It can be manifested in product changes, process changes, new approaches to marketing, new forms of distribution, and new conceptions of scope. Innovators not only respond to possibilities for change, but also force it to proceed faster. Much innovation, in practice, is rather mundane and incremental rather than radical. It depends more on accumulation of small insights and advances than on major technological breakthroughs. It often involves ideas that are not "new" but have never been vigorously pursued. It always involves investment in developing skills and knowledge, and usually in physical assets and marketing effort (Porter, 1998:45).

Innovations shift competitive advantage when rivals either fail to perceive the new way of competing or unwilling to respond. This can be the result of many causes, among them complacency, inertia, inflexible or specialised assets, or mixed motives. For example, Swiss watch producers had mixed motives responding to Timex's (United States) inexpensive, disposable watch, for fear of undermining the Swiss image of quality and precision. They also had production facilities totally unsuited to mass-production low priced watches. Without a new approach to competing, however, the challenger will rarely succeed. Unless the innovator alters the nature of competition, retaliation by established leaders will usually be vigorous and effective (Porter, 1998:45).

In international markets, innovations that yield competitive advantage anticipate both domestic and foreign needs. For example, as international concern for product safety has grown, Swedish companies like Volvo, Atlas Copco, and AGA have succeeded by being early to anticipate the market opportunity in this area. On the other hand, innovations that respond to concerns or circumstances that are peculiar to the home market can actually retard international competitive success (Porter, 1998:45).

The possibilities for new ways of competing usually grow out of some discontinuity or change in industry structure. Sometimes, such changes have long presented an opportunity that has gone unnoticed. The most typical causes of innovations that shift competitive advantage are the following:

New technologies. Technolocal change can create new possibilities for the design of the product, the way it is marketed, produced, or delivered, and the ancillary services provided. It is the most common precursor of strategic innovation. Industries are born when technological change makes a new product feasible. Germany first became the leader in medical imaging products, for example, after the discovery of X-rays in Germany. Leadership is most likely to change in industries when nonincremental technological change makes absolute or nullifies the knowledge and assets of existing leaders. For example, Japanese firms have gained a position in medical imaging (vis-à-vis Germany and American Firms) due to the emergence of new electronics based technologies that substitute for traditional X-rays in some applications (Porter, 1998:46).

New or shifting buyer needs. Competitive advantage is often created or shifts when buyers develop new needs or prioritise change significantly. Established competitors may fail to perceive the new needs or be unable to respond because meeting them demands a new value chain. American fast-food firms gained advantage internationally, for example, as buyers in many nations came to value convenience and consistency, and local restaurants were slow to adapt. The operation of a fast food chain is radically different from that of a traditional restaurant (Porter, 1998:46).

The emergence of a new industry segment. The opportunity for creating advantage arises when a new distinct segment of an industry emerges or a new way is conceived to regroup existing segments. The possibilities encompass not only new customer segments but also new ways of producing particular items in the product line or new ways to reach a particular group of customers. A good example is the lift truck industry, where Japanese firms perceived an undeserved segment in small lift trucks for general-purpose applications. By focussing on this segment, they were able to standardise designs and transform the manufacturing process into one employing much higher levels of automation. This example illustrates how serving a new segment frequently creates the potential to substantially reconfigure the value chain, something competitors may find difficult (Porter, 1998:46).

Shifting inputs cost or availability. Competitive advantage frequently changes when a significant change occurs in the absolute or relative cost of inputs such as labour, raw materials, energy, transportation, communications, media, or machinery. This may reflect new conditions in supplier industries, or perhaps the possibility of using a new or different type or quality input. A firm gains competitive advantage by optimisation based on the new conditions while the competitors are saddled with assets and approaches tailored to the old ones. A classic example is the shift in relative labour costs among nations. Korea and other Asian nations have become competitive in relatively simple international construction projects as wages in more industrialised countries have risen. More recently, a steep fall in the cost of transportation and communications is allowing new ways of organising and managing firms that lead to competitive advantage, such as the ability to rely more on specialist outside suppliers and the ability to operate a truly global production system (Porter, 1998:47).

Changes in government regulations. Adjustments in the nature of government regulation, in the areas such as product standards, environmental controls, restriction on entry, and trade barriers, are another common stimulus to innovations, which result in competitive advantage. Existing industry leaders have tailored their activities to one regulatory regime, and a shift in that regime may find them unable to respond. American securities firms are benefiting from the reduction in financial market regulation around the world, for example, because American regulators pioneered this trend and U.S. firms have already learned to deal with it (Porter, 1998:47).

3.6.3 Competing Internationally

The basic principles of competitive strategy apply whether a firm is competing domestically or internationally. To understand the role of the nation in competitive advantage, it must be understood how firms create competitive advantage through international strategy, and how this reinforces competitive advantages gained at home (Porter, 1998:53).

The pattern of international competition differs markedly from industry to industry. At one end of the spectrum, international competition takes a form that can be termed multidomestic. Competition in each nation (or small group of nations) is essentially independent. The industry is present in many nations (there is a banking industry in Korea, one in Italy, and one in United States, for example), but competition takes place on a country to country basis. Some competitors may be multinational firms, but their competitive advantages are largely confined to each country in which they compete. The international industry is a collection of essentially domestic industries, hence the term multidomestic. Industries in which competition has taken this form include many types of retailing, many consumer food products, wholesaling, life insurance, consumer finance, simple metal fabrication, and caustic chemicals (Porter, 1998:53).

In the extreme case of a multidomestic industry, there no issue of national advantage or international competitiveness. Virtually every nation will have such industries. Many, if not most, of the firms that compete in them will tend to be owned locally, because country by country competition makes it difficult for foreign countries to gain a competition advantage. International trade in such industries will be modest or non-existent. Foreign ownership, to the extent that it does occur, will tend to be largely passive and involve only modest control from central headquarters. Local jobs, local corporate citizenship, and the location of research will not be major issues, because the national subsidiary will control most if not all of the important activities necessary to compete. There are few debates about trade problems in industries such as retailing and metal fabrication (Porter, 1998:54).

Global industries, in contrast, are the battleground on which firms from different nations compete in ways that significantly affect national economic prosperity. The ability to achieve competitive advantage in global industries carries high stakes for both international and trade and investment (Porter, 1998:54).

In global industries, firms are compelled to compete internationally in order to achieve or sustain competitive advantage in the most important industry segment. There may well be segments in such industries that are domestic because of unique national needs, in which purely domestic firms can prosper. But choosing a domestic focus in a global industry is perilous, no matter what the firm's home nation (Porter, 1998:53).

According to the Classical theory of competitive advantage, countries specialise in production according to their relative endowment of certain production factors

(Kleynhans, 1998: 500). This is, however, a static theory which is only valid in the short term. Competitive advantage is no longer obtained through the beneficiation of a region's natural resources. Taiwan and Korea have, for example, achieved international competitiveness without natural resources. At the time, South Africa still under performs even with an abundance of natural resources. Most world trade is undertaken between advanced industrial countries with similar factor endowments (Porter, 1998:12).

Competitive advantage is increasingly being influenced by technological progress. Superior technology combined with human capital is the main factors determining competitive advantage. Competitive advantage can be created and is therefore a dynamic concept. Malaysia and Japan are two examples. When Japan, for example, entered the steel and engineering industries, it had no competitive advantage in natural resources. Japan did not have any ores, coal or cheap energy, but through technological innovation and its human material Japan became the world leader in these industries (Unido, 1995).

The competitive spirit of a country's business and labour sectors and the creativity of government in following innovative strategies in support of the competitiveness platform, have become important forces in the process of industrial development (Unido, 1995). The purpose of industrial policy today should be to focus on the management of competitiveness and the creation of competitive advantage.

3.6.4 Determinants of national competitive advantage

The ways that firms create and sustain competitive advantage in global industries provide the necessary foundation for understanding the role of the home nation in the process. Yet this role is far from a simple one. The search for a new way of understanding national advantage must begin from a number of premises (Porter, 1998:69).

First, the nature of competition and the sources of competitive advantage differ widely among industries and even industry segment. We must isolate the influence of nations on the firm's ability to compete in specific industries and industry segments, and with particular strategies, rather than in broad sectors. We must allow for different sources of competitive advantage in different industries rather than rely on any single, overarching one such as labour costs or economies of scale. Since products are differentiated in many industries, we must explain why some nations' firms are better able to differentiate than others are and not focus on costs differences (Porter, 1998:69).

Second, global competitors often perform some activities in the value chain outside their home country. The globalisation of competition does not negate the role of the home nation in competitive advantage but does not change its character. It means that the task is not to explain why a firm operating exclusively in the nation is internationally successful, but why the nation is a more or less desirable home base for competing in an industry. The home base is where the strategy is set, core product and process development takes place, and the essential and propriety skills reside. The home base is the platform for a global strategy in the industry in which those supplement advantages drawn from the home nation from an integrated, world-wide position (Porter, 1998:70).

Third, firms gain and sustain competitive advantage in international competition through improvement, innovation, and upgrading. Innovation, as described earlier, includes both technology and methods, encompassing new products, new products methods, new ways of marketing, identification of new customer groups etc. The innovations that lead to competitive advantage involve an accumulation of small steps and protracted effort as much as dramatic breakthroughs (Porter, 1998:70).

Innovation and technological capabilities that can improve the competition base are expensive and contributes largely to production costs. The future gains are however worth while and in developed economies the ability to utilise investment and innovation more than offsets the low labour costs characteristically found in developing economies. Without investment and innovation the resource based comparative advantage remains static and tied to a low growth path. This emphasises the importance of local savings, FDI, research and development. It should also be noted that the development of innovative capabilities evolves more than education and requires vast experience, advanced institutions, financial instruments and shared resources and institutions (IDC, 2001:27).

The most important demand conditions are the sophistication of local demand and the pressure from local buyers to upgrade (Porter, 1996:31). When local markets pressure firms to innovate faster and be more sophisticated in comparison to foreign rivals, this can lead to competitive advantage in a country. The significance of local demand is not rendered less by the globalisation of competition since the local market usually has a disproportionate impact on a firm's ability to perceive and interpret market needs. With modern infrastructure and computer technology the importance of foreign markets are rapidly increasing. Local firms often enjoy some local advantages in serving their home markets compared to foreign firms, even when local nationals staff foreign firms. Home demand is easier to predict and preferred access to a large local consumer base can spur investment by local firms. (Fujita, Krugman and Venables, 2001:259).

Finally, firms that gain competitive advantage in an industry are often those that not only perceive a new market need or the potential of a new technology but also move early and most aggressively to exploit it. Each significant structural change has the potential to nullify the competitive advantages of previous leaders, creating a new opportunity for shifting competitive position through an early response. It must be explained why firms from particular nations move early and aggressively to exploit change in particular industries that foreshadows international needs (Porter, 1998:70).

Competitiveness is an industry specific phenomenon. A region cannot be competitive for all types of industries. Competitiveness of a region depends on its ability to offer a mass of industrial clusters that enables economic activity returns to scale (Porter, 1994 and Unido, 2001b:16). The advantages that a specific region can offer to a particular industry are due to the availability of specialised labour, technology and infrastructure, a sophisticated and demanding local customer. Strong competitions in the industrial district or network and the existence of supporting industries such as specialised suppliers and service providers are just as important.

3.6.4.1 Determinants of national advantage

Why does a nation achieve international success in a particular industry? The answer lies in four attributes of a nation that shape the environment in which local firms compete that promote or impede the creation of competitive advantage (Porter, 1998:71) (See figure 3.2 below).

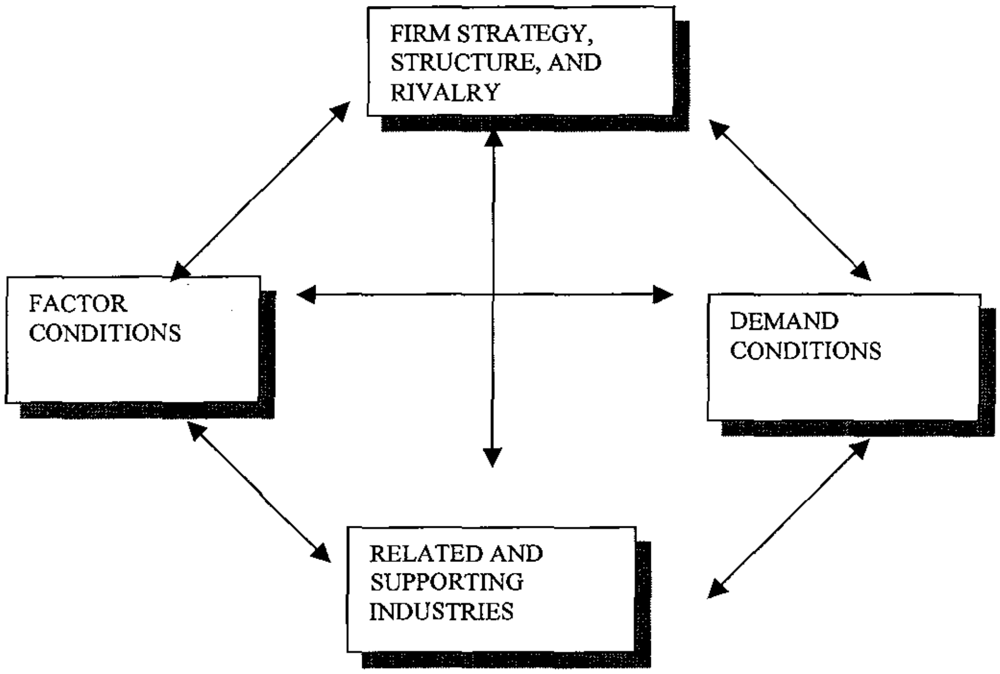


Figure 3.2: The determinants of national advantage (Porter, 1998:72).

- *Factor conditions.* The nation's position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry. Its role is different and far more complex than is often understood. The factors of production most important to competition advantage in most industries are nor inherited but are created within a nation.

Factors can be grouped into a number categories:

- Human resource: the quantity, skills and cost of personnel (including management), taking into account standard working hours and work ethic.
- Physical resource: the abundance, quality, accessibility and cost of the nation's land, water, mineral or timber deposits, hydroelectric power sources, fishing grounds and other physical traits. Location, relative to other nations that are

suppliers or markets, affects transportation costs and the ease of cultural or business exchange.

- Knowledge resource: the nation's stock of scientific, technical and market knowledge bearing on goods and services. Knowledge resources reside in universities, private research facilities, business and scientific literature, market research reports and databases, trade associations, government research institutes, etc.
- Capital resources: the amount and cost of capital available to finance industry.
- Infrastructure: the type, quality and user cost of infrastructure available that affects competition (including the transportation and communications systems, mail and parcel delivery, payments or funds transfer, health care, etc.) (Porter, 1998).

To understand the enduring role of factors in competitive advantage, it is increasingly necessary to discriminate among types of factors:

- Basic v/s advanced factors: Few factors of production are truly inherited by a nation. Most must be developed over time through investment, and the extent and difficulty of the required investment varies dramatically. The distinction between basic and advanced factors, while inevitably a matter of degree, seeks to capture these distinction.

- **Basic factors** are passively inherited, or their creation requires relatively modest and unsophisticated private or social investment, and includes natural resources, climate, location, unskilled and semi-skilled labour and debt capital. The importance of these factors has been undermined by either their diminished necessity, their widening availability or ready access to them by global firms through foreign activities or sourcing on international markets. Basic factors remain important in extracted or agriculturally based industries and in those where technological and skill requirements are modest and technological factors are widely available.

- **Advanced factors** are increasingly more significant for competitive advantage. These include highly educated personnel such as graduate engineers and computer scientists, university research institutes in sophisticated disciplines and modern digital data communications infrastructure. They are necessary to achieve higher order advantages such as differentiated products and proprietary production technology. They are scarcer because their development requires large and often sustained investment in both human and physical capital. Advanced factors are also more difficult to procure in global markets or to tap from afar via foreign subsidiaries. They are integral to the design and development of a product and processes as well as its capacity to innovate, which takes place at the home base (Porter, 1998).

- Generalised Vs specialised factors:
- **Generalised factors** include the highway system, the supply of debt capital or a pool of well motivated employees with college education. They can be deployed in a wide range of industries.
- **Specialised factors** involve narrowly skilled personnel, infrastructure with specific properties, knowledge bases in particular fields and other factors with the relevance to a limited range or even to just a single industry.
- Generalised factors are usually available in many nations, and tend to be more easily nullified, circumvented or sourced through global corporate networks. Specialised factors provide more decisive and substantial bases for competitive advantage and are often integral to a process of continuing innovation (Porter, 1998).

- *Demand conditions.* The nature of home demand for the industry's product or services. While home demand, through its influence on economies of scale can confer static efficiencies, its far more important influence is dynamic. It shapes the rate and character of improvement and innovation by a nation's firms.
- Home demand composition: the most important influence of home demand on competitive advantage is through the character of homebuyer needs. Nations gain competitive advantage in industries where the home demand gives a clearer or earlier picture of buyer needs than foreign rivals can have. Nations can also gain competitive advantage if homebuyers pressure local firms to innovate faster and achieve more sophisticated competitive advantages compared to foreign rivals.

Home demand is not rendered less significant by the globalisation of competition since the home market usually has a disproportionate impact on the firm's ability to perceive and interpret buyer needs. Understanding needs requires access to buyers, an intuitive grasp of buyer's circumstances and open communication between them and a firm's top technical and managerial personnel. This is hard enough with homebuyers. It is extremely difficult to achieve, in practice, with foreign buyers because the firm is not truly an insider with full acceptance and access. A product's fundamental or core design nearly always reflect home market needs (Porter, 1998).

There are three characteristics of the composition of home demand particularly significant to achieving national competitive advantage:

- Segment structure of demand: In most industries, demand is segment. In commercial aircraft, for example, there is a range of aircraft sizes and configurations, which appeals to airlines with differing route structures and other circumstances. Some segments are more global than others are. A nation's firms are likely to gain competitive advantage in global segments that represent a large or highly visible share of home demand but account for a less significant share in other nations. The relatively large segments in a nation receive the greatest and earliest attention by a nation's firm. Smaller segments, or those perceived as less desirable, are frequently accorded lower priority in allocating product design, manufacturing and marketing resources. Small nations can therefore be competitive in segments, which represent an important share of local demand elsewhere, even if the absolute size of the segment is greater in other nations. Swiss firms, for example, have long held a leading position in equipment and services for tunnelling, where unusual Swiss needs are obvious.
- Sophisticated and demanding buyers: More important than the mix of segments per se, is the nature of homebuyers. Sophisticated and demanding buyers provide a window into the most advanced buyer needs. Proximity, both physical and cultural, to these buyers helps a nation's firms perceive needs. It also allows close contact in the development process, and, when buyers are companies, creates opportunities to engage in joint development work in ways that are difficult for foreign firms to match. Sophisticated and demanding buyers also pressure local firms to meet high standards in terms of quality, features and service. Buyers are

demanding where home product needs in an industry are especially stringent or challenging due to local circumstances. In very large diesel truck engines, for example, America's vast road network and spread-out population creates unique needs for performance.

- Anticipatory buyer needs: A nation's firms gain competitive advantage if needs of homebuyers anticipate those of other nations. American desire for convenience, for example, is spreading to other nations, benefiting international success in fast foods, consumer packaged goods and other industries. Anticipatory needs may also arise because a nation's political or social values foreshadow needs that will ultimately emerge elsewhere (e.g. Products for handicapped people, or environmentally friendly products) (Porter, 1998).
- Demand size and pattern of growth: Although the quality of home demand is more important than the quantity of home demand in determining competitive advantage, the size and pattern of growth of home demand can reinforce national advantage in an industry, provided that its composition is sophisticated and anticipates international and not just domestic needs.

- Large home markets can lead to competitive advantage in industries where there are economies of scale or learning, by encouraging a nation's firms to invest aggressively in large-scale facilities, technology development and productivity. However, investment in large scale plants or substantial R and D need not to rely on local demand: the many world class Swiss and Swedish industries attest to the ability of highly international firms to obtain scale from many different markets (Porter, 1998).

- Internationalisation of home demand: Mobile customers, who travel extensively to other nations, provide a base of loyal customers in foreign markets (e.g. US hotel, rent-a-car and credit card firms). The foreign subsidiaries of multinational homebuyers often prefer to deal with the suppliers of products and services based in their home countries. These preferences stem from ease of communication, a desire to reduce risk, and the efficiencies of employing consistent inputs everywhere (Porter, 1998).

* *Related and supporting industries.* The presence or absence of suppliers and industries that are internationally competitive. The presence of supplier industries or related industries that are internationally competitive is a broad determinant of national advantage in an industry. Examples: Swedish strength in fabricated steel products (ball bearings, cutting tools, etc.) has drawn on strength in special steels (supporting industry) while Swiss success in pharmaceutical was closely connected to previous international success in the dye industry [related industry].

* Competitive advantage in supplier industries: presence of internationally successful supplier industries can create advantages in downstream industries in several ways:
* Efficient, early, rapid and sometimes preferential accesses to the most cost-effective inputs. Availability is however much less important than how effectively inputs are utilised (components, machinery and other inputs are often available on global markets)
* More important than access is the advantage that home-based suppliers provide in terms of ongoing co-ordination (linkages between value chains of suppliers and firms within a value system) which is facilitated by having the essential activities and senior management of suppliers nearby.
* The most important benefit of homemade suppliers is in the process of innovation and upgrading. Competitive advantage emerges from close working relationships between world class suppliers and the industry. Suppliers help firms perceive new methods and opportunities to apply new technology (Porter, 1998).
* Competitive advantage in related industries
  Related industries are those industries:
* In which firms can co-ordinate or share activities in the value chain when competing or
* That involves products that are complementary.

Sharing of activities can occur in :

* Technology development
* Manufacturing
* Distribution
* Marketing

- Service.

Copiers and fax machines, for example, employ many of the same technologies and components and can be distributed and serviced through the same channels.

- The presence of internationally successful related industries in a nation provides opportunities for information flow and technical interchange. Proximity and cultural similarity makes such interchanges easier than is the case with foreign firms. Domestic companies in related industries often share activities and sometimes forge formal alliances (e.g. Ricda accelerated its international expansion through employing the foreign distribution channels of Tobler/Jacobs) (Porter, 1998).

International success in one industry can also pull through demand for complementary products and services (e.g. the sale of US computers abroad led to overseas demand for US software, peripherals and database services).

- The benefits of home-based suppliers and related industries do, however, depend on the rest of the "diamond". Without access to advanced factors, home demand conditions that signal appropriate directions of product change, or active rivalry, for example, proximity to world class suppliers may provide few advantages (Porter, 1998).
- *Firm strategy, structure, and rivalry.* The fourth broad determinant of national competitive advantage covers:
- The conditions in the nation governing how companies are created, organised, and managed, and
- the nature of domestic rivalry

National advantage result from a good match between choices of goals, strategies and ways of organising firms in a country and the sources of competitive advantage in a particular industry. The pattern of rivalry at home also has a profound role to play in the process of innovation and the ultimate prospects for international success.

Important national differences in management practices and approaches occur in such areas as the:

- training, background and orientation of leaders
- group v/s hierarchical style
- strength of the individual initiative
- tools for decision making
- nature of relationships with customers
- ability to co-ordinate across functions
- attitude towards international activities (managerial attitudes play an important role in the willingness and ability of firms to compete globally)
- the relationships between labour and management (central to the ability of firms to improve and innovate) (Porter, 1998).
- nations will succeed in industries where the goals that firms seek to achieve as well as the motivations of their employees and managers, are aligned with the sources of competitive advantage.
- company goals are most strongly determined by ownership structure, the motivations of owners and holders of debt, the nature of corporate governance and the incentive processes that shape the motivations of senior managers. The goal of publicly held corporations reflect the characteristics of the nation's public capital markets, the identity of shareholders, the local tax regime and the prevailing standards for rate of return (Porter, 1998).
- goals of individuals_are the individuals who manage and work in firms motivated to develop their skills as well as expend the necessary effort for creating and sustaining competitive advantage. Individual behaviour and effort is determined by factors such as:
- the reward system under which employees operate (e.g. bonus compensation based on individual performance reinforces competitive advantage in some types of industries but detract from it in others, especially those requiring long accumulation of skills and complex co-ordination);
- attitudes towards wealth (e.g. Swedes are less motivated than Americans to seek a fortune on a new start-up);
- the relationship between manager or employee and the company. Creating and especially sustaining competitive advantage in many industries requires ongoing

investment to upgrade skills, to better understand the industry and exchange ideas across functions. Nations that tend to have virtually permanent employment (e.g. Japan) will tend to be successful in industries that thrive on such attitudes. In other industries, competitive advantage is more a function of the brilliance or performance of a small group of individuals, such as professional and financial services (Porter, 1998).

- the influence of national prestige on goals: Where an industry becomes notable occupation or takes on national importance, competitive advantage often results. The quality of human resources attracted to particular industries and the motivation of individuals and even shareholders are affected by prestige.
- domestic rivalry among a group of domestic competitors is different from and often more beneficial to a nation than rivalry with foreign firms:
- strong domestic competitors create particularly visible pressures on each other to improve (pride drives managers and worker to be highly sensitive to other companies in the nation and national press and investment analysts constantly compare competitors with the others, e.g. Coke and Pepsi;
- vigorous local competition pressures domestic firms to sell abroad in order to grow (particularly when there are economies of scale present);
- it is rare that a company can meet tough foreign rivals when it has not been equipped to hold its own against significant competition at home;
- the presence of domestic rivals nullifies the types of advantages that come from simply being in the nation (factor costs, access to preferences in the home market, local supplier base.) This forces a nation's firms to seek higher order and ultimately more sustainable sources of competitive advantage. Without local rivals, a firm in a nation with factor advantages tends to rely on them, and, worse yet, to deploy factors less efficiently;
- when there are only one or two domestic rivals in a nation, pressures are created for all sorts of "assistance" that undermines dynamism, such as subsidies, guaranteed home demand, etc. None of this "help" is conducive to innovation and ultimately to competitive advantage (Porter, 1998).

The determinants of national competitive advantage directs the role of the home nation in the process of creating and sustaining competitive advantage in global industries. These determinants can be grouped in a "diamond" of national competitive advantage. This is not to say all nation" firms will achieve competition advantage in an industry. In fact the more dynamic the national environment, the more likely it is that some firms will fail, because not all have equal skills and resources nor do they exploit the national environment equally well. Yet those companies that emerge from such an environment will prosper in international competition (Porter, 1998:72).

The "diamond" is a mutually reinforcing system. The effect of one determinant is contingent on the state of others. Favourable demand conditions, for example will not lead to competitive advantage unless the state of rivalry is sufficient to cause firms to respond to them. Advantages in one can also create or upgrade advantages in others (Porter, 1998:72).

Competitive advantage based on only one or two determinants is possible in natural resources dependent industries involving little sophisticated technology or skills. Such advantage usually proves unsustainable, however, because it shifts rapidly and global competitors can easily circumvent it. Advantages throughout the "diamond" are necessary for achieving and sustaining competitive success in the knowledge-intensive industries that form the backbone of advanced economies. Advantage in all determinants is not a prerequisite for competitive advantage in an industry. The interplay of advantage in many determinants yields self-reinforcing benefits that are extremely hard for foreign rivals to nullify or replicate (Porter, 1998:73).

Two additional variables can influence the national system in important ways, and are necessary to compete a theory. These are chance and government. Chance events are developments outside the control of firms (and usually the nation's government), such as pure inventions, breakthroughs in basic technologies, wars, external political developments, and major shifts in foreign market demand. They create discontinuities that can unfreeze or reshape industry structure and provide the opportunity for one's nation's firms to supplant another's. They played an important role in shifting competitive advantage in many industries (Porter, 1998:73).

The final element necessary to compete the picture is government. Government, at all levels, can improve or detract from the national advantage. This role is seen most clearly by examining how policies influence each of the determinants. Antitrust policy affects domestic rivalry. Regulation can alter home demand conditions. Investment in education can change factor conditions. Government purchases can stimulate related and supporting industries. Policies implemented without consideration of how they influence the entire system of determinants are as likely to undermined national advantage as enhance it (Porter, 1998:73).

3.6.5 Competitiveness indices

If competitiveness analysis as such is valid, there is a role for competitiveness indices to help benchmark countries against each other. Such rankings can help policy makers design and evaluate competitive performance in the way technical benchmarking help enterprises to assess and improve their competence against other firms. Competitiveness indices can also help investors to allocate resources between countries, researchers to analyse economic issues in comparative terms, aid donors and international institutions to judge economic performance and domestic industries and institutions to judge themselves against competitors (Lall, 2001: 9).

The value of competitiveness indices depends on the rigor of the underlying analytical framework and the methodology for making the rankings. In the following section of the World Competitive Index, WEF index (with some reference to the IMD index) will be assessed. To reiterate, any index, if it guided countries in building competitiveness, must resolve around market failures that imply (explicit or other) economic conflict between nations. Otherwise it simply becomes growth analysis with little relations to 'competitiveness' in a meaningful sense. Market failures do not, however, appear in either the WEF or IMD indices: both assume that markets are essentially efficient. They do, however, assign what the World Bank terms a "market friendly' role for the government, to remedy generic market failures with functional interventions (World Bank, 1993).

There are five steps involved in constructing a competitive index. The first is to measure competitive performance at the national level (define the 'dependent variable'). The second is to identify national variables that affect the measure of performance (the 'independent variables'). The third is to specify the model, (i.e.

meaningful causal relations between the independent and dependent variables). The fourth is to collect data that capture the variables. The fifth is to study data rigorously to produce national indices ranking competitive performance (Lall, 2001: 10).

3.6.6 The World Competitiveness Index

The International Institute for Management Development annually publishes the World Competitiveness Year containing a ranking of countries according to their international competitiveness based on their estimation of the World Competitiveness Index and various other indexes.

IMD assumes that nations compete to improve the living standards of their people. They make the assumption that a country's competitiveness and openness to international trade are inextricable linked to the country's standard of living. It is pointed out that Keynes has shown that the economic slowdown of 1929 led to a world-wide depression during the 1930s because countries applied protectionist policies. One of the objectives of the Bretton Woods agreement in 1944 was to liberalise international trade (Garelli, 2001: 43). Trade tariffs on commodities are currently less than four percent among members of the World Trade Organisation.

Competitiveness of a country is not only a function of GDP and productivity, but depends on the ability of firms to cope with the political, cultural, educational and economic dimensions of a region. Although the competitiveness of nations and firms are interrelated concepts, IMD focuses on the competitiveness of the environment in which firms has to compete. A region will be more competitive if it can offer firms an environment that has an efficient structure, institutions and policies in which to compete. IMD measures and compares the ability of countries to provide the firms within their borders with an environment that can sustain their local and international competitiveness. In calculating the competitiveness index and ranking countries IMD makes the assumption that wealth creation takes place primarily at the level of the firm and then determine to what extend the environment promotes such development (Rooselet, 2001: 51).

3.6.7 Measuring national competitive performance

WEF and IMD differ in their treatment of dependent, national competitive performance. Some measure of performance is necessary to specify the model (what determines 'competitiveness') and to test its explanatory power. This is particularly important because there is little consensus on how competitiveness can be measured, and so also on its determinants. IMD does not provide a measure of competitiveness. It argues that " a country's competitiveness cannot be reduced only to GDP and productivity, because firms must cope with the political, cultural and educational dimensions of countries, as well as their economies" (IMD Website, 2000). However, since firms compete with each other in specific ways, measuring their success becomes a matter of defining the relevant activities and markets and summing them up for their home country. The absence of a measure of competitiveness means that IMD asks its audience to take its model and its validity entirely on faith (Lall, 2001: 10).

WEF, by contrast, does use a measure, per capita GDP at purchasing power parity values, but does not really justify its choice. There is a need for a justification, since it is not clear that GDP is the right measure of international competitiveness. National income comprises significant (in many cases the dominant) elements that do not enter international competition, including several services as well as infrastructure, industrial and agricultural activities. While some services are directly traded or feed indirectly into tradable activities, a substantial part (e.g. real estate, catering or domestic service) is fairly remote from inter-country competition. WEF defines competitiveness more broadly than direct market competition between countries (WEF, 2000: 14 and Commission of the European Community, 1993), thereby tackling the analysis of incomes and growth as a whole.

The growth accounting literature, the most econometric approach to explaining growth, cannot capture the separate contributions of labour, capital and technology. (the residual) without making a priori assumptions. Different assumptions about the role of accumulation and assimilation lead to varying explanations of growth and the contribution of technology, as illustrated in the recent controversy over Asian miracle (Nelson and Pack, 1999, Felipe, 1999, Temple, 1997). The potential for externalities, path dependence and multiple equilibria make it difficult to generalise from such statistical exercises. As Kenny and Williams (2001: 15) conclude, " the current state of understanding about the causes of economic growth is fairly poor".

3.6.8 Porter's competitiveness "diamond", the current competitiveness index and the economic creative index

The theory underlying current competitiveness index (CCI) and economic creative index (ECI) actually originates in the business strategy literature and has little to do with the economic model. This sub-section considers the relation between the two components: 'the sophistication with which companies or subsidiaries based in the country compete' and 'the quality of the micro-economic business environment. The quality of the business environment, based on Porter's (1990) well-known 'diamond of competitiveness, comprises variables measuring the quality of inputs (i.e. flows) firms obtain from markets or institutions. The sophistication of company strategies is measured by variables internal to the firms (Lall, 2001: 16).

Because of the central role Porter's diamond plays in the WEF analysis, it is worth spending some time on it. In introducing the 'diamond', Porter (1990) distinguishes the "competitive advantage" (see sub-section 3.10.4) of trade theory (which he represents by the Heckscher-Ohlin model). In this model, industries use primary factors in different proportions (not reversed across countries), with the relevant technologies freely available to all firms that make undifferentiated products under perfect competition. Countries have identifiable endowments of factors (in the simplest version only capital and labour). Thus, the intersection of factor intensities with national endowments yields predictable patterns of specialisation by activity; other simplifying assumptions do not affect these essential results (Lall, 2001: 16).

Porter's competitive advantages do not arise from such interactions between industrial factor intensities and national factor endowments. They arise from firm-level ('man made') efforts to develop new products, improvements, better brands or delivery and so on, to 'innovate' in the broad sense. They give rise to competitive advantages regardless of factor intensity where conditions are conducive to innovative effort. These conditions are given by the elements of his 'diamond'. However, having these conditions is necessary but not sufficient: companies must adopt appropriate strategies to respond to external stimuli and these strategies themselves differ by location. Thus, the combination of the external factors (the diamond) with particular strategies-both having country specific features-yield the competitive potential of each country. Porter provides a wide range of country and industry examples to show how advantages arise form this combination; conventional factor proportions do not, in his view, explain the patterns well. More significant for the WEF index is his claim that assessing national diamond conditions and company strategy enables people to assess the competitive potential of each nations micro level (Lall, 2001: 16).

The WEF publishes the Global Competitiveness Index and African Competitiveness Index. The Global Competitiveness Index is designed to predict medium to long-term growth potential. The methodology utilised by WEF utilises Porter's 'diamond' as point of departure and develop it further (Porter and Christensen, 2000: 31). They also except the importance of microeconomic foundations of economic development and build it into methodology. They also calculate a Microeconomic Competitive Index, although it shows close correlation with the global Competitiveness Rankings (WEF, 2000: 33). The final index is a simple average of the index based on survey data and the index based on quantitative data. The survey index is a simple average of the sub-indices for the following six factors: Openness, government, finance, infrastructure, labour and institutions. The quantitative index only average the first five factors, as they do not measure quantitative data on institutions (Cook and Sievers, 2001: 84).

The strong point of the WEF analysis is its emphasis on structural micro-level conditions as vital determinants of competitive performance. It is becoming clear that getting the macroeconomic situation right (the standard IMF prescription) is unlikely to promote sustained growth. It is vital to improve the economic structure and also the way in which economies insert themselves in the global market and technology flows. This can often require extensive policy intervention (Stein, 2000) and does through history (Reinert, 1995). Certainly it needs far more than the surprisingly insipid conclusion from WEF on least developed countries coping with globalisation.

According to WEF, CCI measures competitiveness at the micro level, which it suggest is more important for building sustained competitiveness than just good macroeconomic management (something most development economists would agree with fully) It is therefore the most critical element of the WEF index. And it is important to see how WEF builds its indicators. The 'executive summary' that opens the 2000 WEF reports describes its model thus:

> "Gross national product per person is proportional to the amount of capita per person: y = A k, Where (A) represents the level of technology, summarised by a single number measuring the average productive of a unit of capital [and k is the national capital stock per capita]. The level of income, then, is determined by the capita stock and the level of technology". (WEF, 2000)

The model CCI comes not from economics but from business strategy: Porter's 'diamond of competitiveness'. This is not as much a theory of competitive production as a collection of anecdotal evidence on the determinants of competitive success strung together by vague ideas on how they are inter-related and measured. While many concepts are similar to those in trade theory (unfairly berated by Porter), they are not analysed in a rigorous manner to yield testable proportions on the determinants of competitive activity. The stress on company strategy as an independent determinant of competitiveness, rather than a manifestation of factors already covered under other headings, is unnecessary and confusing. The separation of 'current' from 'growth' competitiveness does not appear analytically sound. While there are many elements in the analysis of microeconomic competitiveness that seem sensible, it is not clear that they add up to the comprehensive explanation of structural foundations of competitiveness, In addition, the index faces further difficulties in terms of how the causal relations are specified and the variables defined and measured (Lall, 2001: 14).

The Economic Creativity Index is a new entrant to the WEF's 2000 report, and has a whole chapter devoted to it {'Economic creativity' by Andrew. M. Warner, (WEF, 2000: 28-39)}. The idea of linking innovation with prosperity and measuring national innovative capability was introduced in 1999. The 1999 reported had a 'Capacity for Innovation Index' (CAP index) but did not include it in its general competitiveness index. In the 2000 report the Innovative Capacity Index was replaced by the (very different) Economic Creative Index, which now plays a prominent role in delivering the Growth Competitiveness Index (GCI). The change in the structure and components of the index between 1999 and 2000 is not mentioned in the latter report (Lall, 2001: 21).

The 1999 index drew upon an 'Innovation index' by Porter and others for advanced industrial countries for the US Council on Competitiveness. This index sought to explain the "ability of a country to produce a stream of commercially relevant innovations", and was a relatively complex exercise, with the panel data over 1973-96 for 17 OECD countries. The basic premise of this index was that domestic innovative capacity-and not the use of technology created elsewhere-was the most important technological variable in competitiveness. Innovation capacity was measured by patents taken out internationally by each country (Stern ET al, 2000 and Porter and Stern, 2000).

3.6.9 Competitiveness in South Africa

If, according to Cockburn et al (1998), competitiveness can be seen as the capacity to sell products profitably, the challenge is to undercut prices, i.e., costs must be lower than prices. Costs become the fundamental determinant of competitiveness and to understand the components of cost competitiveness for African and South African industries is of key interest to policy makers. Cockburn et al (1998) and (Siggel et al, 2000) have developed methodologies based on customised surveys.

Industrial development based on modern technology is essential for economic development and alleviates poverty in less developed African countries. The United Nations Millennium Declaration declared that poverty alleviation in less developed African countries is a global concern and a commitment is made to the building of productivity (Unido, 2001a:xii). In building productive capacity to establish effective linkages to the global industrial economy, African countries should focus on the competitiveness of their industries. Low-wage, low productivity development is no longer a viable option. Capacity building and rapid technological advancement is a prerequisite for market growth both locally and for exports.

A large part of Africa will have to attempt to stay self-reliant off-line, but governments will have to work towards connectivity because no country will be able to become competitive and remain so in the long term if it does not apply modern knowledge, communication and computer technology. Ambitions of national industrialisation and international competitiveness in respect to the old economy are contradictory to development. New global manufacturing and international competitiveness are restricted to the participation in global networks. If only a few products are produced and attempts are made to build upon such operations sufficient backward and forward linkages will no longer be found. Foreign direct investment in manufacturing and development are apprehended by the absence of regional markets, logistic problem, physical distance from core markets in the developed world and currency instability endemic to less developed countries (Unido, 2001a: 2).

The manufacturing performance of less developed Asian countries is superior to that of Africa because they are more diversified and its export performance is significantly superior to less developed countries. The manufacturing sector was an important contributor to GDP growth in the relatively successful less developed countries, especially in Asia. Manufactured exports have grown rapidly in those less developed countries, which benefit from even faster industrial sector growth than other developing countries (Unido 2001b: 37).

African countries will have to apply the world's most advanced scientific and engineering technology with expertise equivalent to the best in the world for industrial development to occur and its economies to prosper. International competitiveness not only requires the use of modern technology, but utilising it with such proficiency that it can lead the way to innovation. In a continent were most people cannot even read or write, this is an impossible dream. There are those that believe Africa is a basket with no hope of ever achieving any development (Morule, 2001: 4), but most believe that the continent has large potential (IDC, 2001:54). Development is a long-term goal and to eventually reach the top a start should be made.

The first point of action in an attempt to raise the global competitiveness of the region would be to ensure that everyone on the continent become literate. Once people have the basic educational skills more advanced studies and skills can be pursued.

Education and skills are a primary requirement in the new economy, and particularly education in the fields of natural sciences, mathematics, computers, and especially technical subjects and engineering. Education and training alone will not, however, lead to economic development and global competitiveness in Africa. Development is a multi-dimensional problem and it requires a holistic approach, fighting poverty and underdevelopment as a total onslaught against people. The provision of drinking water in Lesotho, for example, did not end the occurrence of water related diseases (Naudé and Kleynhans, 2001:214). Economic development should embrace the whole human being and entire communities, ensuring that all the basic needs are fulfilled plus the necessary luxuries that will ensure happy productive people. UNIDO (2000) states that to attract foreign investors, developing countries in Africa will have to accept privatisation and deregulation, budget deficit reduction, monetary restraint and lower tariffs. Greater attention should be given not just to poverty reduction but also to environmental and social issues, such as food security, ageing populations and water scarcity, among other priorities.

