



**LOCAL ECONOMIC  
DEVELOPMENT  
DEBATES IN  
SOUTH AFRICA**

**Municipal Services Project**

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**LOCAL ECONOMIC  
DEVELOPMENT DEBATES IN  
SOUTH AFRICA**

BY  
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## **ABOUT THE PROJECT**

The Municipal Services Project is a multi-year research, policy and educational initiative examining the restructuring of municipal services in South(ern) Africa. The project's central research interests are the impacts of decentralization, privatization, cost recovery and community participation on the delivery of basic municipal services like water, sanitation and electricity to the rural and urban poor. The research has a participatory and capacity building focus in that it involves graduate students, labour groups, NGOs and community organizations in data gathering and analysis. The research also introduces critical methodologies such as 'public goods' assessments into more conventional cost-benefit analyses.

Research results are disseminated in the form of these Occasional Papers publications, a project newsletter, academic articles and books, popular media, television documentaries and the internet. The project website is located at [www.queensu.ca/msp](http://www.queensu.ca/msp).

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# EXECUTIVE SUMMARY

What is Local Economic Development (LED)? What would 'pro-poor' LED consist of in South Africa? Are residual anti-poor strategies still being pursued?

This report examines these questions and explores the still emerging discipline of LED in the context of globalisation. The context is important because since globalization intensified two decades ago there has been extraordinary pressure on municipalities to become more entrepreneurial. 'Smokestack chasing' was the main way in which they reacted to globalisation pressures, to the detriment of each other. The 'race to the bottom' witnessed elected officials offering major concessions on taxes and municipal services, often at the expense of their rate base and their citizens' welfare.

In particular, concern about the erosion of 'public goods' – whether local (e.g., women's inequality soared) or global (public health epidemics) – has emerged in the wake of this period of intense globalisation. Many experts acknowledge that the prior focus on purely market-determined economic development, accompanied by appeals for foreign investment by national and local leaders, led to Local Economic *Underdevelopment*. 'Sustainable development' is back on the agenda – and not only because South Africa will host the World Summit on Sustainable Development in August 2002.

South Africa's recent LED Policy Paper has also come to decry old-fashioned smokestack-chasing strategies, including "the packaging of subsidies, tax holidays, and free infrastructure/services oriented to attracting outside industry." Instead, the Department of Provincial and Local Government promotes six "developmental" LED strategies: community-based development; linkage; human capital development; infrastructure and municipal services; leak-plugging in the local economy; and retaining and expanding local economic activity.

The old-fashioned strategies are also still evident, however, especially in “Export Processing Zones” (EPZs) “Industrial Development Zones” (IDZs), and “Spatial Development Initiatives” (SDIs) which are characterised by their top-down character, extremely high costs per job created (often in excess of R1 million), lack of inter-relationships with downstream/upstream industries, very little employment potential and adverse prospects for women workers. One reason for ongoing state support for SDIs is the prevalence of corporate power in decision-making; another is that the tough work entailed in mapping out alternative strategies has not yet been attempted by most municipalities. That work requires sensitivity to local poverty, and calculations about economic benefits derived by poor people from municipal services provision.

In addition to gender equality, improved public health, lower levels of racial segregation, and improved social capital, a renewed commitment to municipal infrastructure investment and service delivery would have enormous positive economic implications for job creation, worker productivity and small enterprise promotion. For example, for every 100 households that are connected to the electricity grid, between 10 and 20 new economic activities are started.

To achieve bottom-up LED, with all its social and environmental benefits, requires an approach to municipal services provision based upon municipal responsibilities to provide at least a basic minimal amount of water/sanitation (50 litres per person per day is the medium-target in the Reconstruction and Development Programme) and electricity (1 kiloWatt hour per capita per day) as a lifeline amount, with higher volume consumption (i.e., following the 50th liter of water) attracting much higher (and rising) tariffs. The first step, however, is for municipalities to commit to pursuing LED from the bottom up, through embracing their own capacities, nurturing and sustaining a more genuinely developmental approach to their local economies, and reversing worsening patterns of uneven development that have followed from decades of pursuing non-developmental approaches.

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# INTRODUCTION

## A NEW PARADIGM FOR LED?

**L**ocal Economic Development (LED) is a discipline still coming into its own, with competing strands of argumentation still generating conflict. At the root of the conflict is debate over whether traditional types of local strategies, applied in Southern and Eastern Africa, a) are working, and b) are generating “pro-poor” economic development – or instead, simply more “uneven development.” The latter term refers to a structured, systematic mode of capital accumulation at one pole, and the “development of underdevelopment” at another. Although it was once associated with “dependency theory,” it is a far more subtle conceptual approach to understanding ingrained poverty and inequality (See Bond 1999, Bond 1998 and Bond 2000). The past two decades have, after all, witnessed extraordinary pressure on local authorities, especially formal municipalities, to become more entrepreneurial. These pressures have accompanied the overall slow-down in growth in the international economy that began during the late 1970s, and reflect shifting power relations. In short, urban entrepreneurialism became a feature of virtually all LED strategies as competition for investment intensified. The term “smokestack-chasing” emerged to characterise the most ambitious attempts to “place-market” a given municipality.

The tide has probably turned on this epoch, which was called the period of the “Washington Consensus” because it entailed rigid nation-state adherence to “neoliberal” (free-market) dictates, often enforced by the International Monetary Fund, World Bank, and the discipline of international financial markets. These include:

- government budget cuts, increases in user-fees for public services and privatisation of state enterprises;
- the lifting of price controls, subsidies and any other distortions of market forces;

- liberalisation of currency controls and currency devaluation;
- higher interest rates and deregulation of local finance;
- removal of import barriers (trade tariffs and quotas); and
- an emphasis on promotion of exports, above all other economic priorities.

