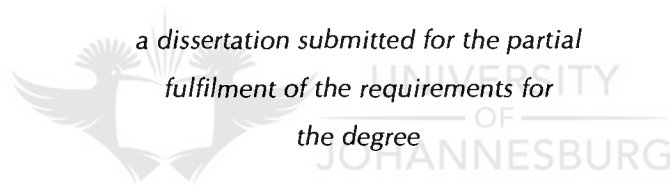


LOCAL ECONOMIC DEVELOPMENT
IN A GLOBALISED WORLD ECONOMY:
A SOUTH AFRICAN PERSPECTIVE

by

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OPSOMMING

Die totstandkoming van 'n demokrasie in Suid-Afrika het die land bevry van dekades van rasse onderdrukking en het die pad oopgemaak vir die land se her-toetrede tot die wêreld-ekonomie. Hierdie aksie tot integrasie is belangrik in die sin dat die stap nie net voordele vir die land inhou nie, maar ook sekere harde nuwe werklikhede op die voorgrond skuif. Een van die voordele van integrasie in die wêreld-ekonomie is die toeganklikheid wat Suid-Afrika nou geniet tot waardevolle internasionale ondervinding in die veld van plaaslike ekonomiese ontwikkeling. Inaggenome die ontwikkelingsprobleme soos armoede, ongelykheid en werkloosheid wat Suid-Afrika in die gesig staar, is daar 'n onteenseglike behoefte aan sodanige ontwikkelingsinisiatiewe.

'n Reeks insentiewe ten einde Suid-Afrika se ontwikkelingsprobleme aan te spreek, word genoodsaak deur die eertydse ontkenning van ekonomiese en politiese vryhede en die voordele wat dit kan inhou vir die grootse deel van die bevolking asook die land se onlangse toetrede tot die wêreld-ekonomie. In lig van die behoefte aan insentiewe op plaaslike vlak om dié op nasionale vlak te komplementeer en die huidige klem op die belangrikheid van die ekonomiese rol en funksie van die ligging, val die fokus nou op PEO (plaaslike ekonomiese ontwikkeling) as 'n benadering wat die dinamika van die globale ekonomiese omgewing in ag neem, terwyl dit die ekonomiese ontwikkeling van 'n ligging aanspreek.

Eerder as om 'n bloudruk van hoe PEO in Suid-Afrika geïmplimenteer moet word voor te stel, verteenwoordig hierdie studie die resultaat van navorsing oor die omvang en oorwegings van PEO, die raamwerk waarbinne dit funksioneer en die toepaslikheid daarvan op die Suid-Afrikaanse situasie.

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CHAPTER 1

PROBLEM STATEMENT AND RESEARCH METHOD

1.1 PROBLEM STATEMENT

Cities around the world face, to different degrees, the same problems of inequality, poverty, unemployment and other shortcomings regarding basic human needs. These realities are compounded by international trends and new realities like rapid urbanisation, technological revolution and the rise of a new economic order that is linked to phenomena like globalisation and a changing competitive environment, that directly impact on the economies of cities. A combination of these factors form the new external framework in which cities must address their economic destiny. South African cities 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 in, and be able to share in the advantages.

Even though the opportunity is there, a process is necessary that will make it possible to take on economic strategies and projects that alleviate poverty, create employment opportunities, promote growth, mobilise existing resources and make the most of new investment potential for the upliftment of the wider community. This process is not simple, and necessitates a wide range of initiatives on different levels and in different contexts. It is generally accepted that 'top-down' initiatives on their own are not sufficient, and require complementary 'bottom-up' initiatives. In the international arena the notion has already gained acceptance that a community's economic and employment-creating future are increasingly dependant on the initiatives that its own citizens take - or the failure to take on the challenge. In line with this argument, Local Economic Development (LED) is being promoted internationally as a local approach that addresses the problems listed earlier, filling the gaps that national policy directives have left, and putting the responsibility for

economic development of the locality in the hands of the new local role players. LED could be just what South Africa needs: a local approach to local problems that compliment national policy initiatives.