African development is restricted by the small size of its markets, distance from international markets, low level of skills, supplier network and support services as well as international trends in manufacturing which currently excludes Africa. Foreign investors tend to be more sensitive towards the determinants than local investors (Colliers, 1997) As potential risk on investment is higher in developing countries, investment by a foreign firm in Africa require a higher expected profitability than would normally accepted locally. One of the promotion functions that investment promotion agencies should fulfil is the screening of potential investment projects on international markets. Africa also lack its financial depth compared to other developing countries, due to the absence of financial institutions, in many areas and people lacking skills to use it and mistrusting of such institutions (Ghatak, 1995: 127).

Africa's harsh business climate (World Bank, 1994: 90) and high risk make firms hesitant to invest in Africa, especially political and policy uncertainty, risk of government interventions, risk caused by governments often changing their policies, nationalisation of property and the possibility that they would not be able to exchange their foreign currencies when policies change, make investors unwilling to invest their funds in Africa (Naudé and Kleynhans, 2002: 135 and Colliers, 1994: 13-14). The fact that investments in Africa tend to be irreversible is another disincentive to the investors. There is usually a weak market for second-hand equipment and an even more limited market for selling the whole firm (Naudé , 2001a: 173). Purchases of if inputs become unreliable, and shortages often occur while import prices fluctuate considerably. Production of the market falls and subsistence increases (Collier and Gunning, 1999: 111).

There is a mass of evidence proving that more open economies are more competitive and grow faster (Kenen, 2000). The opening up of African economies to international competition might not guarantee greater competitiveness, but limit local production altogether. Demographic transition in Africa is progressing very slowly. Africa has low average population densities (Peron, 1995: 27); low levels of urbanisation and the urban centres are very small. This tends to increase the costs of providing infrastructure services such as road works, telephone system and urban sewerage. Rapid population growth imposes a burden on African governments to provide basic services. The share of government spending of GDP in Africa is high, but service delivery is inefficient. A possible explanation of the deficiency of public services is the lack of social capital. The existence of social capital and functioning government institutions provide security for life and property, and reduce the uncertainties associated with investment. Public infrastructure investment can lower cost and crowds in private investment, stimulating growth (Easterly and Rebelo, 1993: 417).

The SADC Trade Protocol was concluded in August 1996, Although it has taken some time for the majority member states to ratify the treaty (by 2000, seven out of 12 member countries had done so, one country short the number needed for the protocol to come into force). In addition, there were other contentious issues outstanding, such as rules of origin for clothing and textiles and cane sugar, dispute settlement mechanisms and customs and trade facilitation. Trade statistics from the DTI show that 99% of tariff lines, consisting of 97% imports from SADC, will qualify for duty free access to South Africa by 2005, with tariffs on 69% of SADC imports being zero rated upon implementation liberalisation scheduled for 2012. This is an asymmetric arrangement, with South Africa liberalising most of its sectors to imports from SADC countries faster than they would for imports from South Africa. However, it should be pointed out that there is considerable back-loading in the proposed phase-down, and it remains to be seen whether there is sufficient political will to stick to the proposed schedules (Flatters, 2001).

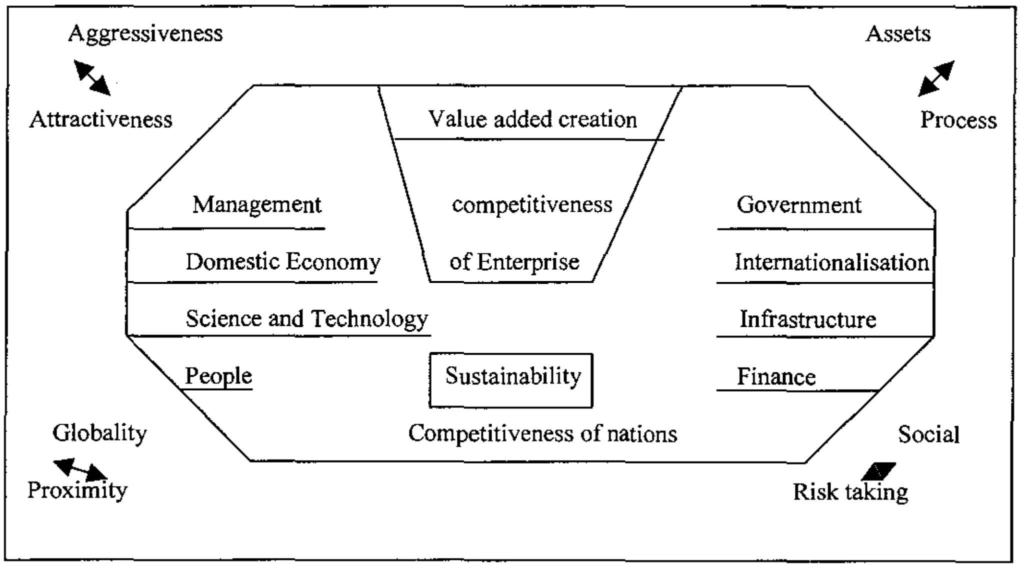
3.6.10 Changing competitive environment

Competition's playfield has changed in this new world order form being primarily-local or region based before the 1970s because of limited transport and communications means, to the global arena where new heights in the mobility of capital, humans and ideas have been reached. This is a competition in which investors have considerable leverage that stems from their increased mobility, and the fact that detailed information on localities are readily available. In a knowledge-based economy, localised capabilities increase the ability of firms to create, acquire, accumulate and utilise knowledge a little faster than their cost-wise more favourable competitors (Maskell et al. 1998: 51).

The World Competitiveness Yearbook (IMD, 1997: 2-4), focuses on the competitiveness of nations by analysing whether the national environments are conducive or detrimental to domestic and global competitiveness of enterprise operating in those countries. They use eight factors to evaluate competitiveness namely the domestic economy, internationalisation, government, finance, infrastructure, management, science and technology and people (see figure 3.3). They have found four forces -usually the result of tradition, history or value system - influence the competitive environment of any given country. Of these forces, "attractiveness and aggressiveness" are directly applicable to this study. Attractiveness and aggressiveness relate the way in which nations manage its internationalisation process. Attractiveness in a country is assumed to be a domestic environment that is conducive to foreign investment and trade. A nation with an aggressive approach, aims to penetrate international markets with direct investment through exports. Aggressiveness is said to create income in a home country, but not necessarily job opportunities, while the creation of work opportunities in the home country is attributed to attractiveness.

Attractiveness is singled out in a report as becoming the fundamental policy objective, based on its impact on work creation, transfer of technology and skills. In the international debate, this element reflects directly on LED initiatives that aim to attract investment. This shows that the local response (in making an area attractive) to economic change (open markets and increasing competition) will become an increasingly important component of national competitiveness. An enabling environment must be created to become a base for investors as well as residents in search for economic opportunities and quality life. (IMD, 1997: 2-4). See figure 3.3 below

Figure 3.3: World competitiveness (Source: IMD, 1997: 1)



3.6.11 Golden rules of competitiveness

What is it that countries must do in order to become or stay competitive? They must: See figure 3.4 below

Figure 3.4: The golden rules of competitiveness

Golden rules of competitiveness
Create a stable and predictable legislative environment
Work on a flexible and resilient economic structure
Invest in traditional and technological infrastructure
Promote private savings and domestic investment
Develop aggressiveness on the international markets (exports) as well as attractiveness for foreign direct investment
Focus on quality, speed and transparency in government and administration
Maintain a relationship between wage levels, productivity and taxation
Preserve the social fabric by reducing wage disparity and strengthening the middle class
Invest heavily in education, especially at the secondary level, and in the life-long training of the labour force
Balanced the economies of proximity and globality to ensure substantial wealth creation, while preserving the value system that citizens desire

(Tips, 2002).

For local government to be successful in South Africa, none of the above golden rules should be ignored by local municipalities. The first golden rule of creating a stable and predictable legislative environment is a must for any municipality for investors because any investor would like to invest in a stable and lawful environment with a flexible and resilient economic structure. Investing in a traditional and technological infrastructure is also must for any municipality since lately technology has been playing a very important role in international trade. Promotion of private savings and domestic investment is also a prerequisite for any municipality. Development of aggression for exports will definitely make any municipality very competitive, since through their exports, they will be able to attract international trade. Quality, speed and transparency in governance and administration will play a very important role it making sure that everything runs according to required international standards including wage levels, productivity and taxation. Most importantly for any municipality to succeed, they need to invest heavily in education especially, at the secondary level and in the lifelong training of labour for economic sustainability and lastly, they need to balance the economies of proximity and globalisation to ensure substantial wealth creation, while preserving the value system that the community desires (Tips, 2002).

The decomposition of unit costs distortions in South African industry described in this note should be seen as a first step towards a more complex analysis of the impact of distortions in the South African economy. At this stage the analysis only takes into account a very limited number of distortions, i.e., distortions emanating from tariff protection, exchange rate misalignment and wage rate distortions. Moreover, the latter was dealt with in a hypothetical way, by making a rather crude assumption on skilled labour. Interestingly, the exchange rate misalignment appears to be undervaluation, while the literature usually refers to overvaluation. Undervalued exchange rates work initially in favour of final good prices and its impact is much larger than tariff protection (Tips, 2002).

A number of other distortions can be considered for evaluation. They include:

- Interest rate distortions
- Capital price distortions
- Depreciation distortions
- Distortions due to indirect taxes on products
- Distortions due to indirect taxes on production
- Distortions due to subsidies on production

- Distortions due to transport costs
- Distortions due post and telecommunications costs
- Distortions due to lack of infrastructure

While distortion on interest rate, depreciation and capital price have been set up in the spreadsheet such that simple sensitivity can be undertaken, the latter can be dealt with in a more sophisticated way. The capital price distortion can in principal be approached in the same way as the input price distortion, in that it can be seen to consist of a distortion due to tariffs and a distortion due to exchange rate misalignment. The former would require some additional manipulation, as people need to know the import content of each industry's capital good requirements and the relevant tariffs on these imports. Both are, however, available from secondary data sources (Tips, 2002:12).

Indirect taxes and subsidies are available from the standardised Industry database but the conceptual introduction into the decomposition requires further attention before this can be operationalised. Other distortions such as those due to high transportation costs, telecommunications costs or lack of the infrastructure have to some degree been incorporated by Siggel (2001), but require micro level studies and surveys for their estimation before they can be introduced into the equation (Tips, 2002: 12).

3.7 FACTORS INFLUENCING COMPETITIVENESS OF MUNICIPALITIES

Today, a variety of factors are coming into place to dramatically alter the competitive position of municipalities, at a global scale. They include:

3.7.1 Falling Trade Barriers

Globalisation of business is being facilitated by the relaxation of trade barriers. This includes the creation of a single market European Community (EC) in 1992, the Canadian-American free trade agreement, the emergence of free market economies in Eastern Europe and the continued growth of the newly industrialised countries. These events provide dramatic new opportunities for foresighted firms in the U.S. and elsewhere to restructure their production, distribution and marketing activities across national boundaries (Weisbrod, 1991:1).

3.7.2 International Ownership

Multi-national mergers, acquisition, and consolidations now underway are bringing about changes in the organisational structures of firms. Entire integral divisions are located in different countries- not just foreign branches". These changes are providing major opportunities for relocations of business activities. They area creating new needs for international cargo shipments, and passenger travel connections between dispersed facilities, as well as internal telecommunications to carry out every facet of day to day operations (Weisbrod, 1991:1).

3.7.3 24-hour Financial Markets

In many financial firms, an investment portfolio is now traded around the world and around the clock. For instance, at the end of the day in New York, the portfolio is passed to the London office; at the end of the day, the portfolio returns to start a new market day in New York (Weisbrod, 1991:1).

3.7.4 Information Technology

The technology for information systems and telecommunications is undergoing dramatic change, which is facilitating business location, and organisational changes. These include use of Electronic Data Interchange (EDI), a standard for records interchange between trading partners, more tightly controlled integration of manufacturing and logistics (such as Just-In-Time delivery of parts) and Value-Added Network (VAN) information services for specific industries. ISDN (Integrated Services Digital Networks), simultaneously combining digital, voice and video transmissions are starting to create a form of " global area network". The net result is that advanced information technologies and telecommunications are making national boundaries lees important (Weisbrod, 1991:2).

3.7.5 Deregulation of Transport and Communications

The deregulation of airlines and telephone services has spread from the US to Western Europe countries and Japan. The new competition has further accelerated innovation in new information technologies and air services. There are also increasing number of cities offering international gateway services, including many medium-sized cities, as a result of airline deregulation (Weisbrod, 1991:2).

3.8 SUMMARY

The aim of this chapter was not only to provide sufficient information on globalisation from a literature perspective to develop a sound understanding of the concept, but also to identify the latest developments in this approach. This was done by providing answers to questions relating to what globalisation is, its background, who is involved, what does it aim to achieve and how applicable it is to the problems municipalities face today.

In defining globalisation it is clear that it remains in essence a local initiative in reaction to changes in the internal and external environments by effectively allocating available resources to reach globalisation's objectives. From the first section of the chapter it is evident that the nature of the new economic order -which is globalisation-holds profound consequences for the economic development of municipalities. This new order implies that boundaries between borders are diminishing in importance and localities are exposed to all elements associated with the opening of world markets. This includes the perceived benefits of globalisation like easy access to new technologies and capital, as well as an increase in competitiveness. As the mobility of capital, amongst others, has increased, municipalities have to compete for this increasingly mobile capital. One of the most important ways of getting the much-needed investment and becoming competitive is for the domestic economy to become attractive to investment.

Durban is one of South Africa's prime tourist destinations. Its key strengths are its physical setting, vegetation and cultural diversity. It is known as South Africa's truly African City. It also acts as a gateway for visitors to the province of Kwazulu-Natal which is described as "a country in one province" Durban attracts and caters for a large number of domestic tourists and business travellers. Increasing numbers of international tourists, who spend more capita, are also coming to Durban (Durban Economic Review, 2001).

The domestic market is composed of three primary market segments:

- 63% are 'established achievers': they are urbanised, live mainly in metropolitan areas, own homes, tend to have tertiary education, and average household income of R4571 per month.
- 29% are classified as 'emerging market': they are urban, live mainly in metropolitan areas, blue-collar employed and average income of R1059 per month.
- 8% are classified as 'less privileged': they are mainly rural, young single adults or adults over 50, mainly unemployed, and average household income of R557 per month.

The international tourist market include a young and upcoming segment as well as a middle aged segment (Durban Economic Review, 2001).

The Development Bank of Southern Africa, which granted it R648m loan, recently affirmed Durban's metro viability. Its financial health recently compared with Johannesburg results from financial and administrative advantages, which the city took into the recent transition and greater maturity and willingness to compromise. Durban's larger per capita reserves enabled some development backlogs to be addressed before borrowing. But this is a one off strategy-a point emphasised by management committee chairman (Pereira and de Klerk, 2000).

The trade and catering (including tourism) and financial and business sectors grew fastest (over the past 10 years) by together increasing its contribution from 30% to 38% of economic output. At the same time, manufacturing as a sector remained at 25% of the city's Gross Geographic Product, still important but with inter-sectoral growth and decline serving to cancel each other out (Pereira and de Klerk, 2000).

A total of over R9.4 billion in large-scale physical property and infrastructure development has been completed over the last two years. Current new projects totalling more than R6.7 billion are either approved, being submitted or planned. This economic growth will be driven by key growth sectors including trade and catering (reflecting growth in tourism), manufacturing (including beverages, electrical machinery, sugar, clothing) transport, communication and construction (Pereira and de Klerk, 2000).

Metro mayor Obed Mlaba promises that Durban will have final clarity on its long proposed La-mercy airport and strengthened the already strong economy as explained in the previous paragraphs as compared to other large cities. The council has coughed up R100 million for the point waterfront, business development and port expansion project. And in the year 2000 Tongaat-Hullet (and Anglo) director J B Magwaza was appointed to resuscitate these. Still, Magwaza's insisted that business benefiting from such a development (and its rate incentives) would be selected on merit. Durban has attracted investors as varied as Bevcan, Mondi, Kellogs and Impala platinum. It thoughtfully allowed accelerated depreciation of 33,3% a year over three years of some assets used in setting up a business But as University of Durban-Westville Graduate School of Research, professor Jeff McCarthy points out, specific incentives are " a modest consideration for business location". He says that far more important are infrastructural conditions, an enterprise friendly and quality of life. The latter, McCarthy says, is particular in that higher paid employees of any business are critical in its relocation decisions. And he points to "connectedness". For Durban and Cape-Town , this means efficiency of its ports. For Johannesburg it means growing IT. The role of City Fathers must be one of the decisiveness, which McCarthy says cannot be overemphasised. "The value of time is critical"-as Durban has found its dragged out point development costs (Pereira and de Klerk, 2000).

The job security of experienced officials in Durban is one measure of the political realism and maturity that have characterised the transition. Another is the metro's acknowledgement of the autonomy of the six local councils. Decisions to retain functions- as the inner west did for solid waste collection-have been respected. Decrees are not imposed; local council decisions are co-ordinated at weekly meetings of a committee comprising officials and elected councillors from all councils. Durban metro mayor Obed Mlaba describes this body as " the fulcrum around which we all revolve" (Pereira and de Klerk, 2000).

5.3.1.2 The economy of Cape Town

The city of Cape Town's economy has grown faster than the national economy by almost 1% over the past ten years. Yet despite this better growth, formal unemployment still grew from16% in 1996 to 18% in 2000 (minimum estimates). In keeping with national and international trends in economic growth, the City has experienced both jobless and jobloss growth (Cape-Town Discussion Document, 2001).

The trade and catering (including tourism) and financial and business sectors grew fastest (over the past 20 years) by together increasing its contribution from 35% to 42% of economic output. At the same time, manufacturing as a sector remained at 25% of the city's Gross Geographic Product, still important but with inter-sectoral growth and decline serving to cancel each other out (Cape-Town Discussion Document, 2001).

Exports became increasingly important to economic growth, increasing from R6.6 billion in 1996 to R9.7 billion in 1999 (Cape-Town Discussion Document, 2001).

The informal sector employs more than 22% of the labour force and produces about 12% of economic output (Cape-Town Discussion Document, 2001).

Poverty and income inequality continues to increase with 26% of all households living below the Household Subsistence Level (HSL) in 1999. The subsistence level of the city of Cape Town is estimated at R15 000 per annum for a core household of 4-5 people (Cape-Town Discussion Document, 2001).

Adult illiteracy has grown by about 17 000 adults per year since 1996 and stands at over 350 000 illiterate adults (i.e. have a maximum of Grade6/Standard 4 education). This statistic has been substantially impacted by in-migration of people from rural areas and surrounding provinces (Cape-Town Discussion Document, 2001).

Cape Town's economy is beginning to strengthen and should grow at an average of at least 4% over the next 5 years (dependent on global economic growth). This is largely attributed to the long term impact of the following investment, Century City, Grandwest Casino, Convention Centre and other expansions and new developments (Cape-Town Discussion Document, 2001).

A total of over R11.4 billion in large-scale physical property and infrastructure development has been completed over the last two years. Current new projects totalling more than R9.9 billion are either approved, being submitted or planned. This economic growth will be driven by key growth sectors including trade and catering (reflecting growth in tourism), manufacturing (including beverages, electrical machinery, rubber, plastics) transport, communication and construction (Cape-Town Discussion Document, 2001).

Specific niche sectors will experience growth; these include boat building, medical goods and services and the film industry. With the introduction of City Improvements Districts (CIDs), management and revitalisation of the City's major business nodes, an increase in business confidence through reinvestment into the City business centres could be seen (Cape-Town Discussion Document, 2001).

Despite the projected 4% growth, unemployment is still projected to grow slightly from 18% to 21% by 2005 (Cape-Town Discussion Document, 2001).

An economic growth rate of 7% will be required to absorb all of the new annual entrants to the labour market into formal sector jobs. Alternatively, for unemployment to remain stable at 18%, economic growth would have to be 7% or higher. Over the past 4 years, the average formal employment creation rate was 12000 per annum. This would have to be more than triple to 38 000 formal jobs per annum in order to retain the current rate of unemployment (Cape-Town Discussion Document, 2001).

Over the next ten years, the demand for highly skilled labour will grow by an annual average of 20 000 workers. The inherent structural differences in the economy means that work opportunities are increasingly centred on some form of technical competency, which will be sector specific. This largely excludes the current and future job entrants from actively competing for job opportunities (Cape-Town Discussion Document, 2001).

This presents a very challenging scenario for the City's economic development strategy.

The Council agreed to a vision in February 2001, which included the following:

Cape Town will be the best place in South Africa to live, work in, visit and invest through:

- Establishing partnerships for a world class city...leading to a steady improvement in the quality of life.
- Nurturing and enriching our natural and cultural heritage.
- Fighting crime and combating HIV/AIDS.
- Job creation with a special focus on tourism.
- Providing basic lifeline services.

(Source: Cape-Town Discussion Document, 2001).

The council decided to focus its energies and resources on addressing the following priorities:

- HIV/AIDS
- Crime
- Lifeline Services

- Tourism

- **A City Development strategy**

A City development strategy (CDS) is a shared understanding among citizens and stakeholders in the city about the need for change to realise an explicit vision. It positions the city in a globalising world, where cities compete with each other for events, jobs, investments and tourists.

It is based on the analysis of the long-term trends impacting on the city and how these trends shape the realisation of the vision. A City Development Partnership is needed to drive the City Development Strategy.

- **An Integrated Development Plan**

An Integrated Development Plan (IDP) is defined as follows:

"A plan aimed at the integrated development and management of the area of jurisdiction (being the city of Cape Town) concerned, in terms of its powers and duties." (Source: Cape-Town Discussion Document, 2001).

In addition, the city is required to " prepare a financial plan in accordance with the integrated development plan in respect of all powers, duties and objectives; regularly monitor and assess its performance against the IDP and the annual report to and receive comments from its community regarding the objectives set in its IDP".

The IDP involves an annual cycle of planning, action and review that would enable the city to align and integrate its activities and resources in a strategically accountable and cost efficient manner. The IDP is a tool with which to build relationships in the city, to consolidate stronger management of the city's operations and to establish a developmental role.

- **An Economic Vision and Strategy**

The economic development vision needs to "nest" within the overriding vision for the city.

The economic development strategy is on the other hand, a sphere of strategy that encompasses all municipal activities and, on the other hand, a functional service with specific roles and duties.
(Source: Cape-Town Discussion Document, 2001).

In sub-headings that follow the strategy is unpacked.

An opportunity city:

- A globally competitive, visitor and business friendly city
- A city economy which experiences sustainable and rapid growth, vibrant entrepreneurship and job creation and increasing per capita income.
- A city where rapid improvements in people's quality of life, levels of living and skills takes place-particularly of the poorest.
- A city where the key-role players cooperate through actions taken in partnerships with communities and the private sector.

(Source: Cape-Town Discussion Document, 2001).

The following four strategic themes are proposed to focus implementation strategies of this vision:

Theme 1: Building Global competitiveness-to become globally competitive with the ability to target external niche markets through incentives, investment marketing, the right mix of labour skills and pricing and a world class visitor experience

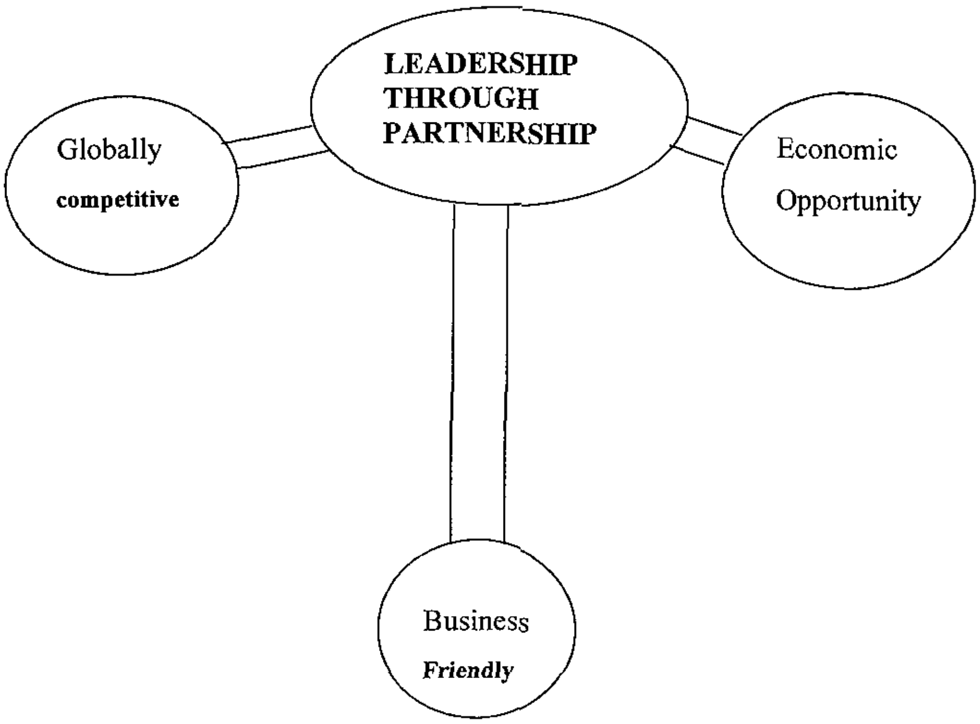
Theme 2: Providing a Business Friendly Environment-to become a thriving business environment that is attractive and clean, with safe business centres in industrial and residential areas, affordable efficient services and offering quality transport and infrastructure, world class information technology networks and infrastructure

Theme 3: Ensuring Economic Opportunity for all-so as to widen the base of economic participation and effectively reduce poverty through upliftment and renewal programmes and the provision of lifeline services

Theme 4: Providing Leadership Trough Partnership-This is an all-embracing theme (see sub-heading E). It means pro-active leadership through partnership and co-operation with different stakeholders to leverage buy in and support for initiatives and participation by all stakeholders

(Source: Cape-Town Discussion Document, 2001).

Figure 5.2: Four strategic themes to realise the vision



(Source: Cape-Town Discussion Document, 2001: 11).

A municipality should not attempt to run the economy; it should be best left to the private sector. However, worldwide experiences show that municipalities can have an immense impact on the city economy.

The following three principles guide the municipality's role:

- Public sector led
- Private sector driven
- Community based

There are three main facets to the municipality's role: support, enabling and facilitating.
(Cape-Town Discussion Document, 2001).

In functioning democracies, the municipality is elected to meet the needs of its citizens. It thus has a responsibility to govern, and be accountable. This is especially true in South Africa, where the Constitution recognises local government as a distinct independent sphere of governance and charges municipalities with specific developmental duties and responsibilities (see chapter 7 of the Constitution) and holds them accountable to a Bill of Rights (Chapter 2 of the constitution). In order to have the capacity to play an economic leadership role; the city needs to house certain economic functions.
These include:

- Aligning the " branding" of the city as a nationally and globally marketable asset
- Producing economic strategy and integrating this into the municipality's CDS, IDP, business planning and operations
- Championing city-wide economic development processes, partnerships and forums;
- Maintaining an effective economic database and information network
- Monitoring and evaluating the performance of:

-The city's economy
-The municipality's economic functions and programmes
-Related special purpose vehicles

- Leading by example.

(Source: Cape-Town Discussion Document, 2001).

In its support role, the municipality directly involves itself in the economy by stimulating, providing, subsidising or in any other way resourcing economic activity in order to address market "failures" and to redress socio-economic imbalances. Functions include:

- Supporting empowerment and SMME development through:

  -Procurement and tender advice

  -Providing business services (mentoring, networking, training, capacity building, providing links to other service providers, e-commerce programmes and others)

  -Providing or subsidising supports infrastructure (training markets, hives, incubators, "township tourism" facilities, local business support centres, local industrial parks, library small business corners, urban farms, telecentres, etc.)
- Investment support, facilitation and incentives, especially in depressed areas through developing and supporting strategic facilities (such as conventions centres), funding of Special Purpose Vehicles (SPVs) such as Wesgro, Cape-Town Tourism and others, entering into joint ventures with the private sector to share risk or catalyse action.

(Source: Cape-Town Discussion Document, 2001).

In its enabling role, the municipality directly and indirectly makes sure that the right environment for sustainable economic development is created-the "business friendly" theme. This includes:

- Getting the basic rights: by providing core municipal services (water, electricity, roads, etc) at competitive standards and costs, since this is fundamental to any economic development
- Businesslike management of city property assets
- Consultation and partnerships to ensure that business needs are understood and delivered
- Reducing red tape with streamlined decision making and accessible advice and information

- Business areas management: establishing partnerships and CIDs with the private sector to co-manage business areas
- Ensuring a stable social and urban environment through tackling "crime and grime", wise environmental stewardship and local agenda 21 initiatives, social upliftment and civil society capacity building, urban renewal, quality residential areas and good governance generally.

(Source: Cape-Town Discussion Document, 2001).

In its facilitating role, the municipality indirectly involves itself in the economy by encouraging economic activities, which are good for the city. Functions include:

- Identifying and supporting the development of key economic sectors, clusters and niches
- Assisting and championing major events
- Tourism development and promotion
- Expert and investment marketing promotion

(Source: Cape-Town Discussion Document, 2001).

5.3.1.3 The economy of Port Elizabeth(Nelson Mandela Metropole)

The central project in Port Elizabeth's local economic development strategy is the Coega Industrial Development Zone and Port, 25km north of the city. Is this the correct approach? Have all the factors associated with resource utilisation been adequately considered? Are there other routes to local economic development that more directly address Port Elizabeth's persistent problems of poverty, unemployment and underdevelopment?

In answering these questions, this research report documents socio-economic problems in Port Elizabeth and to some extent in the 'metropolitan area' encompassing the cities of Port Elizabeth, Uitenhage and Despatch. It describes and briefly evaluates the Coega proposal; considers costs and benefits of an alternative scenario based on different utilisation of the Coega land and ecology; and makes preliminary calculations about the way in which alternative use of water and electricity resources might generate an impulse towards bottom-up LED.

With a population of over a million people, the city of Port Elizabeth-Uitenhage is the third largest in South Africa. It is located in the Eastern Cape Province and is one of the main manufacturing centres in the country (Dorfling, 2001).

Since the 1920s the growth of Port Elizabeth has been largely influenced by the automotive and component sub-sector. Prior to this, the city was a growing centre of commercial activity and primary production, with strong a link with the wool and mohair industry. Despite certain disadvantages, aggressive efforts to promote industrial development resulted in success-often at the expense of marginalised communities (Dorfling, 2001).

Investment from international firms shifted the importance of the town from a raw material export centre to a production site that would be tied to the dynamics of the global automotive industries. Port Elizabeth became known in the 19th century as the "Liverpool of the Cape", and in more recent times as the "Detroit of South Africa" (Dorfling, 2001).

There have been three main industrial development phases in the city, the first characterised by the assembly of parts made elsewhere and the production of basic consumer goods. The second phase, beginning in the 1960s, involved a shift to consumer durable and capital goods, influenced by the growth in the automotive manufacturing industry under the local content programme. The third phase appears to be one in which import substitution has run its course. Over time, the protectionist and industrial decentralisation policies of national government led to a crisis in the automotive industry. Moreover, the concentration of industries in the city created an undiversified economy that responded with difficulty to recession and macro-economic policies (Dorfling, 2001).

Structural changes in the industry at a national level led to a decline in national automobile production, which had a ripple effect on a number of other local components manufacturing industries. The primary, construction and manufacturing sectors were particularly affected, resulting in a long-term period of stagnation from the 1970s.Since then there have been some changes in the national and global market place which resulted in new opportunities for the city. In the 1970s and 1980s the government's industrial development policies meant that Port Elizabeth's location was at a disadvantage in terms of distance from the main markets, there was limited export potential, and the close ties with the automotive industry was a hindrance (Dorfling, 2001).

However, new industrial policies introduced since 1994 emphasise the importance of export-orientated growth and competing in global markets, and the city's coastal location has become a significant advantage. The manufacturing and services sector are the largest in terms of contribution to contribution to gross geographic product and employment. There have been positive signs of adjustment to the shift in national trade and industry policy Dorfling, 2001).

In line with new legislation, there has been a change in the role of local government. Rather than simply providing services, facilities and other special benefits, there has been a shift towards the promotion of business growth, attraction of investment and employment creation. Investment has been made in general social infrastructure in the city to improve the quality of life of the inhabitants and tourists, and to facilitate trade (Dorfling, 2001).

On the social front, there is a relatively well-developed infrastructure with regard to education and training, health and welfare, housing, transport, water and electricity, communication services, fire protection and crime. Although the less privileged areas have recently received more attention from the local authorities, non-payment of services remains an issue. However, some of the indicators of social development are relatively bleak. In 1991 the human development index in Port Elizabeth was higher than that of the Eastern Cape Province, but lower than the national average. In the absence of recent official unemployment figures, local surveys indicate that there was a 32,8% unemployment rate in 1993, which increased to 40% in 1994. The disparity is household incomes between different race group is also significant (Dorfling, 2001).

In terms of government's plans to stimulate industrial development in the Eastern Cape, Spatial Development Initiatives (SDIs) and an Industrial Development Zone (IDZ) are being developed. The fish river SDI is focused on industrial developments, and is aimed at promoting the growth of industrial nodes between Port Elizabeth and East London. It is one of ten trade and industry department programmes throughout the country, with 130 potential investment projects to give momentum to investment. The Coega Industrial Development zone, located 20km from Port Elizabeth, is linked to the Fish River SDI. The IDZs are planned to facilitate investment in manufacturing (Dorfling, 2001).

As in other cities of the world, Port Elizabeth is faced with the choice of a number of different local economic development options. In the past, industrial development has been the most significant economic sector in terms of contribution to output and employment. The need to revive industrial development in the city is perhaps one of the main reasons for the concept of an IDZ being mooted at Coega (Dorfling, 2001).

Some of the expected negative externalities associated with industrialisation at Coega include the damage that may be caused to the fishing industry, ecotourism, agriculture and human health-a total of R114 million has been estimated as income losses due to the negative impact caused by the IDZ and port. Other opportunity costs include the existing salt-works at the mouth of the Coega River, an abalone farm and recreational facilities. The task of managing this process will be tested in finding ways to complement existing economic activity in the area, and to keep these costs down (Dorfling, 2001).

The city has established an Economic Development Unit aimed at stimulating and supporting small, micro and medium enterprise development. The Port Elizabeth Regional Chamber of Commerce and Industry has also set up a Small Business Task Team, and the Chief Executive Officer has prioritised the development of this sector as one of his goals. More recently, retail finance intermediaries were established to deal with micro lending requirements. In line with the goals of national government, institutions are beginning to create a supporting environment for small enterprises, particularly those that were previously disadvantaged by apartheid policies (Dorfling, 2001).

From the discussion in section 3.3 and 3.4 it is clear that new key role players form part of the globalisation process and the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. Neither the role players nor the roles they play are set in concrete and the extent of their involvement could differ between certain localities and circumstances. This aspect holds numerous advantages for new democracies where there is a need for means by which to increase the involvement of sectors of the economy that were previously excluded from economic decision-making and participation. These two sections concluded discussion on globalisation with a brief discussions of globalisation's applicability to the new realities which included globalisation of markets and challenges of globalisation

It was illustrated in section 3.5 of this chapter that globalisation in local governments will not function in practice if the theory of other related issues are neglected. Globalisation policy could not stand alone, but should involve various other policies and other state departments in an integrated strategy. The world's economies are in the process of becoming increasingly integrated as a result of globalisation. While the trend towards globalisation is not new, the rate at which this shift has been occurring has accelerated in recent years, with far reaching implications for business and management. The challenge for municipalities and business is how to cope, remain competitive and prosper in this demanding and ever-changing global environment.

Local governments should exploit globalisation to the best of their advantage. What is required is not a total absence from all economic activity, but rather the designing of smart policies that can utilise the advantages of globalisation in their favour.

The chapter conclude in section 3.6 by giving special attention to the changing concepts of local development and restructuring through competitiveness. Globalisation through industries and especially through manufacturing has to grow to provide necessary commodities that are demanded on the market. Growth is even important in the provision of employment to the society to earn a living and alleviate poverty and this will only be possible when a country is globally competitive. The discussions in this section of the chapter clearly accepts the view that globalisation is inevitable and that its impact will affect all local authorities. Strategically, a local authority must decide to interact with the global system while simultaneously focusing on domestic issues. It is suggested that globalisation could be used to benefit local communities in the areas of social and economic development.

Also discussed at the conclusion of this chapter in subsection 3.6.6 was the determinants of national competitive advantage as related by Professor Porter from Harvard Business School as he argues that competitive advantage based on factors of production does not sufficiently explain patterns of trade. The chapter explained the importance of competition and how it affects the economy of the country. Competitiveness in Africa as well as in South Africa and its obstacles were also briefly discussed.

CHAPTER 4

LOCAL ECONOMIC DEVELOPMENT AND LOCALITY MARKETING : CASE STUDIES

4.1 INTRODUCTON

As was discussed in the previous chapter, there has been a shift in globalisation literature from the perception of a locality as a passive receiver of economic activities to new trends from emerging networks of global manufacturing and global services. In chapter 3, it was pointed out that globalisation holds numerous advantages for new democracies where there is a need for means by which to increase the involvement of sectors of the economy that were previously excluded from economic decision-making and participation. through the process of LED and Locality marketing, which will be dealt with in this chapter.

The focus in this chapter is that locality marketing should enable municipalities through local economic development (LED) not to withdraw from the global world, but should position themselves strategically so that they can also benefit from globalisation since international trade is becoming increasingly important to municipalities' wealth as the volume of cross border trade is taking increasing. This will also help municipalities to develop global economic strategies. This chapter will consider the effect of LED and locality marketing on South African municipalities. The different views on locality marketing will also be considered in section 4.2 and 4.3 as well as the way it is transforming the South African municipalities economic space.

Section 4.4 of this chapter will therefore aim to provide some insight in the international debate surrounding the changing economic order that is linked to phenomena like promotion of locality marketing in a changing competitive environment.

Section 4.5 on this chapter will concentrate on locality marketing and global processes through some cases studies. One of the most important ways of getting the much-needed investment and becoming competitive is for the domestic economy to become attractive to investment. Three countries, Great Britain, Netherlands and Japan, particularly the three old and traditional cities of London, Amsterdam and Osaka from these three countries, are striving to take advantage of technology to carve out new roles in international commerce. Their economic development strategies both illustrate models for private-public partnership that go well beyond the usual joint marketing efforts to share in financing the physical development of facilities, to support locality marketing and these economic strategies. Therefore Section 4.5 will concentrate upon locality marketing as it pertains to these three cities (Dockland-London, Osaka and Amsterdam) as case studies. In addition Cambe and Taledo in Parana State in Brazil will provide an extra case study of a successful endogenous development within a developing country.

This section further explores the relationships between urban regeneration and locality marketing by looking at the past decade of development in London's Docklands, Amsterdam, Osaka, Cambe and Toledo. It shows how marketing and place promotion became key strands in the strategy to entice private sector led regeneration to city areas and had an equally key part to play in the boom/slump cycle which resulted. In particular perception, it looks at how this marketing strategy attempted to refashion popular perception of the area and the ideological implications that resulted.

4.2 LOCALITY MARKETING

The first is the idea of 'marketing in non profit organisations' (sometimes expressed as 'marketing in non- business organisations'), which attempts to address the problem of goals (Kotler and Levy, 1969: 89). The assumption is that both the objectives of private firms as well as the means of monitoring success are different from those of public or semi-public agencies. In practise, those who usually market places have goals other than a direct financial profit for the organisation conducting the marketing. The absence of a direct financial nexus between customer and firm accordingly renders it difficult to measure the effects of such marketing (Fines, 1981: 21). Thus a different form of marketing is required, such as that developed but Kotler and Zaltman (1971), and Lovelock and Weinberg (1984). This incorporates the broader and longer-terms goals of public authorities and accommodates the absence of a direct financial link between producer and consumer, which is achieved by extending the concept of what constitutes a market. The differences in objectives lead to differences in marketing strategy, analysis of customer groups and operation of the exchange concept, but not to a rejection of marketing as such (Capon, 1981: 47).

Secondly, marketing aimed at 'enhancing the consumer's and society's wellbeing' (Kotler, 1986: 16) rather than selling a specific product to an individual is usually called 'social marketing'. The idea was popularised in the 1970s to accommodate a number of distinctly different trends. These include concern for longer term as well as immediate profits and broadening the idea of marketing to include attempts to influence aspects of the behaviour of targeted besides their direct purchasing behaviour.

The evolution within marketing science of these two concepts taken together paved the way for an integrated concept of locality marketing which could be applied by public place management authorities as the demands for it arose.

4.2.1 Defining Locality Marketing

Locality marketing and promotion are recognised as critical in the attraction of inward investment to a locality. The basis of local economic development approaches is that local government is given a central role to play. In partnership with other role players, non-governmental organisations, local communities and the business sector, are required to create an enabling environment conducive to the attraction of inward investment (Harvey, 1989 and Leitner, 1990). This requires an entrepreneurial approach in the conduct of urban governance. It implies a departure from the traditional functions of local government. Localities seek to increase their attractiveness as centres of industrial production, as consumption centres or tourism places, as information processing locations and as focal points for government activities (Rogerson, 1994: 32). Marketing a locality calls for investment in prompting the locality as an ideal centre for business. A single town, however, cannot successfully promote itself to prospective entrepreneurs without carefully working out a package of attractions that give it a competitive advantage over its rivals.