It may only be symbolic, but the choice of Joseph Stiglitz as Nobel Prize co-recipient in October 2001 signifies a potential break from the old mode of economic policy-making, one which will soon reach municipal levels. Stiglitz' prize-winning work on "information-theoretic" economics allowed him to establish a very strong moral commitment to "sustainable development" during his 1997-99 tenure as chief economist at the World Bank, and his influence is one reason why in 1998-99, the Bank and IMF turned to Poverty Reduction Strategy Programmes. Although many observers – e.g., in the Jubilee movement across Africa and the Third World – have decried the strong rhetoric while little has changed in real terms, this may also be a matter of time. For Stiglitz' two most important refutations of the Washington Consensus only occurred in 1998, at the United Nations University's World Institute for Development Economic Research (Stiglitz 1998a), and at the United Nations Conference on Trade and Development (Stiglitz 1998b),

Subsequently, renewed attention to "global public goods" by many in the United Nations system, including the World Bank, suggests that the prior focus on purely market-determined economic development, accompanied by appeals for foreign investment by national and local leaders, may truly be nearing an end. It is now obvious to all concerned that the striking inequalities generated in recent decades must be reversed, otherwise risks of social, economic, political, cultural, religious and environmental stress will become unbearable. In the sphere of LED, this means that something other than the "smokestack-chasing" of investment-attraction, entrepreneurial modes will be required – in part because the strategy of attracting foreign investment simply isn't working in Africa.

### THE DECLINE OF "SMOKESTACK-CHASING"

**T**here are many African leaders – both in states and civil societies – who have voiced a commitment to a Stiglitz-style "Post-Washington Consensus" that focuses more on sustainable local development than on the failed structural adjustment strategies. To take one example, even South African president Thabo Mbeki has recognised that:

*Many of our countries, including all those on our Continent, do not have and are unlikely to have in the foreseeable future, the strength themselves to determine on their own what should happen to their economies. The more they get integrated into the world economy, the further will this capacity be reduced, making them more dependent on the rest of the world economy with regard to meeting the challenge of ending poverty within their countries (Mbeki 2000a).*

The evidence for this, Mbeki continues, lies in the failure of foreign investors to materialise in sufficient quantity to allow capital accumulation to “take off” in Africa:

*Notwithstanding some specific problems in some developing countries and especially African countries, there are many among these countries that have and continue to have stability and are at peace with themselves, countries that have responded positively, even under very difficult circumstances, to the prescriptions of both the prospective investors as well as the multi-lateral institutions. Many of these countries have created the necessary climate conducive to investment, for example by liberalising their trade, privatising state-owned enterprises, reforming their tax system and generally adhering to the prescribed injunctions, all done in an attempt to attract the necessary investments. The response from the developed countries, to these attempts by especially many African countries to stay within the confines of the rules, has been to treat the African continent as one country, and therefore, to punish a country on the one end of the continent for the deeds of another on the other end. In our own country, we have been assured that our economic fundamentals are correct and sound. We have developed a stable and effective financial and fiscal system. We have reduced tariffs to levels that are comparable to the advanced industrial countries. We have reformed agriculture to make it the least subsidised of all the major agricultural trading nations. We have restructured our public sector through privatisation, strategic partners and regulation. We have an equitable and sophisticated system of labour relations that is continually adjusting to new developments. We play an active role in all multilateral agencies in the world. Yet, the flow of investment into South Africa has not met our expectations while the levels of poverty and unemployment remain high (Mbeki 2000b).*

To review the data on investment flows to Africa as a whole – and Eastern/Southern Africa in particular – is depressing. Across the world there was a large upsurge in Foreign Direct Investment (FDI) since the 1980s (United Nations 2000). From levels in the \$50-100 billion range from the mid-1970s to the mid-1980s (as profits stagnated at post-war lows in the major industrialised countries), there was a huge boom once liberalisation of financial and trade policies were imposed, and as local currencies fell dramatically in the process. Overseas investments by TNCs skyrocketed to \$865 billion by 1999, getting firesale prices in East Asia at the end of the century thanks to that region's financial collapse. From 1990-99, global FDI rose by 314%, compared to an increase in world trade of 65% and world GDP growth of 40%. However, FDI trends exemplified global "uneven development." Just ten major developed countries account for 70% of FDI activity (Japan, Belgium/Luxembourg, Ireland, Canada, Germany, the Netherlands, France, Sweden, Britain and the United States). Still, a growing share of FDI can be found in the largest emerging markets (especially China, East Asia and the large Latin American countries). All developing countries attracted annual FDI flows of \$175 billion during 1997-98 and \$200 billion in 1999 (up from just \$25 billion in 1990). During the 1990s, annual commercial bank loans rose from \$20 billion to \$100 billion in 1997 but dropped back down to \$20 billion in 1999; portfolio investment rose from \$5 billion to \$50 billion in 1996 but fell to \$25 billion in 1999; and Official Development Assistance stayed relatively stagnant at around \$50 billion over the period. Thus by 1999, FDI represented 67% of all North-South flows of resources. Meanwhile, Africa's share of FDI fell from 25% of all TNC investments during the 1970s to less than 5% during the late 1990s. And even the tiny amounts of FDI in Sub-Saharan Africa in recent years can be attributed in large part to oil company investments in Angola (\$1.8 billion in 1999) and Nigeria (\$1.4 billion).

The only substantive FDI flows into Sub-Saharan Africa unrelated to extractive minerals by 1999 were into South Africa (\$1.4 billion). But on a relative basis, that amounted to just \$10 per \$1000 of GDP in South Africa (the same as Zimbabwe). And regrettably, due to liberalised foreign exchange controls, South Africa's own outflows of FDI (by SA-headquartered firms) exceeded inflows, even before the repatriation of dividends/profits, payments of patent/royalty fees. Worse, statistics have never picked up the durable problem of transfer pricing, whereby foreign investors steal money from developing countries by misinvoicing inputs

drawn from abroad (e.g., mining firms in South Africa through their Zug, Switzerland offices). In any event, the bulk of FDI into South Africa was based on mergers and acquisitions. Many thousands of jobs were lost in the process, and inappropriate technology transfer made South Africa all the more dependent and vulnerable. In all these regards, FDI exacerbated South Africa's and Africa's vulnerabilities.