Although LED has been implemented by several countries, South Africa has very little experience in this field of policy making. The possible benefits to the South African situation is obvious if one considers that South Africa is a latecomer to international exposure and experience, and that the country is therefore in the ideal position to learn from the experiences of other countries with regard to LED.

In addressing the economic development of a locality, two central themes can be distinguished, the first being the substance and concerns of LED, and the second the explanatory framework within which cities function. Key elements of LED and the new realities within which cities operate, could be used to assess the South African situation and to consider the appropriateness of LED to South African cities and identify the issues not yet incorporated in policy documents applicable to LED.

1.2 RELEVANCE OF THE STUDY

South Africa's previous political dispensation has largely sheltered the country from developments in the international environment. Over and above all the negative causes of its political ideology, it has deprived South Africa access to international developments like those in terms of LED. South Africa still has a long way to go in acquiring knowledge in this field, but stands to win from the situation if it is open to learn from international experience.

In socio-economic terms, development in South Africa in the past was something that was done to and for the people, rather than with the people. The relationship between individuals, their communities and government in the development process was mainly one of control. Because of this and many other reasons, communities see themselves as receivers of the benefits, rather than active participants in economic restructuring and development. Furthermore, the failure of the old processes are compounded by the socio-

economic realities of the country - with its high rate of unemployment, insufficient housing and insufficient access for a large portion of the population to basic services. The consequence is a dire need for 'bottom up' initiatives to complement 'top down' macro-economic strategies.

The economic policy focus in many countries has shifted to the cities (the locality). This is a natural outcome of the demise of the nation state as an economic entity and the recognition of cities and towns as engines of economic growth and development. Urban studies are also increasingly concentrating on the role of cities in relation to economic growth, based on the perceived economic benefits associated with urban agglomerations and because it is believed that most of the world's population will live in towns, cities and metropolises by the turn of the century. Based on the importance of the cities with regard to economic growth and the focus of LED on urban realities, this paper will concentrate on the urban sector. The term locality will therefore refer throughout the paper to the urban environment.

1.3 METHOD OF INVESTIGATION



The issues and questions which can be derived from the introductory statements are the following:

- # what is LED, where does it originate from, who is involved, what is its worth, what does it aim to achieve and how applicable is it to the problems cities face today?
- # what is the nature of internationalised economic change, and what are the implications for the economic development of cities?
- # what is the relationship between global economic integration and the new roles of cities?
- # what are the consequences of the above for the South African situation?

This study will aim to answer these questions on the basis of a relevant literature review in terms of international and national theory and experience. The study will be broadly structured in terms of the substance and concerns of LED, the explanatory framework and the applicability of these or within the South Africa context.

The contents of *Chapter 2* will be based on a study of LED from a literature perspective in terms of LED's definition, its origin, the key role players involved, the worth of LED projects and LED's objectives. This will provide the necessary background to the course of LED's development through certain stages in its history, based on international experience. This should provide a clear benchmark against which the South African experience and that of other developing countries can be judged.

In studying LED, it is also essential to consider the external environment that constitutes an explanatory framework with regard to influences on the economy of localities. This issue will be dealt with in *Chapter 3*. Care will be taken to explain the nature of the new order with the focus on globalisation and the changing competitive international environment. The related issues concerning the technological revolution and rapid urbanisation will also be drawn into this discussion. The second part of *Chapter 3* will focus on the changing role of the city in relation to the changes in the external environment, and identifying the aspects that fall within the influence sphere of cities, that can be manipulated in response to changes in the larger economic environment.

Chapter 4 deals with the South African context by sketching an overview of the South African economy and providing information on the impact of the external environment on this country. LED in South Africa is the next point of discussion with emphasis on the South African experience in relation to LED and related policy initiatives. Finally, the future implications for LED in the South African context spells out the shortcomings of South Africa's conceptualisation and formalisation of LED up to now.

The study will conclude with *Chapter 5* that will provide a summary of and concluding remarks on the study.