Locality marketing, itself a specialised extension of local economic development approaches, has been criticised on the grounds that there is no evidence that it generates enough momentum to cause either inward investment in a locality or creates employment (Dickens and Tickell, 1992: 106). It has been argued that decision-makers and investors are not so gullible as to make decisions on the basis of just locality marketing (Young and Lever, 1997: 332). The images created of a place and the reality are often poles apart. It may perhaps be more fruitful to view locality marketing as an additional support product in the array of marketing packages that a single locality may mobilise to attract investors to locate there. It is unlikely that despite the limitations in this approach, locality marketing will cease to be a strategy employed by many cities to attract investment. This is largely a traditional approach to LED, and does not really encapsulate endogenous development. The two issues seem to be the uneven effects of wealth distribution and the general exclusion of broader, and less well represented sectors of the community. These two issues are inter-linked. Similarly, do programmes of urban regeneration that essentially imply gentrification, such as development of a waterfront area, inevitably provide for the broader redistribution of wealth? From the examples of a Durban and Cape Town, it would seem that these projects cater to a very particular share of the market, and capital in fact fails to reach the broader populace. It is primarily a market driven strategy, and there seems to be a support from progressive institutions and organisation such as SANCO (1995) and the now defunct Urban Foundation (1994). They thus recognise the importance of successfully marketing a city to attract investment, yet the deficiencies of selective representation, sectarian interest and the approaches to development remain problems that still need to be overcome.

Some alternatives to LED programmes aimed at urban regeneration or programmes aimed at enhancing the image of cities include the following:

- Ensure the full participation of stakeholders. A strong democratic representation would allow for greater consensus and enable "conflicts of opinion to be resolved within the context of negotiations" (Robinson and Boldough, 1994, in Tommilson, 1994: 213). This essentially needs to be applied to all forms of growth coalitions, not necessarily restricted to urban partnerships focusing on locality marketing strategies.
- Instead of placing emphasis on high profile ventures the focus should shift towards scanning local economy, investing in small-scale entrepreneurial ventures and lending support to local business. This would greatly enhance the long term economic impact for the city and move from speculative form of investment to a more localised, sustainable one (Robinson and Boldough, 1994, in Tommilson, 1994: 213)

As many localities do not meet the requirements to effectively compete within a national or international environment, they may be compelled to take a 'zero sum' route to low road entrepreneurialism. This involves cost cutting and rationalising production. The South African labour market has a long and entrenched history of employing cheap labour, and the low road implies the low wages and thus exacerbating labour exploitation. This runs contrary to the principles of egalitarianism and LED. The move towards democracy in this country should exclude practices based on labour exploitation, and secondly, the lowering of wages is incompatible with LED ideology in that it constrains, not bolsters the domestic economy (Robinson and Boldough, 1994, in Tommilson, 1994: 213).

4.3 LOCALITY MARKETING AND GLOBAL PROCESSES

The pace of globalisation process has intensified as a result of technological and communication improvements, changes in production processes, the end of the Cold War, the fall of communism and the stabilisation of regional and political conflicts. There has, therefore, been a globalisation of production, financial markets marketing and knowledge (CDE, 1996a). This change in the world economy and politics is seen to have had a profound impact on the global space economy namely, locality marketing, regional restructuring and uneven development. Various processes have led to changes in the global space economy, resulting in the shifts on the 'local' in economic planning and selling it to the world.

4.3.1 The rise in the new global production and investment patterns

The economic restructuring which has taken place since the mid-1970s in the Western Europe and North America, has been associated with the vertical disintegration of parts of the production process, that is, the change from what is called Fordism to post- Fordist methods of the production process (Sengenberger, 1993).

This shift has been expressed in the establishment of flexible production line systems in North America and Western Europe and relocation of part of production process to the Newly Industrialising Countries (NIC) of South East Asia and Latin America (Potter and Lloyd-Evans, 1998). Central to the shift to post- Fordism is the desire of manufacturing firms to counteract declining profit margins, penetrate new market and escape the constraints of trade unionism. Moreover, the reduction of constraints on capital mobility, improved transport, changes in organisational and production process have contributed to this change to post-Fordism (Nel, 1994). "The expansion of subcontracting of work in a patchwork of dense agglomeration is a central feature of this shit to flexible specialisation" (Rogerson, 1997: 178). It is now clear that locality marketing through investments serves as the new post Fordism production system throughout the world.

The conditions for the transition to the global economy have further been created by the collapse of the communist system in the former Soviet Union and Eastern Europe and of substantial reduction of localised conflict in part of the developing world, particularly Southern Africa, Central America and parts of South East Asia (Sapsford, 1994). The expansion of manufacturing has resulted in:

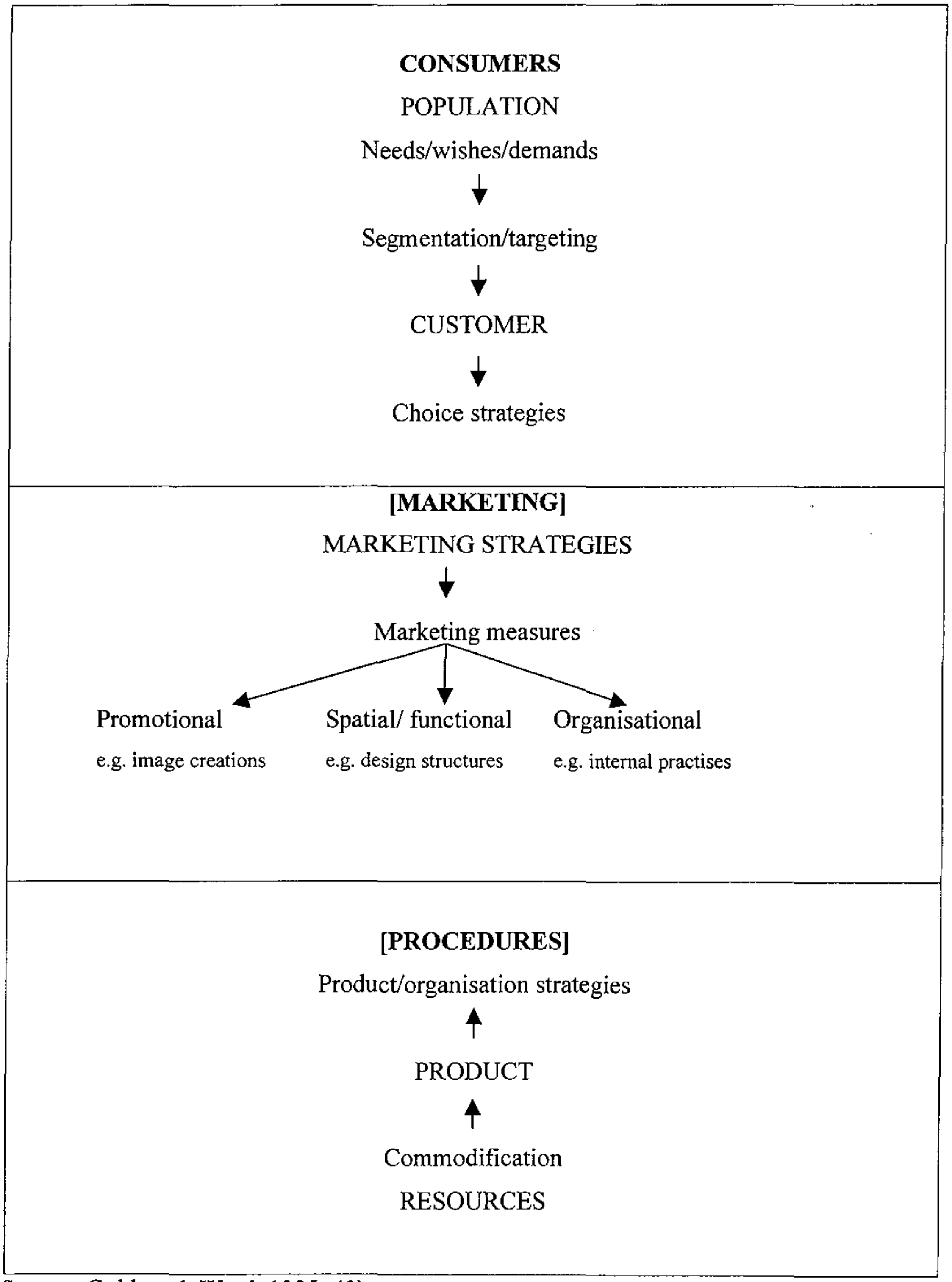
> "an increasingly integrated economic system, with globe straddling networks of transitional and high levels of foreign direct investment between and among nations. A growing proportion of the world's wealth is being produced and distribute via such networks of inter-linked firms" (CDE, 1996a: 3).

It is now estimated that globally, there are around 37,000 transitional corporations and together they control around one third of all private sector capital (Potter and Lloyd-Evans, 1998). The result of this shift to post-Fordism has come to be characterised by mass unemployment and the decline in economic localities.

4.4 ELEMENTS IN A LOCALITY MARKETING PROCESS

As it has been explained that local authorities has a need for market approaches, among which promotion was the best known technique at the time when marketing science had also developed sufficiently to allow a distinctive locality marketing to be practised. The various elements involved in such locality marketing as a procedure must now be described so that the role of promotion within such a process can be appreciated. In the words of marketing's most widely read theorist: 'marketing is a process of planning and movement of product from the supplier to those who are to use it... and the marketing process is incomplete unless all its functions are performed' (Kotler, 1986). The main elements in this process are summarised in figure 4.1. As in any marketing system, the market brings together customers and products in a free exchange value. Our contention, however, is that each of these elements in locality marketing is significantly different to those in more traditional marketing, making it more than a simple transfer of a known and tried techniques from one set of products to another.

Figure 4.1 Elements in a locality marketing process



(Source: Gold and Ward, 1985: 43).

4.4.1 The locality product

Localities are peculiar products and these peculiarities have important consequences for their marketing. They can be defined in terms of the facilities and activities they accommodate, or more broadly, as an entity. Thus, the locality is both a container and stage for activity-based products as well as being a product in itself. Locality marketing, therefore, may be the selling of a selected package of facilities or the selling of the place as a whole through images composed of various attributes associated with it. Either is possible but needs distinguishing from the other as each requires a quite different sort of marketing (Gold and Ward, 1985: 43).

Localities are sold as products to many different groups of consumers. Precisely the same physical space and , in many circumstances, the same facilities or attributes of that locality are sold simultaneously to different customers for different purposes. This 'multi-selling' is possible because trading in places does not involve the transfer, or even usually the temporary hire, of exclusive property rights. The sale of the product does not diminish the stock of it held by producers, nor its consumption by one consumer limit its consumption by another. These theoretical assertions are valid unless, or until, conflict occurs between consumers who have sold the same finite locality. None of these characteristics disqualify localities as products, but do make their marketing more complex (Gold and Ward, 1985: 43).

4.4.2 The locality-product producer

One consequences of the peculiar characteristics of locality products mentioned above is that it is frequently unclear who is the producer and who the is the promoter. The variety of possible localities product packages that can be produced for the same place is paralleled by fragmentation of possible producers. Local governments have no monopoly of this function, which they may share with other public, semi-public and private organisations. Even different departments of the same authority may be simultaneously engaged in marketing that could be mutually supportive, irrelevant or even contradictory. Equally, promotion of the marketing process may well be conducted by quite different organisations from those concerned with managing the facilities that comprise the product being marketed (Gold and Ward, 1985: 44).

4.4.3 The locality consumer

Two main complications arise in answering the seemingly simple question, 'who consumes the locality product?', or more accurately, 'when does a locality product consumer become one? First, demand cannot safely be equated with participation. Locality product demand contains a particular large element of latent and option demands. Secondly, intrinsic characteristics of localities means that the same facilities and attributes are being used simultaneously by different groups of customers for different reasons: in marketing terms, they are purchasing different 'buyer benefits'. This in turn underscores the importance of identifying and segregating specific potential customers that can be targeted. Unfortunately, the varied and vague nature of the locality product does not encourage this to occur. It is not surprising, therefore, that the same, very generalised, locality products are often promoted simultaneously to extremely varied consumer groups (Gold and Ward, 1985: 44).

4.4.4 The locality market

The market is obviously the essential arena within which free exchange occurs. 'Free' in this context implies the freedom of choice of customers between comparable products, free access of producers to potential customers and a free exchange of product for some measure of value. The mechanism allowing such freedoms to operate is the pricing system. It is not that locality products cannot be priced, for if that were so, then locality would be an impossible 'marketless marketing'; -it is that the pricing of places is usually indirect, intangible, and often only expressible in non monetary units. The operation of the market is therefore often difficult to discern, complicated to calibrate and sluggish in response. A serious implication of its effectiveness in intervening in the market is very difficult and in practise rarely performed (Gold and Ward, 1985: 45).

4.4.5 The locality marketing measures

The range of techniques and instruments available for the intervention in locality markets includes all those well known methods of marketing that have been developed and refined for selling commercial goods and services. Almost all theses techniques have been employed in the selling of places at one time or another, but the particular nature of places suggest that two cautionary points should be made. First, advertising is only one sort of marketing. There are other ways of projecting images and influencing customer behaviour through promotion, such as public relations. Equally, promotion as a whole is only one of possible sets of marketing measures. Localities are particularly amenable to spatial and functional measures, such as the use of physical design. Meanwhile, place-management organisation, especially local governments, often find internal organisational restructuring of working methods and approaches particularly effective (Gold and Ward, 1985: 45).

Secondly, the choice of measures of intervention is dependent upon the prior choice of both marketing strategies and the wider goals of the place management organisation. In traditional commercial marketing the financial survival goal of the enterprise and the sales maximisation strategy of its marketing are often so dominant as to be self evident and thus not worth considering. By contrast, locality-marketing organisation are usually presented with a very wide set of goals. Similarly, the precise purpose of the marketing exercise is often far from self-evident. It can seldom be reduced to a calculation of unit sales. There are in fact many possible strategies, ranging from maximising customer satisfaction, conserving product stocks, maximising capacities or even reducing 'sales' (e.g. by deterring visitors to congested sites at busy times). Each, (and more than one strategy may be pursued simultaneously) will require a different mix of marketing measures (Gold and Ward, 1985: 45).

Two conclusions can be drawn from this brief review of the nature of locality marketing. First, it is necessarily a distinctive form of marketing, requiring an equally distinctive form of promotion. Secondly, although it occupies an important role, promotion is only one part of a much broader process of marketing and can only be appreciated within that context. Failure to do so will almost certainly lead to a failure of promotion. (Gold and Ward, 1985: 45).

4.5 PROMOTION OF LOCALITY MARKETING

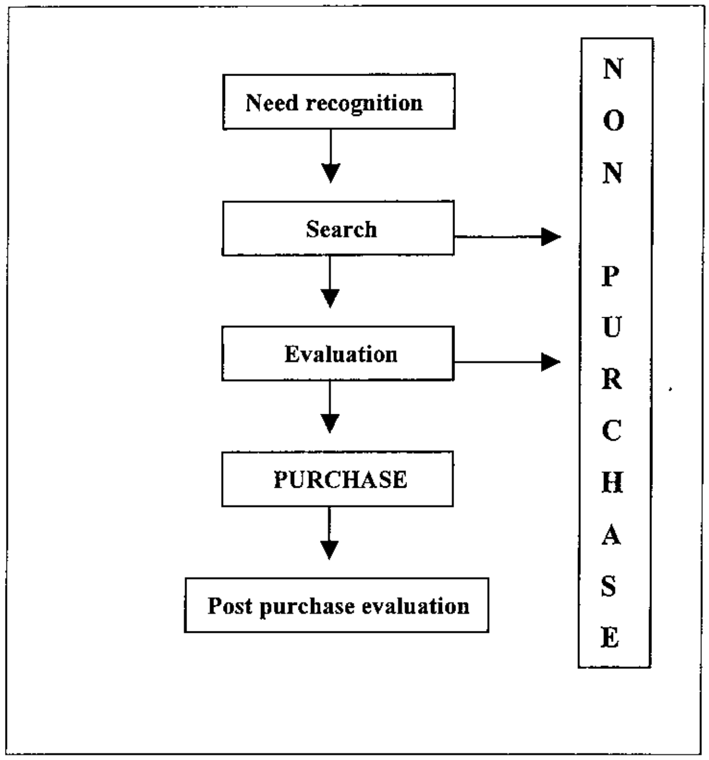
The success of the promotion of locality images cannot be assessed only in terms of achievement of congruence between the promoted and received images. This would be too simple. Locality images are promoted by organisations concerned with achieving particular management goals in the area concerned and success must be measured against such predetermined goals. Locality image promotion should be seen as a preference for or combination with other non-market orientated locality management techniques, as appropriate (Gold and Ward, 1985: 46).

4.5.1 Promotion needs product development

If the quality of the product is poor or has no potential market, then promoting it will be a waste of resources. Promotion may even be counter-productive in that it makes public what is better concealed, at least until such time as the product can be improved. Of course, promotion can be used to modify attitudes and thus the purchasing behaviour of the consumer. This purchasing behaviour includes different stages, from the recognition of an existing problem or need by a potential purchaser. Behaviour then moves to a search for solutions and their evaluation actions are likely to be reiterated, until the final purchase decision and resulting action (e.g. see Figure 4.2).

One of the oldest admonitions in marketing practice is the saying that, 'if you want to kill a poor product, advertise it'. Therefore, quality improvement by product development is an essential ingredient of any locality marketing approach. The most obvious question in relation to the product development is in general, 'what business are we in?' In public sector management operations in particular, this question is too often assumed to be self-evident. Public organisations frequently define their task, and facilities through the efficient operation of current working practices for vaguely defined objectives. By the same token, they tend not to review constantly the extent to which their services satisfy actual requirements and expectations of existing or potential customers. To take two analogous examples, the business of a public transport undertaking is not the efficient management of a vehicle fleet, nor is the goal of a public parks authority the management of a stock of green spaces. Rather, they are in the business of satisfying demands for accessibility and recreation respectively, something which may very well lead to quite different management practice (Gold and Ward, 1985: 46).

Figure: 4.2: A purchase decision making path (Gold and Ward, 1985)



The point made here is that the 'non purchase' decision not only depends on the quality of the product, but also the quality of competing products. However, the wider the quality gap between the promoted place and the alternatives, the less effective its promotion will be (Gold and Ward, 1985: 46).

Product development is strongly related to the perception of its qualities, in other words, its image. At least three sorts of situations can be distinguished:

- Poor facilities with a favourable image require product improvement not promotion. Indeed, de-marketing may be required and customers diverted so that shortcomings are concealed and the undeserved favourable image preserved until product improvement has occurred.

- An existing favourable image combined with good facilities hardly requires marketing and promotional effort beyond that needed to maintain this beneficial situation, would be wasted.
- A set of good facilities with an undeservedly poor or non-existent image requires promotion either to correct the former or create the latter.

Therefore, understanding the market, including the criteria and product characteristics that will affect consumer choice, is essential in locality marketing (Gold and Ward, 1985: 47).

4.5.2 Promotion needs knowledge

Locality promotion must be based on a sound knowledge of the city or region under consideration, but places should not be examined simply on an absolute basis. Rather, they should be studied in relation to the characteristics of competing alternatives. The key question here is: 'which choices do people have?' and 'how might people with a choice between several competing alternatives trade off the various characteristics against each other?' Careful place- market analysis will reveal that different market segments make different trade offs. For instance, priorities of consumers in a recreation market may differ considerably from priorities set by consumers in a housing market. This demonstrates the importance of performing an accurate and relevant market segmentation and a careful analysis of the potential alternative facilities within each segment, an exercise known as 'product positioning'(Gold and Ward, 1985: 46).

Neighbourhoods, or even smaller building blocks within a city, can be compared with respect to their potency, or attractiveness for a certain target group, by means of a potency analysis. This information can be extremely helpful in developing new market orientated spatial policies. It may also form the basis for a competition analysis in which the competitive situation, as viewed from one or more target groups, is compared with the actual situation existing in a city.

4.5.3 Promotion needs communication

Although promotion is a communication activity, not all communication is necessarily promotion. Almost all-actual or potential users of particular places have an enormous existing store of information, feelings and expectations about them, without necessarily having had direct experience of them. This store of information is continually supplemented by a myriad of sources, very few of which are intended to influence specific consumer behaviour. Promotion, in the specific goal directed sense used here, applies only to that which is undertaken with clear intent to influence the behaviour of target groups in a predetermined way and, hence, makes only a small contribution to this store of information (Gold and Ward, 1985: 49).

An essential part of commuting place information concerns the transmission of lace-images. Transmission forms the link between the images held by individuals and those projected by places. It is the aggregate of the various and diverse channels for communicating information, which may be composed of clearly identifiable publicity media established for this purpose and other less formal sources. The medium of communication, however, is not neutral conduit but itself selective both in terms of what, to whom, and to what effect information is communicated. It can act as a transformer influencing the nature, strength and credibility of the message. An important question is: 'how is the information which is used by individuals to shape their images of places obtained?' A proper answer to this question is needed in order to assess the effectiveness of promotional policies. This involves research into the transmission of received place-images, as has been carried out for images of tourist destinations Goodall (1988).

The information must not only be transmitted to reach potential customers so as to be actually received by them: it must also be accepted. However, most of the information that continually bombards individuals is ignored or rejected. If information is to be incorporated into the cognitive map of a place, it must be credible. Much of the credibility stems from the user's evaluation of the medium of transmission as much as the character of the information itself. How information is transmitted is as important as what is transmitted in establishing the acceptability of the message to the recipient: inter alia, by Nolan (1976), Crompton (1979) and Gitelson and Crompton (1983).

4.6 CASE STUDIES

CASE STUDY 1:LOCALITY MARKETING OF DOCKLANDS, LONDON

There are numerous examples of locality marketing initiatives within the international frame. From the United States of America to Canada, Brazil to Australia, to Europe, countries around the world are exploring locality marketing to promote their countries and economies within global restructuring. However, two countries, which have a long and comparatively interesting history on locality marketing, are those of Great Britain and North America. Therefore this section will concentrate upon locality marketing as it pertains to Great Britain's area of Docklands in London (Isserow , 1995: 44).

It is proposed that locality marketing within the South African context, must largely be based on efforts to enhance the economic structure of given locales, and the associated planning procedure needs to contain a participatory component. This particular case study will attempt highlight the proactive measures take to ensure effective community involvement in locality marketing.

- **Place promotion and inner city policy**

The eight and a half square miles (22 square km) immediately to the east of the City of London which constitute the Docklands area has been described as the largest redevelopment in Europe. The area's decline began in the 1960s with the progressive closure of the docks, which had formed the core of the local economy since the early 1800s. These closures plus the decline in related manufacturing industry have meant that Docklands have been at the receiving end of inner city policy since the late 1960s, the effectiveness of which has been reviewed elsewhere Marris (1982); Brownill (1990).

It is the years from 1981, with the setting up of the London Docklands Development Corporation (LDDC), that are of interest here. Since this date, 9 billion pounds of private sector money has been invested, 22 million square feet of office space built or planned, 17000 homes completed and around 100 kilometres of roads and railway built or improved. This rapid transformation has been heralded by successive governments as a policy of triumph, yet the transformation ground to a halt with the recession of the 1990s and has been heavily criticised by local resident and planning commentators (ALA, 1990: 56).

Docklands is the epitome of a strategy based on the ideological conviction that only the private sector could provide for the long-term regeneration of the inner city. The government argued that development should be deregulated, by passing local authorities with the creation of Urban Development Corporation (UDCs) and Enterprise zones run by boards of government appointed directors. The red tape of planning, which was seen as a cause of decline, had to be swept out of the way and the private sector allowed to get on with the job. A UDC was established in Docklands in July 1981 and within the Urban Development Area (UDA) the Isle of Dogs Enterprise Zone was set in April 1982 (ALA, 1990: 56).

Nevertheless, the private sector needed some help with the regeneration task. Brindley et al (1989) have referred to the approach used as 'leverage planning' -the use of public investment and activity to underwrite the risks of location in areas of more marginal markets. While the rhetoric of the UDCs was redevelopment stemmed from private sector initiative, the reality was that little would have happened without the substantial public sector expenditure and activity that has gone into Docklands. These represent 'subsidies by any other name' (Massey, 1990: 102). In the 1990s public spending in the Docklands has been over 1.5 billion pounds by the LDDC plus spending on other public initiatives, mainly transport and the Enterprise Zone tax allowances, of up to 3 billion pounds (Ala, 1990: 57). The powers of UDCs to make compulsory purchases and reclaim sites before selling them on to a private sector ensured land assembly. The removal of local democracy speeded up the process.

Place promotion has to be seen as part of this pump-priming strategy. If the aim was to attract private sector investment from developers, homeowners and office tenants, Docklands had to be sold-preferably to the highest bidder. Far from Docklands' development being 'demand led', that demand has been created. What better way to create demand through changing the image of the area through the marketing and publicity tactics associated with place promotion (ALA, 1990: 57).

A second and related factor, which prompted locality marketing, is what Klausner (1987) has referred to as the 'property value hype'. He argued that the LDDC's pump priming did not stop at assembling and servicing land but aimed at ensuring that property values increased in an effort to benefit both the investors and the LDDC itself due to its own land ownership. As the LDDC literature stressed: 'the returns are dramatic and dynamic' (LDDC, 1988: 21). It was hoped that an upward trajectory would increase confidence, investment and supposedly make regeneration self-sufficient. Indeed rising land values were from start seen by the LDDC as one of the primary indicators of regeneration. One of the surest ways of hyping up the value was to promote an up-market image of the area.

With the rise of place promotion, policy was also responding to wider processes. As many writers have stressed, the globalisation of capital investment has forced areas to compete nationally and internationally (Cooke 1989 and Harvey 1989). Coupled with the abandonment of interventionist strategies for 'free-market' approaches such as that of the LDDC, this has led to the locality marketing and urban boosterism to which poster hoardings and television advertisement worldwide bear witness. If, as in the case of Canary Wharf, developers play off London, Paris and Frankfurt as potential locations, public authorities including the LDDC have responded by promoting the conditions for investment and marketing the area to catch that elusive footloose capital (Brownill, 1995: 136).

Before looking at the LDDC's marketing strategy in more detail, it is important to appreciate that changes have occurred over time in the LDDC's basic strategy. The pump priming in the first phase included establishing an identity for the land assembly. In the 'second wave' (1985-8), land and property prices in the area boomed and, with the coming of the Canary Wharf, Docklands were being promoted as an extension of the City. Social regeneration was added to the list of priorities and various planning gain deals signed. The third phase from 1989 onwards was represented by the property slump and the efforts of the LDDC to counter the negative impact of the recession and criticism of its strategy (Brownill, 1995: 136).

- **Remaking Docklands**

It could be argued that Docklands have always been more of an idea than a place. The name 'Docklands' and the area they cover today was largely created in 1972 when Peter Walker, then the Secretary of State for the Environment, employed consultants Travers Morgan to initiate a planning study into the area's redevelopment. Docklands have only ever existed as an area demarcated on a planner's map and do not correspond to any sense of shared space or identity amongst the people living there (Brownill, 1995: 136).

Nevertheless, the inherited image of Docklands was a problem for the LDDC. In the minds of property developers, Docklands represent derelict docks (themselves the result, according to some arguments, of the militancy of the dockers), the East End underworld of criminality and gangs, isolation and poor transport links to the city, run-down council estates and bad neighbour industries. The East End was a city of London's backyards, with its enclosed docks traditionally being a threat to the wharfs in the city. In the minds of city politicians and financiers, Docklands should neither be equal to the city nor the location for high value development. Place promotion therefore depended on remaking Docklands in a different image and creating, through the marketing strategy, the type of place that would attract investors, stimulate demand and create that magic ingredient-market confidence (Brownill, 1995: 136). This was done in a variety of ways as the following section will show.

- **Local governments become big business**

As part of the pump priming of the first phase, the LDDC sought to raise its corporate image amongst investors. The aim was both to distance the LDDC from the vilified red tape of local authorities and to reflect the business world that was envisaged as the saviour of Docklands. The very fact that the LDDC was called a corporation and not an authority, that it was run by a Board of Directors with the Chairman and Chief Executive, indicated the attempt to "leave the town hall behind" (Brownill, 1995: 136).

The Annual Reports of the LDDC were more in the style of a private company than a public body. Glossy in nature, written by journalists, they were part of the promotional package extolling the developments that had occurred and carrying through the image sought. Thus the 1986/7 report-*The year of arrival*- contained a series of photographs with blurred figures and trains implying a place on the move (Brownill, 1995: 137).

Numerous other publications echoed these themes. The LDDC has produced a constant stream of promotional literature aimed at different segments of the market namely, commercial, residential and general. Publicity has been tailored to each of these sectors with the greatest emphasis being on the " business decision makers in the Southeast and London" (LDDC, 1992). Subsidiaries have been set to publish magazines and other promotional literature including *The Docklands Magazines* and *Docklands Business world* and to run tours of the area by coach or helicopter for prospective investors. Local residents also receive *Docklands news*, a free newspaper delivered at every household in that area (Brownill, 1995: 137).

To support its marketing strategy between 1981 and 1992, the LDDC spent 28 million pounds on publicity and promotion and the corporation budgeted to spend a further 8 million between 1992 and 1994. Running at between 1% and 4% of annual expenditure, the LDDC has regularly spent more on promotion than community and industry support (Brownill, 1995: 137).

- **Planning as marketing**

While raising the profile of the corporation was one aim of the publicity strategy, another was to incorporate the LDDC's development control powers into the marketing machine. Despite the claims of the LDDC's first Chief Executive, Reg Ward, that 'the era of the grand plan was dead', it has been noted that UDC's and Enterprise Zones were part of a restructuring of planning (Brindley et al 1989 and Thornley 1991), aimed at facilitating the market, not intervening in it.

Despite the fact that plan-making powers remained with the boroughs, the LDDC undertook, as one of its tasks, the publication of Area Frameworks. These frameworks covered five areas: Wapping, Limehouse, The Isle of Dogs, The Royal Docks and Surrey Docks. The choice of these areas was not primarily a reflection of the fact that Docklands comprised separate communities, but the belief that they represent discrete products to be marketed. In this way the 'Future For Wapping' was seen its proximity to the city with the potential for high value housing and the growth of commercial development around St Katherine's Dock. The Royal Docks, problematic as they were furthest from the city, were to become 'a new Water city for the 21st Century' (Brownill, 1995: 137).

These frameworks were in the LDDC's own words 'marketing tools to secure maximum private investment' although they were also 'local plans in all but name' (LDDC, 1992: 34). They contained stylised pictures of what developments were possible, desirable or even already proposed in certain locations and indicated where the LDDC would be putting in infrastructure. In an attempt to move away from the idea that they were plans, zones were vaguely indicated, buildings were hesitantly sketched in and transport links shown by crayoned squiggles.

In this way planning ceased to be an activity in guiding development and ensuring debate about the future of Docklands and became another way of selling the area. Although comments were invited, no response was made to local criticisms and views and no alteration to the marketing ideas ensued. This led local residents and organisations to call the consultation both of these plans and other LDDC decisions "public relations informing people of decisions after they had been made rather than involving them" (Docklands Forum, 1982).

- **The emerging city**

After 1985, Docklands was caught in the boom years of the Thatcherite 'economic miracle'. Land and house prices rocketed and the corporation referred to the 'second wave' of development. Riverside residential sites originally valued at 0.5 million pounds per acre fetched as high as 5-6 million pounds in 1987. Prices for some properties quadrupled over the same period of time. On the commercial side the decision to build the 12 million square feet Canary Wharf development was seen as a triumph for the Docklands approach. The development already followed a decision that 'the sector best be able to exploit the space of Docklands' LDDC (1985) was financial services, a result of the supposed boost to demand for space unleashed by the 'Big Bang' when city of London's financial markets were deregulated.

Therefore, in the second wave, the aspect to be highlighted in terms of publicity and promotion was the idea of Docklands as a third centre of office location in London after the city and the West End. 'The exceptional Place', 'Emerging City', 'the Expanding City' were slogans characteristic of this phase. The pictures accompanying the captions nearly always had the National Westminster Tower as a reference point to show proximity of the city. Indications of the size character of Docklands were made by reference to central London. Tobacco Dock, a 'festival shopping' centre in Wapping, was likened to Covent Garden (Brownill, 1995: 143).

Water-sports were used as another attraction for the business locator. For example, one advertisement showing a windsurfer with a cellular telephone was accompanied by the caption 'Working Lunch'. The LDDC was aiming to promote Docklands as a place to live, work and play-the all round location for businessmen. Through such publicity, Docklands became associated with the mid-eighties phenomenon of the 'yuppie' (young, upward-mobile professional). Residential developers saw an easy market for their properties in the city workers who might well only want a weekday *pied-a-terre*. Indeed, mirroring the activities of the supposed buyers, a futures market developed in flats whereby they would be sold at ever increasing values before being completed or even started. The facts are different. A recent survey showed that although new residents in prestigious developments were high earners, many were in the arts and media, not finance (QMC, 1990:34). Nevertheless, the image of the city whizz-kid as Docklands resident, has prevailed.

Thus, in massaging the market, the physical locality of Docklands became 'a state of mind' (Davies, 1987), but it was not just the LDDC that was engaged in such activities. Private developers also used design, architecture and the repackaging of Docklands as marketing tactics.

CASE STUDY 2: AMSTERDAM, NETHERLANDS

Amsterdam is one of the largest cities in the Netherlands, with a metropolitan population of approximately 700 000. Together with a nearby Rotterdam, it comprises a 2 million person urban agglomeration known as the Randstad. Amsterdam in size, is well below Europe's largest metropolises such as London (21 million) and Paris (9 million), and also below 'second tier' cities such as Madrid, Rome and Berlin (3 million each) (Weisbrod, 1991:2).

Nevertheless, Amsterdam has traditionally maintained a position of economic importance as a gateway to Europe. The history of the Netherlands as a trading nation has made it an ideal location for distribution and shipping. Its history and experience in doing business with foreigners and the widespread use of English and other languages, has made it attractive to foreign businesses. As a result, Amsterdam has marketed itself as an air and sea gateway. In recent years, however, several factors have arisen to threaten that position:

- **Airport Competition-** Amsterdam airport has been marketed as a gateway to Europe, although it ranks fourth in Europe in terms of international passenger traffic and freight traffic. It serves 14.5 million international passengers annually, compared with 52million for the London airports, 25 million for the Paris airport and 18 million for Frankfurt airport. Amsterdam's Schiphol Airport is vulnerable to competition from those other major European gateways. The other countries are greater tourists attraction, and Paris' Orly Airport features the advantage of direct service from the French TGV high speed trains to a growing least of locations in Europe. The new English Channel tunnel will also increase the competitive position of Britain and France as transport gateways to the rest of Europe. Amsterdam's airport was connected to the TGV network in the year 2000 (Weisbrod, 1991:3).

- **Seaport Competition-** The Netherlands port of Rotterdam faces increasing competition from the rival ports of Antwerp (Belgium), Hamburg (Germany) and Le Havre (France), as all prepare for the cutthroat competition expected after

European Community economic unification. Rotterdam's position has also suffered as to focus of German economic growth has shifted from the steel and petro-chemical industries of the Ruhr Valley (served by Rotterdam port) to the new computer industries of Bavaria (Weisbrod, 1991:3).

- **Financial Market Competition-** As a financial centre, the city has the Amsterdam Stock Exchange (fourth largest in Europe), the European Options Exchange and Amsterdam Insurance Exchange, as well as headquarters of the large Dutch commercial banks and branches of 50 foreign banks. Amsterdam thus is a financial centre, but still ranks behind London and Frankfurt in terms of banking and finance activity. With the European Community economic union now in place, it is expected that European financial activities in the mere future will be increasingly concentrated in England and Germany (Weisbrod, 1991:3).

Despite Amsterdam's geographic location, these factors threaten to relegate Amsterdam to secondary status in the future, as an economically "peripheral location" (Weisbrod, 1991:3).

- **Amsterdam's Economic Development Strategy-Facilities and Programs**

After a period of stagnation, Amsterdam has launched aggressive new approaches for economic development. Amsterdam now markets its "Three Port" economy as a competitive advantage. Amsterdam's airport, seaport and teleport, all located in close proximity of each other, are linked by highways and trains. Amsterdam also markets itself as part of the greater Amsterdam-Rotterdam urban agglomeration (the "Randstad"), which includes Rotterdam, the world's largest seaport, 40 miles away (Weisbrod, 1991:3).

The municipal government of Amsterdam has also instituted a series of important policy actions, which focus on information systems and telecommunications as keys to global competitiveness. These are:

- **Teleport Sloterdijk** – a high tech office park featuring smart buildings, fiber optics telecommunications and satellite up-link communications facilities. Located between Schipol airport and the Amsterdam seaport, it is served by a major highway and a new inter-city and urban transit rail station. It is the joint effort of a private real estate developer and the city, and is the first such operating facility in Europe.

- **Information House** – a "technology incubator" building, used to support and encourage Dutch start-up firms in technology based industries.

- **Cargonaut System**- an electronic data communications network for air cargo tracking, not only at the airport, but for all phases of cargo shipment from beginning to end. It is a "value added network" (VAN) for "electronic data interchange" (EDI), designed for use by airlines, consolidators, forwarders, custom agents, handling companies and shipping firms.

- **World Trade Centre**- a new office centre, complete with videoconference centre and demonstration centre for advanced telecommunication services. A more specialised Europe-Asia Business Centre is also under development, including two hotels, shops, craft exhibits and an "offitel" (office-hotel) complex that combines small offices suites with adjoining sleeping and cooking areas.

- **Telecommunications and Cable TV**- communications linkages via a network of fiber optics lines, with digital switching provided by the newly-privatised telephone company (PTT). In addition, Amsterdam now has a private coaxial cable network that represents the largest cable TV system in Europe.

- **Telematic Belt**- the area of Amsterdam extending from the Teleport to the Trade World Centre to the Informatics House, it is the first step in the development of a physical interconnected technology facilities.

  - **Schiphol Airport Development**-new office, industrial and distribution facilities are now being developed on 140 hectares of reserved land adjacent to the airport. The project, started in 1989, is restricted to the airport depended companies (including international corporate headquarters, logistics and distribution facilities, sales and R and D functions). The Schiphol Area Development Company (SADC) is developing it, a private-public partnership (Weisbrod, 1991: 4).

- **Organisational Roles**

Several public and private organisation and private organisations in the Netherlands are working closely together to encourage development of information technology facilities.

The city of Amsterdam is involved through city agencies:

- The Department of city (physical) planning is responsible for land development and location of facilities such as telematic belt, office and industrial projects;
- The Department of Economic Development is responsible for the job training and business attraction programs;
- The Bureau for the Stimulation of Information Technology (BIT) is a key city organisation encouraging information technology development, including development of the Informatics House (Weisbrod, 1991: 5).

The Amsterdam Advisory Council for Information Technology (ARIT) is an independent organisation to encourage and initiate innovative projects and information technology. Its membership includes business leaders, the Amsterdam Chamber of Commerce, two universities, The Amsterdam Industrial Association, the privatised telephone company (PTT), labour unions and both city and national government agencies. It was formerly known as Telecentre Amsterdam (Weisbrod, 1991:5).

The Schiphol Area Development Company (SADC) is a private company set up as a publicly-sponsored effort to encourage related types of economic development through carefully-controlled airport area development (Weisbrod, 1991:5).

- **Amsterdam's Position in the 1990s and after**

The city of Amsterdam and the Amsterdam Chamber of Commerce engaged Cambridge Systematics to evaluate Amsterdam's present strategy, focusing on information systems and telecommunications, as a means to increase its competitive strength relative to other metropolitan areas in Europe. The evaluation involved analysis and interviews of business in the Netherlands, elsewhere in Europe, in Japan and in North America (Weisbrod, 1991:5).

The study concluded that to retain its economic leadership position, the Amsterdam-Rotterdam area must continue to be a leader in the changing world of logistics and transportation, and especially in the use of information technology. It must strive to be the leader in Europe in providing an integrated system of services to support the distribution sector of its economy. On the other hand, Amsterdam today is confronted with competing developments of business facilities in regions surrounding London, Paris, Milan and Dusseldorf, as well as new economic centres in Southern Germany and Southern Italy. Another concern is that the Cargonaut Network will not remain unique. For instance, a consortium of public and private organisation in the Paris region have joined forces to develop a "Teleport" network, which is based on a "vale added network" (VAN) for airport freight tracking (Weisbrod, 1991:5).

While Amsterdam has achieved a jump on the European cities with the first teleport business complex in Europe, that does not provide a sustainable competitive advantage. First of all, the current market for satellite communications and smart buildings is limited. Second, these features, like Amsterdam's early lead fiber optic and cable TV systems, are easily duplicated and other cities are already following Amsterdam's lead. Thus, although Amsterdam has established these types of information technology services as a competitive necessity, they must be continually enhanced if the city is to maintain its competitive position (Weisbrod, 1991:3).

Amsterdam has made an excellent start on its efforts to attract European headquarters for technology-dependent business. Several major Japanese firms (e.g. Ricoh, Canon, Omron and Seiko Epson) have already established regional headquarters or control centres in the Amsterdam region. A few years ago, Nissan consolidated all of its automotive distribution activities in Europe into a single distribution centre located in Amsterdam. This centre is co-ordinating production and distribution of cars throughout Europe, including assembly plants in Spain and England. Nissan has already constructed its new European Headquarters in Amsterdam, located in the Teleport area (Weisbrod, 1991:6).

The thrust of Amsterdam's current policy, then, is to achieve continued leadership in information technology and to establish Amsterdam as the leader in advance technology support for growing businesses. This includes evolution of the "telematic Belt " toward an "intelligent city" network, which is a network of intelligent buildings together with Vale Added Network services supporting key target industries (Weisbrod, 1991:6).

CASE STUDY 3: OSAKA, JAPAN

- **The Position of Osaka**

Osaka is the third most populous city in Japan, with a population of approximately 2.6 million. The cities of Osaka (the business centre),Kobe (the seaport) and Kyoto the tourist centre)comprise an urban agglomeration known as the Kansai region. It is located 300 miles Southwest of Tokyo (Weisbrod, 1991:6).

Osaka represents an economic "second tier " area compared to Tokyo. A manufacturing centre for steel, machinery and textiles, Osaka has been likened to Detroit, Chicago, Cleveland or Coventry, England. While Tokyo is likened to New York City as the national financial centre and headquarters location, Kansai is seen as the appropriate Japan location for industrial trade shows featuring machinery and cars, but not for fashion, consumer goods, finance or entertainment (Weisbrod, 1991:6).