The importance for African municipalities of the FDI drought is evident once we consider the range of LED interventions that have been attempted in recent decades. South Africa's own *LED Policy Paper* came to decry the old-fashioned smokestack-chasing strategies, including "the packaging of subsidies, tax holidays, and free infrastructure/services oriented to attracting outside industry. Increasingly, due to the self-defeating nature of 'race-to-the-bottom' competition, a new approach to LED has emerged that instead highlights the mobilisation of internal resources, capacities and skills" (Republic of South Africa 2001).

## SOUTH AFRICA'S MANDATES FOR A DIFFERENT LED

**T**hat South African policy document, entitled *Refocusing Development on the Poor*, recalls most prominently the *developmental* and *pro-poor* responsibilities that municipalities have in South Africa. The most important of these are cited in *Refocusing Development*, and include the *Reconstruction and Development Programme* LED mandate which emerged in the African National Congress campaign platform during the first democratic election in South African history:

*s.4.3.5 In order to foster the growth of local economies, broadly representative institutions must be established to address local economic development needs. Their purpose would be to formulate strategies to address job creation and community development (for example, leveraging private sector funds for community development, investment strategies, training, small business and agricultural development, etc.). If necessary, the democratic government must provide some subsidies as a catalyst for job-creation programmes controlled by communities and/or workers, and target appropriate job creation and development programmes in the most neglected and impoverished areas of our country. Ultimately, all such projects should sustain themselves.*

Two years later, in 1996, the *Constitution* established the following “socio-economic rights” that municipalities must observe:

*s.24(1) Everyone has the right a) to an environment that is not harmful to their health or well-being; and b) to have the environment protected... s.26(1) Everyone has the right to have access to adequate housing... s.27(1) Everyone has the right to have access to a) health care services, including reproductive health care; b) sufficient food and water; and c) social security, including, if they are unable to support themselves and their dependents, appropriate social assistance.*

The meaning of these rights are still being established in case law, including the September 2000 “Grootboom Decision” which deemed both national and municipal policies unconstitutional because neither the Department of Housing in Pretoria nor the Western Cape province’s Westdene municipality offered even short-term emergency housing and municipal services to the poorest of the poor.

Finally, an additional progressive mandate emerged in a 1998 *Local Government White Paper*, which – as noted in *Refocusing Development* – endorses basic service subsidies, support to community organisations (in the form of finances, technical skills or training), and “linkage” policies that directly couple profitable growth and investment with redistribution and community development in lower-income sections of a municipality.

## OUT WITH ORTHODOX LED

**A**s discussed in more detail below, practical contestation between “place-marketing” and “pro-poor” visions of LED continues – and in some municipalities has reached crisis point – but the overall trend should be clear. To conceptualise this within the context of international trends, consider the following diverse approaches to LED. As understood in South African debates that have raged since the mid-1990s, 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. The various subcomponents of the old, orthodox paradigm of LED include strategies termed entrepreneurial-competitive, urban efficiency and progressive-competitive. Brief descriptions of the typologies may be useful.

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

“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 service charges, and by privatising services where possible. By contrast, others believe that strong government planning is key to achieving efficiency.

Amongst “progressive-competitive” strategies, Human Resource Development is also identified as a key focus for local economic development strategies. The argument is that low skill levels, especially amongst 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.

## IN WITH “DEVELOPMENTAL” LED

**I**n contrast, “community-based” strategies associated with a new, more sustainable LED paradigm, 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 community development trusts and worker- or community-controlled enterprises such as local credit unions or development corporations is a key feature of this approach. This approach explicitly aims to link profitable growth and redistributive development.

After extensive international study, the South African government categorised six “developmental” LED strategies which it made a commitment to supporting: community-based development; linkage;

human capital development; infrastructure and municipal services; leak-plugging in the local economy; and retaining and expanding local economic activity:

- *Community economic development* refers to municipal assistance aimed at the grassroots. Beneficiaries will range from community businesses and cooperatives, to “local exchange and trading systems” (LETS), to “third sector” development experiments (e.g., People’s Housing Processes), savings collectives and informal lending arrangements, community-based environmental management and maintenance schemes, urban farming projects, etc. Such community-based strategies emphasise the importance of working directly with low-income communities and their organizations;
- A related approach is to explicitly aim to *link profitable growth to redistributive development/financing*. An example is construction linkage (also known as “planning gain”), whereby planning or zoning permission in profitable geographical areas is linked to a commitment to invest (for affordable housing, for instance) in impoverished neighbourhoods. Another example of a progressive approach is a requirement that banks or other financial institutions opening a branch in a wealthier area must also do so in a low-income neighbourhood, and must also invest a certain proportion of their turnover in local small businesses;
- Ensuring that economic development brings social benefits often requires *explicit linkages between “living wages,” human capital development and productivity*. Hence, over the past few years, several major municipalities in the United States have introduced living wage ordinances (legislation) at local level, to mitigate against the very low pay that results from certain kinds of employment growth – in services, especially – and to ensure that outside investors are circulating more resources within the local community;
- *Development and maintenance of infrastructure and services* is another vital component. If done properly, developmental LED results from the provision of reliable, cost-effective municipal service delivery (lifeline supplies of water, electricity, sanitation, roads, etc);

- The above interventions should also have the effect of *plugging the leaks in the local economy*, through using resources that are close at hand. Sometimes it becomes crucial to stem the outflow of money from poor areas by encouraging people to buy local, supporting and building periodic markets, funding special events and festivals, providing infrastructure using local labour and locally-manufactured material, promoting employee training, and networking enterprises of all sizes in the local area, etc.;
- Finally, without firm local rootedness, economic activity cannot usually be parachuted down from above. Hence, *retention and expansion of existing businesses* is a common approach. Objectives are typically to assist local businesses to improve their productivity, increase market share and graduate to higher value-added levels in the production chain (Republic of South Africa 2001).

But are these policy-based strategies being applied in practice?

Unfortunately, in some South African municipalities and in some pockets of national government, there remains a residual attraction to place-marketing, smokestack-chasing and urban-entrepreneurial approaches – whether via traditional “Export Processing Zones” (EPZs) or “Industrial Development Zones” (IDZs), or the more recent “Spatial Development Initiative” (SDI) strategy. In part, the ongoing reliance upon orthodox LED reflects corporate-dominated power relations, but in part it also reflects the failure of some municipal officials to give more attention to sustainable development, especially the broader “externalities” associated with municipal services. Crucial contrasts in the two types of practical strategies are considered next.