CHAPTER 2

LOCAL ECONOMIC DEVELOPMENT: A LITERATURE PERSPECTIVE

2.1 INTRODUCTION

LED as a discipline has received extensive coverage over the last two decades in the field of urban politics 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 explanatory framework within which it operates. This chapter will deal with the substance of LED, while the framework of LED with emphasis on the effect of economic restructuring on the economic development of localities, will be discussed in *Chapter 3*.

This chapter starts off with general background information, 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, the worth of LED projects, and the objectives of LED.

The objectives of LED are invariably closely linked to the changing environment, and therefore provide a fitting basis for the following discussion on the course of LED and related policy initiatives directed at the economic development of a local area over the long term. This discussion also touches on the changing external economic environment that have impacted on the LED approach in terms of objectives, methodology and underlying rationale.

This chapter should also provide a basis to determine whether LED is applicable to realities that cities face in the fast changing economic environment. The discussion on this point will however only take place in the next chapter when the new realities have been noted. The last section of the chapter provides an indication of what issues are important for developing countries that are in a position to learn from international experience with regard to LED.

2.2 LOCAL ECONOMIC DEVELOPMENT

Although policy initiatives to address the economic development of local areas were apparent from the 1930s, a number of factors resulted in LED coming into the spotlight in the last two decades. According to Clarke (1997: 2) these include the inability of national government to respond in a way that directed growth to declining cities and regions; the shifting of various responsibilities from national to local governments to different degrees; and also the globalisation of the markets for goods, services and capital, and the fact that competition also became more global.

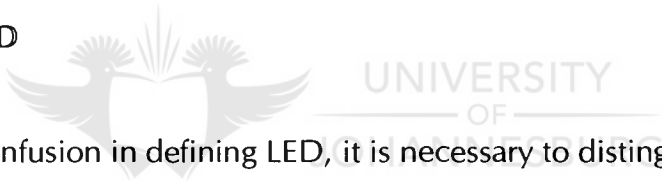
Specifically in the United States, it was diminishing federal funds and the increasing shifting of programme responsibilities to the lower hierarchies of government, that forced localities to look towards LED as providing possible guidance. It was also in the United States, where local government had more spending responsibilities than in the rest of the world, where a keen interest was taken in LED as a holistic approach through which to address these new responsibilities (Blakely, 1989: 12).

As responsibility shifted from national to local governments, local areas had to develop their own economic development programmes to suit their needs. This was the opportunity for the locality to take responsibility for its own economic future, and to come up with local economic development strategies that address its own unique circumstances as well as taking into account external factors that might influence the locality's economic development.

These factors include aspects of the external environment and have become one of the crucial drivers that has made the need for LED even more apparent. The changes in the global economic order has resulted in the increase in global competitiveness, which in turn directed investment and employment opportunities to localities that had certain locational advantages. Localities have therefore come in urgent need of policy directives that help to direct economic development with consideration to external forces (to be discussed in *Chapter 3*), while also responding to internal needs and expectations.

In light of these changed circumstances (internal and external), LED was promoted as a possible local solution to local problems. It was accepted that a top down approach would simply not be sufficient and that a range of policy options, from macro-economic policy to development policies that are region specific, had to be employed to address local economic problems. In this context LED is promoted as an initiative at grassroots level that complements national policy.

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 same 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 partnerships between local governments, community-based groups and the private sector (see also paragraph 2.2.3). The LED *strategy* is usually based on the understanding that these parties take on the responsibility to promote economic development in that area.

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 changing 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; Markham 1995; Heymans, 1995).

2.2.2 The Origin of LED



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 causation 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 in support of these export firms, is based on the *economic base* theory. The *location* theory, that 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. 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.

Although no single theory or set of theories provide an adequate description for LED, most LED principles can be traced back to these theories.