Prior to World War II, the Kansai region was the centre of the nation's textile industries, and the backbone of the nation's economy. It was also a major financial centre and centre of Asia-Pacific trade. After World War II, as Japan's economy was rebuilt, Osaka's influence and image declined. Many of Osaka's mayor banks moved their headquarters to Tokyo. Later, Osaka lost many young researchers to Tokyo, where the new scientific research and development centre was established. During the 1970's while Osaka and the Kansai region remained the centre for "hard industries" such as steel and machinery, the development of "soft industries" such as electronics, science and information technology took place in the Tokyo area. Osaka's stock exchange continued to lose markets share relative to Tokyo's larger exchange (Weisbrod, 1991:6).

Several factors remained in Kansai's favour. One is the fact that Japans' premier historic areas and attractions, Kyoto and Nara, are in the Kansai area. In addition, the Kansai region has always prided itself on its creative, enterprising approach to business and economic development (Weisbrod, 1991:6).

- **Economic Development Strategy- Facilities and Programs**

The municipal and prefecture levels of government, with the assistance of the national government and the private sector, have launched a series of development projects and policy actions to revitalise the Kansai economy and reposition Osaka as a leader in technology and international trade. Kansai's business community, through its chamber of commerce (Kankeiren), took the lead in working with government agencies to initiate many of these projects. They include:

- **Kansai Science City**- a project of the national government to develop a complex of facilities representing Japan's largest centre for basic research. It will focus on promoting information exchanges between academic research institutes and private high-tech companies. Featuring state of the art communications and transportation facilities, it is also intended to be a model city for the future, with housing, retail, recreation and cultural facilities, as well as the campuses of two universities. Its research will focus on telecommunications, artificial intelligence, biotechnology and new materials. It is planned to have a population of 380,000. Kansai Science City is an attempt to challenge Tokyo's Tsukuba Science City, which has become the centre for most of the basic scientific research carried out by Japanese government agencies.

- **Kansai International Airport-** A $7.6 billion project to build a new gateway international airport for Japan on an artificial island 5 km offshore in Osaka Bay was opened in 1995, it was Japan's first 24-hour airport, allowing airlines to adopt flexible schedules and enabling trading companies to save time and money by shipping at night. It was expected to initially double Osaka's current airline service and rival Tokyo as an international gateway, eventually handling as many as 25 million passengers and over 1 million tons of cargo annually.

- **Rinku New Town ("Airport City")-** a high rise, high-density new town focused on serving airport-related activity. A project of the Osaka Prefecture government, it is to rise on new filled land now being completed off the coast, near the New Kansai International Airport. Proposed activities include convention centre, office buildings, hotels and shopping, airport employee housing, as well as sites for high-tech airport-elated industries.

- **Technoport Osaka-**a large new urban complex of high-density development, located on filled land in Osaka Bay, not far from Osaka's business district. It includes a research park, the Teleport Office Park, World Trade Centre and office headquarters for firms such as IBM. It is currently partially in lace "INTER", the international exhibition centre, is also there.

- **Osaka Teleport-** located in the Technoport area, Japan's teleport opened in 1989 to facilitate the international exchange of communications. It features intelligent buildings for office locations and satellite up-link facilities. Supporting the teleport was development of a regional telecommunications systems of fiber optic cables and coaxial cables.

- **Asia Pacific Trade Centre-** a complex of the office and trade facilities, designed to provide large-scale wholesale and retail outlets for small and medium-sized foreign companies trying to enter the Japanese market. Already in function, it is expected to serve 600-800 businesses and display more than 1 billion products. Seeing the uncertainty regarding Hong-Kong after 1997, Osaka's Asia Pacific Trade Centre is an attempt for Osaka to take the role of Asia's major trading port.

One disappointment for APTC staff has been that although great interest has come from Singapore, Korea, Taiwan and Hong-Kong, some U.S. firms have expressed interest in locating from the facility.

- **Cosmopolis-** a planned advanced technology research park, consisting of technology-related business, university facilities and research institutes, proposed to be located in the hills near the Kansai International Airport.

- **IBIS (Interactive Basic Information System)-** the first data bank and computer network system based in Osaka, set up to help revitalise the city's textile industry (Weisrod, 1991: 8).

- **Organisational Roles**

Kankeiren, the Kansai Economic Federation, is similar to a chamber of commerce. It has played a pivotal catalytic role for many of the key economic development initiatives, including the new airport. As most of the projects involve private and public sectors working together, Kankeiren has been a key player in arranging for private sector involvement and in lobbying for appropriate public sector policies (Weisbrod, 1991:8).

Kansai International Airport is Japan's first private airport. The Kansai International Airport corporation (KIAC) was created in 1984 to build and operate the airport. It is raising funding from international capital markets rather than from government budgets. The company is partly owned by private companies (1/6), local governments (1/6) and the national government (2/3) (Weisbrod, 1991:8).

Rinku New Town, the Airport City, is a project of the Osaka prefecture government, and involves three municipal governments for planning. Actual development is to be done by a series of private development companies that were selected from competing bidders (Weisbrod, 1991:8).

Osaka Teleport and the region's fiber optic telecommunications network are operated by Osaka Media Port corporation (OMP), a private enterprise that is owned 25% by the city of Osaka, 25% by the Kansai Electric Power Co., and 50% owned by various private business and investors. A private long distance telecommunications company, KDD, provides access to antenna services for outside firms (Weisbrod, 1991:8).
Kansai Science City is an initiative of the region's business community, funded with government assistance, and is planned to be a mixture of privately and publicly operated research facilities (Weisbrod, 1991:8).

The Asia-Pacific Trade Centre is a public-private partnership, co-financed by the city of Osaka, the C, Itoh Trading Company, and 29 other companies (Weisbrod, 1991:8).

IBIS information network is a joint effort of the Osaka municipal government, Matsushita Electric, Sumitomo Electric and Fujitsu (Weisbrod, 1991:8).

- **Osaka's Position in the 1990s and after**

In order to evaluate investment decisions and better define future development strategies, a group of 24 of the region's largest industries and development companies sponsored a study to identify emerging business opportunities associated with the Kansai International Airport. Mitsubishi Research Institute, together with Shinko Research Company Ltd carried out the study. And Cambridge Systematics Inc. Focusing on global trade and economic development, the study examined the changing of the Kansai Region (Weisbrod, 1991:8).

The study concluded that Kansai could become the centre for international assembly products, freight reconsolidation, distribution and logistics and eventually a major operations centre for integrated air shipment services. The likelihood of these opportunities becoming realities will depend in large part upon support services for information technology and freight distribution. Recognising these opportunities, the Kansai region is aggressively marketing itself as a world-class distribution centre with Kansai International Airport as Japan's door to Asia (Weisbrod, 1991:9).

The study provides a 50-year vision for the evolution of the Osaka area:

In phase 1 (1993-2003), a centre for international business is developed in Kansai through promotion of large-scale research and development, industry and urban renewal developments around the airport.

In phase 2 (2003-2013), elements of the international business network will emerge in Kansai. These are proposed to include a free trade zone, regional Asia headquarters location for multinational firms, management co-ordination centres, convention and education centres, and centralisation of airport related businesses with the expansion of Rinku Town.

By phase 3 (2013-2023), Kansai can achieve structural changes in the international business climate, including its transformation to an open business environment. Some administrative functions of the national government can be redistributed from Tokyo to the Kansai region. Kansai will be transformed into new international travel and telecommunications network centre. Its position as a commerce centre will be supported by new ground travel service from the international airport to Tokyo via the planned new 300 mph magnetic levitation (maglev) train (Weisbrod, 1991:9).

- **Conclusion: Amsterdam and Osaka as Model Programs**

Among European and Asian cities, Amsterdam and Osaka stand out for their focus on economic development through state of the art information technology and new facilities for international air traffic and distribution of products. Both cities face stiff regional competition. Amsterdam and Osaka, unlike other cities such as London, Paris, Frankfurt, Tokyo or Hong-Kong, are both in a weaker competitive position as an air travel gateway or as a financial centre. However, city and business leaders in both cities have forged effective and very long-range strategies to respond to the situations.

The Osaka and Amsterdam cases stand out in that they are based on longer-term strategies to bring about global economic repositioning, with substantial investment in physical development projects as a major element of their strategies. Osaka and

Amsterdam are bringing together improvements in transportation facilities, R and D facilities and information technology in the new standard of infrastructure and support facilities to establish new competitive capabilities in world trade.

CASE STUDY 4: CAMBE AND TOLEDO, PARANA STATE, BRAZIL

It has been illustrated how, in the case of Greater London Docklands Development, efforts at urban regeneration were largely unsuccessful in benefiting the poorer groups in society. Similarly, Urban Development Corporations were highly selective and limited in their ability to generate growth. Within a developing country context, the case of Cambe and Toledo in Parana State, Brazil, provides a meaningful example of locality marketing that involved public/private coalitions as in Osaka and Amsterdam situation, a high degree of community participation, and a deviation away from "traditional boosterism' towards a more endogenous form of economic development. Parana State's success can be seen as a result of its ability to "stimulate industrial growth and reach lower-income groups" (Ferguson, 1991: 249).

- **Toledo**

By the mid-1970's an economic crisis in farming in this mainly rural municipality brought mass unemployment and precipitated emigration from the area. Following a disastrous, albeit typical experience for small cities of traditional boosterism, the adoption of a more community oriented industrial strategy took place. Rather than attempting to attract outside industries, the emphasis aimed " to retain and recycle local wealth by industrialising local raw materials" (Ferguson, 1991, 249) to this end, job creation, economic growth, the increasing of local taxes, community ownership and control formed the basis for a number of broad-ranging objectives. The Centre for Management Assistance to Small and Medium-Sized Business, (CEAG), and the director of Taledo's largest industrial employer (a meat packing plant) " suggested that the plant could provide inputs or use the outputs of various industries e.g., cow hides could become raw materials for a tannery" (Ferguson, 1991:7) Although widely embraced, the Commercial and Industrial Association (ACIT), an organisation of local business people, lacked the capital to put the tannery into operation.

Rather than turning to outside sources, ACIT members went door to door urging community members to purchase stock in the tannery. In addition, ACIT members convinced the mayor to donate land, infrastructure, construction material and labour, and a twenty-year tax exemption. It was essentially through these actions that the tannery became not only a functional success, but was showing a profit within its first year of operation (Isserow, 1995: 65).

Despite less successful efforts within other community industries, "community industry goes beyond an interesting attempt at collective economic development" for, as in the example of Taledo it "motivated local people to invest in their community and paved the way for a wave of industrialisation that fundamentally changed the municipality" (Ferguson, 1991: 251).

Taledo's agricultural co-operative, COOPAGRO, began to participate in community industries where previously they had been reticent. COOPAGRO used its access to agricultural raw materials and credit to start a large cotton-spinning mill and livestock feed factory. It also encouraged its employees to establish small companies of their own, "local people began investing, starting new enterprise that soon far surpassed the earlier contribution of the community industries to local economy" (Ferguson, 1991: 251). ACIT members started a series of the other community industries that were ultimately not as successful as the tannery. Where the tannery processed raw materials, the success of the other industries depended more on marketing and management. Again, ACIT members sold stock to Toledo residents and attempted co-operative decision making. This process however, led to lack of management direction and loss of business. Another problem was the unavailability of local managers; ACIT members had to serve on the administrative councils of al the industries and were too thinly stretched to do adequate service to each (Ferguson, 1991: 251).

Although Toledo failed to reverse completely the rural exodus precipitated by modernisation policies within the agricultural sector, the municipality was able to overcome the crisis to a large extent through the expansion of local industry.

Importantly, the advancements made can be attributed to two causal phenomena. Firstly the establishment of public and private partnerships. Secondly, the focus on community industries which galvanised local communities to invest in local enterprise. According to Rogerson (1994: 45), "The building of an urban infrastructure created a dynamic image, helping to forge political stability for further growth." Such initiatives did succeed in reaching the town's lower income groups and helped draw them into the political process.

- **Cambe**

In contrast to Toledo, Cambe is located next to Londrina, a major market, and has witnessed industrialisation since the early 1970's. Still, its location also exacerbated immigration from Cambe to Lodrina and contributed to the rise of squatter communities in Cambe as rural habitants became attracted to the metropolis. These developments occurred as unemployment rates within increased dramatically (Ferguson, 1991: 252).

In order to combat its economic woes, Cambe formed the Industrial Council of Cambe (COIND), composed of industrialists, city officials, university professors, and interested community members. The group conducted a survey of Cambe's industries and found that 40% were either idle or deeply in debt to the region's development banks. Once the magnitude of the problem was documented, the municipality became deeply involved. Neighbourhood activities and municipal councils members united with COIND. They brought together the development banks, the state Secretaries of Industry and Commerce, of Finance, and of planning, representatives of local government, COIND and the other local organisations to commit themselves to solving the problems. This alliance led to the establishment of the High Level Commission, which examined twenty ailing firms. Their findings pointed to mismanagement, not to lack of capital. In the end, COIND's approach was to fight for better market share rather than seek outside assistance (Ferguson, 1991: 253).

Even with the support of this wide coalition, Cambe's mayor had the leverage to obtain assistance from the state government banks. COIND re-negotiated the industries' debts with the development bank, arranged to sell Cambe products and services to state government agencies and public companies, and organised visits for Cambe industrialists to large firms in other areas where their products could be marketed. In addition, Cambe industrialists sub-divided their firms into-enterprises and offered share options to employees. By 1986, 19 of the 20 industries had recovered (Ferguson, 1991: 253).

The second phase of Cambe's industrial recovery centred on attracting external industry. Because of its location, Cambe, unlike Toledo, had the potential to attract outside business. The mayor set up the Industrial Commission within municipal government to review industries wishing to invest. It agreed to a policy of careful examination of all proposals to make sure that the industry would contribute more than it would reap in subsidies (Ferguson, 1991: 253).

Both Ferguson (1991) and Rogerson (1994) argue that traditional location theory is most readily applicable in areas close to large metropolitan cities. For the vast majority of localities located outside of these areas, a more inward looking approach is essential. This holds important implications for locality marketing and LED within the South African context, and will be illustrated in the subsequent chapter.

For Taledo and Cambe then, LED initiative centred around a "profoundly self-help collective process" (Ferguson, 1991: 257). In the case of Cambe however, this did not necessarily preclude attempts to attract outside investment. Ferguson (1991) acknowledges that exogenous strategies are workable, provided there exists " a large population size or a strategic location, a sophisticated local government with an industrial track record capable of effectively negotiating with industrialists, and excellent infrastructure."

- **Implications**

In the case of Cambe and Toledo, several notable features are significant in their relevance to South Africa. For the most part, Parana State relied on strong local leadership, good management and a focus on endogenous growth rather than incentives and subsidies aimed at attracting external investment. This endogenous growth incorporated a high degree of community involvement, as well as localised private sector input. It is apparent that strong local leadership is an essential prerequisite for generating economic growth. However, there is much evidence to suggest that a shift has occurred in many developing and Third World societies away from the state as the sole, primary player in the developmental process towards one whereby other actors are more dynamically involved.

In Taledo and Cambe, it was shown that economic recovery came in the form of public and private sector partnership which not only eschewed traditional external boosterism, but also galvanised the local populace and displayed a high degree of collective participation. The distinguishing feature of locality marketing in Cambe and Toledo, was the shift away from the " logic of local industrial policy from hard (land, infrastructure) to soft policy items such as vocational training, stimulating worker organisations and improving management assistance" (Urban Foundation, 1994: 6).

Thus, it is evident that government alone, or the sole reliance on market forces is insufficient to drive the economic development process. Instead, it has demonstrated through numerous case studies, that it is a combination of various key institutions and stakeholders, who must form broad-based coalitions which act at the local level. For Rogerson, (1994: 46) "the Brazilian experience suggest that public-private sector partnerships may be the key institutional structure for such local development initiatives in secondary cities of the developing world."

4.7 SUMMARY

This chapter investigated the concepts of locality marketing. The literature is sensitive to the changing global economy and political environment and the difficulties faced by localities to mediate these changes. The aim of this chapter was not only to provide sufficient information on locality marketing from a literature perspective to develop a sound understanding of the concept, but also to identify the latest developments in this approach. This was done by providing answers to questions relating to what locality marketing is, its background, who is involved, what does it aim to achieve and how applicable it is to the problems municipalities face today.

In defining locality marketing in section 4.2 it is clear that it remains in essence a local initiative in reaction to changes in the internal and external environments by effectively allocating available resources to reach locality marketing objectives. From the first section of the chapter it is evident that the nature of the new economic order which is locality marketing holds profound consequences for the economic development of municipalities. This new order implies that boundaries between borders are diminishing in importance and localities are exposed to all elements associated with the opening of world markets. This includes the perceived benefits of globalisation and easy access to new technologies and capital, as well as the increase in competitiveness.

From the discussion in section 4.3 and 4.4 it is clear that new key role players form part of the locality marketing process and the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. The success of locality marketing and the promotion of localities according to section 4.3 cannot be assessed only in terms of achievement of congruence between the promoted and received images. Section 4.4 further explained that place-image promotion should be seen as one planning instrument within the market-planning process as a whole, and used in preference to or in combination with other non- market orientated place-management techniques as appropriate.

It was also illustrated in section 4.4 of this chapter that locality marketing in local governments will not function in practice as the theory if other related issues are neglected. Locality marketing policy could not stand alone, but should involve various other policies and other state departments in an integrated strategy. The challenge for municipalities and business is how to cope, remain competitive and prosper in this demanding and ever-changing global environment. Local governments should exploit globalisation to the best of their advantage. What is required is not a total absence from all economic activity, but rather the designing of smart policies that can utilise the advantages of globalisation in their favour.

The chapter conclude in section 4.5 by giving special attention to the changing concepts of local development and restructuring through competitiveness. Similarly all the case studies (Docklands, Amsterdam, Osaka and Taledo and Cambe) in this chapter illustrate the potential which exists in local communities if dynamic leaders can unify local populace through a common vision. This can generate a lot of wealth, and generate employment and growth through self-help and collective processes. It is also obvious to observe that local resources, skills, finance and leadership were prerequisites to success and there are valuable lessons to be learned from these case studies of places, which did it, alone.

In a complex economic environment, like that of the case studies, independent policies were inefficient and policies and the effort involved in the creation of an efficient competitive platform, have to involve the participation of all role players. It is therefore important that the industrial development policies and strategies form an integrated approach which involves all the various disciplines and state departments and interlinks with other policies. It is, however, necessary for South African municipalities through authorities to provide adequate direction and therefore the country has to have policies in place regarding their strategic and informational leadership if South Africa is to emulate Amsterdam, Docklands, Osaka and Cambe and Toledo.

CHAPTER 5

THE ECONOMIC ROLE COMPETITIVENESS OF CERTAIN CITIES IN SOUTH AFRICA

5.1 INTRODUCTION

As was discussed in the previous chapter (chapter 4), it has been an established that an organisation contemplating locality marketing through place promotion faces a number of fundamental questions about the product definition, market targeting, and how to promote the chosen place attributes. This implies choices, which, in turn depend on the purpose of the promotion, and the appropriateness of the message to the phase of decision making reached by the recipient. In chapter 2, 3 and 4, it was pointed out that local economic development, competitiveness and locality marketing need to take into account globalisation. In particular municipalities (local authorities) need to focus increasingly on the international competitiveness of their locality in order to attain sustainable economic development.

The focus in this chapter is that the competitive platform should enable South African municipalities through local economic development (LED), globalisation, and locality marketing not to withdraw from the global world, but to position themselves strategically so that they can benefit from international trade, since international trade is becoming increasingly important to municipal wealth as the volume of cross border trade is increasing. In turn, this will help municipalities develop global economic strategies. The different views on the success and failures of South African municipalities will also be considered in section 5.2 and 5.3 through different case studies as well as the way they are transforming the economic space and technology. This will provide an appropriate point of departure for examining the South African scenario in this chapter, where elements such as strong leadership, community involvement, Public/private sector partnership, the tenets contained in GEAR, and the increased autonomy of local authorities must all be seen as instrumental in initiating successful forms of local economic development.

The first section of this chapter will therefore aim to provide some insight in the international debate surrounding the changing economic order that is linked to phenomena like globalisation and a changing competitive environment. The chapter will further emphasise the economic challenge in the context in which South African municipalities must meet the challenge of democratic development and in which the world must decide how to shape the conditions under which they must perform.

The last section on this chapter will concentrate on international competitiveness of South African municipalities which is aimed at proving that irrespective of the indifferent South African economic background, there are signs that a more competitive space economy is emerging as more South African municipalities become more intense with growth and development, as they join regional and sub-regional marketing associations and in some cases are considering more sophisticated strategies. The use of the media in re-imaging has become extensive in attempting to propel localities into the 'new' South Africa. Cities such Johannesburg, Tshwane (Pretoria), Ekurhuleni (East Rand), Cape Town, Durban and Port Elizabeth have been advertising extensively on national television. Case studies of the above mentioned South African cities are discussed thoroughly in this chapter.

It is however, necessary for South African cities through local authorities to provide adequate direction and country policies regarding their strategic and informational leadership if South Africa is to emulate Amsterdam, Docklands, Osaka and Cambe and Toledo.

The problems to be investigated should not be seen as reflective of an entirely doleful and pessimistic scenario. South Africa is currently undergoing massive social transformation. The move towards a democratic dispensation has created a new framework for effective and legitimate local initiatives to take place. As a result, South Africa holds much potential for the effective application of certain types of LED. However, there are limitations to its success, and local development initiatives are contingent upon certain fundamental criteria.

5.2 DEFINING THE SOUTH AFRICAN URBAN AREAS

The United States Bureau of the Census pioneered the concept of the extended area by delimiting the "Metropolitan District" in the census of 1910. Since that time the concept has been extended and complemented by the variety of alternative approaches listed below, which provide the urban analyst with full spectrum of data units.

The basic building block of every empirical concept of an urban area is the political municipality, that is, the city, town, or township. This approach can be justified in that census data compiled for individual households are commonly aggregated to these units and because additional materials derived by local and state authorities are often only available for such municipalities (Bourne and Simmons, 1978: 30).

The difficulties with the municipality as a unit of analysis are threefold. Central cities, as commonly delineated, are usually poor fits to most working definitions of the city as social, economic, or spatial unit. Most often they are spatially underbounded, excluding suburban and ex-urban areas which are closely integrated with the central city. An equally serious problem with the municipalities as units of analysis is the propensity of state and local governments to alter political boundaries frequently by their marriage, annexation or on occasion by full integration into some form of metropolitan area or regional government (Bourne and Simmons, 1978: 30).

Finally, because municipalities are so frequently only partial of a labour shed, they can generate misleading impressions when statistics are calculated. The industrial suburb, or wealthy residential suburb, can exist very comfortably without the full complement of land uses, labour force and social diversity that we expect to see in a city. It is only when political variables, such as the structure of government or fiscal relationships are involved that legal municipalities become a viable unit for urban systems analysis in their own right (Bourne and Simmons, 1978: 30-31).

5.2.1 The different forms of Municipalities in South Africa

The existing system of local government comprises a number of different municipal institutions. South Africa entered a completely new local government dispensation on

5 December 2000 when the local government transition phase that was started in 1994 came to a conclusion. A system of 284 newly demarcated and structured local governments replaced the fragmented and uneconomic system of 843 municipalities inherited from the apartheid system (SANPAD: 1999). Each represents specific challenges:

5.2.1.1 Category A municipalities (Metropolitan Councils)

Municipalities with exclusive legislation and executive legislation and executive authority in their areas of jurisdiction. They are metropolitan councils (also referred as uni-cities or mega-cities) for city of Johannesburg, city of Tshwane (Pretoria), city of Cape town, Nelson Mandela metropolitan council (Port Elizabeth) and Ekurhuleni (East Rand).

All Metropolitan Councils are responsible for redistribution across the metropolitan area. In all cases some redistribution occurs between high income and low income consumer of services, and through the allocation of RSC (Regional Service Council) levies (employment and turn over levies) (Cockayne, 2000).

5.2.1.2 Category B municipalities (District Councils)

District Council operates in very different contexts and serve areas of very different size and patterns, ranging from areas of dense settlement to vast, sparsely populated regions. District Councils are the significant centres of Municipal capacity.

Many of these District Councils are totally new and many are also cross-boundary Councils i.e. they extend over different provinces. This is in accordance with the Local Government: Cross boundary Municipality act, No 29 of 2000 (Cockayne, 2000).

5.2.1.3 Category C municipalities (Local councils)

They share legislation and executive powers with the District Council in which are they fall. There are major variations in the capacities of municipalities serving cities and larger towns on the other hand. Municipalities in cities and larger towns face problems of poverty and uneven development, but have relatively solid administration and financial capacity. This enables them to address their current responsibilities to a significant extent with their own resources(Cockayne, 2000).

The South African Constitution make basic needs a priority for local government, and the Demarcation Act has led to the complete change in size of local governments in South Africa-by reducing the number of municipalities from 843 to 284. Table 2.2 below shows new municipalities in South Africa (SANPAD: 1999).

Table 5.1: New municipalities in South Africa

Province	Pre demarcation	New Metros	New Local Municipalities	New District Municipalities
Eastern Cape	182	1	38	6
Free-State	100	0	20	5
Gauteng	51	3	9	3
Kwazulu- Natal	75	1	52	9
North West	53	0	24	7
Northern Cape	112	0	26	5
Limpopo	53	0	26	6
Western Cape	136	1	24	5
Mpumalanga	81	0	22	6
Total	**843**	**6**	**241**	**52**

(Source: Naudé *et al,* 1999:11).

The new local governments face enormous challenges and will be one of the primary vehicles responsible for addressing South Africa's huge economic development challenges, specifically including poverty alleviation, creation of employment opportunities and reducing glaring inequalities in income and wealth.

5.2.2 The urbanised area

The most obvious response to the difficulties posed by the use of the central city or municipality-area definition for research purposes is to define a geographically broader and more functionally based concept of the city. The "urbanised area," first applied in the 1950 USA census and later adopted by other countries including **South Africa**, is the simplest approximation of this concept and the most widely used because of its visual and intuitive appeal. Its definition is jointly based on a minimum population size threshold and on the level of urban land-use intensity. More specifically, it includes:

- A central city (or twin cities) of 50 000 or more population, plus
- Those surroundings, closely settled, incorporated and unincorporated areas that meet certain minimum requirements of population size and density (grater than 1000 people per kilometre square)

The urbanised area embraces the bulk of urban activity (see Table.5.1) and is useful for cross-sectional comparisons of variables in any given census year. However, because it is delimited by the most rapidly changing boundary in a built up fringe-it tends to be very volatile. The real urbanised area shifts much more quickly than do census re-definitions, and the complexity of boundary itself makes it largely incompatible with other data sources. By 1976, for instance, the urbanised area as defined in 1970 already excludes the areas of most rapid social change in a metropolitan region (Bourne and Simmons, 1978: 31).

The data gathered on commuting patters in the 1960 as outlined in the USA census permitted, for the first time, a detailed exploration of the urban- field concept as outlined by Friedmann and Miller (1965). The first comprehensive, nation-wide examination of this daily trip pattern by Brian Berry and his associates (Berry *et al.,* 1968; Berry, 1973) suggested that the nation could be treated, for most purposes, as fully urbanised. When urban centres of 25 000 populations were added to the adjacent metropolitan areas with which they were closely linked, almost every populated area was included within one commuting field or another.

The obligation on local government to address economic development challenges such as poverty, unemployment, and inequality, stems from the South African Constitution. Section 152 of the Constitution is explicit in defining the purpose of local government in South Africa to "promote social and economic development" (SANPAD, 1999:11).

5.2.3 Cities in South Africa

South African cities are relatively small by global standards, with the only megacity (10+) being located in the Gauteng urban region (a combination of the areas of Johannesburg, Pretoria and the East and West Rand). As a result of both its geographical and political history, South Africa has a relatively balanced hierarchy of cities and towns. As a middle-level developing country, South Africa possesses a higher level of resources to address a range of urban challenges than many other developing countries (Boraine, 2002).

However, the difficulties and challenges faced by South African cities, particularly in the context of the impact of globalisation, are enormous.

In line with trends, South Africa's population is rapidly urbanising. According to the 1996 national Census, more than half (55.4%) of the South African population live and work in urban areas, which are growing at approximately 5% per annum. It was estimated that 70%-75% of the population would live in urban areas within the next generation as proven by 2002 census results. While the urban transition presents challenges of poverty, homelessness and marginalisation, it also presents opportunities for economic growth and social development (Boraine, 2002).

South Africa's future prosperity depends on the productivity and competitiveness of its metropolitan regions. The cities of Johannesburg, Cape Town and eThekwini alone account for nearly 50% of the Gross Domestic Product. The six metropolitan are as together with the 17 next largest cities and towns, account for between 80% of the Gross Domestic Product (GDP) (Boraine, 2002).

With the ongoing insertion of South Africa into global economy, and the tendency towards concentration of firms in urban areas, the importance of metropolitan regions in South Africa is increasing. During the 1990s, 58% of all new economic growth took place in a few metropolitan magisterial districts making up just 4% of the country's area. In the channel between the city of Johannesburg and Pretoria alone, which makes up 0.2% of the country's area, 24% of GGP growth in the 1990s took place. Since 1994, metropolitan growth rates have outpaced national growth rates by 1-2% (Boraine, 2002).

Notwithstanding the relatively high average level of wealth in South African cities, which tends to mask levels of inequality, the majority of poor households in South Africa now live in urban areas. Over the past decade, there has been a steady increase in the numbers of people in metropolitan areas living in poverty. Levels of unemployment and the size of the informal sector has grown steadily since the 1980s and there continues to be large differences in income levels. According to Stats SA, over 2.1 million urban residents are deemed to be poor, i.e. earning less than R1100 per month. The development of the urban economy is, therefore, an important component of a national anti-poverty strategy (Boraine, 2002).

The Cities Development Index (CDI) for the six cities in South Africa is shown in the table below. This table indicates where public structure investment should go in the most important urban areas in South Africa.

Table 5.2: City Development Indices for the Largest Cities

City	Total CDI	Product	Education	Health	Infrastructure	Waste
City of Johannesburg	71.4	1000.0	60.0	35.9	72.0	89.0
Ekurhuleni	63.0	62.8	57.0	35.9	70.5	69.0
Tshwane	62.0	71.3	62.0	35.9	66.8	66.0
Ethekwini	58.6	76.8	56.0	34.7	57.8	66.0
Nelson Mandela	54.7	28.3	55.0	34.3	66.3	94.0
City of Cape Town	73.2	99.4	60.0	35.4	80.0	91.0

(Source: Boraine, 2002).

According to the CDI contained in the table above, the city of Cape Town and city of Johannesburg are the most highly development urban places in South Africa. The table imply further that investment in public goods be focused on the following sectors in the various cities:

- Johannesburg: focus on investment in health
- Ekurhuleni: focus on investment in improving product, waste and health
- Tshwane: focus on investment in infrastructure, product, health
- eThekwini: focus on investment in infrastructure, waste, education and product improvement
- Nelson Mandela Metro: focus on investment in improving product, infrastructure and education
- City of Cape Town: focus on health, education

Although the provision of physical infrastructure related to health services are prominent as weaknesses in the CDI above, the low scores for education is also a significant weakness. Inadequate health and low education is indicative of low human capital. Given the challenge facing South African cities to become role players in a global setting, the quality of labour, knowledge and social institutions have become fundamental for local economic development. This is because while goods move rapidly across the globe, only human beings and human social institutions cannot move easily or be replicated with ease. It can thus be argued that human social institutions may lie at the heart of growing the urban economy (Helmsing, 2000:1)

5.3 ECONOMIC ROLE OF SOUTH AFRICA'S MAIN CITIES

Three of South Africa's main cities (Durban, Cape-Town and Port Elizabeth) are port cities through which much of South Africa's international trade moves. Durban is also close to the port of Richardsbay, and Cape-Town close to the port of Saldanah. These two ports are important for South Africa's exports of coal and steel, respectively (Naudé and Krugell, 2002).

The dominance of three port cities amongst South Africa's largest cities is due to the importance of sea transport for South Africa's international trade. Approximately

98% of the volumes of South Africa's exports are conveyed by sea. History is important to understand the current pre-eminence of these cities, not only in terms of their position in South Africa, but also as some of the busiest ports in Africa (Naudé and Krugell, 2002).

These six largest urban areas of South Africa will be the driving force behind economic growth in the future. Therefore the metropolitan municipalities of Johannesburg, Durban, Pretoria, Cape town, the East Rand and Port Elizabeth were discovered to be having 12,6 million people including the 6 million of voters mentioned in the previous paragraphs which means that they consist of about 30% of South Africa's total population. Together they have an annual income of around R125 billion- which means they are big enough to enjoy the advantages of agglomeration economics (see Table 5.5) (Pereira and de Klerk, 2000).

Table 5.3: Bulk commodities exported through South Africa's Ports and Distances from Sources

Port	Main Commodities	Ton ('000)	Main Source (city or town)	Approximate Distance from source
Richards Bay	Coal and coke, Wood chips Rock and Phosphate Chrome ore and platinum	49 3,6 1,3 1.1	Welkom Nelspruit Phalaborwa Rustenburg	703km 585km 806km 721km
Durban	Steel Timber Coal and coke Chemicals Iron Chemicals	3.2 1.9 1.7 1.2 - -	Middleburg Pinetown Welkom Vereeniging Vanderbijlpark Sasolburg	856km 30km 546km 569km 560km 550km
East London	Copper	1.4	Prieska/Okiep	1420km
Port Elizabeth	Manganese Ore Fruit	1.4 0,3	Meyerton	952km
Saldanah	Iron ore	16.6	Sishen	993km
Mossel Bay	Various	N/A		
Cape Town	Prepared Fruit Wine	0.3	Ceres Stellenbosch	110km 50km

(Source: Pretorius, 2001: 2-6)

During the 19th century the role of South Africa's port cities changed significantly with the discovery of diamonds and gold (and later platinum, coal and other precious metals). The discovery of gold in the 1870s on the South African Highveld determined the location for Johannesburg as well as its subsequent spectacular growth as well as the growth of Pretoria (60 km away). The development of Johannesburg inland had an important effect on the port cities. The latter developed from being stopover/service points providing shipping services to being ports through which the extraction of these precious commodities were handled. Indeed some specialisation in the handling of goods occurred at South African ports over the past decades. This had an important effect on the development of these cities. Table 5.3 above shows the main commodities that are exported through the different ports, as well as the approximate distance from the source of extraction or final production of the goods in question. The latter measure is to provide an indication of the likely importance of domestic transport infrastructure and costs for exporters and also to explain the spatial patterns of development of inland cities and towns (Naudé and Krugell, 2002).

From Table 5.3 above it can be seen that the principal port for coal and coke is Richards Bay, for steel Durban, for copper East London, for manganese ore Port Elizabeth, for prepared fruit Cape Town and for iron Saldanha Bay. The approximately distances from the location or source of extraction can be seen in most cases (with the exception of prepared fruit) to be in excess of 500km from the nearest port (Naudé and Krugell, 2002).

Table 5.4 below summarises the Relative Specialisation Index (RZI)and Hirschman-Herfindahl Index (HHI) for the 6 big metropolitan municipalities in South Africa. It shows that most of South Africa's cities according to chapter 5 either specialises in manufacturing and financial services, with the exception of Tshwane (Pretoria) that seems to have a specialisation in transport, and finance and community services. The various cities and their specialisation are as follows: (See table 5.4 below)

- City of Johannesburg: Financial Services and Banking and IT. The northern corridor between Johannesburg and Pretoria, has a significant advantage in terms of both high technology production and information technology services due to agglomeration economies and because of the market-size of the region.
- Ekurhuleni (East Rand) Manufacturing

- Tshwane (Pretoria): Transport
- Nelson Mandela (Port Elizabeth): Manufacturing
- Ethekwini (Durban) Manufacturing
- City of Cape Town: Financial services and Banking

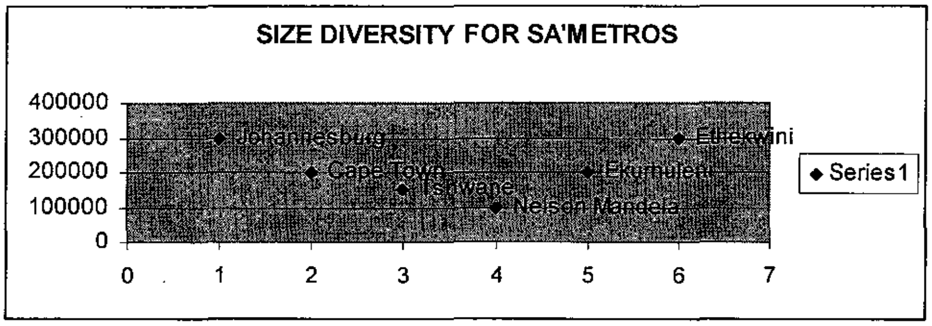
Table 5.4: RZI and HHI for South Africa's Big six Cities

Sector	City of Johannesburg	Ekurhuleni	Tshwane	Nelson Mandela	Ethekwini	City of Cape Town
Agriculture	0.005	0.12	0.13	0.16	0.34	0.20
Mining	0.07	0.22	0.03	0.02	0.065	0.03
Manufacturing	0.82	1.43	0.69	1.57	1.46	0.94
Electricity	0.68	0.64	0.81	0.44	0.95	0.29
Construction	1.12	1.20	1.04	0.96	1.17	0.95
Trade	1.25	1.01	0.94	0.98	1.03	1.18
Transport	1.06	1.37	1.52	1.23	1.29	1.10
Finance	1.72	1.17	1.28	0.72	0.89	0.630.
Community sevice	0.75	0.68	1.22	1.14	0.91	0.80
HHI	4.68	5.26	4.99	4.8	5.31	4.72

(Source: Naude', 2003)

The HHI shows that Ethekwini (Durban) is the most diversified of the various cities in South Africa, and Johannesburg the least diversified. The fact that, in terms of population Ethekwini is the most diversified is consistent with international evidence that larger cities are indeed more diversified. Apart for Durban, South Africa's large cities such as Johannesburg and Cape Town are more specialised in services (finance) than manufacturing, a trend consistent with international patterns (Naude', 2003).

Figure 5.1: Size diversity relationship for South Africa's Metropolitan Municipalities



(Source: Naude', 2003)

As discussed in chapter 5, figure 5.1 illustrate the fact that it must be stressed that there is a need for both diversified and specialised types of cities in a national economy. The fact is that the different cities in South Africa all play an almost unique role in the national economy. Specialisation is also important, since it is a pervasive source of agglomeration and scale economies. Firms in the financial sector therefore reap economies of scale by locating Johannesburg or Cape Town, and these economies are important for competitive advantage. The conclusion is thus that Johannesburg and Cape Town tend to be offering primarily location economies (by having the lowest HHI and the highest RZI values) and Ethekwini (Durban and the others urbanisation economies (Naude', 2003).

South Africa is a country with a peculiar spatial distribution of economic activity and population: the cities tend to be "small", with four "large" cities and one "mega city out of 40 South African cities. Moreover as it will be stressed below that, unless one cluster Johannesburg (JHB), Pretoria and East Rand now known as (Ekurhuleni Metropolitan Municipality which comprises of Alberton, Benoni, Boksburg, Brakpan, Germiston, Kempton Park/Tembisa, Lethabong, Nigel and Springs). South Africa has no "primary" city. The cities and their populations in 2001 are depicted in Table 5.5 below.

Table 5.5: Contribution of South Africa's Six Metropolitan Areas to Total GDP, 1990, 1996 and 2000 (%)

City	Population 2001	% Contribution to SA GDP in 2000	% Contribution to SA GDP in 1996	% Contribution to SA GDP in1990	Coastal city with Port	Average Annual population growth rate 1996-2001
Johannesburg	2962759	14,98%	14,16%	14,22%	No	1,02%
Johannesburg and East Rand	(5016892)	(22,76%)	(22,16%)	(22,89%)	No	-
Cape Town	2858743	14,01%	12,82%	11,90%	Yes	1,01%
Durban	2981237	7,77%	8,06%	8,18%	Yes	0,96%
Pretoria	1454290	8,55%	7,88%	9,06%	No	1,03%
East Rand	2054133	7,78%	8,00%	8,67%	No	1,01%
Port Elizabeth	1015334	2,46%	2,31%	2,58%	Yes	1,02%
Total	**13326496**	**55,96%**	**53,2%**	**54,2%**		**7,5%**

(Source of data: PIMSS, 2001 in Naudé and Krugell, 2002: 12).

Table 5.5 above shows that South Africa's six major cities, with 31% of South Africa's total population contribute in 55% of South Africa's total GDP. Since 1990 the share has increased slightly from 54% to 55%. These six cities also contains 6 million of South Africa's approximately 17 million voters (Naudé and Krugell, 2002).

The table above shows that in 2000, the city with the largest single contribution to South Africa's GDP was Johannesburg, with 14.98%. If one includes East Rand as part of the City of Johannesburg, then the dominance of Johannesburg as the primary city in South Africa becomes clear: it then produces 22.8% of South Africa's GDP followed by Cape Town and Pretoria (Naudé and Krugell, 2002).

As the two largest cities in economic terms Johannesburg and Cape Town have remained unchanged since 1990. Indeed, both these cities have enlarged their share total GDP, mostly significantly so Cape Town. In contrast, the share of all other cities declined since 1990, most notably of Durban (the largest single city) and the East Rand (Naudé and Krugell, 2002).

The spatial distribution of South Africa's six largest cities is implicit in Table 5.5 above, as suggested by the nature of the city as a port or not. The table shows that three of South Africa's largest cities are port cities. In particular Durban and Cape Town's harbours are the largest harbours in Southern Africa. Whilst the other three large cities in South Africa are all inland cities without a harbour/port, it should be stressed that Johannesburg, East Rand and Pretoria are located in close proximity within Gauteng Province, exhibiting the nature of one "cluster" city rather than three geographically separated cities. All three are relatively close to the largest international airport in Africa, and all are connected via N3 highway (South Africa's busiest) to the harbour ports of Durban, Maputo, and Richardsbay, and via the N1 and N12 Highways to Cape Town and Walvis Bay (Namibia) (Naudé and Krugell, 2002).