### **RESIDUAL ORTHODOXY: SDI/IDZS AND THE CASE OF COEGA<sup>1</sup>**

Critics of orthodox LED strategies have recognised that they entail a “race to the bottom” with all other municipalities. The new South African policy discourages LED in the form of:

*mere lobbying for government development projects and funding programmes, hosting of special events, providing (often unaffordable) tax and financial incentives, and skewing social objectives when*

*investors make unreasonable demands upon municipal government. In South Africa, this strategy has been given too much weight, dating even to the 19th century when the major port cities were vying with one another for investment* (Republic of South Africa 2001).

One of the main controversies that has dogged South African LED concerns the country's single largest proposed economic development project, at the Coega River mouth just north of Port Elizabeth, which is being motivated as an IDZ. Reasons why the Coega strategy may not be developmental, or even work on its own terms, are worth reviewing, because they also relate to broader international trends. The Coega project hinges on the promise that SDIs – and within these, IDZs – will help South Africa overcome its lack of international competitiveness.<sup>2</sup> The difficulty of overcoming this problem, inherited from apartheid, is reflected in the massive glut in unutilised international production capacity (worse by 1999 than at any other time since the 1930s, and far worse in late 2001) (*The Economist*, 22 February 1999).

The South African Department of Trade and Industry's project methodology seeks first to identify potential port/rail/IDZ complexes in an underdeveloped target area that might be of interest to investors, and then help local stakeholders plan and promote infrastructural investments which improve access. According to government, the main aims of SDIs for South Africa are:

- to promote export orientation amongst South African firms;
- to earn foreign exchange;
- to ensure sustainable job creation;
- to ensure better utilisation of infrastructure and resources; and
- to broaden the ownership base of the economy (Jourdan, P., K. Gordhan, D. Arkwright, and G. de Beer 1996).

SDIs are to be managed and operated jointly by the state and the private sector and are sometimes designed to include a major road development. Some of the SDIs also link to ports in neighbouring countries such as Namibia and Mozambique. Coega fits into the envisaged "Fish River SDI" that would stretch along the Indian Ocean to East London. The SDIs – especially "development corridors" – were formulated in 1995 by the Departments of Transport and Trade and Industry (DTI), which aimed

to reduce growth discrepancies between the regions of South Africa, as part of a process of economic re-balancing. However, the theory behind the SDI strategy has been criticised for being spatially-determinist (as if merely a corridor locational arrangement will solve durable problems of underdevelopment and uneven development), environmentally destructive, extraordinarily capital-intensive, and inappropriate for backward-forward linkages and for empowerment of previously oppressed people (Pape et al 2001; Jauch and Keet 1996).

There is also a regional (Southern African) rationale for SDIs, of which 14 mostly cross-border projects are proposed. The DTI website argues that a bigger and more integrated market will be more attractive to foreign investors, will help SADC countries achieve “self-sufficiency, industrialisation and modernisation of their economies” and will “increase SADC countries’ bargaining power in international markets.” These are important objectives, but are irrelevant in the case of Coega, given the project’s distance and lack of direct relationship to any cross-border corridor.

SDIs have received high-level political support and in each SDI area high expectations have been built up within local communities. According to a study conducted in August 2000 by the Industrial Development Corporation (IDC) for the DTI, of 1 216 SDI projects identified, 338 are in the implementation stage and 77 have been completed. Another 531 were at the concept/pre-feasibility stage, 213 at the feasibility stage, 40 approved and 17 dropped. The vast majority of projects under implementation in August 2000 were in the Fish River area (109), followed by the Maputo Corridor (60) and the Lebombo SDI (37). Some projects on the IDC list existed before the SDI was set up, in the form of late-apartheid “megaprojects,” so are not technically SDI investments. Columbus Steel, Namakwa Sands and Highveld Steel and Vanadium are mainly owned by Anglo American Corporation, Alusaf by Gencor, and Saldanha Steel by Iscor (which is mainly owned by Gencor and Anglo American). Mozal is mainly owned by Billiton, a London-listed subsidiary of Gencor. All have a large share investment by the Industrial Development Corporation. Critics of these projects at the time argued that the cost per job created was extremely high (R1-3 million), with no guarantee of supplying downstream industries with employment potential. Some created far fewer jobs than were originally planned.

It is also difficult to tell whether a new project set up because the SDI was there or whether it would have set up anyway. And some

projects – such as the arms-purchase offset at Coega<sup>3</sup> and proposed Ramatex textile factory in East London<sup>4</sup> – simply failed to materialise. Thus, notwithstanding a few successes, the SDI programme has only attracted a very small percentage of the investment that was hoped for.

For example, the West Coast Investment Initiative identified 120 projects, but so far only 17 have gone ahead and most of these have been government supported. The private sector has appeared reluctant to take up the opportunities on offer. This is a general problem. There have been a number of other smaller projects in areas such as agriculture and tourism, but often the hoped-for private investment has not come through and government has had to pick up the bill. For example the Bird Island tourism project in Lambert's Bay, Western Cape tried to get private companies to finance the setting up of a restaurant and curio shop to help boost tourism to the area. When this failed, the Western Cape Provincial Government had to rescue the project. Likewise, the Lubombo SDI had a second investor conference in November 2000 because so few investments were forthcoming from the first.

Moreover, a major concern with existing SDIs is that backward-forward linkages are either not happening, or are inappropriate. Given their orientation towards export promotion, most IDZs will not build in domestic forward linkages through supplying South African firms, and therefore no jobs will be created in this way. In the case of IDZs that involve steel companies, as was proposed for Coega by Ferrostaal, another problem is downstream pricing. Saldanha Steel charges export parity prices for foreign customers (and has been accused of "dumping" by the US government for doing so, resulting in restricted US imports), and import parity prices for South Africans (and the import prices are much higher than export prices). This additional cost does not encourage domestic companies to embark on job creation.