2.2.3 Key Role Players in LED

"Think Globally - Act Collaboratively" - Kanter (1995:216)

In LED, where preference is shown for the 'bottom up' approach to reach the goals of economic development and employment creation, in favour of the 'top down' approach, a fundamental shift took place in the role players involved (Blakely, 1989: 69). The development of a local area has shifted from being the policy enclave reserved for the national government, to become the concern of all governmental levels, all sectors and the community itself, and related activities are no longer limited to the public sector.

It has become apparent that different players in different localities have decided to take on a pro-active role for the development of an area and to accept responsibility for LED. This has led to different roleplayers being involved in LED in different places. Every party has however, a different contribution to make and in combination, this could prove to be a very successful undertaking. A local area can greatly benefit from the combination of government's access to resources and power with the private sector's management ability and flexibility.

Involved parties play different roles in LED - based on who they are, why they choose to be involved in the development of a local area, and what they have available to contribute to the process. LED also implies that new roles usually emerge among institutions such as

the government, the private sector and communities, often involving organised partnerships. Pugh (1995:266-268) makes specific reference to the changing role of government from the traditional role to a role where government is required to steer policies and actions towards developmental growth, institutional reform and integration into the international economy.

All in all, LED remains primarily a local initiative and the choice is in the hands of the community to take charge of their economic and employment creating future. It is important therefore to note that LED does not advocate the concentration of power in either the private sector or the government: it aims rather to improve the performance of the institutions involved (be it governmental agencies, firms, NGO's or communities).

2.2.4 The Worth of LED Projects

There are different reasons why LED projects need to be assessed. Most of these relate purely to financial matters as a means to attract new funds and also to keep existing funds. Another important value of assessing the outcome of LED projects, be it success or failure, is to refine and restructure development policy.

The refinement of development policy has led to a better understanding of where investment should be directed. Blakely's (1989:112) example could serve to illustrate this point. In the past, rural and underdeveloped areas have tried profusely to acquire roads and related infrastructure as a means to development. Experience has shown, however, that the provision of infrastructure or the establishment of physical linkages (roads) between places is simply not sufficient on its own to promote development in an area. LED is therefore a means of directing investment to the optimum benefit.

These are important reasons to assess LED projects and provide a solid basis for a learning experience (for internal and external use), but some problems are experienced in assessing LED programmes. The reason is that the nature of these projects implies that the most valuable outcomes are not easily discernable and usually not quantifiable. For example, the real value of giving people the opportunity to actively participate in the economy of

a local area is hard to determine. These are hard to measure elements that are central to the success of LED projects. This is one of the reasons for Hesketh (1995:4) to claim that the viability of LED projects are sometimes found in the wider sense of economic cost benefit analysis, rather than in strict financial terms.

In determining the success of development strategies, it is important to assess critical factors that are central to LED. These would include factors like the nature of the work force and its ability to jointly adapt to changes in the regional economy (based on the importance of labour market); the access to finance of small and medium enterprises (based on the importance of stimulating the local economy); the adaptation of people, institutions, and the built environment to the rapidly changing technology (based on the importance of the survival of a locality in the era of rapid technological change). These are only three factors that are critical to ensure the success of LED programmes. Other factors include local government capacity and the international economic situation.

2.2.5 Objectives of LED

The argument for LED as a reactionary approach to the failure of national initiatives to address local problems as well as the fact that local authorities had to cope with increasing responsibilities plus changes in the economic environment, still does not clarify the aims and objectives of LED. However, LED's *raison d'être* provides a basic framework for possibly grouping LED objectives into the need to attract investment from outside, and the need for a local area to be conducive to internal growth.

To become or stay *attractive* for investment in the new open economy, localities need to strengthen their competitive position to the outside world and also improve the physical environment as a necessary component for improving the climate for business development (OECD, 1995:10). By being attractive to investment, firms, entrepreneurs, and others, localities could gain a competitive advantage over other areas with similar resource endowments. These objectives of LED must, however, be seen in the context of changed economic circumstances, and one needs to be aware of how these 'attraction' factors that make a locality attractive for investment, have changed over time (see

paragraph 3.3.1).