At the same time, South Africa's medium-sized cities- with the three provincials capitals of Bloemfontein, Kimberly and Pietersburg the major ones have the chance also for economic growth, thanks to specialisation and the introduction of technological expertise to achieve economic growth around a single industry. This anticipated growth was boosted after December 5,2000 local government elections with the local municipality which was free of restrictions and utilisation of land and natural resources (Pereira and de Klerk, 2000).

5.3.1 Local governments' economies: the case of South Africa's six main cities

In post-apartheid South Africa local government has become a much more important sphere of governance. During the apartheid era local government was largely an administrative arm of national government. The 1996 constitution gave local government much more autonomy as well as specific competencies. The constitution commits local government to two things, which are pertinent to the interest of people working in both informal and formal. Firstly, the promotion of local economic development as an integral function of local government and secondly, the participation of citizens in local governance This section concentrates on how these six largest South African cities have translated these commitments with reference to both informal and formal economies.

5.3.1.1 The economy of Durban(Ethekwini)

The eThekwini Unicity Area, as Durban metropolitan is usually known, is on the east coast, in the province of Kwazulu- Natal. It includes Durban and Pinetown, as well as centres such as KwaMashu, Inanda, Tongaat, Verulam and Umhlanga to the north; Amanzimtoti and Umlazi to the south; and Westville, Kloof and Cato Ridge to the west.

- **Important Economic Sectors**
  - Tourism
  - Transport
  - Manufacturing (chemical, auto components and assembly, paper, clothing and textile).

- **Key Infrastructure**
  - Port of Durban-South Africa's premier port (Africa's largest port)
  - Durban International Airport
  - Extensive road and rail links to other important Southern African Centres.

Throughout South Africa local government interventions targeting the informal economy have largely focused on street trading, Durban is no exception. Street trading occurs in public space, over which there are many demands. For local Authorities, these activities tend to pose more of a management challenge than less visible informal economic activities like home based work. Under apartheid, street trading was not allowed and traders were often violently removed. Since the early 1990s when legislation restricting street trading was first relaxed, there has been a dramatic increase in these activities in all South African cities and towns (Skinner and Valodia, 2000:83)

A 1996 census of street traders in Durban found 20 000 street traders were operating in the metropolitan area (Durban Metropolitan Council, 1998). These numbers are likely to have increased since 1996. Further there are more women street traders than men. The census highlighted that 60% of street traders were women and women tended to be disproportionately represented in this lucrative sectors e.g. fruit and vegetable distribution A similar pattern is reflected in other cities (Lund, 1998).

In a five city comparison of local government's approach to street trading Durban stood out as the city that was engaging most successfully with the challenge of incorporating this group of informal workers into city plans (Skinner, 2000b). This issue was given institutional status with the establishment, in the early 1990's, of the Department of informal Trade and Small Business Opportunities. It is now a 23-peson strong unit largely focused on management of street trading and the development of market facilities. Further, City Health set up a unit within their environmental health division to specifically deal with street trading. A core component of their work is a training programme offered to street traders selling food (Skinner and Valodia, 2001:84).

Durban has allocated more resources to street trading than any other city. Since the mid-1990s the city spent R45 million on street trading infrastructure-shelters, storage, water and ablution facilities. Further resources have been allocated to maintenance and management of these facilities. Facilities have been provided in both city centre and outlying areas. In most cases this has lead to a significant improvement in the quality of traders' work environments (Attwood, 2000).

One of the most impressive examples in the country of integrating street traders into city plans is the urban renewal project in the area surrounding the primary transport node in the city centre of Warwick Junction. There are an estimated 300 000 commuters moving through area daily and between 4 000 and 7 000 traders operating there. Attractive infrastructure has been provided for traders. Consultative forums have been established, leading to an unprecedented level of self-regulation with respect to keeping the area clean, attractive and crime free. For many years this area has been a hub of activity for traditional medicine or muti trading. Muti traders used to trade on the side of the street, sleeping under plastic sheets at night. Now a dedicated muti market has been established and short-term accommodation has been provided (Skinner and Valodia, 2001:83)

Although Durban has made progress in responding to informal activities, there has been a tendency to focus narrowly on street traders. Even interventions targeting traders were not guided by an overall policy, resulting in ad hoc interventions with different departments responding in different ways. In order to address this, in November 1999, a Technical Task Team consisting of representatives from the local government departments whose work impacts on informal economy workers was mandated to develop an informal economic policy. Both the process and the content are significant. With respect to the process, once draft documents were drawn up, there were two rounds of consultations with a wide range of stakeholders including informal and formal business associations, councillors, officials, trade unions, civic groups and development forums. Stakeholders were offered a variety of methods to express their views ranging from workshops to personal interviews. In October 2000 the policy was approved and adopted by the Council (Skinner and Valodia, 2001:85).

First, the policy's point of departure is that the informal economy is critical to economic development in the Durban Metropolitan Area. The policy documentation consistently points out that the informal economy creates jobs and incomes for many of Durban's citizens. This places the informal economy on the mainstream agenda rather than as one component of a poverty alleviation project (Skinner and Valodia, 2001:85).

Second, the policy document states that all work should be valued, People working in very small enterprises, in public and other places, should be seen as small business people and support services should be made available to them. Not only does this address a gap in national government SMME policies but also for the first time, home-based work is acknowledged as an economic development issue and local development challenge. The policy suggest a number of support interventions-the provision of basic business skills training, legal advice, health education and assistance with access to financial services. It is proposed that the city subsidise training and establish a referral service to existing service providers. The only local business service centre currently funded by the city-the Thekwini Business Development Centre-specialises in assisting small contractors (Skinner and Valodia, 2001:85).

Another institution will be established to focus on the support needs of informal economy workers. The policy places gender sensitivity on the agenda, For example, in stating that the city has a responsibility to influence existing training providers to develop programmes more appropriate to informal economy workers, it identifies the need for men and women's different responsibilities for domestic maintenance and child care to be taken into account (North Central and South Central Council, 2000).

Third, the policy states that the economy needs to be viewed as a whole, with the informal and formal parts being at different points along a continuum. It suggest that the links between informal and formal economies should be strengthened and that the health of one depends on the health of the other. In line with this, the policy suggests a sectoral approach to development and support of the informal economy. This is likely to lead to a much more coherent set of interventions as it offers possibilities for understanding the dynamics of each sector more accurately, and thus of building more precisely focused support (Skinner and Valodia, 2001)

Fourth, the role of organisations of workers in the formal economy is firmly acknowledged. The policy states that the interest of local government will be best served when there are strong and stable partners to negotiate with and that the interest of informal operators will be served when they can bargain from a position of strength and confidence. The policy lays out a capacity-building programme for organisations and local government officials (Skinner and Valodia, 2001).

Finally, there are a number of innovative suggestions about management of informal economy activities, which are likely to have a positive impact on people working in the informal economy. One example of this is area-based management. Decentralised management offers the opportunity to resolve co-ordination problems, encourage participation of interest groups in planning and management and is key to greater self-regulation in the informal economy. This has already happened in the more successful urban renewal initiatives like the Warwick Junction (Skinner and Valodia, 2001).

The policy, however, is being implemented in a time of local government transition. The second democratic local government election was held on December 5, 2000, introducing a new set of councillors. This was combined with another round of internal restructuring as the six local councils in Durban merged into one Unicity. There are positive signs however that the policy will be effected. There is a commitment from officials who have formed themselves into an implementation working group and resources have been secured to kick start the implementation process (Skinner and Valodia, 2001).

There are two factors that have made the policy development process possible. Durban's local government, from the perspective of financial and human resources is in a relatively strong position and informal economy comparatively well organised. Durban is one of the few cities that is not in debt. As Kahn (1998: 41) points out,

> *"Relative to the rest of the country, (Durban's) metropolitan council and local council's have a potentially strong financial base.... This is due to a history of sound financial policy, a sustained investment strategy dating back to the early 20th century and innovative financial engineering."*

This is combined with relatively skilled local government officials. Much attention is paid to staff training. Durban is one of the few cities to have a human resource-training unit. Further, although there have been variation between local sub-structures, Durban Councils have been able to attract skilled professionals due to competitive salary packages. Durban has the financial and human resource capacity to sustain this ambitious policy (Skinner and Valodia, 2001:86).

Operation Jumpstart (OJ), initiated in 1990, was born out of the economic crisis facing the city of Durban, and the need to "stimulate or 'kick-start' the local economy" (Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 191). There existed a wide range of public and private groups, including representatives from the commercial and business sector, drawn from the Durban City Council (DCC), the Durban Chamber of Commerce, the Natal Chamber of Industries, Spoornet, Portnet and the Small Business Development Corporation and rather belatedly, the ANC and other organisations whose interests were more closely aligned with the 'popular classes'(Isserow, 1995).

The underlying intention of OJ was to devise particular strategies around the promotion of local economic growth within the region.

Some of the priority task outlined by the Project Steering Committee (PSC) of the DCC were to:

- Promote and market the Durban Functional Region to attract local and outside investors.
- Develop the Durban's infrastructural capacity in respect of water, industrial land, serviced stands and transport networks.
- Promote and encourage the development of small business.
- Reduce the inefficiency and red tape, thus overcoming bureaucratic obstacles for development.
- Promote technical training, upgrade education and health services.
- Promote job creation where it is economically justified.

(Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 193)

Initially, there was a real sense of optimism surrounding the project. " By April 1991, things were getting off the ground and the various action groups were ready to report on their progress" (Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 201). In order to lend a high degree of legitimacy to the project, it was publicised that 300 000 new jobs would be created and that an 8% growth rate within Durban was being sought. The structural formation of the project committees centred around the creation of sub-structures, with an emphasis on ensuring that " the chairperson of committees had the appropriate entrepreneurial acumen and influence" (Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 200).

In this way, prominent business representatives were placed in positions of authority, both in terms of negotiation and lobbying for investment, and in terms of 'selling' of OJ to prospective financial backers. One of the key criteria was that in order to maintain credibility and show 'progress' was indeed taking place, projects were required to be "running within a twelve to twenty month time frame" (Starley, 1991, quoted in Robinson and Boldogh, 1994: 201).

The approach taken by the dominant business sector was primarily that of a neo-liberal policy of market principles whereby they discouraged state-directed development. However, (despite the frequent failure of the market to promote development in other regions), the current economic climate was not particularly conducive to external investment in the local economy. "Exceptionally high investment risks, compounded by uncertain and slow returns, had made capital most unwilling to invest both generally in South Africa and more specifically in the Durban area" (Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 202).

In order to offset this, the public sector was commissioned to supply funds to reduce the risk of capital and to speed up the realisation of returns by investors.

The development adopted, followed not so much a pattern of urban regeneration, but rather on of gentrification, with the aim of generating high profile, short term developments to demonstrate that OJ could indeed succeed, and to gain popular support for the coalition. As such, the area around the harbour, the creation of an international convention centre, and the promotion of tourists facilities were earmarked as key areas for operation (Isserow, 1995).

In this regard, people who were dispossessed of their land under apartheid, originally inhabited much of the vacant land identified for the projects. It was later agreed however, that these areas should , in fact, be utilised for the developments of low-income housing. As a result, the search for alternative high profile sites turned elsewhere. This also happened with the proposed Durban Waterfront development area where " when the Point Waterfront Workshop was convened on 1 August 1992, it was clear that the community-based constituency had been completely neglected by the organisers" (Robinson and Boldogh, 1994, quoted in Tommilson, 1994: 202). Interestingly, attempts were made by the Durban City Council and Transnet, (under the auspices of the Greater Durban Marketing Authority) to surreptitiously correlate some of the projects in OJ. It was argued that "OJ should be phased into the Marketing Authority which could be properly constituted and represented by both the private and public sector and who would and could implement projects" (Minutes of the Steering Committee meeting, 1992, quoted in Robinson and Boldogh, 1994: 205).

This did not only represent a breach of trust for the original stakeholders, it also alienated and infuriated both the ANC, (who felt neglected on an issue involving the privatisation of huge sums of money), and the private sector, (who given their potential loss of profit) felt similarly side-lined and the net result of this political in-fighting was that numerous projects and initiatives, including the major development around the Point, stalled.

The Port of Durban is the principal port of African continent and the Indian Ocean Rim. It claims this title when measured by the employment it generates directly or indirectly, by the linkages it forges with other industries and sectors, by the revenue it generates and by the expenditure patterns required to sustain its activities (Durban Economic Review, 2001).

The port interconnect with a variety of international trade routes and is the primary trade gateway to Southern Africa. It also serves its immediate hinterland and South Africa's commercial centre of Gauteng (Durban Economic Review, 2001).

The port has the technical capacity for despatching and receiving containers, dry bulk (e.g. coal and grain), liquid bulk (e.g. gases, chemicals, oils), neo-bulk (e.g. pulp, steel and paper), and general breakbulk cargo (Durban Economic Review, 2001).

The port's facilities are structured to handle both uniform as well as mixed cargoes at well designed terminals and its ancillary industries offer a range of services from piloting, vessel tracking, ship repairs, bunkering, goods handling and storage, and linkage to the country" major rail and road networks (Durban Economic Review, 2001).

Table 5.6: Port of Durban imports and exports to and from the world in 1999

Region	Imports (tons)	Exports (tons)
Asia	4,568,392	6,034,099
Europe	2,347,791	3,168,980
Africa	484,718	1,863,729
North America	1,376,880	1,490,147
United Kingdom	476,823	998,757
South America	719,975	591,730
Oceania. (Aus and NZ)	537,865	246,441
Other	5,878	188,039
Total	**10,518,322**	**14,581,992**

(Source: Portnet, 2000 in Durban Economic Review, 2001).

Given the diversity of the port's facilities and services it is not surprising that the port acts as a site for the creation and maintenance of jobs, revenue, and investment. The range of activities directly and indirectly associated with the port include a long list of vessel and cargo related activities. The port and its related industries employ a minimum of 31,000 people; this amounted to a wage bill of approximately R950 million per annum ln 1994. Port revenue is in the order of R2 billion in 2000, accounting for approximately 65% of the value of all port revenue in South Africa. It has been estimated that the port generates R3,5 billion in aggregate annual expenditure (at 1994 prices) (Durban Economic Review, 2001).

The table below shows the profile of activity at the airport. Handling domestic flights and passengers is the primary function of the airport. International flights formed less than 8% of the airport's business in 1999 (see table 5.7). Johannesburg International Airport currently serves as the major recipient of international flights, with a number of tourists transferring to Durban on domestic carriers Eleven international airlines now serve Durban, compared to five before deregulation in 1992. The airport offers a range of ancillary facilities and is used by many manufacturers in the Southern Industrial Basin and elsewhere to transport goods. The airport used to be managed by a parastatal, but is now owned and managed by a private company-the Airports

Company of South Africa (ACSA). The company's shares are owned by government, a foreign investor, black empowerment companies and employees (Durban Economic Review, 2001).

Table 5.7: Volumes and activity at Durban International Airport during 1999

Category	Departing	% of total landings	Air traffic	% of total passengers
Domestic	1,178,368	92%	17,375	82%
International	95,925	8%	1,026	5%
Non-schedule	2,013	0%	2,595	12%
Regional	338	0%	174	1%
Total	1,276,644	100%	21,170	100%

(Source: ACSA, 2000 in Durban Economic Review, 2001: 18).

Durban has a road network that supports both haulage and passenger transport. The network encompasses a full hierarchy from high-speed national linkage freeways through to local access roads. A generation high standard of infrastructure is concentrated in the city's core and along three spines-serving the north, west and south (Durban Economic Review, 2001).

Durban has a significant private haulage industry-closely linked with goods transported to and from the port. Road transport accounts for some 15-16 million tons of haulage to and from Durban. Following deregulation, there are upwards of 70 long distance haulage firms with a total of 2737 registered vehicles with a capacity greater than 10 tons. Most trips are long-distance to and from Gauteng or up to the North Coast to Richards Bay (Durban Economic Review, 2001).

A further 150 vehicles are associated with the short-haul sector with varying capacities. Together they account for upwards 2000 employees (Durban Economic Review, 2001).

Rail is responsible for the carriage of some 9.4 million tons of traffic to and from Durban and includes container traffic of 2.3 million tons. Capacity utilisation of the Durban to Gauteng line is low at 50%. The low levels of utilisation reflect cost/price distortions in respect of road and rail transport. Spoornet, the parastatal responsible for managing the rail system, has approximately 2365 workers based in Durban (Durban Economic Review, 2001).

A limited railway service is in operation to transport passengers. An indication of rail usage can be gauged from the numbers of passengers entering inner city stations-with 8400 at Berea, 3300 at Durban and 3100 at Dalbridge. Rail, despite being efficient mode of transport, plays a minor role in person trip movements overall (Durban Economic Review, 2001).

Fuel is an important component of the cost of several production processes. Sasol Gas has extended its gas pipeline to the South of Durban, a project worth R100 million. Gas is cheap form of energy and has less harmful emissions. Sasol Gas approximately had 50 customers to connect to gas supplies in 2000, and hopes to double this in the next five years. Major companies are converting from using heavy furnace oil to heating boilers and furnaces with gas (Durban Economic Review, 2001).

Durban also has an offshore buoy mooring for the receipt of crude oil from tankers.

Following a period of extended import-substituting industrialisation; South Africa has adopted policies to ensure a stable macro-economy, trade liberalisation, a Southern African trading block, and increased exports. Durban has the second largest manufacturing base in the country and its performance in generating output and employment is crucial to the city's success. Durban continues to be an attractive location for manufacturing firms. According to the survey conducted in 1998, the four top reasons for locating in Durban were proximity to input and sales markets (41%), factory/site-specific characteristics (28%0, proximity to major infrastructure (22%) and the good road network (19%) (Durban Economic Review, 2001).

Industrial Development Zones (IDZ) involve providing facilities and services tailored for export orientated industries. These zones will add to the array of features that make South Africa a top destination. Benefits that the new investment locating in an IDZ will enjoy from the attractive regulatory regime and investment facilitation services provided by zone operators, include duty free imports of capital goods and inputs plus VAT exemption for exports and access to government's incentive mechanism complaint with WTO guidelines (Durban Economic Review, 2001).

Feasibility studies for the establishment of two IDZs are currently underway in Durban, one associated with the Port and the other associated with the proposed Airport in the north of Durban. Work conducted as part for an IDZ at the port, suggest the following short list product:

- Wood, various building material, paints
- Selected plastic, engineered structural and sheet metal
- Hardware and other fabricated metal

Formulated chemical, converted paper and paper board, quality and up-market clothing, furniture (Wood, metal, upholstered), selected automotive components, electric machinery and selected floor coverings (Durban Economic Review, 2001).

Table 5.8: Major industrial investment since 1996

Nature of investment	Value of investment
Sasol Fiber	515 million
AECI Bio-products	286 million
SAPPI/SAICCOR	808 million
Toyota expansion	1400 million
Kohler flexibility packaging plant	230 million
Hoescht fibres	205 million
Engen (Petronas) upgrade	140 million
Mondi paper upgrade	456 million

(Source: Durban Economic Review, 2001: 18).

The Kwazulu-Natal Industrial Restructuring Project initiated by the University of Natal has focused on industrial and firm level restructuring of the automotive and automotive components, furniture and textiles industries. A benchmarking club of members of the auto-industry has been established to improve competitiveness. The initiative has been successful enough to be considered as a model for adoption elsewhere in the country (Durban Economic Review, 2001).

There are a number of disadvantages, as well as advantages, in pursuing industrial development as a strategy in the city. It is important to consider these in the context of the city as a whole, rather than only within the proposed Coeza IDZ. Income in the area is expected to be heavily influenced by the growth of industry resulting from the policies advocated by the DTI. Some estimates predict that in the Eastern Cape GGP is expected to grow by 2.3% per annum, sustained by the growth of the automotive sector, due to significant foreign export orders (Dorfling, 2001).

The construction of the Development Zone at Coega is expected to impact positively on the construction sector. At the beginning of 1997, it was expected that the construction phase of the development at Coega would result in temporary employment opportunities for between 24 000 and 34 000 people in Port Elizabeth-Uitenhage, and income of between R3 472 million and R6 240 million. The operational phase was estimated to generate additional jobs and income, accounting for 34% and 60% of total GGP. It is also envisaged that new jobs will be created by the relocation of additional anchor tenants, but some sources suggest than job creation will be lower than expected (Dorfling, 2001).

Notwithstanding the disastrous socio-economic and the lack of delivery in some key areas of development, the city's economic news has not been all bad. The late 1980s witnessed decline and rapid job loss, yet during South Africa's long 1989-93 depression, Port Elizabeth managed to increase its GGP (Although Uitenhage continued to lose 2-3% output a year). The area's economic structure shifted to rely more on government activity-in 1970 the fifth most important sector following manufacturing, but by 1990 the second most important-while the wholesale and retail trade, catering and accommodation slipped from second to fifth most important during the 1970s and 1980s. Services in general (including government) comprise 26% of economic activity today (up from less than 12% in 1970), while manufacturing slipped rapidly in importance from 1970-75 (44% to 37% of economic activity) and again from 1990-93 (34%-26%) (Institute for Development Planning and Research, 1997: 53-63).

The introduction of a Strategic Plan for the City in December 1996 provided the Port Elizabeth Local Council with the direction to develop an LED policy. In the same year, the Economic Development and Tourism Task Team (EDTTT) was established to provide the institutional structure through which various interest groups can be included in the economic development process at a local level. A procurement policy based on the Ten Point Plan on Public Sector Procurement Reform has been developed to stimulate the development of SMMEs through municipal procurement (Dorfling, 2001).

Through the Task Team, the city council is attempting to co-ordinate the activities of those involved in the development of the local economy. The establishment of an Economic Development Unit is planned to take this a step further. The council is also playing an active role in the Coega IDZ project, particularly in terms of negotiations with national government, and resources and expertise. Furthermore, council has initiated the creation of international links through the "twinning" of the cities. This practice is particularly important considering the international isolation of South Africa in the past (Dorfling, 2001).

5.1.3.4 The economy of Pretoria (Tshwane Metropole)

According to Tommilson, (1994) Pretoria distinguishes itself as an example of a South African city that has marketed itself for the purpose of attracting investment for two reasons. Firstly, it has been highly lauded as a successful attempt at place marketing by the South African Chamber of Business, and secondly, it has used the city of Memphis, Tennessee as a model of LED. It would thus seem to contain elements that are based on both traditional LED strategies that have been employed in the international arena, as well as being entrepreneurial in nature.

Tradepoint Pretoria was established in 2001 to assist potential exporters or first time exporters in a number of ways, such as gaining information about foreign market opportunities and to avoid some of the common pitfalls that tend to discourage and frustrate novice exporters (Trade-Point Pretoria, 2001).

Tradepoint which is affiliated to the United Nations, United Nations Conference on Trade and Development (UNCTAD) and the world network of tradepoints, is a fully-fledged electronic trading hub offering a wide range of products and services to assist companies of all sizes, but especially small and medium size companies from all sectors in achieving optimal local and international trade solutions. Tradepoint brings exporters, importers and international trade service providers into one integrated trading environment where they can engage in real-time information exchange and online trading (Trade-Point Pretoria, 2001).

The way to overcome ignorance is to collect information. The Export Management Team of Tradepoint Pretoria is establishing a database to provide a "best prospect" list in order to assist the first time exporter with a customised market research survey of a product of its choice. The survey will comprise information on Small and Medium Enterprise' (SME's) marketability, the competition, comparative prices and distribution channels (Trade-Point Pretoria, 2001).

According to Harrison et al, "by the late 1980s stakeholders within (South Africa's) metropolitan areas were responding to the threats and opportunities of economic change through various LED initiatives (e.g. 'Pietermaritzburg 2000', 'Operation Jumpstart' (Durban) and 'Growing the Cape') As entrepreneurial competition between urban centres resurfaced, growth coalitions were formed in a number of centres. A significant paradigm shift was occurring: centrally regulated regional policy was making way for a plethora of locally based development strategies" (Harrison, Amankwah-Ayeh, Fuchs, 1994: 6).

In terms of the strengths associated with local economy, the following points are made regarding LED:

- As the capital city, Pretoria's economic stakeholders have an advantage in terms of access to decision-makers.
- Through the large employment opportunities offered by the government sector, Pretoria is less vulnerable to "boom and bust cycles inherent in capitalist development" (Harrison, etal 1994: 19).

- Pretoria offers half a dozen institutions of higher learning and levels of education are amongst the highest in the country.
- In conjunction, Pretoria is also characterised by a strong Research and Development base.
- It has a relatively stable relationship between organised business and organised labour and is regionally and nationally well located.
- In addition to its developing high tech industry and telecommunications sector, it is also favourably advantaged in terms of its internal links.

Some weaknesses associated with the area are:

- Pretoria is widely perceived to be the City of apartheid, whose image will no doubt, take time to change.
- There is little history of a strong entrepreneurial trend.
- The heavy reliance on government on government and parastatals has created a lack of diversification in the local economy.
- It is landlocked, does not have a major airport and is therefore poorly located in relation to intercontinental exports.
- With restrictions to entry and a closed shop market particularly with regard to government contracts, Pretoria has several features that place limitations and constraints on competition. (Source: Isserow, 1995: 91)

In conjunction with specific economic objectives and strategic priorities, the possible loss of government functions and an overall concern with the economy, have increased the interest of LED within the Greater Pretoria area.

In 1991, the Pretoria City Council (PCC) aimed to promote Pretoria as a centre of trade and commerce, create several thousand new jobs, attract extensive investment, utilise land for residential and commercial purposes, promote partnerships between the public and private sectors, and establish Pretoria as a major tourist centre (Isserow, 1995).

The strategy of place marketing has been actively utilised by Pretoria to overcome their negative conservative image, promote small business, and amongst other things, attract light industry and retail business into the area. The PCC touted the city's positive features such as social stability, a skilled labour force, and its educational and technological facilities, to attract investment. International marketing has also been a feature of the campaign to establish foreign links and attract foreign investment (Harrison etal, 1994: 6).

Furthermore, Pretoria has extended concessions on industrial land, and incentive packages related to the specific needs of industry incentives and concessions such as large rebates on bulk services. Particular approaches to revamp and upgrade the cities and make them more aesthetically attractive have been undertaken to promote small business and to attract revenues from the surrounding peripheries (Isserow, 1995).

In assessing the impact of LED within the Greater Pretoria region, it is evident that the strategy of place marketing has dominated the process, with emphasis placed on charging the image of the city and on the selective targeting of particular markets and sectors. Concessions and incentives to industrialists have also been a key feature in LED policy in Pretoria, with the 'urban efficiency approach' (particularly Centurion), being employed to enable the private sector to operate more efficiently (Isserow, 1995: 92).

Centurion emphasised the contrast between itself and Pretoria, claiming it was the 'city of entrepreneurs', while the latter was the 'city of bureaucracy'. Centurion has wary of aligning itself closely with Pretoria, and its image. Instead it has been marketing itself as a distinct locality (Isserow, 1995).

Tradepoints are an initiative of the United Nations Conference on Trade and Development (UNCTAD) designed to encourage the participation of companies, especially Small and Medium Enterprises (SME's), in international Trade and to promote the use of electronic commerce in trade (Trade-Point Pretoria, 2001).

The small Development Agency, Ntsika, undertook a study on the potential demand for Tradepoints in South Africa in April 2000. This study concluded that there was substantial support amongst business community for the establishment of Tradepoints and recommended that a network of Trade point offices be established throughout South Africa. The study's findings were endorsed at a meeting of major business organisation held in Pretoria in June 2000 and in November 2000 the Department of Trade and Industry (DTI) officially appointed the Tshwane Metropolitan Municipality to establish Tradepoint Pretoria (Trade-Point Pretoria, 2001).

A Tradepoint is a physical centre and an electronic website that offers small and medium sized enterprises, who are export ready or who have export potential, the opportunity to enter the export market. The Tradepoint does this by offering, inter alia, the following key services:

- **Information**-Through a comprehensive and up to date Trade Library, information is provided to members on markets in different countries, products in different countries and Export information through relevant journals. The Tradepoint will also have information on Foreign Trade Regulations and Agreements. Throughout the year the Tradepoint will host information sessions on a number of related topics (Trade-Point Pretoria, 2001).

- **Business opportunities**-The Tradepoint will be able to access a number of business opportunities for businesses. Members will be able to use the network of Tradepoints to buy or sell their products. Members will have access to the estimate 200 business opportunities that are posted on the Global Tradepoint Network on a daily basis (Trade-Point Pretoria, 2001).

- **Advice and support**-Services provided by the Tradepoint include:
  -Market Research
  -Advise on exporting
  -Links and Referrals to relevant companies and organisations that are involved in International Trade such as: freight forwarders, transport companies, finance houses, export guarantee and insurance providers, South African Revenue Services (SARS), South African Bureau of Standards (SABS), Council of Scientific and Industrial Research (CSIR) and Department of Trade and Industry

-The Tradepoint will also host Inward Bound Trade Missions and leading Outward Bound Trade Missions (Trade-Point Pretoria, 2001).

- **Other Services**-Include company and individual training sessions on trade related aspects.
  -Networking.
  Access to Internet for traders.

(Trade-Point Pretoria, 2001).

Tradepoint Pretoria's objectives are:

- To equip companies and individuals with the knowledge, practical skills and confidence required maximising their competitive advantages at an international level.
- To enable companies and individuals to make informed market selection and business partnership decisions.
- To enable companies and individuals to streamline their workflow and realise associated cost savings through the use of expert systems and automated business tools.
- To empower companies and individuals to perform the key steps in an international trade transaction through the medium of e-commerce (i.e. market analysis and selection/sourcing), contract negotiation, order processing, physical distribution, insurance procurement and payment.
- To encourage greater understanding and responsiveness amongst buyers, suppliers and other partners in the international supply chain.
- To bring international trade within reach of all South Africans,
- To assist its clientele to become globally competitive.

(Source: Trade-Point Pretoria, 2001).

The key markets for markets for Tradepoint Pretoria services are as follows:

- Existing and potential exports in the area.

- Foreign companies interested or potentially interested in doing business with the region.
- Trade and Investment South Africa (TISA).
- Foreign Embassies located in Pretoria.
- Public Sector, especially Parastatals and Ministries involved in external trade.

(Source: Trade-Point Pretoria, 2001).

The primary focus is to provide trade support services to exporters and potential exporters. Foreign companies are targeted consumers of products and services.

Priority countries

A list of high priority countries that have top priority markets based on, inter alia, value and volume of exports are listed below, however, Tradepoint Pretoria can and will assist potential exporters to evaluate other destinations:

Table 5.9: Priority countries

EUROPE	AMERICAS	AFRICA	ASIA
Germany	USA	Zambia	China
UK	Chile	Mozambique	Japan
Belgium		Kenya	
Germany		Tanzania/Uganda	
France		Morocco/Tunisia	

(Source: Trade-Point Pretoria, 2001).

Pretoria displays the characteristics of an atypical medium sized South African city. This is largely as a result of the large role government has played within the local economy. Pretoria accounts for 17.7% of the GGP, making it the third largest economic contributor in the province. According to the Development Bank of South Africa, government accounts for 32.5% of employment in Pretoria, compared to 18.1% of government employment nationally. This disproportional large figure is primarily as a result of its (currently tenuous) status as the administrative capital of the country. As such, it has a burgeoning civil service, and its economy is generally heavily dependent on state expenditure. Given the number of civil servants, it is unsurprising that the dominant sector is services, which accounts for almost 40% of those employed within Greater Pretoria. Manufacturing and Commerce are also major sectors, accounting for 11.4% and 12.4% of the workforce respectively (Harrison etal, 1994).

The manufacturing sector is largely oriented towards the motor vehicle industry, and as a result of the Regional Industrial Development Programme, Greater Pretoria has "enabled the Pretoria region to capture 38.5% of production" (Planact, 1994: 15) Interestingly, Central Statistical Services figures for 1991 reflected a decrease in the manufacturing sector of 11.4% over the eleven year period. For the same period nationally, this figure was –2.7%. This reflects an absolute change of –8 167. Despite this, Greater Pretoria represents the fifth largest concentration of manufacturing employment within South Africa, totalling almost 89 000 workers. This underlines the importance of the manufacturing industry, given its capacity to provide employment, coupled with the realistic inability of expanding tertiary sectors (finance, real estate and services) to sustain long term economic growth.

Within the manufacturing sector, there are two noteworthy areas:

- There seems to be a bias towards large sized firms, given the higher than national and regional averages for manufacturing firms in terms of individual firm employment. On the average, Pretoria's enterprise employ 86.5 workers, compared to the national average of 72, and the provincial average of 44.1 (Central Statistical Services, 1991). This, in conjunction with the lower ratio of working proprietors to paid employees than the national average, indicates that small and medium enterprises in Pretoria are relatively underdeveloped.

There is little evidence to suggest that the new capital investment within the manufacturing sector is likely to increase. 1988: figures reflect that "new capital expenditure as a percentage of existing assets was only 6.8% for Pretoria compared with 12.1% provincially and 11.1% nationally" (Harrison etal, 1994:14). This suggests lack of support for this traditional economic base, although the decline within this sector is not sufficient enough to suggest that manufacturing is booming a 'sunset industry'.

"Pretoria, traditionally has been the seat of government and in a sense, a microcosm of national trends in terms of government control and influence over local business" (Harrison etal, 1994: 12). This is an important point, since it indicates the potential role local government and the private sector might hold in terms of the development strategies within the Greater Pretoria district. Similarly, there is growing evidence that since the mid 1980s, many parastatal organisations have been moving towards privatisation, which in essence has blurred the structural configuration of government/private sector organisation.

The Urban Foundation (1994) indicates that despite future possibility of local government downsizing (as a result of restructuring following the April 1994 general election), government will continue to remain a stable employer. Much of this remains speculative, given the still fluid nature of the transition period. However, ANC policy has indicated that the restructuring of the civil service will proceed along cautious lines, avoiding sweeping changes. Rather, the most likely scenario which is currently becoming evident and will more than likely continue to take place, is the replacement of existing civil servants with those whose ideologies are more closely aligned with those of the present ANC national government. Furthermore, the growing autonomy within local government and its probable proactive involvement in social and services related projects, would seem to indicate the need for an increased administrative capacity within government structures.

Significantly, the contribution to the GGP of government in Pretoria is high. Government accounts for 28% of the provincial GGP, making it a sector of both sub-regional and regional importance (Gauteng Provincial Government, 1995: 8).

This sector has shown an increase of 30.9%, or 16, 280 in absolute figures. This is still below the national average by approximately 4% points. Despite this, it remains the second most dominant sector in Pretoria, employing 68. 929 people (Central Statistical Services, 1991). The racial make-up of the commerce sector is not readily apparent, although there is evidence to strongly suggest that by and large, whites are the most powerfully represented within this sector, with the small Indian community also showing high levels of employment within this sector. The commerce sector has been actively involved in the place marketing of the city, and was one of the marketing plans and a strategy for Pretoria. Given its high economic profile, commerce remains an important and influential sector in terms of facilitating and supporting local development process (Isserow, 1995: 94).

This section has explored the three dominant sectors of Greater Pretoria's economy. It has done so not necessarily at the expense of minor sectors, more as a process of identification, in terms of those sectors which in all likelihood hold the greatest potential to influence economic change, as well as lend themselves in a positive way to local development initiatives. Given the currently unfavourable climate for agricultural potential, and the relative insignificance of Pretoria's mining industry, these two sectors are limited to playing a marginal role in the economic process.

It is apparent that there has been a divergence of views with regard to the respective stakeholders, in LED in Pretoria. Not surprisingly, the business community has favoured a more free-market approach to local initiatives, and has viewed government initiatives cautiously. This is not surprising, considering the considerable government 'interference' perceived by predominantly influential people's business interest in the community. It is clear that the business community views the government's role as essentially one providing infrastructural services, and believes that government should "stay out of business" (Harrison etal, 1994: 33).

This poses problems on two main fronts:

- Firstly, the lack of faith in government initiatives by business is problematic given the strong influence of government within Pretoria itself where it would seem unlikely that government will remain passive observers to any business-led approach adopted, in the interest of the city. Secondly, and closely associated with this point, the essentially neo-liberal slant of the business sector towards LED, remains in itself problematic. The market, as indicated throughout this thesis, has proved a sufficient vehicle in generating equitable economic change.

As such, the role of local government as a facilitator of economic growth within the process of local initiatives cannot be ignored.

- Secondly, the local economic development process cannot afford to be hijacked by one particular interest group. This is abundantly evident in the case of 'Operation Jumpstart' in Durban, As such, a great deal of consensus building around LED strategies needs to be established, in order to allow these dominant sectors to work together, and not be tightly constrained by rigid ideologies (Isserow, 1995: 97).

- Much of the challenge surrounding local initiatives revolves around respective institutions and organisation shelving their respective differences and making way for a negotiated approach to economic policymaking. Inevitably, there will always be marked differences in approach between different stakeholders. This is not the issue. The issue is how to achieve a degree of consensus around contentious issues. In the case of the Docklands in London, it was apparent that strong, unified local leadership and a commitment to the process were essential ingredients to success (Isserow, 1995: 97).

This raises two additional issues. The first relates directly to the planning aspects of LED, and the second to the threat it poses to the collective power of the region.

- Local Economic Development, can, in a sense be seen to be a self-contained planning process. It is a consciously adopted strategy aimed at local economic upliftment. It can also be seen as a spatial theory of economic growth. This however, does not preclude the need for a coherent planning strategy. Thus, the approach used in Pretoria indicates a lack of congruous policy in Pretoria. This is a serious issue and one that can render local initiatives ineffective. Development is not purely contingent upon collective consent. Policy and strategy are only as effective as their ability to deliver. The establishment of guidelines that, in essence act as parameters for the implementation of desired goals, are essentials to the elimination of ad-hoc procedure. Therefore, a strategy based on the specific and individual needs of identified communities that aims to overcome the peculiarities inherent within different locales is required. In conjunction, this needs to operate within the broader framework of national and provincial policy directives and strategy (Isserow, 1995: 97).

- The second area of concern pertains to regional competition. It was outlined in the cases of Cambe and Toledo, how the success of LED in one town impacted positively upon the other. This will prove conducive to the strengthening of regional linkages and is particularly important given the broader developmental context in which LED operates. In the cases of Pretoria and Centurion, separate LED initiatives have been applied in the two locales. This indicates that LED is being utilised as a divisive tool, creating competition within closely geographically aligned areas.

- The position adopted by both SANCO and COSATU were valid. The labour situation within Greater Pretoria is a precarious one, given the relatively high capital intensive nature of the manufacturing industry, the shift towards a high tech industrial sector with the associated need for semi and high skilled labour, in conjunction with the decline of heavy industry (Harrison, Amankwah-Ayeh, Fuchs, 1994: 18). This situation is further exacerbated through a combination of threats to the motor industry through trade liberalisation, "rationalisation of the South African motor industry, and through labour disputes" (Harrison etal, 1994: 19).

5.3.1.5 City of Johannesburg including East Rand (Ekurhuleni)

- **Gauteng Economic Development Agency**

The Gauteng Economic Development Agency [GEDA] is Gauteng's official economic, investment and trade promotion agency and its mission is to promote the economic growth and development of the province. GEDA identifies and markets investment opportunities in the province and respond to requests for assistance from potential local and foreign investors. GEDA also hosts regular outward missions, and provides local industry with the opportunities to bid for local and international tenders, with specific emphasis on the European market in the engineering parts industry (GEDA, 2002a)

Gauteng is an integrated industrial complex that has five relatively distinct sub-regions-the East Rand and West Rand where mining dominates; the Vaal Triangle which is focused on manufacturing; the Central Rand, which encompasses Johannesburg and in which manufacturing and finance are the most significant; and Pretoria, which houses government services, transport and related industries as related in case study 4 (Gauteng Economic Development Agency (GEDA), 2002b).

Initially, mining activities dominated the economy of the province, but in recent decades the secondary and tertiary sectors have become bigger contributors to total output. While mining's share of the gross geographic product is now relatively is small, it continues to be an important earner of foreign exchange and has significant forward and backwards linkages to other sectors. The value of manufacturing in Gauteng currently exceeds R75 billion per annum [US48, 3 billion], with the principal contributors being basic iron and steel products, paper, glass and metal products, machinery, electrical appliances and electricity supplies, food, motor vehicle parts, and chemical products (GEDA, 2002b).

With the new policy direction and shift in focus towards information and communication technologies, higher value added manufacturing, tourism, technology-related sectors, motor vehicle components, furniture, leather goods, transport equipment and pharmaceuticals are likely to be the fastest growing manufacturing sub-sectors (GEDA, 2002b).

Trade, catering and accommodation tend to follow national trends, but the improved growth prospects for Gauteng, coupled with its comparatively higher income levels, should provide some boost to these sectors. A number of tourism-related initiatives, and the fact that Gauteng is the principal point of entry for visitors travelling to South Africa by air should also benefit the accommodation sector in particular (GEDA, 2002b).

The banking and financial services sectors in South Africa are generally acknowledged to be on par with those in the industrialised world, and all four of the country's leading banks have their headquarters in Gauteng, as do some 80 other corporate and merchant banks and financial institutions. Gauteng is also home to the Johannesburg Securities Exchange, which is one of the twenty biggest burses in the world in terms of market capitalisation and turnover (GEDA, 2002b).

The Department of Finance and Economic Affairs in Gauteng, through its MEC Jabu Moleketi, talking about the Gauteng economy that is continuing to grow and the economic strategy that was adopted in 1997, indicated that "This has clearly boosted foreign and local investor confidence in our economy. The results are evident by the increase in direct foreign investment of over R500m, brought in through Gauteng Economic Development Agency" (Statement by Gauteng former Finance and Economic Affairs MEC Jabu, 2002).

Johannesburg is the biggest metropolis in South Africa, with more than two million citizens and another two million from nearby Soweto (an abbreviation of "south western township"), being the home of many black people working in Johannesburg and its immediate environs -(RSA-overseas-The expat portal: City of Johannesburg, 2003) and more than five million including East Rand, the city on the Witwatersrand including East Rand, as the predominant economic centres of the republic (Johannesburg-South Africa, 2003).