How successful has the SDI/IDZ strategy been to date in creating jobs? According to West Coast labour leader Simon Arries (regional organiser for the National Union of Metalworkers of South Africa), "The community perception was that the Saldanha project will be for their benefit, but so far they have only had the crumbs from the table." Given that SDI projects are very capital-intensive, claims for sustainable new jobs appear highly exaggerated. For instance, Saldanha Steel only employs 700 people and Mozal only 400, whereas Columbus Steel was constructed over the shell of Middleburg Steel without creating a single new permanent job.

Overall, there is no doubt that the SDI programme has created some

jobs. But in many cases the jobs have been exceptionally expensive given the capital-intensive nature of SDI-related production, and moreover the number of net jobs may be even smaller given that existing jobs may be phased out (for example, Saldanha led to job losses at the Vanderbijlpark steel plant in Gauteng). The more incentives that are used to try to attract investment, the more companies will relocate mainly to chase the incentives, thus replacing unemployment in one area with that in another.

Sometimes SDIs have only created temporary jobs; for example, during the construction of the N4 toll road 2000 people were employed. (A similar number are expected to be employed in construction work at Coega.) But when the short-term jobs are finished, additional problems emerge. Many people moved to Saldanha to work on the construction of the Steel Mill, but when that was finished, they stayed, contributing to unemployment in the area. New squatter camps have been built and an extra burden was placed on local resources. The type of jobs created in SDIs are also not optimal. Although companies promise to employ local people (and this is sometimes required if they are to benefit from government subsidies), often they are only offered the lowest paid and lowest skilled jobs. The skilled and managerial positions still go to people from outside the area, sometimes even from outside the country. In the case of Saldanha, the contract to manage the construction of the mill went to a national company that had been involved in the Richard's Bay project. They brought in many of their own workers.

There are also heated debates over the extent to which genuine, sustainable skills upgrading occurs in SDIs. Skills upgrading often occurs because there are few skilled workers in the local community. Companies have promised to train local staff so in the future they will be qualified for the more highly skilled jobs. But trade union officials have questioned how seriously companies take their promises. For example one company on the West Coast (Duferco) does have a training programme for staff, but this concentrates on basic issues like health and safety for people operating machinery. It doesn't help workers gain the transferable skills they need for the future.

EPZs in other parts of the world, particularly in low-income countries, share some common features. Typically:

- they are enclosed areas, often fenced off and protected;
- they are set aside for the production of goods for export, so are often located at a port or near an airport;

- they particularly aim to attract foreign investors;
- they have a special customs status, so goods coming in or going out do not have to pay customs duties;
- they offer companies special incentives to invest, such as tax holidays, cheap loans or discounted water or electricity; and
- some EPZs include exceptions to normal labour legislation, environmental standards or lower wages.

In many international settings, such zones have performed poorly. Technology and skills transfers have been practically non-existent, with managerial and technical jobs mainly going to foreign nationals. Given that the import content of EPZ firms tends to be 60% or greater, foreign exchange earnings are often overstated as an advantage of EPZs. The main backward linkages tend to be packaging and simple engineering inputs. Diversification is difficult. And financial liabilities by governments to EPZ firms are often extremely high due to excessive bidding between competitive EPZ locations. Recent thinking about IDZs has changed dramatically as a result of the experience with such installations, particularly in the OECD countries. The large-scale traditional heavy industry-based approach generated slower growth and pollution externalities that hampered rather than helped promote competitiveness. The old, capital-intensive IDZ centred on a major industrial facility is being replaced by a more flexible, small-scale approach based on clusters that take advantage of the synergies created by investment in common sourcing, especially for skill-intensive processes that have major environmental implications.

Specific emphasis has been focused on research to ensure that there are complementarities in the use of local resources (backward linkages) and on the transformation of waste streams of one sector into productive inputs for another. Throughout the OECD countries it has been observed that the traditional manufacturing centres and development zones, most especially around transportation hubs, had become “brownfields,” i.e., sites where chemical and other forms of toxicity were now requiring substantial investments to minimise the damages from the past. Because there appear to be important diseconomies of scale with regard to contamination, new IDZs will have to invest heavily in the infrastructure for environmental protection and remediation. This is no longer simply a matter of compliance with national standards, regulations or safeguards, but rather a matter of survival, since firms that are competing

in global markets find that working up to international managerial and environmental standards (ISO 9000 and 14000) are increasingly prerequisites for successful market penetration and qualification in competitions for international contract tenders.

It is increasingly evident that advances in technology and relative prices have changed the importance of proximity in developing advantages and in evaluating complementarities. The standardized calculations of competitiveness no longer can simply be determined on the basis of reducing the most obvious direct costs of production and distribution. The dynamic ability to maintain and increase productivity and to incorporate technological advances in all phases of the production process from design to final sale requires more diversified productive structures and a more balanced capability to supply high-level human resources and services than an orthodox-IDZ typically provides. The alternative to maintaining production processes and human resources at the cutting edge of technology is to move into more direct competition with Third World EPZs. But such a strategy poses troublesome challenges.

Across the Third World, competition between municipalities engaged in EPZ-type LED has been fierce, as cities often bid against each other to provide financial concessions, opportunities for environmental degradation, labour law deregulation, and the exploitation of unorganised women, in particular. Tables 1 and 2 – prepared by regional labour organizations – provide a partial late-1990s glance at the nature of Third World EPZs. Enormous tax breaks, forgiveness of customs duties, government infrastructure and other concessions have been provided. Sometimes complete relaxation of labour law is common in some competing EPZs. In many cases, trade union organising has been brutally repressed, or sub-minimum (and sub-poverty) wages were imposed (Jean-Paul and Szymanski 1996). During the mid-1990s, one labour study estimated that one-third of all jobs in 230 EPZs in 70 Third World countries paid less than the host country's minimum wage (International Congress of Free Trade Unions 1995). Invariably, women are most adversely affected by the declining standards. According to the International Labour Organization, "EPZ jobs are primarily unskilled jobs in highly labour intensive industries, occupied for the most part by young women who are entering the salaried labour force for the first time, and who tend to leave their EPZ job a few years later when they get married" (cited in Southern African Trade Union Coordinating Council 1996: 12). The predominance of young, unmarried women in EPZs is based on several cause-and-effect reflections of their vulnerability:

- women constitute a cheaper labour force due to existing wage differentials;
- women are perceived as more docile than men and more willing to accept tough conditions, monotonous and repetitive work;
- women are perceived to possess nimble fingers which enhance their manual dexterity and adaptability to the textiles and electronics sectors that are predominant in EPZs;
- women’s involvement in trade unions is minimal and traditional ways of recruiting membership have not been effective partly due to the male dominance of trade union leadership which results in the neglect of issues that affect women; and
- women are perceived as secondary wage earners, and are hence easily disposable, given the flexibility required in a strategy so susceptible to frequent demand shifts (Nababsing 1997).