'Internal' objectives would include factors like the promotion of indigenous economic growth, employment creation, the increased involvement of disadvantaged and minority groups in the local economy, and the improvement of the physical environment to enhance the quality of life for residents (Drakakis-Smith, 1996: 112-113). The importance of the state of the physical environment falls within both groups of external and internal objectives, and it is clear that these objectives are interrelated. The undeniable primary theme in development literature concerning LED, however, remains the objective of improved employment levels and career options for local residents.

It is important to keep in mind that LED was called into place in reaction to changing circumstances, and that objectives of LED will keep on changing as does the environment.

2.3 PHASES OF LED

"Think Locally - Act Globally"- Clarke (1997:4)

Strategic marketing of places or city marketing as it is more commonly known, was one of the most common approaches to local economic development in countries where LED originated, notably the United States and in Western Europe (Kotler et al, 1994:76-81). The phased development of strategic marketing of places, is closely linked to the processes associated with the course of LED, and provides a valuable background to LED's phased development.

In Table 2.1 the course of policy initiatives directed at LED, is set out. The first generation falls within the time frame of the 1930s - 1960s. Localities have aggressively tried to attract businesses, factories and investment with the promise of a 'better' business climate. Advantages such as low production costs in the form of cheap labour and land, low taxes and public financing were exploited to attract new businesses and investment. Localities accepted the fact that it was a buyers market, and were still largely unaffected by changes outside of the home country.

TABLE 2.1 COURSE OF POLICY INITIATIVES DIRECTED AT LED

PHASE	OBJECTIVES	METHODOLOGY	UNDERLYING RATIONALE
1930s - 1960s (First Generation) Smokestack Chasing	Manufacturing jobs	Luring facilities from other locations	Low operating costs Government subsidies
1970s and 1980s (Second Generation) Transitional Entrepreneurial Strategy	Manufacturing and service jobs in target industries now enjoying profitable growth	Luring facilities from other locations Retention and expansion of existing firms Improving physical infrastructure Improving vocational training Public/Private partnerships	Competitive operating costs Suitability of community for target industries Good quality of life (emphasis on recreation and climate)
Early 1990s (Third Generation) Post Federal Entrepreneurial Strategy	Preparing the community for the jobs of the 1990s and beyond	Retention and expansion of existing firms Spurring local entrepreneurship and investment Selective recruiting of facilities from other locations More intense public-private partnerships Developing technology resources Improving general and technical education	Prepared for growth in the contemporary worldwide economy Competitive operating costs Human and intellectual resources adaptable to future change Good quality of life (emphasis on cultural and intellectual development)
Late 1990s (Fourth wave) Globalisation and Human Capital	Adapt structurally to the changing economic environment, to increase quality of life (emphasis on physical and social environments)	Activities to encourage region-specific innovation Coordinate education and labour training services with changing market needs Support small businesses Promotion of collaborative management efforts Coordination on regional level	Acceptance of local approach as central basis for policy Incorporation of local initiatives into long-term region development strategies Local initiatives and strategic region planning must be closely linked

Sources: Kotler, et al (1994: 77)
OECD (1995:16-18)
Clarke (1997:3-6)

In the 1970s and 1980s local economic policies entered the second generation in reaction to changes in the external environment. These changes resulted in a more refined strategy aimed at analysing a locality's competitive position and the scope was broadened to include goals such as the retention of investment, start-ups of new businesses, attracting tourism, export promotion and foreign investment. Studies that have shown that more new jobs are created by small businesses than large businesses, have moved cities across the United States, Europe and Latin America to promote strategies to foster local enterprise development (Wilson, 1995: 648).


The third generation was entered into in the 1990s as the phase of product development and competitive niche ideas. Place competition has intensified and the need has increased for places to define themselves as distinctive places with specific competitive advantages for target industries.