Today, the "Golden City", as Johannesburg has come to be known, is the centre of the largest gold mining area in the world, but although it still owes much its prosperity to the precious ore, its commerce and secondary industries cover a wide and diverse field and, through the foresight of its citizens, it has been endowed with all the cultural and social amenities of a grate city. Of the 14 original mines in Johannesburg only two are still busy in the vicinity of the city, but around the mines and the mine dumps a varied industrial structure has evolved. Here, many service enterprises, the mining companies and the big banking institutions have their headquarters. The Johannesburg Stock Exchange founded in 1887, is the centre of the capital markets for the whole of Southern Africa (Johannesburg-South Africa, 2003).

With its attractive surroundings, spacious suburbs and excellent sporting and recreational facilities, it is an ideal place for permanent residence and offers a wealth of holiday attractions for tourist (De Freitas, 1971: 7). Johannesburg is also the first address for international tourism. Most of the big airlines land at Johannesburg International Airport and most travel agencies and tour operators choose Johannesburg as the starting point for journeys of the country. The lively metropolis offers a wide spectrum of spectrum of culture, combining European and African components (Johannesburg-South Africa, 2003).

In contrast to Durban, the Johannesburg informal economy is slightly less effective because of the pressure from the property owners to remove all street traders in 1999 from the central business districts and place them in markets. The action aimed to reduce the numbers of street traders in the area. Prior to this they had system of sidewalk leases, whereby property owners could apply to manage the pavements outside their buildings. Property owners are traditionally stakeholders that are vehemently opposed to street traders. All these actions have negatively affected the livelihoods of traders (Skinner and Valodia, 2001).

Founded on gold, Johannesburg has become a hub of South Africa's industrial revolution and the greatest concentration of secondary industry in the Southern Hemisphere. Johannesburg is an economic magnet and every year more business is drawn to the city. Listed securities on the Johannesburg Stock Exchange have a market value of more than a billion Rands (De Freitas, 1971).

Johannesburg is the road, rail and air pivot of South Africa. Johannesburg international airport, which is the business and airfreight hub in Southern Africa, and the area surrounding it, is a perfect location for international trade and manufacturing companies that depend on the rapid flow of imports and exports for their competitiveness. In addition to the transport and logistics advantages associated with being in close proximity to the airport, operating from an industrial development zone also offers participants other benefits linked to aspects such as customs procedures and duty rebates (GEDA, 2002a).

In order to facilitate the development of the light manufacturing, avionics and aerospace industries in Gauteng and to build on the inherent transport and logistics advantages that a sophisticated airport such as Johannesburg International provides to the manufacturers of high-value, low-bulk manufactures, Blue IQ will finance the development of appropriate access roads and highway interchanges to the designated area (GEDA, 2002a).

The Johannesburg railway station, built at the cost of R22 million in the 1970s, is one of the largest in the world and its handsome architecture makes it one of the city's most striking landmarks. It is equipped with the most modern passenger and freight handling facilities. It also serves as gateway to neighbouring states such as Zimbabwe, Mozambique, Namibia, Zambia and Botswana (De Freitas, 1971).

In July 2002, two international surveys confirmed that Johannesburg is the cheapest city on the planet. A year ago (2001) an Economist Intelligence Unit ranked Johannesburg eighth cheapest behind Terhan, capital of Iran, and Belgrade, the capital of Serbia and Yugoslavia. But in just 12 months Johannesburg has rocketed to a number one in the cheap cost of living stakes (Piliso, 2002).

The twice yearly Economist Intelligence Unit survey-which excludes Durban, Cape-Town and Pretoria,-is intended as a guide for multinational companies who have employees living around the world. US-based Mercer Human Resource Consulting also put Johannesburg top of the affordability stakes in its survey also released in July 2001. Both surveys consider Johannesburg the best value for money in terms of food prices, municipal and other services, transport and recreation. Private schooling rent and even liquors and cigarettes are also a steal (Piliso, 2002).

A shopping basket consisting of milk, bread, margarine, rice, potatoes, onions, carrots, eggs, a 1kg chicken, orange juice, face soap, two light bulbs and toothpaste would cost you R97, 36. The same basket in New York would cost you R288 ($28.84) and about R268 (17,17 pounds) in London (July 2001 prices) (Piliso, 2002).

During that time, financial experts said the surveys were good news for Johannesburg and proved that things were not as bad as everybody believed. Said economist Mike

Schussler from the Tradek Website: " Overall, our cost of living is pretty good compared with these cities. The only downfall to living in a cheap city is that you get paid cheaply". Schussler said Johannesburg's affordability attracted foreign investors, tourists-and even people seeking medical help from overseas, economist Sandra Gordon added that low prices were drawing visitors to the city (Piliso, S. 2002).

- **2030 Vision and Strategy of Johannesburg**

In early 2002 Johannesburg launched a long term economic strategy called Joburg 2030. The aim of the strategy is to expand the city's economic base while at the same time creating new opportunities for economically disadvantaged communities. The 2030 vision, as it is also known identified, projects such as : Sectoral development programme-The sectoral development programme is responsible for assisting these sectors grow their investment in the city. The focus is currently is on:

- Information and communication technology
- Financial and business services
- Transport
- Utilities
- Cultural industries
- Biotechnology
- Medical services
- Manufacturing skills (Government digest, 2003).

A lack of appropriate skills places major constraints on economic development within the city. This requires systematic change within the school system as well as higher education and training. The project aims to work with the education authorities (Gauteng Department of Education), the industry training authorities in the form of Sectoral Education and Training Authorities (Seta) as well as higher education institutions to ensure they are providing more graduates with appropriate skills (Government digest, 2003).

Three skills partnerships have been developed:

- The Gauteng Department of Education

- The community and individual Development Agency City campus
- The city's higher education institutions (Government digest, 2003).

Johannesburg, one of Africa's most vibrant and prosperous cities, provides economic stability and quality services to more than 2.8 million people. The city is also capital of Gauteng. As explained in the previous paragraph the birth of the city dates back to 1886 when gold was discovered on the farm of Langlaagte which brought growth and urbanisation to the city (Government digest, 2003).

Johannesburg is the main industrial centre, with GDP of R116 billion-representing about 11% of national domestic product, its three largest economic sectors are finance, trade and manufacturing. An annual growth rate of about 0,9 is expected over the next ten years (from 2003). 74% of all corporate headquarters in South Africa are based in Johannesburg(Government digest, 2003).

Since 1994, the introduction of Democratic local government, the council established a basis for future growth and development, the main focus being on the alleviation of poverty and the improvement of the quality of life in communities. The 2030 vision aims to strengthen the structures for development and change and to address the different priorities that are needed for growth:

- Economic development and job creation
- By law enforcement and crime prevention
- Service delivery excellence
- Good governance, customer care, Batho pele
- Inner city development
- HIV/Aids (Government digest, 2003).

- **2030 Vision statement**

2030 Johannesburg will be a world-class city with service deliverables and efficiencies that meet world best practice. Its economy and labour force will be strongly outward orientated such that the city economy operates on a global scale.

The results of this competitive economic behaviour will be strong economic growth that will drive up the city tax revenues, private sector profits and individual disposable income levels such that the standard of living and quality of life of all the city's inhabitants will increase in a substantial manner (Government digest, 2003).

City administrators are enthusiastic when discussing the 2030 vision of a world class city competing in the global arena. However, they agree that the most important ingredients for the success are good governance, well thought-through management systems and strict financial disciplines (Government digest, 2003).

- **IDP driving force for success in 2030**

The city of Johannesburg has in place a medium-term budget (2003/06) which was developed within the framework of the overall city strategy and supports the vision that says in 2030 Johannesburg will be a world class city. Coinciding with the drive towards local economic development, is the integrated development plan (IDP) which is seen as the power tool for realising the vision of the city. It is the principal strategy instrument guiding all planning, management, investment, development and implementation decisions, taking into account input from all stakeholders, including the community and elected representatives (Government digest, 2003).

The IDP is underpinned by key delivery areas, which are derived from the six mayoral priorities. The 2030 vision seeks to address:

- Economic development and job creation
- Implementing key 2030 projects such as safety and skills development
- Support to small and micro enterprises
- Development of tourism (Government digest, 2003).

The IDP also gives a developmental overview and challenges relating to:

- Safety and security
- Unemployment
- Economic growth
- Social and economic impact of HIV/Aids

- Social inequities
- Improved quality of services over the entire spectrum (Government digest, 2003).

The IDP recognises some of the major contributing factors and developmental advantages that should sustain the 2030 vision. The city has the second highest human development index in South Africa, after Cape Town. Although only 7.1% of the country's population lives in Johannesburg the city's contribution to the national economy is almost 16% and to the economy of Gauteng, 40%. The fastest growing economic sectors in the city's are telecommunications, information technology and financial services (Government digest, 2003).

IDP also identifies the need to upgrade roads in the townships and informal settlement to meet minimum acceptable development standards. Industrial and commercial waste volumes are expected to increase from their current 461340 tons a year to 614073 tons by 2010. Addressing the culture of violence and contempt of the law is a priority of the city's fathers (Government digest, 2003).

There is a need to strengthen and extend public participation of stakeholders in all aspects of the council's activities. The emphasis on inner city dwellers still appear to be problematic (Government digest, 2003).

Johannesburg has developed-or, in some cases, is in the process of developing-a number of detailed plans or frameworks to support its strategic vision. Departments in core administration take responsibility for drawing up these sector plans for disaster management, HIV Aids, housing strategies, integrated transport and local economic development (Government digest, 2003).

- **Ensuring effective financial management**

Johannesburg's Finance and Development department has the challenging responsibility of ensuring the effective financial management of the city. Other very important functions include promoting the economic development and building the overall image of the city. The staff of more than 1200 people are structured into two main divisions:

- Finance
- Economic development which includes tourism and marketing.

2030 projects (Government digest, 2003).

Crime is an important deterrent to investment and to economic growth. The aim of this project is to co-ordinate between relevant safety and security agencies (Johannesburg Metropolitan Police Department, South African Police Service and others) to develop an overall Johannesburg strategy with the sole aim to prevent and manage crime in the city (Government digest, 2003).

The ability to move people and goods effectively and efficiently is vital to a well functioning city economy. To this end the council aims to:

- Increase the efficiency of City Deep as a freight and logistic hub
- Improving commuter transport between south and the centre of the city
- Improving aspects of business-related transport (Government digest, 2003).

Support for small, medium and micro enterprises is part of the ongoing economic development work of the council. This take place through two non-profit companies in which the council is part owner, namely Open for Business and Centre for Entrepreneurial Education and Development (Government digest, 2003).

The tourism strategy outlines the vision and mission for tourism in the city as:
" To increase the Gross Geographic Product and employment contribution of the tourism industry and broader tourist economy to the council's overall employment and growth by making Johannesburg the premier meetings, incentives, conferences and exhibition destination in South Africa and the African hub for retail tourism." (Government digest, 2003).

Johannesburg faces unique challenges in selling itself. While positive features of the city include having a clearly defined vision and major achievements to promote, problems include not having clear and co-ordinated messages, persistent perceptions of crime, negative media and the perception of non delivery by government (Government digest, 2003).

The rationale for each Sector culminates in Brand Promise, inter alia:

- Build a positive image of the city through profiling it as the favoured place to live, work and play
- Engender culture of customer focus amongst employees within the city through the promotion of Batho Pele
- Position the city utilising service delivery through promoting the "city that works" and improved service delivery
- The council has a major task up to 2030. However, the total commitments of its administrators, who have adopted the 2030 in total, will ensure success (Government digest, 2003).

The council regularly reviews its 2030 strategy, design and maintaining a set of key economic statistics for the city including economic indicators and undertakes economic research on issues relevant to the work of council as a whole and the 2030 projects in particular (Government digest, 2003).

5.4 CREATING COMPETITION AND SUSTAINABLE BUSINESS CLIMATE

South African cities have also not been able to compete extensively as regional government has controlled the ability of cities to provide incentives and generate their own revenue, therefore the need for a 'good business climate' is becoming more important as political leaders attempt to attract investment. Former President of South Africa Mr Nelson Mandela once said: " We would like to create a climate conducive to foreign investment through stable, consistent and predictable policies" (The Natal Witness, 17/2/1994). Labour and political leadership were at odds over this statement to an extent that the former premier of Gauteng Tokyo Sexwale had to intervene in several labour disputes as he also planned to make Gauteng the most " investment-friendly environment' in South Africa (Weekly Mail and Guardian, 4/11/94-10/11/1994). Trade Unions were correctly concerned at that time because they thought that this might take the form of 'bidding down' production costs, in particular through lower wages but this race for investment had tremendous support from other political organisations like Inkatha Freedom Party (IFP). The IFP in Kwazulu-Natal believed that the Province needed to attract foreign and local investment through 'business friendly gestures', including mechanisms such as free port status. To confirm the above mentioned statement Mr Gavin Woods of the IFP was noted saying that "We are looking at attracting foreign as well as local foreign as well as local investors. We believe that after a year there will be a relocation from Gauteng to Kwazulu-Natal. It might not necessarily be so much a case of companies being scared out of Gauteng but rather being attracted here by incentives being offered. We certainly intend being business friendly" (Sunday Tribune, 15/5/1994).

Many cities are thus rushing into the field, often with disputable expertise. The belief seems to be that competition is high and speed is of the essence, the results being that imitation becomes rife. There is a noted trend world wide for cities to monotonously reproduce urban development projects (Harvey, 1989). Competition escalates for the same development initiatives, and planning becomes an imitation. For example, the Durban waterfront developers have been alarmed by the prospect of a public-private initiative in the bay waterfront area of Port Elizabeth overtaking Durban's plans to develop a similar venue (Sunday Tribune, 5/9/1993). The implication is that all coastal cities needed waterfront developers as a prerequisite for economic growth and that those who get them first were somehow economically better off. This is also in part, a result of the infatuation with the post-industrial city and the rise of the service economy (usually expressed in South Africa as an interest in the tourism industry). So far the tendency for South African cities is towards more formula responses, such as the "limited and derivation strategies" of operation jumpstart (Robinson and Boldogh, 1994, 212) and the indistinguishable boosterist and incentive strategies of other centres (Urban Foundation, 1994).

The desire for quick solutions to economic problems could delay the development of more long-term sustainable and effective strategies. When there is a high level of confusion as to what works, the result is that jobless growth occurs, jobs are displaced, public monies are used for inappropriate projects and politicians chase quick, high visibility projects. In terms of South African cities it is arguable that incentives in the past have been simple and direct, and that more complex LED systems have not been implemented partly because of lack of technical skill on the part of local bureaucracies. Supply-side systems such as locational incentives are more routine and much simpler to administer than demand-side systems such as incubator projects, and entrepreneurial and skills development programmes. The result is that these more sustainable programmes may receive less policy attention due to their complex nature (Sapsford, 1998).

5.4.1 A rising tide of privatisation

There is a rising tide of privatisation in South Africa. The weakened capacity of the central state to provide the extensive welfare services required to deal with apartheid's gross inequalities has pushed more of the responsibility onto the private sector and urban environments themselves. Clearly, local governments and the private sector are having to compete for investment in an entirely new way. There appears to be a rising level of local independence to go about LED (Rogerson, 1994). If this process centres on advertising and incentives, it leads to greater levels of competition rather than sustained development. Barnekov and Rich (1989, 217) warn that a " dilemma for local public officials is that once the game of economic development begins, it is difficult to avoid playing".

5.4.2 The new politics

There has been a substantial development of forums on local and national levels. This deal mostly with distributive issues, such as single tax basis for cities, service extension to previously neglected areas and single city administrations (Rogerson, 1994). The existence of locally based civic associations has maintained a steady focus on distribution arrangements. The existence of the National Economic Forum and regionally based economic forums has in places led to the formation of local economic forums. The appropriateness of the popular boosterism activities and the general lack of skills to implement LED strategies appears to be receiving very little attention. An interest in production issues is coming from trade unions, coupled with a concern for international competition, productivity levels and the ownership of production among the concerns. The transition period had opened windows of opportunity for various actors to become involved in development planning, but a lack of skills and appropriate local structures were posing a problem. The lack of clear policy was related to the central state undergoing transition. However, Rogerson (1994) predicts that the new local initiatives will remain a feature of the emerging post-apartheid space economy and that these initiatives will resist a move to another 'top-down' regional policy.

5.5 GLOBALISATION AND LED: IMPLICATIONS FOR SOUTH AFRICAN CITIES

The global, national and local contexts are all inextricably linked. However, the responses taken by various districts, towns or cities are bound to differ based on their particular level of competitiveness within the international, national or local environments. The era of high technology and the changing nature of capital has given rise to an environment whereby "national systems are subsumed into a system dominated by international processes and transactions. Financial markets are being globalised as international monetary flows are no longer restrained by national boundaries" (Amin and Thrift, 1993 quoted in Harrison, 1994: 2).

Hence it can be seen that the distinction and relevance of localities has blurred. South Africa too, has not remained free of this global influences. Given the lifting of sanctions, fewer trade limitations and a new emphasis on export promotion, South Africa is being exposed to a greater level of international competition (Isserow, 1995: 111).

The restructuring of South Africa's provincial borders has given rise to decentralisation of authority. This has placed greater control in the hands of provincial and local government. Localities now have within their grasp, the possibility to determine to a far grater extent, their own destinies and economic futures. There can be no doubt however, that some regions and areas are more strategically placed to achieve this than others. As South Africa's economic activity within international framework increases, the level of competition between provinces and locales is heightened (Isserow, 1995: 111).

Given the shifts to export production and increasing local emphasis on high tech industries, regions that are better placed to accommodate and take advantage of these opportunities stand at a better stead than those areas that have little industrial capacity for the production and manufacturing of either goods to export , or the technical skills and human resources to compete within a high tech environment. Thus, local initiatives reflect issues on the local level and aim to accommodate national directives which are in turn dictated to a large degree by international trends (Isserow, 1995: 111).

Increased competition between and within provinces and metropolitan areas also centres on the need to attract local business and national funds. This has provoked a wide range of responses on the domestic front as illustrated through entrepreneurial-type, LED ventures to market cities such as Durban. Cape-Town and Pretoria (Isserow, 1995: 111).

The distribution of the national budget fails to acknowledge a number of social and economic indicators. In that its focus is primarily orientated around population size, it is biased against provinces such as the Northern Cape (2% of national budgets) and the Mpumalanga (7%). Large population within and around metropolitan districts such as Port Elizabeth, Durban, Ekurhuleni, Cape Town and Johannesburg ensure a greater share of the national budgets for their provinces. In addition, larger cities have the infrastructure, resources and technological capabilities to enable them to better contend within international and local environments. " Urban areas receive most investment from both public and private sectors and have far higher standards of service provision and infrastructure" (SANCO, 1995: 24) Poorer regions in turn, have a limited ability to compete within an international arena, are ill-placed to attract investment, and therefore become increasingly dependent on national capital and RDP funding during the RDP era. In the light of this, they are less likely to elevate themselves from a position of relative indigence to one whereby they can effectively market themselves or in Harrison's words "play the entrepreneurial game" (Harrison, 1994: 13).

The result then, has been a greater disparity between regions, with those less well placed localities becoming further marginalised and peripheral to the economic mainstream. Thus, the globalisation of capital and the subsequent competition it generates, have exacerbated spatial disparities. For Shoenberger, " after a period of decentralisation and deconcentration production stands to become lumpier still, more concentrated and unbalanced and more selective in the places it inhibits" (Shoenberger, 1989, quoted in Harrison, 1994: 13).

Within this context then, the challenge for localities is to find solutions to better enable them to compete on an international, national and local level. This is indeed a given. The question remains as to whether local economic development is the appropriate response.

5.5.1 Industrial Districts

Harrison (1994), while acknowledging limitations such a sustainability and the general subservience of localities to the global economy, suggest the possibility of industrial districts such as Cambe and Toledo in Brazil (See chapter 4) as offering a partial solution for South African localities. Amin and Thrift (1993), argue that " the Italian industrial districts has had its basis in a complex set of political, institutional, religious and kinship arrangements that are specific to the context" (Amin and Thrift,1993 583).In addition, it also received substantial support from local government. On the South African urban periphery, there has been evidence of industrial clusters and inter-related production centres such as in Midrand and Centurion. While industrial districts should not be excluded as a possible local development strategy, it would appear as if the conditions for industrial districts need to be highly particular. Given the lack of social cohesion within many South African localities, the production of this model would appear to be limited. It is also questionable as to " how many 'Thirds Brazils' or 'Silicon Valleys' the South African economy can support" (Harrison, 1994: 17).

5.5.2 Increasing the entrepreneurial edge in South African cities

Entrepreneurial competition involves two distinct paths. Those localities more favourably placed to embark on restructuring are rooted in greater adaptive techniques, innovation and flexibility. This process involves new forms of organising production, a multi-skilled labour market, strategic intervention by local or regional authorities and the establishment of a niche market. Harrison (1994) refers here to the "high road" of entrepreneurial competition, in contrast to the pitfalls, which he calls "low roads" (Harrison, 1994: 15).

In the case of Pretoria and Centurion which will be discussed at a later stage in this chapter, it would seem appropriate, given their strong Research and Development foundation, their solid human resource base, a developed high-tech industry, and their development of cluster industries around motor-vehicle related activities, that this location holds much opportunity for moves towards entrepreneurialism. Accordingly, local government, public and private sector coalitions and labour organisations should become increasingly involved in formulating development strategies to enhance areas of cutting edge industrial activities. In addition, there should be support for new growth sectors such as the pharmaceutical industry, which given its labour-intensive nature, also holds possibilities for employment generation. Within a global context, there is a real necessity to establish a niche within the international arena. Therefore, on the local level, emphasis by local government, the private sector and labour should be placed on areas where this opportunities can be exploited (Isserow, 1995: 115).

5.5.3 The strengthening of local linkages in South African Cities

Through the exploration of the local environment, this process may include the identification and support for areas/sectors of competitiveness, developing and involving community cohesion through growth coalitions and partnership, and promoting the institutional capacity of a region. It is apparent that poor institutional capabilities hinder local development initiatives. Proactive support from local government structures needs to bolster a locality's capacity by providing financial assistance, offering training programmes and small businesses in the region. It must be remembered that the community too, has a personal responsibility to support financial and service sector-related activities by acting in a collaborative manner with small industries and business through the sharing of knowledge, skills and resources (Isserow, 1995: 117).

5.5.4 Infrastructure

Various urban and rural communities are severely hampered by inadequate infrastructure and poor facilities. Local and national government need to provide a level of basic infrastructure in the form of water and sanitation supplies, adequate roads, clinics, schools and hospitals. There also needs to be an upgrading in transportation services and the provision of suitable work and factory space for small business requirements. It is to be expected that in this capacity, local government alone would be insufficiently equipped to facilitate the delivery of such services. It is therefore their responsibility to lobby for funds from the provincial and national government. National government in turn needs to afford local government the necessary degree of autonomy to effectively manage and distribute these finances (Isserow, 1995: 117).

5.5.5 Support for traditional sectors

While efforts should be made to support diversification, the primary activity should not be ignored. As SANCO states: " The rural economy is based mainly on the primary sector, farming fishing and forestry; in most rural areas the farm unit or small village is the basic social and economic unit and they need to be developed " (SANCO, 1995: 24).

Some support in this regard might include:

- Providing more sophisticated farming apparatus to improve the quantity and the quality of yields.
- The provision of support for farming co-operatives similar to those established in areas such as Seymour.
- Developing levels of infrastructure pertaining particularly to the provision of roads and water.

- Supporting small industries, which have the service capacity to support primary producers.
- Providing skills and training programmes related to the diversification of crop production and giving support to conservation measures.

In addition SANCO advocates " the funding for small scale economic development initiatives which could come from community banks. World-wide experience suggest that these are especially successful in projects in rural areas and include women" (SANCO, 1995: 25). In this sense community banks allow for a greater level of personal involvement in the financial affairs of the community, and would seem to proactively involve marginalised groupings within the community.

It must be stated that in order to successfully implement some of these projects, a concerted commitment from local and provincial government is needed to ensure funding from the national level, and additional support must come from service organisations and development agencies

5.6 SUMMARY

This chapter investigated the concept of the indifferent South African economic background if there are signs that a more competitive space economy is emerging, as municipalities become more intense with growth and development and join regional and sub-regional marketing associations, and in some cases considering more sophisticated strategies. Cities such Johannesburg, Tshwane (Pretoria), Ekurhuleni (East Rand), Cape Town, Durban and Port Elizabeth have been thoroughly looked into in section 5.3. The aim of this chapter was not only to provide sufficient information on economic developments of these cities from a literature perspective to develop a sound understanding of the concept, but also to identify the latest developments in this approach. This was done by providing answers to questions relating to what the economic role and competitiveness of these cities are, their background, who is involved, what does it aim to achieve and how applicable it is to the problems cities or municipalities face today.

In defining South African urban areas and forms of municipalities in section 5.1 and 5.2, it is clear that it remains in essence a local initiative in reaction to changes in the internal and external environments by effectively allocating available resources to reach locality marketing objectives. From the first section of the chapter it is evident that the nature of the new economic order which municipalities are formed on, holds profound consequences for the economic development of these municipalities. This new order implies that boundaries between borders are not so important as localities are exposed to all elements associated with the opening of world markets. As well as the increase in trade competitiveness.

From the discussion in section 5.3 and 5.4 it is clear that new key role players form part of the economic development process and the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. The positive impact of human capital was found to be strongly associated with the existence of the five large cities is South Africa (Johannesburg including East Rand, Durban, Cape-Town , Port-Elizabeth and Pretoria) and as result many new ideas, policies, new industries and investment proposals were put forward to address the economic developments of these cities.

In addition, what seems to stand out in the cities examined, is the cohesion and general that seems to exist within the large metropolis. This had been evident in both Durban and Pretoria. Similarly, the formation of an economic forum established in 1994 in Greater Pretoria was remissed through their lack of organised labour representation during initial stages. This once again brings to the fore the issue of legitimacy, particularly given the importance of labour as a significant stakeholder as discussed in chapter 2 about LED.

It was also illustrated in section 4 of this chapter that locality marketing in local governments will not function in practise as theory if other related issues are neglected. The challenge for municipalities and business is to cope, remain competitive and prosper in this demanding and ever-changing global environment. Industrial development in Durban, Port Elizabeth, Cape-Town and Tradepoint Pretoria in Greater Pretoria seems well supported. As relatively industrialised cities, it makes sense that industrial development be included as strategy mix. The concept of

Coega IDZ and port in Port Elizabeth provides a mechanism to achieve this goal. However, tourism industry has also been growing in these five large South African cities, justifying its inclusion in these cities' "grand plan" for LED. It will be important for these cities to attract, develop and support new and existing large businesses. Particular efforts must be made to encourage small business development amongst the marginalised communities so that a greater impact is made in terms of reducing unemployment and poverty.

As discussed in section 5.3, in South Africa the most competitive cities are Cape Town, Johannesburg and Durban, although East Rand is one the largest contributors to South Africa's GDP. It is not the most competitive, but in comparison with the international case studies of Amsterdam and Osaka (in chapter 4) in particular, South Africa's cities' poor perception and poor civil service are the strongest factors depressing competitiveness. Unsatisfactory business conditions are mainly ascribed to government's lack of experience, policies and interventions.

CHAPTER 6

EMPIRICAL INVESTIGATION INTO PERCEPTIONS OF COMPETITIVESS OF SOUTH AFRICAN MUNICIPALITIES

6.1 INTRODUCTION

In the previous chapters theory of local economic development, globalisation, locality marketing and the competitiveness of South Africa's city municipalities were discussed and described. The methodology which includes data quality, reliability, validity and participants (population and sample) of the empirical research are stated in section 6.2 and the design of the questionnaire in section 6.3. In section 6.4 data collection procedure, measurement of responses and analysis and interpretation of results are done.

In this chapter, an empirical study of an inquiry into the international competitiveness of certain South African cities is made. The following among other things, was expected to be achieved:

- The challenges that municipal managers in South Africa experience in improving competitiveness and growth potential of their municipalities.
- The strengths, weaknesses and obstacles of the business climate and environment of their municipality.
- Identifying support measures provincial and national government can take to improve the business climate in municipalities throughout the country.

In this regard the research question should be kept in mind, namely,- is South Africa's competitive platform sufficient to promote municipalities economic development, by enhancing the ability of South African municipalities to attract investment and grow their economies in the new global economy?.

6.2 METHODOLOGY

The research method to be used in this research will be a quantitative research approach (surveys) using a five point Likert scale. The approach will be done in accordance with the critical social science approach which is interpreted by Nueman (1991:73) as being a research conducted to critique and transform social relations. The purpose of critical research is to change the world and more specifically, social research should uncover myths, reveal hidden truths, and help people to change the world for themselves (Neuman,1991: 75).

A survey researcher asks people questions in a written questionnaire (mailed or handed to people) or during an interview, then records answers. The researcher manipulates no situation or condition; people simply answer questions. In survey research, the researcher ask many people numerous in a short time period. Then the researcher summarises answers to questions in percentages, tables, or graphs. Survey gives a researcher a picture of what many people think or report doing. A survey researcher often uses a sample , or a smaller group of selected people (e.g. 1500) students, but generalises results to a larger group (e.g. 5000 students) from which the smaller group was chosen. Survey techniques are often used in descriptive or explanatory research (Neuman,1991: 31). According to Neuman (1991: 334) quantitative researchers must first gather data after theorisation, develop hypothesis, and then create measure of variables.

As quantitative method requires, the acquired data will be interpreted by giving it meaning, translating it and making it understandable. However, the meaning will begin with the point of view of the municipalities being studied, how they see and define the situation and what it means to them.

6.2.1 Data Quality

For a quantitative researcher, high quality data are reliable and valid; they give precise, consistent measures of the same "objective" truth for all researchers. A researcher does not eliminate subjective views to get quality data; rather, quality data include subjective responses and experiences. Quality data are detailed descriptions from the researcher's immersion and authentic experiences in the social world of members (Neuman,1991: 368). Quantitative researchers may do several things to the raw data in order to see what they can say about the research question and hypothesis: Reorganise it into a form for computers, present it in charts or graphs to summarise its features, and interpret or give theoretical meaning to the results (Neuman,1991: 295.).

6.2.1.1 Reliability

Reliability deals with an indicators dependability. Having a reliable indicator or measure, gives the same results each time the same thing is measured (as long as what is measured is not changing). Reliability means that the information provided by indicators (e.g. a questionnaire) does not vary as a result of characteristics of the indicator, instrument, or measurement device itself.

There are three types of reliability which is *stability reliability* which addresses the question: Does the measure or indicator deliver the same answer when applied in different time periods?, *representative reliability* which is reliability across sub-populations or groups of people and addresses the question: Does the indicator deliver same answer when applied the different groups? And lastly *equivalence reliability* which applies when researchers use multiple indicators and address the question: Does the measure yield consistent result across different indicators? There are also special statistics measures (e.g. Cronbach's alpha) to determine this kind of reliability (Neuman,1991: 139).

6.2.1.2 Validity

Validity in field research is the confidence placed in a researcher's analysis and data as accurately representing the social world in the field. There are four kinds of validity or tests of research accuracy: *Ecological validity* is the degree to which the social world described by a researcher matches the world of members. A project has ecological validity if events would have occurred without a researcher's presence. *Natural history* is a detailed description of how the project was conducted. It is a full and candid disclosure of a researcher's actions, assumptions, and procedures for others to evaluate. A project is valid in terms of natural history if outsiders see and accept the field site and the researcher's actions. *Member validation* occurs when a researcher takes field results back to members, who judge their adequacy and *competent insider performance* is the ability of a non-member to interact effectively as member or pass as one (Neuman,1991: 370).

6.2.1.3 Relationship between reliability and validity

Reliability is necessary for validity and is easier to achieve than validity. Although reliability is necessary in order to have a valid measure, it is not a sufficient condition of validity. A measure can produce the same result over and over (i.e., it has reliability), but what it measures may not be a definition of the construct (i.e., validity) (Neuman,1991: 145).

A measure can be reliable but invalid. For example, when getting on a scale and getting weighed, the weight registered by the scale is the same each time. But going to another scale-an "official" scale that measures true weight and doubles the weight, it therefore means that the first scale yielded reliable (i.e. dependable and consistence) results, but did not give a valid measure of the weight (Neuman,1991: 146).

Validity and reliability are usually complementary concepts, but in some special situations they conflict with each other. Sometimes as validity increases, reliability is more difficult to attain, and vice versa (Neuman,1991: 146).

6.2.1.4 Participation(population and sample)

Sampling, like random assignment, is a process of systematically selecting cases for inclusion in a research project. A researcher gets a set of cases, or a sample, from sampling that is more manageable and cost effective to work with than the pool of all cases. For example, it would be less costly and time consuming to measure variables on 150 people than on 20000 people (Neuman,1991: 200).

The difficulty with using the smaller subset instead of the entire pool is that the researcher is not interested in a small subset of cases alone. Instead, the researcher wants to generalise to the entire pool. If well done, sampling lets a researcher measure variables on the smaller set of cases but generalise results accurately to all cases. To achieve this breakthrough the accuracy must be based on logical statistical reasoning that has been tested repeatedly with empirical evidence. Moreover, the researcher cannot use just any sample to generalise accurately. The sample must be selected according to precise procedures and statements made about it are subject to limitations (Neuman,1991: 200).

The participants of this research constitutes of 283 municipality managers from different municipalities around South Africa.(no random sampling was done). In this case the municipality managers were purposely selected for this empirical study because of the prominent role they play in their municipalities. The rationale was that all these municipality managers would be more motivated to take part in this research since it was relevant to their immediate future as municipality managers and the future of their municipalities. Questionnaires were posted between September and October 2003 to them, and of those 283, 56 were eventually returned. This is a 19.4 percent response, which is regarded as satisfactory for a mail based survey.

The following diagram is a representation of how questionnaires were distributed amongst different municipalities and their respond rates.

Table 6.1: Response of the distributed questionnaire

Respondents	**No of Questionnaires distributed**	**No of Questionnaires returned**	**Response percentage**
Municipality Managers	283	55	19.4%

A sample of the questionnaire is included at the end of the study as Annexure A, for reference purposes.

All municipality council results are presented uniformly for comparative purposes. The analysis and interpretation of results will however, address the results of all participating municipalities as a whole and any relational questions will, be identified and discussed.

6.3 DESIGN

This questionnaire has been designed to measure the competitive platform that is experienced in a particular municipality. It was compiled based on Porter's Competitiveness Diamond, which represents the industrial competitive platform as described in chapter 3. The design of this questionnaire has been categorised according to five parts. **Part one** is the classification of municipality which includes the category of the municipality A B or C, all budgets, size of municipality and the main sector of the local economy.

Part two is the Local Economic Development Institution which includes the annual budget of L E D, its strategies and credit rating. **Part three** concentrates on globalisation which directly deals with the feeling of the municipality manager as far as globalisation and its implications are concerned, specifically with regard to his/or her municipality. Are there any rapid improvements and growth economically in the municipality and what is the benefits thereof and economic deterioration and its implications.

Part four deals with competitive strengths and investment opportunities which includes human resources, resources, demand conditions, related and supporting industries and institutions, municipality strategies, structure and rivalry and technology and environment and lastly **part five** which concentrates on the rating of locational aspects by the municipality. This includes different aspects like professional service, water supply, rates and taxes, availability of industrial land and many others-see attached questionnaire. These last two parts of the questionnaire are important as they provide much information related to the Porter's Competitiveness platform.

The questions in Part 4 and 5 required a subjective response rating factors on a five point scale between "very good, good, poor, very poor and not applicable". Questions based on a five point scale lead respondents to provide a rating using a limited number of response alternatives, also forcing them to take a stance, so the tendency to choose neutral positions is avoided. For analytical purposes, numerical codes were assigned to the different response categories in order to compute an overall evaluation of the score. This kind of design was to make the questionnaire more easy and that is the reason a five point scale questionnaire was used.

The responses to the questionnaire were analysed using SAS-programming. Statistical analysis aimed to determine the reliability and the validity of the results obtained in the questionnaire. The Cronbach Alpha test which is an internal consistency test estimated the reliability of a test based upon the number of items in the test and the average inter-correlation amongst items. Cronbach Alpha yield internal consistency estimates, represented by the mean reliability coefficients that would be obtained from all possible split halves. If possible, split-half reliability coefficient for a test were computed and the average of those reliabilities was equalled to coefficient Alpha (Anastasie, 1988: 122-124). The Cronbach Alpha test for reliability coefficients and the results are statistically significant. Unfortunately, factor analysis was not possible because very few observations were available.

The validity of the questionnaire as reliable measuring instrument and the consistency of the respondents were established and descriptive statistical analysis of the data was conducted. Averages and one-way analyses of variance were also determined. The first part of the statistical data analysis will be based on descriptive statistics such as frequency distributions, while the second part will consider specific topics studied in the previous chapters of the thesis.

According to the Cronbach Alpha test, any scale larger than 0.5 is regarded as being reliable and therefore the questionnaire was tested to be reliable. The table below (6.2) will explain why and table 6.3 will give the average of responses to questions in a concept, with anything less than 3.1 regarded as being fair and above but less than 3.5 as being between fair and good and above 3.5 to 4 as being good and above 4 as very good

Table 6.2: Cronbach Alpha's reliability test

CONCEPTS	CRONBACH ALPHA'S RELIABILITY
Human Resource	0.856
Resources	0.934
Demand Conditions	0.822
Related and Supporting Industries and Institutions	0.822
Municipal strategy, structure and rivalry	0.869
Technology and Innovation	0.939
Quality and Environment	0.900
Locational Aspects	0.957

(Source: Own calculations)

Table 6.3:Average of questions in a concept

CONCEPTS	RESPONSES	AVERAGES	RESULTS
Human Resource	55	3.02	Fair
Resources	55	2.90	Fair
Demand Conditions	55	2.91	Fair
Related and Supporting Industries and Institutions	55	3.00	Fair
Municipal strategy, structure and rivalry	55	3.21	Fair-Good
Technology and Innovation	55	3.32	Fair to Good
Quality and Environment	54	3.02	Fair
Locational Aspects	54	3.41	Fair-Good

(Source: Own calculations)

6.4 MEASUREMENT OF RESPONSES AND ANALYSIS AND INTERPRETATION OF RESULTS

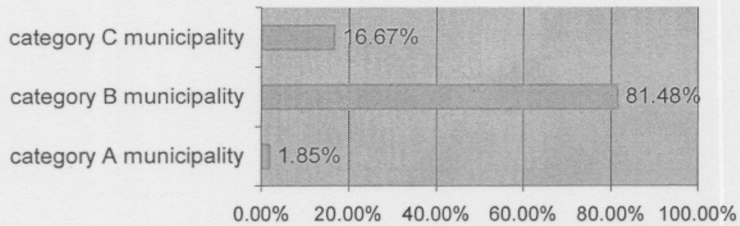
The following section will introduce the responding municipalities, giving a profile and frequencies of the classification of municipalities which includes the category of the municipality, annual budget, operational budget, capital budget, number of municipal employees, size of municipal area, total population in municipal area, value of building plans approved and main sector of the local economy, followed by local economic development, the effect of globalisation on their economy, competitiveness, strengths and investment opportunities and the locational aspects of each municipality. Then the competitiveness platform of South African municipalities will be analysed and an empirical investigation will be done on the:

- Overall competitiveness of all municipalities in South Africa who participated in the survey
- Difference in competitiveness according to budget and structure of the municipality
- Competitiveness according to municipal strategy, local economic development and resources

6.4.1 Profile of the municipalities surveyed

A large proportion of 81.48% respondents were category B municipalities, which are District Councils as explained in sub-section 5.1.1.2.2, followed by 16.67% Category C municipalities (Local councils) which share legislation and executive powers with the District Council in which are they fall. They are also explained in sub-section 5.1.1.2.3 and only 1.85% Category A municipalities (Metropolitan Councils) responded, also explained in sub-section 5.1.1.2.1. In this case only one municipality did not respond.

Figure 6.1: Responses according to Municipality Category



6.4.2 Budget and the main sector of the local economy

Table 6.4: Averages according to classification of municipalities

VARIABLE	RESPONSES	AVERAGES
Annual budget,	41	R 173.374.771
Operational budget	41	R 108.355.628
Capital budget	42	R 71.831.428.33
Number of municipal employees	44	250.49270 employees per municipality
Size of municipal area	31	7694.90 km^2 per municipality
Total population in municipal area	41	178157.10 people per municipality
Value of building plans approved	16	R 95.893.771.12

Although the diagram illustrates the averages of classification of municipalities, specific illustrations were done signifying the performance of municipalities with regard to the annual budget according to their categories, and on other issues according to their responses. It was found that a large proportion of 63% category B respondents operate on the annual budget of less than R100 million with only 15% category B respondents operating on more than R100 million.

Another low proportion of 11.3% category C respondents also operate on the annual budget of less than R100 million with only 3.7% category C respondents operating on more than R100 million.

The 1.8% Category A municipalities that responded, operated on the highest annual budget of R2.7 billion.

It is not clear whether the 52.8% municipalities which did not respond to the question of size and number to employees did not know the figures of whether they wanted to keep this information to themselves. Only 47.2% municipalities responded positively to this question of size, with the biggest size being 32940 km square with a population of more than 500000 people and the smallest being 50 km square with a population of less than 1000.00 people. The suprising fact here is that the biggest area only has 43 employees which shows the lack of manpower the other municipalities are facing. The smallest reasonably employs 11 people, but that is also not optimal to cater for a population of 100000 people. There is no balance as other areas have enough employees but not big areas, e.g. an area with 796 km square with the population of 425 000 having 1800 employees.

Table 6.5: Main sector of the local economy

SECTOR	FREQUENCY	PERCENTAGE
Agriculture	17	56.67%
Manufacturing	1	3.33%
Mining	3	10%
Financial and Business Services	1	3.33%
Government and Community Services	7	23.33%
Other	1	3.33%

The frequency missing (non respondents) in this regard is 25 (45.45%). The table indicates that agriculture is the main source of income for many municipalities in South Africa followed by government and community services and lastly, mining.