The international lessons of EPZs noted above are particularly important in Eastern and Southern Africa, given that these regions do not fare well in competition with developed countries’ higher-tech (and hence higher-productivity) EPZs. Because of these kinds of problems, South Africa appears to be downgrading its SDI strategy. According to the director of the West Coast SDI in an interview in 2001: “Whereas it was indeed agreed all along that the SDI programme was a short, sharp initiative which would have to be integrated into existing institutions, the high expectations of senior politicians and their electorate were not met over the past three years in most SDIs and the programme has been downgraded.”

**Table 1: Incentives and Other Concessions in Third World EPZs**

Incentive or Concession	Period and Country Applied
Exemption from corporate income tax (tax holiday)	Up to 15 years - Sri Lanka Up to 10 years – Kenya 1-5 years – China Only for high technology industries - South Korea 5 years - Zimbabwe
Concessionary rate of income tax	Up to 15 years - Sri Lanka Up to 15% tax - China and Mauritius
Tax exemption on share dividends to non-residents	During lifetime of enterprise - Sri Lanka and Kenya

Imported goods duty / tax free	During lifetime of enterprise - Kenya
Duty-free export of finished products	During lifetime of enterprise - Sri Lanka, Malaysia and China
Exemption from Import and Export Control Act	During lifetime of enterprise - Sri Lanka and Kenya
Exemption from Exchange Control Act; Foreign Currency Banking Unit Accounts permitted	During lifetime of enterprise - Sri Lanka and Kenya
Tax exemption on share transfer to non-citizens	During lifetime of enterprise - Sri Lanka
Exemption from income tax on capital gains arising from the transfer of shares	During lifetime of enterprise - Sri Lanka and Kenya
Tax relief for investment in purchase of ordinary shares as deducted from purchaser's assessable income subject to established limits	During lifetime of enterprise - Sri Lanka
Exemption from dividend tax on dividends paid to resident shareholders out of exempt profits	During tax holiday plus one year - Sri Lanka
Work permits for technical, managerial and training staff	During lifetime of enterprise - Kenya and China
Repatriation of dividends by foreigners	During lifetime of enterprise - Kenya and China
Exemption from labour standards	Factories Act, Industrial Regulation Act – Kenya Labour Relations Act – Zimbabwe Job security standards – China Prohibition of unions and right to strike in electronics - Malaysia
High-quality infrastructure in zone	During life-time of enterprise - Kenya and Republic of Korea At concessional rates – Mauritius Subsidised factory space - Malaysia
Customs inspection at zone rather than port	During life-time of enterprise - Kenya
Income tax on royalties to non-residents	During tax holiday of enterprise - Sri Lanka
Exemption from income tax on emoluments paid to foreign employees	During tax holiday - Sri Lanka and China

Sources: Southern African Trade Union Coordinating Council (1996), "Export Processing Zones in Southern Africa: Social, Political and Economic Implications,"

International Labour Resource and Information Group, Centre for Southern African Studies, and Labour Law Unit, University of Cape Town, Cape Town; Zimbabwe Congress of Trade Unions (1999), "Industrial Relations and Sustainable Development in Export Processing Zones," Harare.

**Table 2: The Application of Labour Laws in EPZs**

Country	Fully Applied	Partially Applied	Suspended
Mauritius		•	
Kenya		•	
Pakistan			•
India			•
Bangladesh			•
Sri Lanka			•
Togo			•
Zimbabwe			•
Dominican Republic	•		
Haiti	•		
Jamaica	•		
Mexico	•		
Mozambique	•		
Malaysia		•	
Phillipines		•	
Thailand	•		
Tunisia	•		
Korea	•		
Namibia	•		

Sources: Southern African Trade Union Coordinating Council (1996), "Export Processing Zones in Southern Africa: Social, Political and Economic Implications," International Labour Resource and Information Group, Centre for Southern African Studies, and Labour Law Unit, University of Cape Town, Cape Town;

Zimbabwe Congress of Trade Unions (1999), "Industrial Relations and Sustainable Development in Export Processing Zones," Harare.

The main problem with Coega is the lack of proven economic viability associated with the project. As a result, a revolt is underway by many important voices in society, including the mass media. Environmental and community groups in the Nelson Mandela Metropole Sustainability Coalition have consistently opposed Coega (<http://www.coega.org>). *Business Day* newspaper has regularly editorialised against it, as have other newspapers in the Eastern Cape province in which Port Elizabeth is located. Taxpayers are concerned, given reports of corruption associated with the R66 billion arms-sale agreement that link Coega to political insiders. The impoverished provincial and municipal governments have spent millions on research and development, including feasibility studies and market research (much of which has not been available to the public); purchase of 12 000 hectares of land; and budget allocations for building water, road and rail infrastructure suitable to accommodate a container facility and metallurgical heavy industry complex. Anticipated spending of R850 million in IDZ-related construction will occur through 2005. Tax holidays of six years, import/export duty exemptions, and large subsidies on water and electricity inputs have been offered to potential investors.

In contrast, it is useful to return to LED debates concerning the merits of basic human-need municipal services as *economic inputs* and as a means of saving on other eco-social externalities. The debate over public infrastructure investment subsidies in the Mandela Metropole may ultimately only be settled in relation to the key economic variables, growth and job creation. It is therefore important to show that the most direct way of enhancing local economic development in Port Elizabeth, and in most locales, is through employment that allows households to survive, reproduce and save for future consumption or investment. Such a people-centred approach would serve as the logical alternative to the corporate-driven, top-down Coega project as it currently stands.