Clarke's (1997:2) classification of policy initiatives relating to the economic development of a locality, corresponds remarkably to the categorisation of Kotler. Her first phase or wave as she terms it, is consistent with Kotler's first generation. The corresponding characteristics include decreasing land value and a strong firm orientation. Clarke's second wave of *transitional entrepreneurial strategy* relates closely to the second generation, with a movement away from the firm to a process orientation, and where emphasis is placed on the growth of a local economy. Clarke terms the third wave *post federal entrepreneurial orientation*, that corresponds to Kotler's third generation. Also based on the United States model, an 'entrepreneurial city' approach was followed where the city was marketed to increasingly footloose land developers, businesses and consumers. This approach however, is criticised for its lack of public accountability, the lack of social goals and the cultural uniformity it produces among cities (convention centres, festival markets and arts centres appealing to the young, professional and affluent) (Wilson, 1995: 646). However, Clarke's categorisation does not stop there - she goes on to include *globalisation and human capital* as a fourth wave, as depicted in table 2.1.

The fourth phase could be seen as the natural extension of the third generation. Based on the time that has lapsed since policies were put into place in reaction to global economic

restructuring, outcomes of LED programmes could be assessed and policy refined. This refinement has led to an emphasis on the process of globalisation and the building of human capital. With regard to globalisation, LED aims to position cities within the global structure through the promotion of agreements between cities to facilitate trade and cultural exchange; the encouragement of cities to purposefully plan for globalisation; the encouragement of cities to market themselves as tourist destinations; and to encourage links with Universities and/or Colleges on improving global competitiveness. The emphasis is therefore on cities to take a pro-active role in terms of their position in the global economy and to use the advantages of the new economic order to the full.

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). These strategies aim to empower local people to act on their own behalf and to take their own decisions and it also places a strong emphasis on linking training and education to the needs of the local and global market.



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.

Issues listed and recommendations made in the fourth wave may prove to be helpful to countries which have not yet passed through these phases in terms of policy initiatives aimed at promoting the local economy. These recommendations could prove to benefit such countries by giving them the opportunity to make use of the experiences of countries that have progressed through a trial and error process with regard to LED policy.

2.4 LESSONS 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, 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. The first two issues are derived from the section on defining LED. First, a clear distinction is made between ad hoc and a holistic approach to LED, and the importance is stressed to approach LED from a holistic perspective. The second point is the clear indication that a definite relation exists between LED and the power and fiscal responsibilities and abilities of local government. The impact of LED on any locality will therefore strongly rely on the fiscal responsibilities and abilities of its local governments.

The section on key role players in LED stresses the importance of the new role of government that has to steer policies and actions towards developmental growth, institutional reform and integration into the international economy. In assessing any developing country's situation it will be important to see the extent to which these countries measure up to this benchmark.

In convincing a locality to take on a LED approach to address local problems, a good track record will serve as a solid means of persuasion, also for the governments of developing countries. The nature of LED projects and the benefits derived from it, are however not easily 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 also learn from LED experience elsewhere, and avoid making the same mistakes other countries made in the course of LED.

This point holds relevance to the discussion on the phases of LED. The progressive phases have each added value to the previous phase. From experience, each following phase was improved in one way or another, and this has culminated in the latest phase that emphasises globalisation and human capital. This phase has witnessed a shift in emphasis

in its underlying rationale (stressing the importance of the regional context to LED initiatives), the methodology (with emphasis on amongst others: region-specific innovation and the linking of training programmes and market needs), and its objectives (of adapting structurally to the changed economic order and increasing the quality of the social and physical environment). An assessment of developing countries' situations should give an indication if the newest developments in LED have been incorporated in policy initiatives and other measures.

This background to LED and the course it took over time, 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 and determining the key issues that need to be incorporated in any policy initiative related to LED.

2.5 CONCLUSION

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, where does LED originate from, who is involved, what is its worth, what does LED 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 environment 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. Whereas these theories concentrated on one specific issue, LED incorporates crucial elements of these theories that relate directly and indirectly to the local economy.

From the discussion it is clear that new key role players form part of the LED process and the community and 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.