Lastly, 92.59% of respondents have an e-mail address and only 7.41% does not have, which is a sign that communication should not be a problem in most municipalities. Only 1 municipality did not respond.

6.4.3 Local Economic Development Institutions

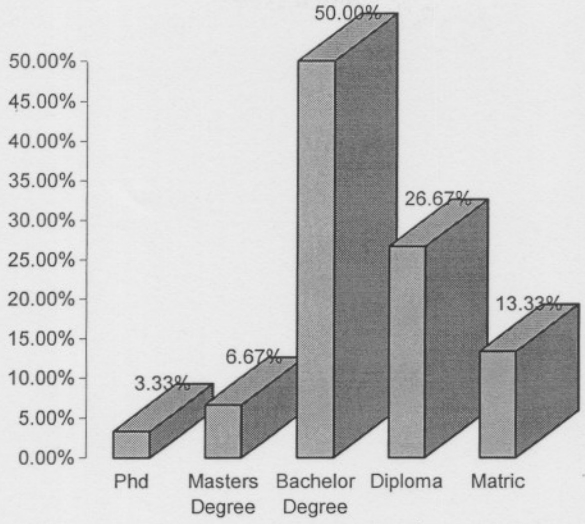
About 57.41% municipalities does not have a separate LED department and only 42.59% are having separate LED departments. Only 1 municipality did not respond.

About 52.8% of municipalities have not employed a single person in the LED department which shows the non existence of the department in these municipalities, with only 18.8% municipalities having employed 1 person each for this department, 22.6% municipalities having employed 2 people each, 1.8% municipalities having employed 4 people each and 23.7% municipalities having employed 5 people each and 3.7% municipalities having employed 5 people.

Funding seems to be a constraint on LED. Only 36.36% responded on the question of annual budget for the LED department in their municipalities with an average budget of only R2 706 870.

Expertise also seems to be a constraint on LED. Of all 48 people employed by these different municipalities for the LED department only 1 person have a PhD qualification, 2 have masters degrees, 15 have bachelor degrees, 8 have diplomas, and 4 having matric. In the case of the other 18, no qualification was stated. The percentages are illustrated in figure 6.2 below.

Figure 6.2: Qualfications for Directors of LED in %



78.85% of all respondents does not have a separate municipal entity (e.g. section 21 company) to attract investment into their municipality and only 21.3% have such an entity, with 3 frequency missing. Only 32% of municipalities indicated they have no strategies for their municipality and 68% indicated they have a strategy with a 5 frequency missing which is a good sign. About 88% indicated they do not have any credit rating and only 12% indicated that they have but out of 44 that does not have, only 37.5% considers to apply for it and the rest which is 62.5% of municipalities did not respond to the question or either they did not know what a credit rating is.

On the question of how much does the municipality spent per annum on marketing its available economy and business opportunities, 66% of municipalities did not respond to the question and only 34% responded with only 1 being allocated over a million Rand and 21 getting less than a million Rand per annum, the lowest being 3000 Rand.

In addressing basic needs of their municipal areas, this is how the municipalities felt areas of challenges are:

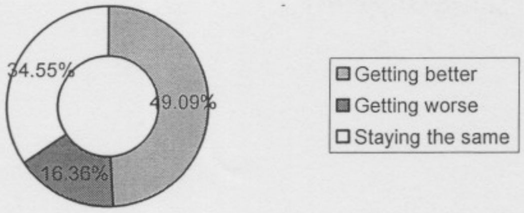
- Water 26.4%,
- Housing 24.5%,
- Sanitation 18.8%,
- Job creation 13.2%,

- Insufficient funding 9.4%,
- Services 9.4%,
- Electricity 5.6%,
- Poverty alleviation 3.7%,
- Industry 3.7%,
- Tourism 3.7%,
- Affordable rates 3.7%,
- Debt recovery 3.7%,
- Infrastructure 1.8%,
- Technical skill 1.8%,
- Creation of wealth 1.8%,
- Skilled personnel 1.8%,
- Metering system 1.8%,
- Health 1.8%,
- Road 1.8%,
- HIV/AIDS 1.8%,
- Crime 1.8%.

6.4.4 Globalisation

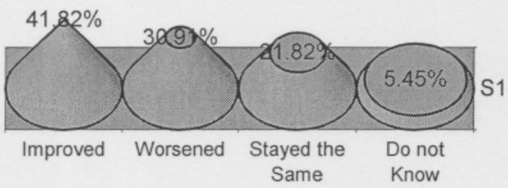
Of all the respondents 49% feels that the local economy is getting better as compared to a year ago (2002) whereas only 16% feels its getting worse. However 33.9% still feels that things are still the same (see figure 6.3 below). The high percentage of municipalities responding positively is encouraging. Most municipalities feel that their local economies are improving with the next percentage feeling that it is still the same, whereas a small percentage feels that it is getting worse. What is more encouraging, is that 94.3% of municipalities indicated that the access to basic needs in their municipalities has improved and only 1.8% felt that it is getting worse, with only 3.7% feeling that it has remained the same over the last ten years.

Figure 6.3: Feelings about local economy



When it comes to access to employment in municipalities in the last ten years 43.3% indicated that it has improved, 30.1% indicated it has worsened, 18.8% indicated it is still the same and only 7.5% indicated they do not know (See figure 6.4). When it comes to the understanding of globalisation and how accurately they can describe the true or expected impact of globalisation on their municipalities, 41.5% indicated globalisation promotes innovation and growth, 13.2% indicated globalisation destroys national and local identities, 11.3% indicated globalisation exploits the poor, 18.8% indicated globalisation results in better living standards and 15% indicated globalisation does not exist.

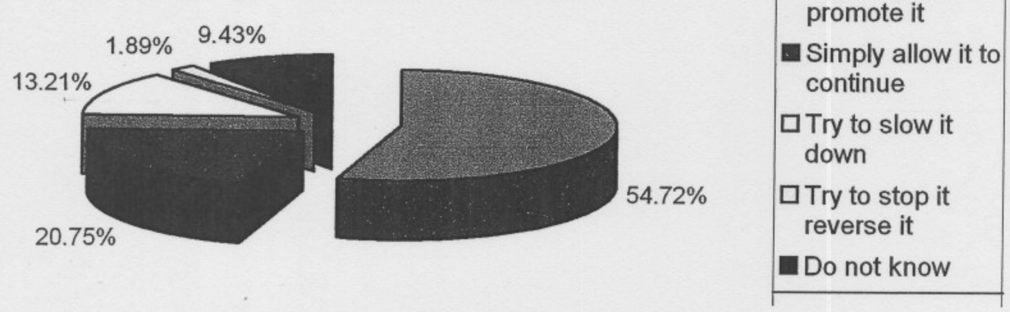
Figure 6.4: Employment after 10 years



On how positive or negative they think the process of globalisation is for the economic and social development of their municipality, 7.5% feels is completely negative, 3.7% feels is negative, 52.8% feels is equally positive and negative, 22.6% feels is positive, 9.4% feels is completely positive and 3.7% did not respond.

On they think the South African government should further globalisation, 54.7% indicated the government should try actively to promote it, 16.9% indicated the government should simply allow it to continue, 13.2% indicated the government should try to slow it down, 1.8% indicated the government should try to stop it or reverse it, 9.4% indicated they don't know, whereas 3.7% did not respond (see figure 6.5 below).

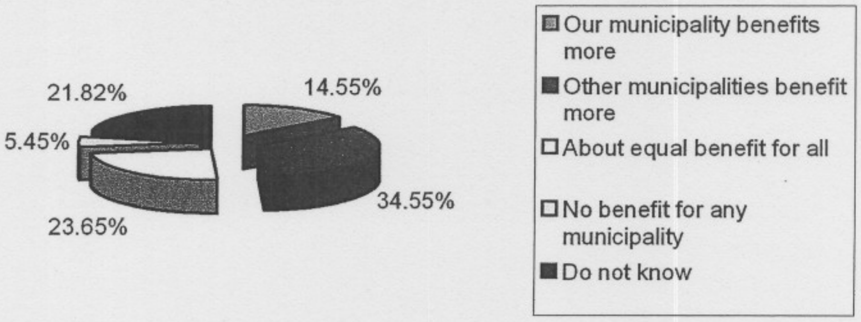
Figure 6.5: Goal of governmnet on globalisation



On what is the impact of rapid growth of international trade in their municipality's economy, 3.7% feels it is completely negative, 13.2% feels it is negative, 50.9% feels it is equally positive and negative, 24.5% feels it is positive, 23.7% feels it is completely positive whereas 3.7% did not respond.

On thinking about the benefits of international trade, whether they think that for the most part, their municipality's economy benefits more than other municipalities in South Africa or that other municipalities' economies benefit more than theirs, or that its about equal, 14.55% feels their municipality benefits more, 34.55% feels other municipalities benefit more, 23.64% feels that's about equal benefits for all, 5.45% feels there is no benefit for any municipality and 21.82% indicated they do not know (see figure 6.6 below).

Figure 6.6:Benefit from International Trade



On what do the municipalities consider to be the most important challenges regarding globalisation in their municipalities:

- 24.5% did not respond,
- 11.3% felt marginalisation of small towns is the challenge,
- 9.4% indicated availability of jobs is the main challenge,
- 5.6% indicated there is a need for infrastructure,
- 5.6% indicated foreigners are ruining small business by setting business with inferior materials,
- 5.6% indicated tourism should be the priority,
- 3.7% indicated there should be fair competition and workers must understand growth and development,
- 3.7% indicated unstable currency exchange rate is the problem,
- 3.7% indicated skills levels should meet the required skills for global economy,
- 3.7% indicated people should have access to exports and lastly,
- 1.8% indicated globalisation should not be done at the expense of destroying national and international identities.
- 1.8% felt that labour business affect them negatively,
- 1.8% indicated communication is the problem,
- 1.8% indicated there is a need for work-shopping stakeholders on globalisation,
- 1.8% indicated economic growth should be balanced with service delivery,
- 1.8 % indicated LED should be established at all costs,
- 1.8% indicated South Africa should become less dependent on mining,
- 1.8% indicated the domination of markets by big cooperation is not helping black economic empowerment,

- 1.8% indicated the challenge is to identify comparative advantages to exploit globalisation,
- 1.8% indicated commercial agriculture is important,

6.4.5 Competitive strengths and Investment opportunities

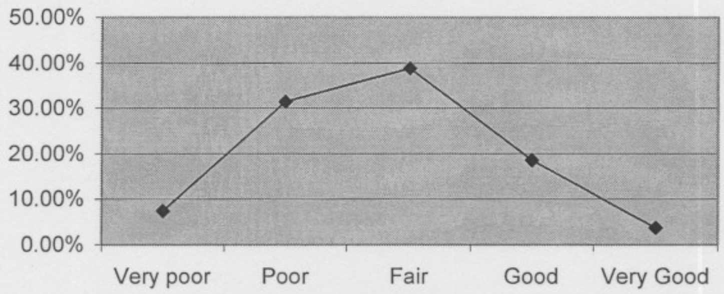
It is indicated that respondents regard human resource, resources, demand conditions, related and supporting industries and institutions, municipal strategy, structure and rivalry, technology and innovation and quality and environment as the strongest points of their competitiveness platform. These are all elements, which are important for sustained competitiveness in the new global platform. The findings revealed that the availability of skilled human resource and resources are the worst element of South Africa's municipal competitive platform although regarded as being fair by the respondents. The other fair or between fair and good were related and supporting industries and institutions, municipal strategy, structure and rivalry and demand conditions. The worst is that there is no concept in part 4 that rates either good or very good and according to Kleynhans (2003: 248) these are the characteristics of a less developed country.

Considering the four corners of Porter's diamond, competitiveness of South African municipalities are therefore rated as between fair and poor in all four corners of the diamond which indicated that South African municipalities are not internationally as competitive as they should be to deliver the necessary income and employment needed by the economy for sustainable growth and development. In closing, none of the corners of the Porter diamond are as good or excellent, indicating that many changes and improvements are still necessary to make South African municipalities more adequate, especially with regard to human resources, resources and demand conditions, related and supporting industries and institutions, and quality environment.

6.4.5.1 Human resource

On the availability of technically skilled labour, 7.41% indicated it is very poor, 31.48% indicated it is poor 38.89% indicated its fair, 18.52% indicated it is good and 3.70% indicated it is very good. Availability of managerial staff, 3.64% indicated it is very poor, 10.91% indicated it is poor, m34.55% indicated it is fair. 41.52 indicated it is good and 9.09% indicated it is very good. This is not a good sign, which in-turn can hamper the process of delivery because of lack of enough skilled people (See figure 6.7).

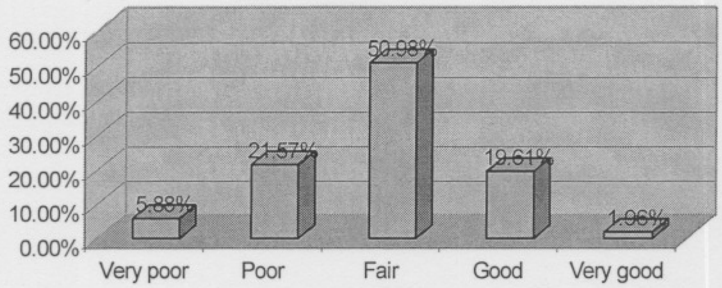
Figure 6.7:Availability of skilled labour



On wage rates 7.41% ,of respondents indicated it is very poor, 16.67% indicated it is poor, 44.44% indicated it is fair, 27.78% indicated it is good and 3.70% indicated it is very good. On unit labour costs/ output per worker 3.92% of respondents indicated it is very poor, 17.65% indicated it is poor, 62.75% indicated it is fair, 13.75% indicated it is good and 1.96% indicated it is very good.

On vocational/industry related training facility 14.81% of respondents indicated it is very poor, 44.44% indicated it is poor, 25.93% indicated it is fair, 14.81% indicated it is good and 0% indicated it is very good. On Work ethic of labour force 7.55% of respondents indicated it is very poor, 18.87% indicated it is poor, 52.83% indicated it is fair, 18.87% indicated it is good and 1.89% indicated it is very good and productivity of labour force 5.88% of respondents indicated it is very poor, 21.57% indicated it is poor, 50.98% indicated it is fair, 19.61% indicated it is good and 1.96% indicated it is very good (see figure 6.8 below).

Figure 6.8: Productivity of Labour force



About1.89% of respondents rate workplace regulations as being very poor, 9.43% indicated it is poor, 47.17% indicated it is fair, 37.74% indicated it is good and 3.77% indicated it is very good and on dependency on consultants 7.69% of respondents indicated it is very poor, 11.54% indicated it is poor, 50.00% indicated it is fair, 30.77% indicated it is good and 0% indicated it is very good.

The worst situation is the non-availability of the staff that understand and implement IDP which has 1.89% of respondents indicating it is very poor, 16.98% indicating it is poor, 35.85% indicating it is fair, 35.85% also indicating it is good and 9.43% indicating it is very good (see figure 6.9 below)

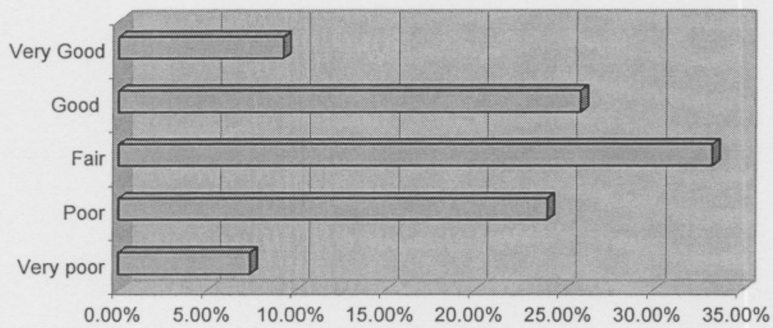
Figure 6.9: Availability of staff to understand and Implement IDP

On average, respondents rate human resources to be fair. This implies that they feel a little unsatisfied with the human resources they are using and the availability of training to their employees is insufficient. The education level of labour in general should be improved.

6.4.5.2 Resources

It is a disturbing fact to see a large percentage of 64% rating the availability of suitable offices between poor and fair. That is 7.41% indicated it is very poor, 24.07% indicated it is poor, 33.33% indicated it is fair and only 25.95% indicated it is good and 9.26% indicated it is very good (see figure 6.10 below)

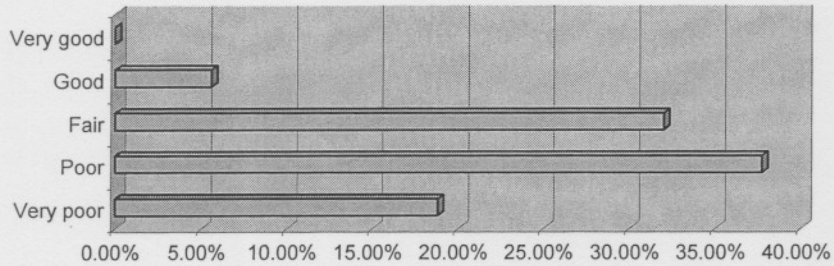
Figure 6.10: Availability of suitable offices



Financial resources for economic development remains a problem for most municipalities, with 45.5% indicating it is poor, 12.7% indicating it is very poor and 25.4% indicating it is fair. Only 12.7% and 3.6% indicated is good and very good respectively. Without enough financial resources there is nothing that these municipalities will do for their economic growth, development and promotion.

Research and business facilities, resources and support services seems to be a serious problem for South African municipalities as 18.8% regard it as very poor, 37.7% regards it as being poor, 32% regard it as fair and only 5.6% indicating that it is good (see figure 6.11 below)

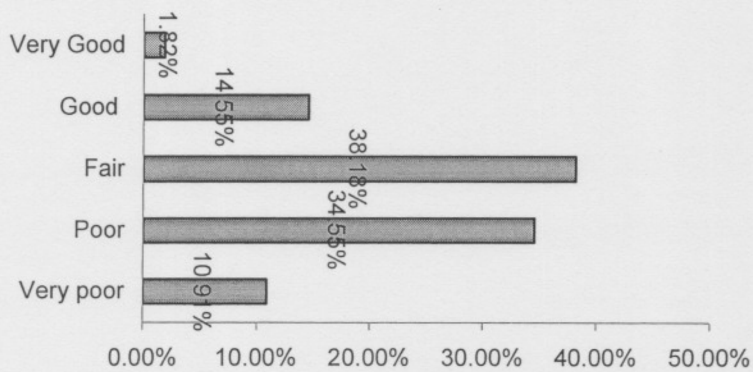
Figure 6.11: Availability of research and business facilities, resource and support services



There is little improvement with information technology infrastructure and council chambers as 35% regard it as fair and 24.5% and 9.4% regard it as good and very good respectively. Only 5.6% and 16.9% regard it as very poor and poor respectively.

Another obstacle is created by trade and business association support, with 10.9% regarding it as very poor, 34.5% regarding it as poor, 38.1% regarding them as fair and 14.5% and 1.8% regarding it as poor and very poor respectively. Without trade and business support, there will not be enough employment and without employment there will not be growth and development. Without these factors, the municipality will find it hard to survive (see figure 6.12 below).

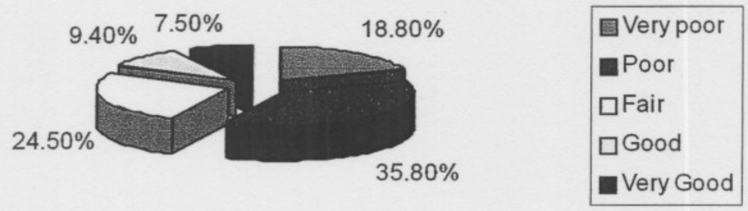
Figure 6.12: Trade and business associate support



Another obstacle is that the market and product information in these municipal areas are not being taken seriously as 9.4% regard it as very poor, 35.8% regard it as being poor, 24.5% regarding it as fair and only 9.4% and 1.8% regard it as good and very good respectively. If marketing is not taken serious and product information is not made available, there is no way that the municipality will get the outside world's attention because nobody will know about the municipality and its products.

Non-availability of capital remains an obstacle for municipalities, especially if 18.8% regards it as very poor, 35.8% regards it as poor, 24.5% regards it as fair, with only 9.4% and 7.5% regarding it as good and very good respectively. Capital is the source of success in any business and if it is not there, there is no way that municipalities' can be successful in delivery (see figure 6.13). Poor cost of capital for this municipalities will also bring no difference to the situation, especially if 13.2% regards it as very poor, 28.3% regards is as poor, another 28.3% regards it as fair with only 13.2% and 5.6% regarding it as good and very good respectively.

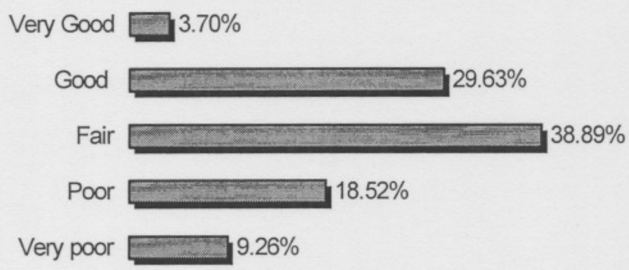
Figure 6.13: Availabity of capital



Project development and financial support remains generally fair with only 5.6% regarding it as poor and 26.4% regarding it as poor but the other 35. 8% and 22.6% regarding it as fair and good respectively. Projects as sources of job creation and employment are vital for economic growth and development for municipalities. If the finances are made available for such important factors the community will benefit and a source of income will there for many families.

Figure 6.14 below illustrates that only a small percentage of 9.26% and 18.52% regard the usage of modern technology to be very poor, and poor but the rest of 38.89% and 29.63% regard it as fair and good respectively and only 3.70% indicated that it is very good. This situation shows a slight improvement because globalisation requires any country to be up to date with modern technology if it has to compete with the outside world and this kind of improvement gives hope that South African municipalities are moving in the right direction.

Figure 6.14: Application of modern technology



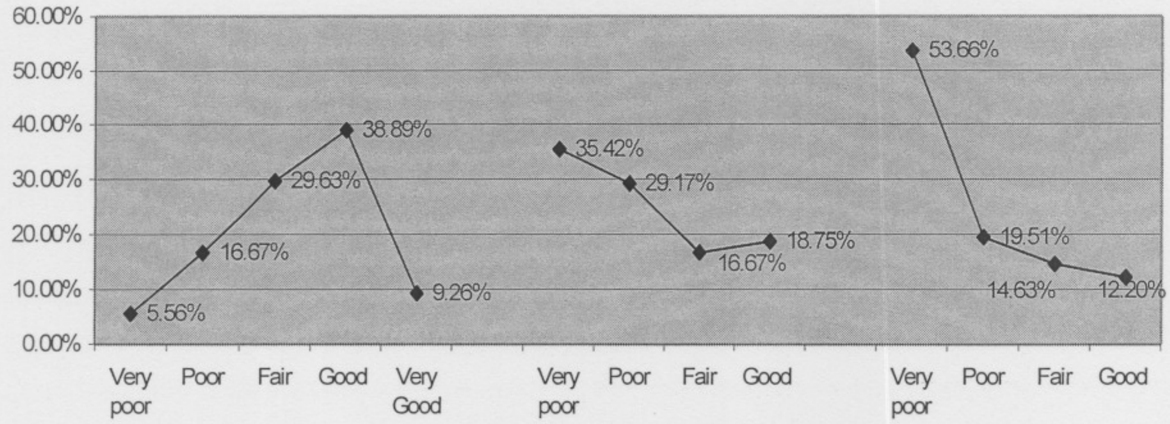
Access to finance is seen as fair with 9.4% and 24.5% regarding it as very poor and poor respectively, but 22.6% and 33.9% regarding it as fair and good respectively. The level of development of the financial and banking sector are seen as good as more than 74% combined regards it as fair and good respectively but a minority of 13.2% and 5.6% regard it as an obstacle.

Over 80% of South African municipalities have access to telecommunication services as 7.41% indicated it is very good, 50.00% indicated it is good, 29.63 indicated it is fair and it is only a minority of 5.56 % and 7.41% regarding it as very poor and poor respectively. On average, telecommunication services in South African municipalities are very good, so are electricity costs and it is reliability. Over 90% of South African municipalities have access to electricity and they indicated it as reliable as only 1.85% indicated it is very poor and 7.41% indicated it is poor .

The majority of South African municipalities (over 70%) seem to be relying more on road and rail network for transport as it looks to be the only one regarded as good by most municipalities, since 5.56% indicated it is very poor, 16.67% indicated it is poor, 29.63% indicated it is fair 38.89% indicated it is good and 9.26% indicated it is very good, but air and sea transport network both received over 80% for being a poor means of transport for most South African municipalities as 35.52% and 29.17% indicated air transport is very poor and poor respectively and 53.66% and 19.51%

indicated sea transport is very poor and poor respectively (see comparison of all these transport network in figure 6.15 below).

Figure 6.15:Comparison of road and rail , Air and Sea transport network



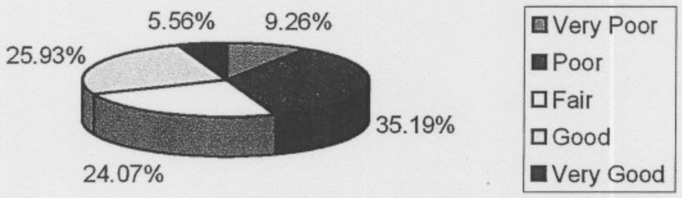
Traffic congestion also does not seem to be a significant obstacle for South African municipalities as 32% regards as fair, 33.9% regards it as good, 13.2% regards it as very good and only 3.7% and 9.4% regard it as very poor and poor respectively. Social infrastructure also does not seem to be a big problem for South African municipalities as 32% regards it as fair, 45.2% regards it as good, 7.5% regard it as very good and only 1.8% and 11.3% regard it as very poor and poor respectively.

On average the respondents feel dissatisfied about the resources they are having or getting. Therefore, the services they are getting can be regarded as fair but not good, which means more attention should and must be given to the improvement of these resources.

6.4.5.3 Demand Conditions

According to the respondents, 5.6% regards the size of the local market (strength of purchasing power) to be an obstacle, 26.4% regards it to be poor whereas 37.7% regards it to be fair, 20.7% regards it to be good and 3.7% regards it to be very good. This is a sign of improvement on the side of local marketing. Still, with export opportunities, there is still hope as only 9.4% regards the services to be very poor, 32% regarding it to be poor whereas 24.5% regards it to be fair, another 24.5% regards it to be good and 3.7% regarding it to be very good (see figure 6.16 below). Although the average results with exports opportunities will be regarded as fair, there is little hope that things will improve.

Figure 6.16: Export opportunities



With structure of local demand (consumer sophistication etc.), the majority of 50.9% regards the process to be fair and 7.5% to be good, which implies that the whole process of local demand remains fair. The same applies to levels of market differentiation and saturation as the same majority of 50.9% regards it as fair and 9.4% regards it as good. The same can be said for levels of market differentiation and saturation as it was declared fair also.

With market or sales prices, the majority of 50. 9% regards the process to be fair and 11.3% to be good, which implies that the whole process of market or sales price also remains fair. The same applies to levels of population growth as the same majority of 50.9% regards it as fair and 28.3% regards it as good. The same can be said of population growth as it was declared fair also.

An overall average of demand conditions as being fair will be undertaken and there will still be a room for improvement.

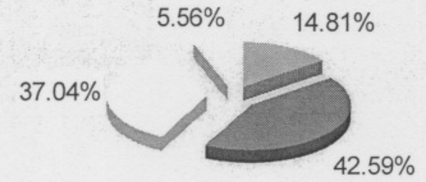
6.4.5.4 Related and supporting industries and institutions.

Most related and supporting industries and institutions in South Africa are perceived by most South African municipalities to be fair.

Co-operation with business associations is regarded as poor by 27.7% of respondents whereas 41.8% regards it as fair, 21.8% regards it as good and 3.6% regards it as very good, which is a good sign for a growing and developing economy. Contact with organisations and firms in other countries remains the worst of them all, as 24.5% regards it as very poor (the highest in this part of the questionnaire), 43.4% regarding it as poor, 22.6% regarding it as fair and a very low percentage of 7.5% and 1.8% regarding it as good and very good respectively. Most investments are from outside countries and the less communication the South African municipalities are having with these countries, the less investment they will get. Which is not good for the South African economy.

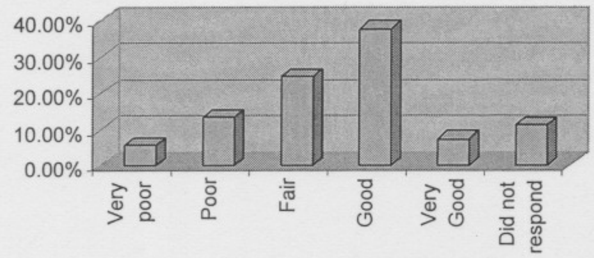
It is also encouraging to see 39.6% of municipalities having a fair relationship with SALGA (South African Local Government Association), 28.3% having a good relationship and 5.6% having a very good relationship. It is only a minority of 3.7% and 16.9% of respondents which regard their relationship as very poor and poor respectively. Although more good relationships are expected, it can not be denied that the relationship is satisfactory. So is the relationship between the municipalities and provincial and national government. Also, the majority of 42.59% regards it as fair, 37.04% regards it as good, 5.56% regards it as very good, whereas only 14.81% regards it as poor (see figure 6.17 below).

Figure 6.17: Provincial and National Government competency



There is also a good co-operation amongst neighbouring municipalities, 24.5% regards it as fair but the majority of 37.7% regards it as good and 7.4% regards it as very good. It is only a minority of 5.6% and 13.2% which regards it as very poor and poor respectively, while 11.3% did not respond. It shows that South African municipalities helps and learn from each other when there is a need, which is very good for growth and development (see figure 6.18 below)

Figure 6.18: Co-operartion with neighbouring municipalites



A further constraint or problem identified in this regard is that support from national and provincial investment agencies and support from the Industrial Development Corporation, is seen as insufficient. In both cases over 50% regards the co-operation as either poor or very poor, with a slight minority of 28.3% and 15% respectively regarding it as fair, over 13% of each not responding and the rest regarding it as good.

Municipalities are getting relatively more support from the Development Bank of Southern Africa. Only 11.3% regards it as poor but 37.7% regards it as fair, 33.9% regards it as good and 9.4% regards it as very good, while. 7.5% did not respond. Also, co-operation with organised agriculture does not seem to be very good as 5.6% regards it as very poor, 28.8% regards it as being poor and 33.9% regards it as fair. Only 22.6% and 1.8%regard it as very good and good respectively. In this case, 7.5% did not respond.

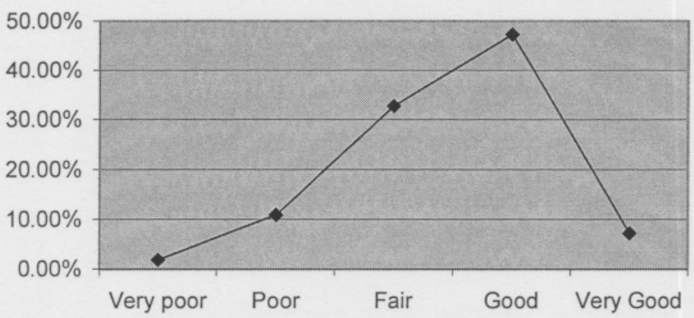
6.4.5.5 Municipal strategy, Structure and Rivalry

Co-operation with fellow competitors was also seen to be fair and in some instances good, with all factors relating to municipal strategy, structure, and rivalry in the South African economy.

In their response, only 9.4% regards the co-operation with suppliers/consultants to be poor but 43.3% regard it as fair, 37.7% regards it as good and 5.6% regards it as very good, which is a good sign. With co-operation to the citizens, municipalities were seen to be trying to please their customers like any other good business and only 3.7% of respondents were indicating the relationship to be poor but 39.6% regards it as fair, another 39.6% regards it as good and 11.3% regards it as very good.

Co-operation with neighbouring municipalities as related in the previous sub-topic is very good, 47.27% regard it as good, 7.27% regard it as very good, 32.73% regard it as fair, with only 10.91% regarding it as poor. The same applies with co-operation with other spheres of government, the co-operation also seems to be very good as 49% regard it as good, 7.5% regard it as very good, 32.3% regard it as fair, with only 11.3% regarding it as poor (see figure 6.19 below).

Figure 6.19: Cooperation with other spehres of government



Employee performance incentive does not seem to be very good as only 16.9% indicating that it is good, but 30.1% indicated that it is fair, 33.9% indicated that it is poor and 11.3% indicated it is very poor. The same applies to growth in revenue, the growth seems to be so poor as 39% regard it as fair, 28.3% regard it as poor, 7.5% regard it as very poor, with only 9.4% and 1.8% regarding it as good and very good respectively.

The worst situation in this sub-topic is outstanding debt/ culture of non-payment which looks to be very high as 24.5% regards it as very poor, 28.3% regards it as poor, 16.9% regards it as fair, with only 15% regarding it as good.

Respondents rate the practises of management and managerial skills in integration and innovation of municipal activities as being very good. Over 80% on both questions regards the management to be very competent.

On average the respondents feel mostly satisfied about the co-operation they are getting from other sectors of the community including municipality strategy, structure and rivalry. The services of management and co-operation they are getting, can be regarded as good and partly fair in some instances, which means a lot of attention was given or should be given and applied to the improvement of the situation.

6.4.5.6 Technology and Innovation

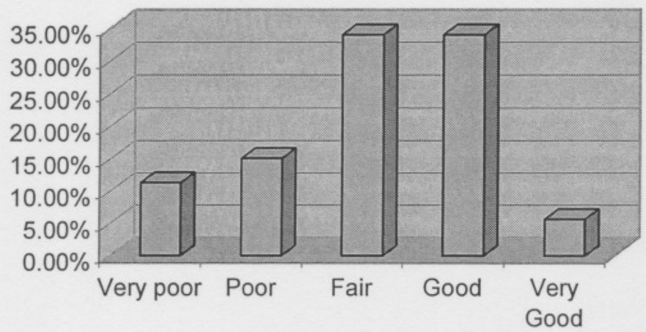
According to the general perception given by the respondents, technological utilisation and innovation is fairly efficient and much better than would be expected from a less developed country like South Africa.

Of the responding municipalities 41.4% feel they have improvement in service levels, whereas 37.7% feels it is fair and only 1,8% and 9.4% feels that their improvement is very poor and poor respectively (see figure 6.20 below)

Figure 6.20: Improvements in service levels

The utilisation of computers and internet received an overwhelming positive response with 66% indicating the utilisation of computers is good and 20.7% indicating it is fair. Another 52.7% indicated that the utilisation of internet is good and 16.9% indicated it is fair. The strongest factors enhancing competitiveness related to technology and innovation are the use of cellular phones and other similar modern communication technology and new innovations within the municipalities. The response in this regard was also exceptionally good as 59.4% regarded the use of cellular phones and other similar modern communication technology as good and only 15% regarded them as fair, 33.9% regarded investment in new technology as good and 33.96% regarded it as fair, 5.66% as very good, 15.09% as poor and11.32% as very poor as illustrated in figure 6.21 below.

Figure 6.21: Investment in technology



New innovations within the municipality was rated by 7.5% as very good, by 28.3% as good, by 37.7% as fair, by 13.2% as poor and by 11.3% as very poor and can be regarded as generally fair. But the new innovative application of existing technology did not receive as well balanced response as other questions in this sub-topic. 24.5% regarded it as being poor, 5.6% as being very poor, another 24.5% as being fair but a slight majority of 30.1% regarding it as being good and only 7.5% regarding it as very good.

On average the South African municipalities seems to be rather well developed with their level and usage of technology and innovation.

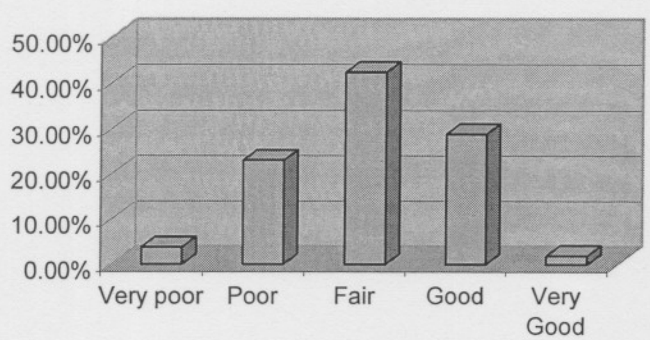
6.4.5.7 Quality and Environment

The municipalities regard the quality and environment as ranging between fair and good. Quality of policies to protect the environment are perceived by 24.6% to be good and 35.8% to be fair, whereas 24.5% perceive them to be poor, with only 5.6 perceiving them to be very poor.

Quality of services delivery (e.g. zoning, refuse removal) received an overwhelming response of 45.2% as being good and 28.3% as being fair. Only 15% said the delivery is poor and 11.3% did not respond. As compared to quality of services delivered, the quality of social infrastructure (e.g. sanitation, clinics, roads, etc) the delivery is slightly lower with only 30.1% indicating it is good and 35.8% indicating it is fair. Only 13.2% said the delivery is poor and another 13.2% did not respond.

Cost of compliance to environmental and business standards received a rating of 28.3% as being good, 35.8% as being fair, 18.8% as being poor and 5.6% as being very poor. Pollutants in the municipal natural environment received a rating of 28.85% as being good, 42. 31% as being fair, 23.08% as being poor and only 3.85% as being very poor (see figure 6.22 below).

Figure 6.22: Pollutants in the municipal natural environment



Cost of compliance to environmental legislation received a rating of 24.7% as being good, 39.6% as being fair, 20.7% as being poor and 1.8% as being very poor. Which is slightly lower than cost of compliance and business standard. Unclear environmental protection legislation received a rating of 18.8% as being good, 47.1%

as being fair, 20.7% as being poor and only 1.8% as being very poor which requires some attention if investments are to be attracted in these municipalities.

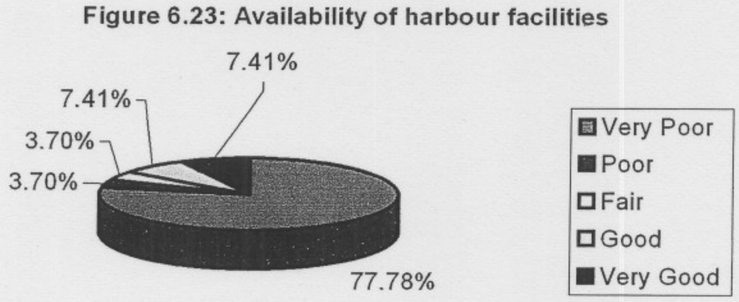
Disaster management policies and procedures received a rating of 39.5% as being good, 37.7% as being fair, 13.2% as being poor and 1.8% as being very poor, 7.5% did not respond.

Quality and management were seen to be reasonably fair and good and this makes the country an attractive venue to locate investment and development from countries outside South Africa.

6.4.5.8 Rating of Locational Aspects of Municipalities

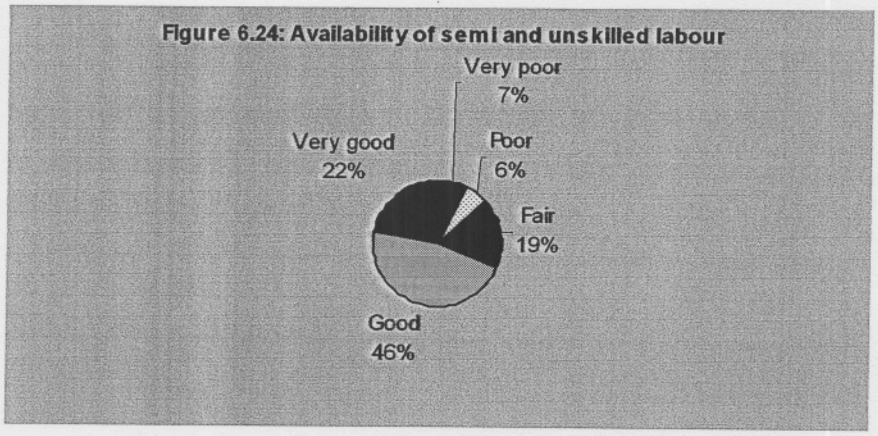
With regard to the location of facilities and services needed by South African municipalities the situation does not seem to be that bad, giving the impression that when more hard-work can be put into place things can improve more and the situation can be improved.

Although 80.9% of the respondents are far from the harbour facilities (see figure 6.23 below) and 84.8% indicating availability of ocean freight service are poor, there is hope that things can improve. The good news is that 82.9% are next to main road links, with 82.2% indicating trucking services are available, 75.4% indicating courier facilities are available, 50% indicating container services are available and only 47.1% indicating international airport facilities as not available. To add more to transport success, 52.7% of respondents indicated that they are next to a national airport and 69.7% next to the railheads. This response shows that transport problems are not that big an obstacle as have been supposed.



Reliability of services received very high ratings as water supply was regarded to be very good by 71.6%, electricity by 73.9%,telecommunication by 71.6%, quality shopping services by 52.7% and health by 64.1%.

Availability of other services was also not such an obstacle as support services received a rating of 48.9% good and 30.1% fair, availability of schools, colleges etc received 58.3% good and 24.5 fair, availability of entertainment/ recreation facilities received 20.6% good and 33.9% fair, availability of after-sales services received 21.8% good and 43.3% fair, availability of subcontractors received 54.6% good and 28.3% fair.



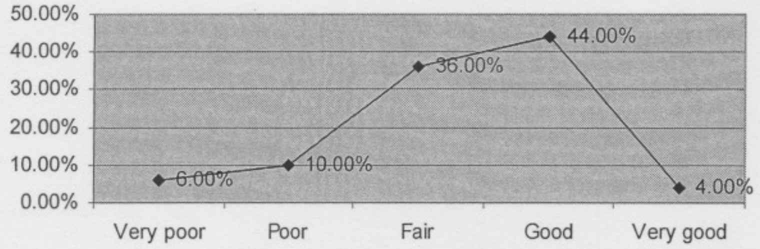
Availability of semi and unskilled labour received 22% very good, 46% very good, 19% fair, 7% very poor and 6% poor (see figure 6.24 above), availability of cold stage facilities received 38.6% good and 24.5% fair, availability of housing for employees received 18.7% good and 30.1% fair, availability of industrial land received 62.2%

good and 22.6% fair, availability of skilled labour received 32% good and 41.5% fair, availability of housing for high income earners received 62.1% good and only 7.5% fair, availability of industrial training facilities received only 13.2% good and 30.1% fair, availability of other manufacturing firms in the industrial district received 26.3% good and 39.6% fair.