## AN ALTERNATIVE STRATEGY: MUNICIPAL COMMUNITY SERVICES-BASED LED

**T**he South African Department of Provincial and Local Government commissioned a report in 1998 to investigate the possibility of a "bottom-up" approach to Local Economic Development in Port Elizabeth and across the Eastern Cape. There are many other aspects of the human and social condition that are promoted by access to

infrastructure and municipal services, including greater gender equality, improved public health, lower levels of racial segregation, and improved social capital. In short, an economic case can be made for greater investment in basic infrastructure (details of the background research summarised in this section can be found in Bond, *Cities of Gold, Townships of Coal*, Parts II and III).

After considering the impact of infrastructure investment and service delivery upon job creation, the related issues of worker productivity and small enterprise creation can be examined. However, the pricing of infrastructure and services is just as crucial, particularly the need for properly-designed subsidies and cross-subsidies (as an alternative to the existing policy). In addition, there is a growing awareness of the need for demand-side management of municipal resources (especially water). But the progress envisaged in these areas is potentially threatened by the growing momentum towards privatisation of municipal services.

Aside from there being a rationale, through municipal services provision, for a “bottom-up” approach to LED, there are many other aspects of the human and social condition that are promoted by access to basic infrastructure, including greater gender equality, improved public health, lower levels of racial segregation, and improved social capital. However, it is primarily the economic case that is made for the purposes of this paper.

Infrastructure-related employment is largely in the field of construction. Formal sector construction employment includes residential (high- and low-income groups), non-residential (commercial, industrial and civic amenities) as well as civil engineering construction (for infrastructure, bulk infrastructure and earth works). Employment based upon infrastructure development was often anticipated to be the main engine of job creation in post-apartheid South Africa. For example, in 1993, formal sector employment generated by low-cost housing construction alone was estimated by National Housing Forum consultants as increasing from 233 000 in 1992 to 400 000 in 2010, and related informal sector employment from 984 000 to 1.7 million. The *Green Paper on Public Works* noted that with respect to job creation, “Some estimates are that 3-3.5 million people could benefit from public works programmes in South Africa today (depending on the state of the economy, the number participating at any one time would probably be 1-2.5 million).” Thus far such expectations have failed to materialise. Yet infrastructure and housing continue to be key Reconstruction and Development Programme policy priorities, and

construction work more generally remains an extremely important part of the labour market, as well as in relation to fixed capital investment.

It is not only the quantity and remuneration of jobs that is important, but increasingly the quality of employment and the depth of skills that employees bring to their work. There are several means of considering economic benefits that flow from enhanced literacy and productivity of citizens. Electrification reduces reproductive rates through altering social relationships and generating economic opportunities, and as a result, women in electrified areas place more emphasis on children's education than on children as productive agents. Electrification provides some of the essential prerequisites for education, such as lighting and opportunities for efficient administration. In addition it generates the potential for longer school days, opening of night schools and access to audio-visual aids. It enables children and adults to study at home and offers the opportunity for health promotion through the broadcast media such as television and radio.

The use of electricity in a household can have several effects on the productivity of inhabitants. Firstly, improved lighting brings about considerable improvements to the quality of the working environment of students and scholars. The ability to study at home, although also dependent on other factors such as the number of people in the household and the number of rooms available, is certainly enhanced through electrification. Education has been shown to impact directly on a range of variables which, taken together, contribute to the health status of domestic units and ultimately of the nation. There is a high rate of social return through investment in education and this rate of return is substantially higher for women than men. Female education has an impact upon reproductive rates, child-rearing practices and child-mortality rates. Higher levels of maternal education have a significant impact on nutrition of children, improved child health and reduction in diarrhea morbidity.

Improved lighting and air quality can also increase the quality of life of inhabitants, and this has a positive effect on their productivity in places of employment or income generation. Finally, good health results in fewer days lost to illness, increased productivity, greater opportunities to obtain better paying jobs and longer working lives. Healthier workers earn more because they are more productive and can get better paying jobs. Environmentally caused diseases have been shown to impair productive work and lead to heavy loss of income and malnutrition in family members. When illness occurs the loss of income is borne by the household, and

healthier members have to work harder and longer to make up for the loss in income. With a healthy workforce employers can reduce the cost of downtime affecting their production schedules, invest more in staff training and exploit the benefits of specialisation.

The anticipated burgeoning of Small and Micro Enterprises (SMEs) may be hampered at the outset if access to infrastructural services such as water and electricity is not ensured. This is particularly the case for small enterprises (which tend to hire low-income workers) and for microenterprises (which are often a survival strategy for the low-income people themselves). Such infrastructure access often comes initially through home-based activities, so a full supply of services (not limited, for example, to a single yard tap or small-voltage electricity metre) to residences can also be seen as an investment in Local Economic Development. It has been estimated that one new small business can be created for every ten electricity connections, and that during the next ten years an additional R8 billion will be spent on appliances from electrification (at existing rates of expansion), which in turn has spin-offs in the domestic appliance sector.

But measuring the impact of infrastructure on SMEs is difficult. To take one example, it is notoriously difficult to quantify the multiplier effects of electrification. Econometric studies of electrification have generated (unrealistic) estimates of up to 1 000 000 new jobs created during the first ten years of the programme, with an 11% cumulative increase in GDP. More accurate analysis based on recent experience with electrification suggests that for every 100 households which are connected, between 10 and 20 new economic activities are started. For example, electrical fridges are often acquired by small traders to store drinks and perishable goods; in one rural Kwazulu-Natal town, of 23 enterprises 21 required electrical refrigerators to store produce, meat and drinks for sale. The benefits of moving from very low electricity supplies (5-8 Amps) to an intermediate 20 Amp supply are particularly large given the need to operate appliances such as refrigerators and small motors. For enterprises involved in welding or carpentry, higher levels of service are required.