Other services also received good ratings which were encouraging and promising for economic growth and development. Rates and taxes received 50.9% good and 22.6% fair, proximity to markets received 30.1% good and 41.5% fair, local environmental considerations received 52.7% good and 18.8% fair, proximity to suppliers of spare parts received 50.9% good and 28.3% fair, costs of industrial land received 54.6% good and 20.7% fair, proximity to raw materials received 39.5% good and 32% fair, availability of immediate inputs received 26.3% good and 35.8% fair.

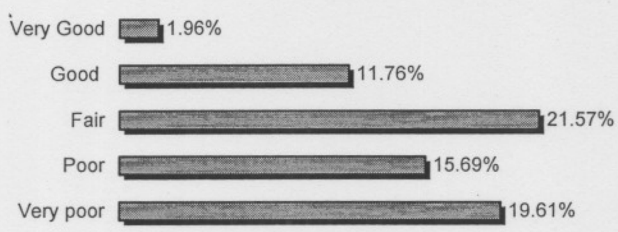
Quality of water and other utilities received 73.5% good and 13.2% fair, costs of telecommunication services received 61.3% good and 26.4% fair, labour costs received 41.4% good and 47.1%fair, transport costs in received 35.8% good and 39.6% . fair, transport costs out received 41.4% good and 32% fair, costs of water received 60.3% good and 26.4% fair, costs of electricity received 69.7% good and 13.2% fair.

Figure: 6.25: Environmental protection legislation



Environmental protection legislation received 41.4% good and 32% fair(see figure 6.25 above), probable investment risks received 37.6% good and 37.7% fair, other government incentives received 39.5% good and 35.8% fair, aid from national and provincial government received 45.2% good and 28.3% fair, investment from abroad received 53.7% poor and 30.1% fair (see figure 6.26 below), import tariffs and other international trade restrictions received 58.4% poor and 28.7% fair and lastly political and policy stability and transparency received 60.3% good and 20.7% fair.

Figure 6.26: Investment from abroad



On average the respondents feels that although the future appears promising, more effort should go into promotion of foreign direct investment (FDI), improving cold storage facilities, the availability of entertainment and recreation facilities and availability of skilled labour.

6.5. SUMMARY

The purpose of this chapter was to utilise the research survey (conducted on South African municipality managers) that were undertaken in the recent past and databases thereof to determine how competitive various municipalities in South Africa are.

The chapter commenced by considering the drivers of competitiveness in section 6.2 by explaining the importance of validity and reliability in the research itself and the significance of the Cronbach Alpha test to determine that respondents completed the questionnaire with great care and high degree of accuracy, followed by a reported survey on the competitiveness of South African municipalities. The study then reported the results of the municipalities from the data received.

Section 6.3 and 6.4 shows that this research was designed according to the stages of competitiveness development and Porter's approach to competitiveness platform, which provided foundation for the empirical part of this study. Porter's approach measures competitiveness by considering four determinants of competitiveness as the four corners of a schematic diamond diagram. These determinants are *factor input* *conditions* (section 6.4.5.1 and 6.4.5.2), *demand conditions* (section 6.4.5.3), *firms strategy, structure and rivalry* (section 6.4.5.5) and fourth are *related and supporting industries and institutions* (section 6.4.5.4) and all four of these schematic diamond are found in this research questionnaire.

It was found that according to *factor conditions* in section 6.4.5.1 and 6.4.5.2, respondents rated human resources and resources to be fair and poor respectively. This implies that they feel unsatisfied with both the resources and human resources they are using and the common obstacle in this regard is the non-availability of training facilities to their employees, which they regard as insufficient. The education level of labour in general also needs to be improved, especially the staff who understand and can implement IDP

Resources remains an obstacle because a large percentage of 64% rated the availability of suitable offices between poor and fair. It creates an abnormal situation and atmosphere to run businesses as big as municipalities in poor facilities. Financial resources also remain an obstacle for perfect delivery of services. Research and business facilities, resources and support services create an environment which will definitely inconvenience proper delivery of services to the community because it remains an obstacle. Although there is little improvement in information technology, trade and business association support remain an obstacle. Because of the distance to the airports and harbours, transport remains a problem for most municipalities.

Section 6.4.5.3 illustrates that *local demand conditions* are presumed satisfactory. Although local market (strengths of purchasing power) is regarded to be an obstacle, the hope for export opportunities improvement still remains a force. With the structure of local demand (consumer sophistication) also being regarded fair together with market differentiation and saturation and sales prices, there is no doubt that demand condition enjoy advantages in serving their local markets.

Related and supporting industries and institutions in section 6.4.5.4 indicates that co-operation and support with other business associates, immediate inputs and services that are internationally competitive, are broad determinants of national advantage in any municipality, therefore co-operation with business associates in this regard will have to improve since it is an obstacle for most municipalities. Therefore, as contact with organisations and firms in other countries needs to improve. The relationship with SALGA is good, so is co-operation amongst neighbouring municipalities. Although the support from the Development Bank of Southern Africa is promising, it remains the task of municipalities to improve co-operation with organised agriculture since it remains an obstacle.

Under *municipal strategy, structure and rivalry* in section 6.4.5.5, which is the fourth broad determinant advantage on the Porter diamond, co-operation with fellow competitors was seen to be fair, so was co-operation with suppliers/consultants and employee performance incentives. Co-operation with other municipalities, practises of management and managerial skills were good, needing a little attention for improvement.

Section 6.4.5.6 which indicated the need for technology and innovation, which was regarded as being fair. However, the usage of computers, cell phones and internet was indicated as being good by respondents. The only difference was with innovations within the municipality and the innovative application of existing technology which received fair and poor ratings respectively. Section 6.4.5.7 on quality and environment was regarded to be fair and good.

Section 6.4.5.8 highlighted the reliability and quality of all services provided by local governments, provincial governments and national governments. This included communication services, electrical supply, water and other utilities, which are rated high by respondents. The study revealed shortages and inconveniences like the need for cold storage facilities that presents a problem to nearly all municipalities. Most municipalities experience shortage of skilled labour and there exists a need for more training facilities.

Respondents rated harbour and ocean freight facilities as being a very poor service. The reason might be that the distance from the sea presents a competitive disadvantage to landlocked provinces and municipalities that have a long coastline are the only ones benefiting from it, especially Durban and Port Elizabeth. The same applies to provinces with large airports.

In conclusion, most municipalities do experience some serious shortages in some instances, but these can be addressed by different municipalities except in extreme cases, like availability of ocean freight services and some levels of skilled labour that sometimes causes slight problems. In most places, skilled labour is inadequate and sometimes difficult to find.

Porter (1990) says that "*among the strongest empirical findings from research is the association vigorous domestic rivalry and the creation and persistence of competitive advantage in an industry*", Competition puts pressure on municipalities to improve and innovate. Competition leads to lower costs, improve quality, and service and create new products and processes. Vigorous competition pressures municipalities to become known abroad in order to grow, particularly when economies of scale are possible.

CHAPTER 7

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The study represent the ability of South African cities' and towns' competitiveness with international standards to promote economic growth and development. Local government was identified as the engine of growth and development and received the main focus of this study. The literature investigation provided a theoretical perspective as to the ideal competitiveness of South African cities, and the empirical study provided an insight into how the theory can be applied in practice. Based on these two studies, the recommendations will be made.

According to chapter 1, the promotion of local economic development (LED) is one of the core functions of municipalities in South Africa. Given that South Africa is an open economy that is increasingly integrated in the world economy. This study will investigate the competitiveness and comparative advantages of South Africa's municipalities and cities as a means of informing the LED strategies of municipalities.

The structure of chapter 1 was as follows: First the problem statement, research question and objectives of the study were set out. This was followed by an overview of South Africa's local government, Local Economic Development (LED) and globalisation. The chapter concluded with methodology, which included a literature and empirical study.

- **Problem statement:** Local economic development is needed in South Africa to create employment and improve the living standards of the people. In order to achieve sustained growth and address the economic development challenges, the country, it is municipalities and cities have to be internationally competitive. However, owing to a long period of international isolation, South Africa's municipalities did not have the opportunity to be part of this trend. Whether or not South Africa together with it is municipalities will attract such investment, will depend on the competitiveness and comparative advantage of the South African economy.

- **Research question:** The research question that this study aimed to address was whether the competitive platform of South Africa was such that it would attract investment and stimulate growth in municipal economies in the new global economy? In answering this question, possible perceived weaknesses in the competitive platform in municipalities were identified.
- **Objective of the study :** The objectives of the study was to evaluate the international competitiveness of South African municipalities. The evaluation was done firstly using a literature study in to the international experience of cities in countries such as Netherlands (Amsterdam), Brazil (Cambe and Toledo) and Japan (Osaka) and South Africa's six main cities which is City of Johannesburg, City of Tshwane (Pretoria), Ekurhuleni (East Rand), City of Cape Town, Ethekwini (Durban), Nelson Mandela metropole (Port Elizabeth). Secondly, a questionnaire based survey of municipalities in South Africa was conducted to determine perceptions on the state of the competitiveness platforms.
- **Methodology:** The study comprised both of a literature and an empirical investigation. An evaluation was conducted to determine the findings on the state of competitiveness platform of South African municipalities.

South Africa has economic challenges typical of a less developed country. One of the major challenges would be to become competitive by attracting foreign investment, applying new technology and producing goods and services that can compete with other international role players and penetrate industrial markets. The creation of employment is generally seen as a possible way to create income and increase the welfare of the people. Municipality development on the other hand is regarded as a profitable and sustainable way to create employment and economic growth and development to all.

Chapter 2 gave attention to provision of sufficient information on LED from a literature perspective to develop a sound understanding of the concept, and also to identify the latest developments in this approach. This was done by providing answers to questions relating to what LED is, it is background, who is involved, what does it aim to achieve and how applicable it is to the problems municipalities face today. The aim of Chapter 3 was to consider the external environment that constitutes an explanatory framework with regard to influences on the economy of locality. This was done by providing answers to questions relating to the nature of internationalised economic change and the implications for the economic development of cities. This includes the perceived benefit is of globalisation like easy access to new technologies and capital, as well as the increase in competitiveness.

Chapter 4 attempted to survey the major contours of thought in literature on locality marketing. This chapter established that an organisation contemplating locality marketing through place promotion faces a number of fundamental questions about the product definition, market targeting, and how to promote the chosen place attributes. In chapter 5 the competitiveness and obstacles of city development were investigated by studying cities such as Cape-Town , Tshwane (Pretoria), Johannesburg, Ekurhuleni (East Rand), Nelson Mandela Metropole (Port Elizabeth) and Durban and chapter 6 reported on an empirical analysis of the survey conducted during 2003 amongst municipalities throughout South Africa. The summary and review of the study will be discussed below.

7.2 SUMMARY

Chapter 1 began with a short introduction on the purpose of the study, which included the local government and their primary purpose. There after the problem statement, research question and objectives of the study were set out. This was followed by an overview of South Africa's local government, Local Economic Development (LED) and globalisation. The chapter concluded with methodology, which included a literature and empirical study.

Chapter 2 started off with general background information on cities, before providing a definition of LED based on literary sources. Attention was drawn to the theories from which LED originated, and it was useful to see which theories formed the basis of this approach. LED is then discussed in terms of the key role players involved in executing LED programmes, projects and plans.

In this chapter, the local economic development policy experience is reviewed at two geographical scales: the local government and the city. In both cases, the discussion focuses on policy interventions and discourses on the resolution of uneven development. The standard economic development policy and practice of the last thirty years is reviewed. After looking at the broad realm of economic development policy, recent developments in local economic development are discussed; emphasising the role played by public sector programmes in addressing inner-city decay and persistent poverty. The chapter will explore how economic and geographic concepts are embedded in policy prescriptions, often with little regard for the weak links between conventional theories of economic development and the underlying development problems found in inner cities and troubled rural areas.

In this chapter local economic development is explained as being process orientated. That is, it is a process involving the formation of new institutions, the development of alternative industries, the improvement in the capacity of existing employers to produce better products, the identification of new markets, the transfer of knowledge, and the nurturing of new firms and enterprises. As Williams (1986:1), puts it, "when you move beyond importing (jobs) and start a strategy of creative innovation and adaptation, then (local) "innovations" becomes an economic, social, and a local (development) preoccupation, rather than just a technical one".

From the discussion it is clear that new key role players form part of the LED process, the community and the private sector now have the opportunity to become involved in the economy of their local area in new partnership forms. Neither the role players nor the roles they play are set in concrete and the extent of their involvement could differ between certain localities and circumstances. This aspect holds numerous advantages for new democracies where there is a need for means by which to increase the involvement of sectors of the economy that were previously excluded from economic decision-making and participation.

Lastly this chapter considered LED to determine how it is currently implemented and needs to be implemented in South Africa to generate economic growth and development. It is based on an empirical study, which attempted to classify and identify a typical city in South Africa and how LED plans should be implemented in such a city to reap the benefits of LED.

The first section of chapter 3 aimed at providing some insight on the international debate surrounding the changing economic order that is linked to phenomena like globalisation and a changing competitive environment, as an indication of the framework in which cities function. These phenomena and other related international trends, namely the technological revolution and rapid urbanisation which have been characterising the post 1970's world economy, have altered the way in which it is appropriate to conceptualise and to operate policies in globalisation, and justifies further discussions.

In South Africa and other less developed countries, economies are characterised by market failures, market imperfections, inefficiency, risk and uncertainty and lack of private initiative often leading to the absence of markets. This puts a responsibility on the government to address these market imperfections in order to move the economies and local governments operating towards where markets could work as free competitive markets. As economic development is only achieved in the long term, this objective cannot be realised immediately and the theory of second best will often force policy markers to intervene in the economy along the development process. Government policy has to address these failures to the point where they could leave the economy on its own, but until that point is reached, government interventions will be needed.

The advantages of international trade and globalisation are often emphasised without considering any problems it may cause, but this chapter explained how the world's economies are in the process of becoming increasingly integrated as a result of globalisation. While the trend towards globalisation is not new, the rate at which this shift has been occurring has accelerated in recent years, with far reaching implications for business and management. The challenge for business is how to cope, remain competitive and prosper in this demanding and ever-changing global environment. The real question is why some firms and local governments are more successful in such a demanding, dynamic and competitive international environments than others; these questions are addressed in this chapter. Globalisation, the new economy, and modern technology are changing the international competitive regime by altering the way production and marketing are conducted.

Globalisation has a significant potential and influence in growth and development and the way policies and strategies are formulated to handle these new developments. Growth and development policies has to take note of modern global developments, and should be designed to exploit that to the full extent. Globalisation, as studied in this chapter, resembles the rationale of the study.

After studying the phenomena of globalisation and the new economy and the way it is changing industrial development, this chapter further deals with the international competitiveness and the effects of globalisation and modern technology have on competitiveness. Manufacturing has to grow in order to provide the necessary commodities that are demanded, but its growth is even more important in the provision of employment and income to the population of the world and to alleviate poverty. This will only be possible if the country's manufacturing is globally competitive.

This chapter also reported on a competitive advantage related by Professor Porter from Harvard Business School as he argues that competitive advantage based on factors of production does not sufficiently explain patterns of trade. The chapter explained the importance of competition and how it affects the economy of the country. Competitiveness in Africa as well as in South Africa and its obstacles were also briefly discussed.

The chapter lastly explains how globalisation is transforming the world from the industrial age to an information age with definite effect on costs, production and markets, creating a new global hierarchy and altering the spatial geography.

Chapter 4 had a detailed explanation of locality marketing, its relevance and success. Based on an assessment of much of the literature, there appears to be general consensus that there has been a move towards more localised forms of action. Two dominant schools of thought concerning locality marketing emerge. For many proponents who advocate response on the local level, it is the application of such initiatives that they indicated that will ultimately determine its relevance and success. On the other hand, there are those who, when viewing locality marketing within a globalised economic context, are sceptical of its effectiveness in any form. These of course do not necessarily reflect polarised views. Instead, they offer two broad viewpoints on the same subject, observed from different perspectives.

The main purpose of this chapter was also to review raised locality marketing in economic growth, to examine some evidence, and to provide a simple analytical framework to relate the process of locality marketing to economic growth. The chapter further explored the relationships between urban regeneration and locality marketing by looking at the past decade of development in London's Docklands, Amsterdam, Osaka, Cambe and Toledo. It shows how marketing and place promotion became key strand in the strategy to entice private sector led regeneration to city areas and had an equally key part to play in the boom/slump cycle which resulted. In particular perception, it looks at how this marketing strategy attempted to refashion popular perception of the area and the ideological implications that resulted.

This chapter conclude by explaining how the success of locality marketing and the promotion of localities cannot be assessed only in terms of achievement of congruence between the promoted and received images. This would be too simple. Place images are promoted by organisations concerned with achieving particular management goals. Place-image promotion should be seen as one planning instrument within the market-planning process as a whole, and used in preference to or in combination with order non- market orientated place-management techniques as appropriate.

Chapter 5 emphasises that this economic challenge is the context in which South Africa must meet the challenge of democratic development and in which the world must decide how to shape the conditions under which they must do well. Present policies and trends will be scrutinised, since there is so much indication that those who are promoting them are not prepared to learn from experience. It is further claimed that if they were, they would have learned that economic efficiency presupposes social coherence and political stability; and that the institutions and capabilities needed for genuine development must built slowly through state involvement over extended periods of time. Instead of narrowing the scope for that involvement and increasing the economic pressures under which the task has to be fulfilled, the international institutions should be creating a space that would allow developing countries to proceed at a pace determined by their historically given circumstances, however all these were proved in this chapter.

This chapter further proves that irrespective of the indifferent South African economic background, there are signs that a more competitive space economy is emerging as cities become more intense with growth and development as they join regional and sub-regional marketing associations, in some cases considering more sophisticated strategies. The use of the media in re-imaging has become extensive in attempting to propel localities into the 'new' South Africa. Cities such Johannesburg, Tshwane (Pretoria), Ekurhuleni (East Rand), Cape Town, Durban and Port Elizabeth have been advertising extensively on national television, and have take on significant advertising budgets.

From the economic point of view, issues such as labour relations, the facilitation of employment opportunities, decline in progress in the manufacturing sector infrastructure, the development and promotion of SME's were largely regarded primary status in terms of economic objectives and strategic priorities. In addition, what seems to stand out in the case studies examined is the general cohesion that seems to exist within the large metropolis. This had been evident in both Durban and Pretoria. Similarly, the formation of an economic forum established in 1994 in Greater Pretoria was remised through their lack of organised labour representation during initial stages. This once again brings to the fore the issue of legitimacy, particularly given the importance of labour as a significant stakeholder as discussed in chapter 4.

Industrial development in Durban, Port Elizabeth, Cape Town and Tradepoint Pretoria in Greater Pretoria seems to be well supported. As relatively industrialised cities, it makes sense that industrial development be included as strategy mix. The concept of Coega IDZ and port in Port Elizabeth provides a mechanism to achieve this goal. However tourism industry has also been growing in these five large South African cities, justifying its inclusion in these cities' "grand plan" for LED. It will be important for these cities to attract, develop and support new and existing large businesses. Particular efforts must be made to encourage small business development amongst the marginalised communities so that a greater impact is made in terms of reducing unemployment and poverty.

Chapter 6 reported on a survey conducted during 2003 on the competitiveness of all South African municipalities. This chapter started by explaining the importance of validity and reliability in the research itself and the significance of Cronbach- Alpha test to determine that respondents completed the questionnaire with great care and high degree of accuracy and followed by a reported survey on the competitiveness of South African municipalities. The study commenced by reporting the results of the responding municipalities that were received.

Although most municipalities do not rate as very highly competitive, the result were much better than was expected, especially with regard to competitive strengths and investment opportunities which included related and supporting industries and institutions, municipal strategy, structure and rivalry, quality and environment, globalisation and technology and innovation, rated to be fair and good. Rating of locational aspects were also not as bad and mostly were rated to be good. Poor and mostly fair ratings were given to resources, human resource and local economic development. Details will follow in the next paragraphs.

The subjective nature of this survey can be criticised as most of the municipal managers whom responded to the questionnaire seemed to be very careful not to put their municipalities under tremendous pressure when answering the questionnaire. So most of the questions were carefully answered and most of them rated themselves very high, but the ease in which this questionnaire can be completed and the good response did, however, provide a generous amount of useful information that would not have been possible to gather otherwise. The exceptionally high Cronbach alpha values definitely suggest the response from municipalities as being very significant.

According to the classification of municipalities, most municipalities who responded were category B municipalities and disappointingly only one from category A municipalities responded and a fair amount from category C. The worrying factor in this sub-topic was the low budgets in which a lot of municipalities are operating under and how they are expected to survive with these low budgets. Most municipalities are still depending on agriculture and government and community services as main sector of their local economy, but manufacturing is not there to supplement what they are getting from the government and agriculture. This situation shows that a lot of hard-work needs to be put in-place to attract investment to these municipalities.

It was a real frightening situation to see how lightly the majority of South African municipalities are taking local economic development. 62.2% of these municipalities does not have a separate LED department, with no annual budget and full time employees. 79.2% does not have municipality entity to attract investment, but 62.2% claims to have an LED strategy. 98,1%, does not have a credit rating but surprisingly only 33.9% are willing to apply for it. In addressing basic needs, housing, sanitation, water and job creation dominated the challenges.

The response on globalisation was also not as bad as it was thought to be. It was encouraging to see 49% and 33.9% of municipalities indicating things have either improved or remained the same as a year ago. At the same time, 94.5% indicated that access to basic needs have improved over the last ten years. The majority of municipalities seems to be in favour of globalisation and believe that globalisation promotes innovation and growth and the government should try to actively promote it.

It remains a worrying factor to see a large percentage of 64% rating the availability of suitable offices between poor and fair. It remains an abnormal situation and atmosphere to run business as big as municipalities with such poor facilities. This kind of environment will definitely inconvenience the proper delivery of services to the community and demoralise the workers.

The response for competitive strength and investment opportunities is not so even, but promising. As the research relates, respondents rate the human resource and resources to be poor but sometimes fair. This implies that they feel slightly unsatisfied with the human resources and resources they are using, and the availability of training to their employees. The education level of labour in general should be improved. Local demand conditions are presumed satisfactory, but it is assumed that the minor problem the municipalities might be encountering can be addressed in the long run following industrial development and job creation, but also economic development of the people in all facets of their lives including income equity, education and better facilities and services to name a few.

Responding to related and supporting industries and institutions, the respondents felt partially dissatisfied about the co-operation they are getting from certain industries and institutions, but the majority co-operated well. The services and co-operation they are getting can be regarded as being fair, which means a lot of attention should and must be given and applied to the improvement of this situation. The most welcoming response was from municipal strategy, structure and rivalry where respondents felt mostly satisfied about the co-operation they were getting from other sectors of the community, neighbouring municipalities and provincial and national government, but a little short from outstanding debts. A high rating of management skills and practices also proved that most municipalities are in capable hands.

Although the response in connection with technology and innovation and quality and environment seems to be good, but an effort to become and remain competitive, capable and the capacity for the acquisition and utilisation of technology together with good and healthy environment for attracting investors, should continually expand and improve.

The survey highlighted the reliability and quality of communication services, electrical supply, water and other utilities, which were rated very high be all respondents. The study revealed much details, like the need for cold storages, industrial training services, investment from abroad etc. Respondents rated harbour and ocean freight facilities as being a very poor and failing service. But the reason as it was later presumed, might be that the distance from the sea is the one that presents a competitive disadvantage to landlocked provinces. The same applies to provinces and municipalities without large airports.

7.3 RECOMMENDATIONS

Based on the objectives of the study, which is to evaluate the potential of South African municipalities and cities economic according to Porter's competitive platform and the findings outlined in section 7.2 above, the below recommendations can be made:

- More research need to done by municipalities themselves to compare fully the needs of their communities. This will give valuable information to the municipalities on what the community needs, what the investors need and expect from them and what their municipalities need in general. This could assist in the creation of capabilities, capacity and expertise necessary to lead South African municipalities successfully into the competitive modern global economy. Also, the government should conduct more researches' especially with highly skilled research units like DTI and CSIR. The country also has universities that can help in making sure that these researches are conducted professionally.
- The authorities can also do research in certain industries, especially from abroad e.g. Netherlands and Japan where a strong technological platform is very successful and this could assist in the creation of capabilities, capacity and expertise necessary to lead South African cities successfully into the competitive modern global new economy. The import of capital goods is very expensive and frequently modern technological equipment will be too expensive to acquire. Here the authorities can assist and if profitable, even consider manufacturing such equipment locally.
- Where services are inefficient, municipalities with the help from national and provincial government could help in this regard. The private sector can be taken into partnership. Private sector should be protected at all costs but of course without sacrificing of South African labour laws in order to reap something from their involvement. Services such as cold storage facilities, ocean freight, technology etc that are not sufficiently supplied, can be initiated and improved by the government in collaboration with the private sector initiative.
- It was found that there are specific differences in competitiveness in various municipalities, which implies that different municipalities should focus on

different priorities and selective interventions. While most municipalities have different aspects to concentrate on, special attention should be given to skilled labour (proper human resource), infrastructure and resources, local economy, business efficiency which will lead to job creation, internationalisation, rates and taxes, housing, outstanding debt and lastly science and technology including availability of industrial training facilities in an effort to improve efficiency and productivity.

- The Minister of Finance should continue with the good work he has been doing for the past years when dealing with taxes. Tax alleviation and relief for businesses and industries could assist in development and more investment coming to South Africa.
- The problems of labour skills can be addressed if more training can be given to all municipality workers to upgrade their present skills. Training facilities should, for instance, be built and promoted and with the help of the private sector this dream can be realised. Where private sector provides training, the government should see to it that subsidies are provided. More effort should also be taken by these municipalities to recruit well educated and well skilled people in their specific field rather than making political appointments that does not do their municipalities any good.
- The national and provincial governments should help these municipalities with information and assist in finding the export market and learning the basics and procedures of LED. The market demand will only improve if LED is correctly practised and implemented. The other contribution to an aggressive market demand would be when the economy in South Africa is growing and investment flow into the country due to profitable expectations. When the economy improves due to its high competitive position, investment will increase, leading to more people being employed, and more people receiving income ensuring high market demand that will ensure sustainable economic and employment growth.
- The government has introduced performance management system as a measuring tool for delivery and working performance for managers. The system should be stretched down to every employee of the municipalities for better performance and delivery. This will create efficiency and user-friendly atmosphere that will put the municipality's primary clients first. Unnecessary hindrances could be

eliminated and better co-operation with other industries and institutions could improve, while an image of friendliness and commitment are portrayed.

- Political and policy stability and transparency should be the order of the day so that the country could be portrayed as a risk free environment where peace and stable policies ensure positive investment gains. The national and provincial government should help the municipalities with the correct interpretation and implementation of these policies.
- Unit labour costs also deserve a particular attention for developing countries like South Africa that wish to increase their shares of manufactured exports. South Africa's unit labour costs are presumed to be generally high and therefore wage moderation and a continued real depreciation of exchanges are necessary to gain competitiveness against other developing countries and to generate continuous growth of exports and foreign direct investment.
- Conditions that facilitate foreign direct investment (FDI) needs to be improved by the South African government to suit municipalities. Problems encountered by municipalities in this regard should occupy the first agenda of national and provincial governments, especially in the usage of resources and new technology in the world market and export assistance scheme, technology transfer and SMME's, Competition policy and special economic zones introduced by DTI South Africa should be encouraged at all costs.
- A more appropriate municipality policy should focus on integrating the South African municipalities into the world economy and the locational based support programmes allowed under World Trade Organisation (WTO) rules should be used to address the low level of competitiveness amongst South African municipalities.
- South Africa's comparative advantage should encourage more and better intra and inter municipality co-operation because if not exercised, it is unlikely that business between municipalities and municipalities themselves will work together to enhance competitiveness.
- In improving the municipality competitive platform in South Africa, it is necessary for the government to start a propaganda campaign to encourage people to start paying services again. The community must be fully convinced that the era of apartheid is over where non-payment was used to force the government of the

past to change, but now that freedom is achieved, people must start paying for their services.

- A body should be established that could assist people and their municipalities in developing new plans and innovations further. With new innovations and new technology the municipalities can yield high profits. The import of new and modern technology can sometimes be too expensive for municipalities but in this case the government can assist these municipalities to get these equipment if there is a need.
- In an open market place, South African municipalities, in being part of a third world country, need to improve its competitive strategy to survive and prosper. It needs a technologically advanced labour force that could support municipalities development and eventual growth in competitiveness, productivity, income and living standards.
- Strong leadership (qualified and well conversant municipal manager) in local government (government more closer to the people) is essential and needs to initiate a programme of action, while private sector also does its share of promoting the country and developing competition.

In conclusion, globalisation is putting pressure on South Africa's municipalities to become more competitive. The response ought to craft appropriate LED-strategies that address each aspect of their competitive platform. This study has indicated where and how this competitive platform in South Africa can be improved.

APPENDIX

QUESTIONNAIRE

NORTH WEST UNIVERSITY (Potchefstroom Campus)

LOCAL GOVERNMENT SURVEY 2003
THE COMPETITIVENESS OF THE BUSINESS PLATFORM

(For office use only)

Dear Municipal Manager

HOW CAN THE COMPETIVINESS OF YOUR MUNICIPALITY BE IMPRROVED

We would be grateful for ten minutes of your time to complete this questionnaire as accurately and objectively as you can, and return it to us in the enclosed, stamped envelope.

All individual information/opinions gathered will be treated highly confidential.

By completing this questionnaire and sending it back to us, you would help us form a scientifically rigorous picture of the perceived challenges that managers of local government in south Africa experience in improving the competitiveness and growth potential of their municipalities. We will be able to identify the perceived strengths, weaknesses and obstacles of the business climate and environment your municipality. From this will be able to identify support measures provincial and national government can take to improve the business climate in municipalities across the country. Ultimately, the beneficiaries of this information must be local government.

We will through our website (www.developmentresearch.co.za and www.workwell.co.za) as well as the media give full feedback. A full report will also be submitted to the Department of Provincial and Local government. If however, you would like to receive an individual copy of the results, we would be more than happy to provide it

WorkWell
Research Unit for
People, Policy and Performance

PROF. W.A. NAUDé

Part 1: Classification of municipality
(Fill in the values)

1.1 Category of Municipality (A, B or C)
1.2 Annual Budget (most recent financial year) Rands)
1.3 Operational Budget (most recent financial year) (Rands)
1.4 Capital Budget (most recent financial year) (Rands)
1.5 Capital Budget (Most recent financial year)
1.6 Size of municipal area (km^2)
1.7 Total population in municipal area (most recent IDP figures)
1.8 Value of building Plans approved in the past financial year (Rands)
1.9 Main Sector of the Local Economy (**Mark the appropriate block**)

1. Agriculture		2. Manufacturing		3. Mining	
4. Financial and Business Services		5. Government and Community Services		6 Other	

Do you have an Internet Address (e-mail)?

Yes	No

Internet Address (optional for receiving a
Copy of our findings) ____________________

Part 2: Local Economic Development Institution

2.1 Does your municipality have a separate LED department? Yes = 1, No = 0

If YES:

2.2 How many full-time employees are there in your LED department?

2.3 What is the annual budget of your LED department?

2.4 What are the highest qualifications of your director of Local Economic Development? (**Mark the appropriate block**)

Matric		B.–degree		M-degree	
Diploma/ Certificate		PhD			

2.5. Do you have a separate municipality entity (e.g. Section 21 company) to attract investment into municipality? Yeas = 1 , No = 0

2.6. Do you have a LED Strategy for your municipality? Yes = 1 , No = 0

2.7. Does you municipality have a credit rating (e.g. from Standard and Poor's

Yes = 1, No = 0

2.8. If YES: What is your credit rating?

2.9. If NO: do you consider applying for a credit rating? Yes = 1, No = 0

2.10. How much rough does your municipality spend per annum on Marketing its economy and the business opportunities that are available? (R) ☐

2.11. In addressing basic needs in your municipal area (e.g. water, sanitation, housing, etc.) where does your municipality's biggest challenge lie?

____

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____

Part 3: Globalisation

3.1. What is your feeling about how things are going with your municipality's local economy compared to a year ago? Overall, would you say the local economy is getting better, getting worse, or is staying about the same?
(Mark the right block)

1. Getting better	
2. Getting worse	
3. Staying the same	
4. do not know	
5. No comment	

3.2. Would you say that, over the last ten years, the access to basic needs in your municipality has improved, or worsened? **(Mark the right block)**

1. Improved	
2. Worsened	
3. Stayed the same	
4. Do not know	
5. No comment	

3.3. Would you say that, over the last ten years, the access to employment by people living in your municipal area has improved, or worsened? **(Mark the right block)**

1. Improved	
2. worsened	
3. Stayed the same	
4. Do not know	
5. No comment	

3.4. Which of the following statements do you think most accurately describes the true impact (or expected impact) of globalisation on your municipality? **(Mark the right block)**

1. Globalisation promotes innovation growth	
2. Globalisation destroys national and local identities	
3. Globalisation exploits the poor	
4. Globalisation results in better living standards	
5. Globalisation does not exist	

3.5 How positive or negative do you think the process of globalisation is for the economic and social development of your municipality? Please answer on a scale of 1 to 5, with 1 being completely negative, 5 being completely positive and 3 being equally positive and negative. **(Mark the right block)**

1. completely negative	
2. Negative	
3. Equally positive and negative	
4. Positive	
5. completely positive	

3.6 Overall, with regard to further globalisation, do you think that it should be the goal of the South African government to (**choose an option and mark the corresponding block**):

1. Try to actively promote	
2. Simply allow it to continue	
3. Try to slow it down	
4. Try to stop or reverse it	
5. Do not know	

3.7 What do you think is the impact of the rapid growth in international trade on your municipality's economy? Please answer on a scale from 1 to 5, with 1 being completely negative, a 5 being completely positive and 3 being equally positive and negative.

1. Completely negative	
2. Negative	
3. Equally positive and negative	
4. Positive	
5. Completely positive	

3.8 Thinking about the benefits of international trade, do you think that for the most part, your municipality's economy benefits more than other municipalities in South Africa, that other municipalities' economies benefit more than yours, or that its about equal?

1. Our municipality benefit more	
2. Other municipalities benefit more	
3. About equal benefit for all	
4. No benefit for any municipality	
5. Do not know	

3.9 What do you consider to be the most important challenges of globalisation for your municipality? (list few)

____

____

____

____

Part 4: competitive Strengths and Investment Opportunities

Rate the factors below according to their impact on Your municipalities' competitiveness /effectiveness to support business develop and investment.

1	2	3	4	5
Very poor	Poor	Fair	Good	Very good

4.1 **Human Resources**

4.1.1 Availability of technically skilled labour.					
4.1.2 Availability of managerial staff					
4.1.3 Wage rates					
4.1.4 Unit labour cost/output per worker					
4.1.5 vocational/ industry related training facility					
4.1.6 Work ethic of labour force					
4.1.7 Productivity of labour force					
4.1.8 Workplace regulations					
4.1.9 Dependency on Consultation					
4.1.10 Availability of staff to understand and implement the IDP					
4.1.11 Efficiency of support from provincial and local government					

4.2 **Resources**

4.2.1 Availability of suitable offices					
4.2.2 Financial Resources for economic development and promotion					
4.2.3 Research and Business facilities, resources and support service					
4.2.4 IT infrastructure and council chambers					
4.2.5 Trade and business association support					
4.2.6 Market and product information					
4.2.7 Availability of capital					
4.2.8 Cost of capital					
4.2.9 Project development and financial support					
4.2.10 Application of modern technology					
4.2.11 Access to Finance					
4.2.12 Level of development of the financial and banking sector					
4.213 Telecommunication service					
4.2.14 Electricity Cost and Reliability					
4.2.15 Road and rail network					
4.2.16 Air transport network					
4.2.17 Sea transport network					
4.2.18 Traffic and congestion problems					
4.2.19 Social Infrastructure (medical facilities, schools, etc.)					

4.3 Demand Conditions

4.3.1 Size of the local market (strength of purchasing power)					
4.3.2 Export opportunities					
4.3.3 Structure of local demand (consumer sophistication etc.)					
4.3.5 Levels of market differentiation and saturation					
4.3.6 Market or sales price					
4.3.7 Population growth					

4.4 Related and Supporting Industries and Institutions

4.4.1 Co-operation with business associations					
4.4.2 Contact with organisation and firms on other countries					
4.4.3 Usefulness of SALGA					
4.4.4 Provincial and national Government competence					
4.4.5 Co-operation with neighbouring municipalities					
4.4.6 Support from national and provincial investment promotion agencies					
4.4.7 Support from the Industrial Development Corporation					
4.4.8 Support from the Develop Bank of Southern Africa					
4.4.9 Co-operation with organised agriculture					

4.5. Municipal Strategy, Structure and Rivalry

4.5.1 Co-operation with suppliers/consultants					
4.5.2 Co-operation with citizens					
4.5.3 Co-operation with neighbouring municipalities					
4.5.4 Co-operation with other spheres of government					
4.5.5 Employee performance incentitives					
4.5.6 Growth in revenue					
4.5.7 Outstanding debt/culture of non-payment					
4.5.8 Managerial practices					
4.5.9 Managerial skills in integration and innovation of municipal activities					

4.6 Technology and Innovation

4.6.1 Improvement in service levels					
4.6.2 Use in computers					
4.6.3 Use of the Internet					
4.6.4 Use of cell phones and similar modern communication technology					
4.6.5 Investment in the new technology					
4.6.6 New innovation within the municipality					
4.6.7 New innovative application of existing technology					

4.7 Quality and Environment

4.7.1 quality of policies to protect the environment					
4.7.2 Quality of services delivered (e.g. zoning, refuse removal)					
4.7.3 Quality of infrastructure (e.g. sanitation, clinics, roads)					
4.7.4 Cost of compliance to environmental and sanitation, clinics, roads					
4.7.5 Pollutants in the municipal natural environment					
4.7.6 Cost compliance to environmental legislation					
4.7.7 Lack of/ unclear environmental protection legislation/guidelines					
4.7.8 disaster management policies and procedure					

Part 5: Rate the following locational aspects of your municipality

5 Very Good 4 Good 3 Poor 2 Very Poor 1 Fail 0 Not Applicable

-Draw an X in the appropriate square

5.1 Availability of harbour facilities	0	1	2	3	4	5
5.2 Proximity to Professional Services	0	1	2	3	4	5
5.3 Proximity to main road links	0	1	2	3	4	5
5.4 Reliability or water supply	0	1	2	3	4	5
5.5 Availability of courier services	0	1	2	3	4	5
5.6 Availability of ocean freight services	0	1	2	3	4	5
5.7 Availability of corporate financial services	0	1	2	3	4	5
5.8 Availability of container services	0	1	2	3	4	5
5.9 Availability of trucking services	0	1	2	3	4	5
5.10 Personal contact with customers	0	1	2	3	4	5
5.11 Proximity to national airport	0	1	2	3	4	5
5.12 International airport facilities	0	1	2	3	4	5
5.13 Reliability of electricity supply	0	1	2	3	4	5
5.14 Proximity of railheads	0	1	2	3	4	5
5.15 Rates and taxes	0	1	2	3	4	5
5.16 Availability of cold storage facilities	0	1	2	3	4	5
5.17 Availability of health services	0	1	2	3	4	5
5.18 Proximity to market	0	1	2	3	4	5
5.19 Proximity to support service	0	1	2	3	4	5
5.20 Reliability of telecommunication services	0	1	2	3	4	5
5.21 Local environmental considerations	0	1	2	3	4	5
5.22 Availability of quality shopping services	0	1	2	3	4	5
5.23 Availability of schools, colleges, etc.	0	1	2	3	4	5
5.24 Availability of entertainment/recreation facilities	0	1	2	3	4	5
5.25 Availability of after sales services	0	1	2	3	4	5
5.26 Availability of subcontractors	0	1	2	3	4	5
5.27 Availability of semi and unskilled labour	0	1	2	3	4	5
5.28 Availability of housing for employees	0	1	2	3	4	5
5.29 Proximity to suppliers of spare parts	0	1	2	3	4	5
5.30 Availability of industrial land	0	1	2	3	4	5
5.31 Cost of industrial land	0	1	2	3	4	5
5.32 Proximity to semi processed materials	0	1	2	3	4	5
5.33 Availability skilled labour	0	1	2	3	4	5
5.34 Proximity to raw materials	0	1	2	3	4	5
5.35 Availability of intermediate inputs	0	1	2	3	4	5
5.36 Quality of water and other utilities	0	1	2	3	4	5
5.37 Cost of water	0	1	2	3	4	5
5.38 Cost of telecommunication services	0	1	2	3	4	5
5.39 Cost of electricity	0	1	2	3	4	5
5.40 Availability of housing for low income earners	0	1	2	3	4	5
5.41 Availability of industrial training facilities	0	1	2	3	4	5
5.42 Labour cost	0	1	2	3	4	5
5.43 Transport costs in	0	1	2	3	4	5
5.44 Transport costs out	0	1	2	3	4	5
5.46 Availability of other manufacturing firms in the industrial district	0	1	2	3	4	5
5.47 Probable investment risk	0	1	2	3	4	5
5.48 Business support service	0	1	2	3	4	5
5.49 Other government incentives	0	1	2	3	4	5
5.50 aid from national or provincial government	0	1	2	3	4	5
5.51 Investment from abroad	0	1	2	3	4	5
5.52 Import tariffs and other international trade restriction	0	1	2	3	4	5
5.53 Political and policy stability and transparency	0	1	2	3	4	5

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