To achieve any of these local economic benefits of infrastructure investment requires very close attention to the ongoing subsidies that will permit the systems to operate. Indeed the primary reason that infrastructure investments do not pay off is that many people do not have enough income to afford the recurrent (operating and maintenance) charges associated with the service. Eskom's rural electrification

programme, for example, has had enormous problems paying for itself because consumption levels are so low due to lack of affordability. Clearly, an alternative approach is required based on the Constitutional responsibilities set out above, namely the provision of at least a basic minimal amount of water/sanitation (50 litres per person per day is the medium-target in the Reconstruction and Development Programme) and electricity (1 kiloWatt hour per capita per day) as a lifeline amount, with higher volume consumption (i.e., following the 50th liter of water) attracting much higher (and rising) tariffs.

In general, the best administrative system for this would be a free lifeline amount provided through metred taps and metred electricity hookups, with technical systems to reduce the amount to be consumed to the lifeline minimum in the event of non-payment on amounts higher than that minimum. The issue of consumption levels has implications for the wider benefits anticipated from infrastructure. For example, to realise the health benefits of infrastructure, the quantity of water is almost more important than water quality. For this reason, municipalities should strive to supply private household taps or at minimum yard taps when they make infrastructure investments, as distance to the water source is the most important factor affecting the quantity of water used by households. Improvements in both water and sanitation produce larger impacts than either alone. In addition, providing a lifeline source of water would make an enormous difference, given present low levels of per capita water consumption in low-income communities.

A cross-subsidised lifeline system must obviously be designed with a careful regulatory approach so as to avoid ruinous competition between individual service providers (municipalities or provinces competing for corporate investment or wealthy residents' settlement by lowering the cross-subsidies). But making access to services subsidies universal, and assuring national standards, are not unusual features of pricing services, when broader social objectives are at stake. To illustrate, the South African government did not adopt a cost recovery approach to primary healthcare (it is free to all citizens) not only because health is a basic human right guaranteed in the Constitution's Bill of Rights and because low-income people's spending on healthcare is typically subtracted from spending on vital food and other components of good health, but also because it is administratively expensive to do so. It often costs more in cost recovery administration than can be squeezed out of low-income people desperate for treatment.

The optimal model for a Local Economic Development strategy would entail combinations of the strategies discussed above. For example, as an alternative to the proposed Coega port/IDZ, community activists and environmentalists have established a multifaceted approach that combines agriculture, mari-culture, eco-tourism and the massive expansion of infrastructure (Bond *et al.* 2001). Although given the balance of forces, it is doubtful whether Port Elizabeth elites will pursue this strategy – notwithstanding growing national concern at the way the Coega port/IDZ is proceeding – other case studies from Third World cities are promising.

## CONCLUSION

**A**ny alternative strategy will rely upon cutting-edge integrated development planning concepts. Town and rural planning traditionally took the form of physical planning (efficient use of land, rehabilitation of slum areas, establishment of new towns, construction of industrial centres, development of satellite areas or reorganisation of transport needs), which ultimately expanded into land use zoning, public utility investment, housing and the like. A growing recognition of the importance of integrated planning subsequently emerged to link physical and socio-economic interests. This was particularly true in developing countries given rapid rural-urban migration. Some cities have had quite spectacular success with integrated planning, focusing on areas such as transport innovations and community self-reliance.

In the Brazilian city of Curitiba, for example, municipal government implemented a road infrastructure that includes special lanes for buses. The system is so efficient, accessible and inexpensive that 75% of commuters utilise public transport. It is a self-sufficient system whose risks are minimised by the government and whose investments gave the city the newest and most environmentally friendly bus-park in Brazil. Through active interventions in the land market, the municipality also managed to influence the location of commerce and low-income housing so as to minimise distance from bus routes, in the process creating a mix of low-, middle- and upper-class housing. The city centre is reserved for pedestrian use. Additional bike routes run through the whole of the city. The mix of activities ensures a balance of low- and high-income jobs, and thus stimulates social interaction (see Rabinovitch and Leitmann 1994).

The case of Bogota, Colombia, raises the possibility of “cities within the city,” entailing a decentralised approach that emphasises self-reliance for communities. This reduces costs associated with commuting (including

personal time and financial costs, the import of expensive fuels, congestion and air pollution). This strategy was credited with helping Bogota to sustain growth during periods when other centres did not fare well (see Currie 1975; Gilbert 1996; Gilbert 1990; Riddler 1979).

There are, in sum, three broad conclusions that can be drawn from this review of cutting-edge debates in LED, especially in relation to South African policy and practice:

- **The “Washington Consensus” epoch of export-led growth and ruinous competition may be drawing to a close**, and with it, the need to focus more on pro-poor and sustainable development will mean that municipal constituents will demand a more active and community-focused Local Economic Development strategy;
- **Numerous developmental tools have been established to promote LED**, along with redistributive strategies that are genuinely pro-poor, but just as important are the various nondevelopmental strategies that also have to be more widely debated (such as IDZs and EPZs);
- **Introducing “public good” aspects of municipal services as an explicit strategic orientation** offers a way to assure that the upgrade and cross-subsidisation of services such as water and electricity can be justified in part for the economic benefit that such services provide.

If true, a new “Post-Washington” era of LED may be on the immediate horizon in South Africa, which would allow for municipalities to finally embrace their own capacities, nurture and sustain a more genuinely developmental approach to their local economies, and reverse worsening patterns of uneven development that have followed from decades of pursuing non-developmental approaches.



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## ENDNOTES

1. Special thanks to the International Labour Research and Information Group at the University of Cape Town, for contributing the information in this section.
2. Notwithstanding more than a decade's worth of export-oriented policies, South Africa retains an international ranking of 43rd out of 49 major countries in the main Swiss business school's 2001 competitiveness survey (*Business Day*, 25 April 2001).
3. According to the IDC study R13 644.3 million was identified for investment in 7 projects at Coega, which were expected to create 1 512 jobs (at R9.1 million per job). Potential investments for Coega listed in August 2000 were a R4.8 billion stainless steel plant by Ferrostaal (German); a R1.8 billion specialist steel factory by Danelli (Italian); and a R1.8 billion galvanised steel mill by Thyssen (German).
4. Ramatex – worth nearly R1 billion in investment, with a potential of 13 000 new jobs – would have gone ahead because of the Africa Growth and Opportunities Act promulgated by the United States Government, rather than because of the SDI.

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