Even though experience has proved that assessing the worth of LED programmes could prove problematic, the importance of determining the success of LED programmes is crucial. The reasons for the assessment are usually financially determined but they also serve to refine and restructure development policy. The objectives of LED can be grouped into the need to attract investment from outside and the need for a local area to be conducive to internal growth. It must be accepted that the importance of these objectives could change over time in reaction to the changing environment, but it should also be accepted that employment creation would remain the central theme of LED.

The key elements of LED as a discipline that were highlighted are put into context with the consideration of the course of LED over time. This framework indicates that policy initiatives aimed at improving the economic development of a locality have changed over time in respect of objectives, methodology and rationale in response to economic restructuring. The latest phase is the most important to this study as it represents the newest developments in LED and is based on international experience and focuses on globalisation and building human capital. This corresponds to the important shift in LED literature over last two decades away from the perception of a locality as a passive location of economic activities.

The fact that the latest wave of LED incorporates phenomena like globalisation and stresses the importance of human capital 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.

Finally, in addition to answering the questions as set out from the start, key issues raised

by the discussion on the substance of LED in this chapter were also identified that could prove to be beneficial to developing countries. It is obvious that developing countries that seek economic reform and aim to improve their local economies stand to win from the LED experience. This is evidently also relevant to the South African situation and will be followed up further in *Chapter 4's* discussion.



CHAPTER 3

THE INTERNATIONAL DEBATE ON LED

3.1 INTRODUCTION

As was discussed in the previous chapter there has been an important shift in LED literature over the last two decades away from the perception of a locality as a passive location of economic activities. It was however, only during the last decade that the study of cities has been directly linked to the world economy. The new emphasis is therefore not only on the unique factors of the spatial setting in which economic activity occurs, but also recognises the locality's embeddedness in the larger economic structure. The purpose of this chapter is to provide answers to the questions that first relate to the nature of internationalised economic change and the implications for the economic development of cities (the larger economic structure), and secondly to clarify the relationship between global economic integration and the new roles of cities (spatial setting).

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, 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 1970s world economy, have altered the way in which it is appropriate to conceptualise and to operate policies in LED, and justifies further discussion.

Firstly, attention will be drawn to the new economic order with an explanatory section on 'new' definitions, with an overview of globalisation in terms of what it constitutes and the implications it hold. Specific reference is made to the developing world in this context and the structural impact of this new process. With the increasing international integration of national and local economies, cities have become interconnected components of the world economy, where they compete for investment. Attention will therefore be drawn to the critical aspects of the changing competitive environment. The technological revolution and

the trend of continuing urbanisation are interrelated factors that are inextricably linked to the phenomena of globalisation and the increasing competitive milieu. These two issues will be discussed in terms of this linkage, and will end the section on the external factors influencing the workings of a city.

The impact of the new economic order, with the resultant incorporation of national economies into an integrated world economy, has spurred debate around the future role of the locality, if any. In considering LED, no study will be complete if these arguments were not discussed. In this discussion, clarity must also be provided in terms of the influence sphere of the locality or the 'setting' in which factors can be manipulated for a locality to become attractive to investment.

This chapter will conclude with a brief discussion of LED's applicability to the new realities as discussed in the preceding sections of this chapter.

3.2 THE NEW ECONOMIC ORDER

The linkage between cities and the evolution of the world economy has been debated extensively, but the fact remains that such a linkage does exist. This immediately poses the question of what consequences the new world order holds for cities. Before possible consequences for cities could be considered, it is necessary to give some background to this new order and associated phenomena. Sassen (1994: 154-156) gives some useful definitions on frequently used words in the debate of the new economic order:

- # The *information economy* is a concept used to describe an economic system dominated by industries that produce, manipulate, and/or transmit information;
- # *Global cities* are strategic sites in the global economy because of their concentration of command functions and high-level producer service firms oriented to world markets.

Talero (et al, 1996: 1) also provides some 'new' definitions:

- # *Information* is a factor of production, in a category with land, labour, capital, and energy;

National information infrastructure consists of both the telecommunications network and the strategic information systems necessary for widespread access to communications and information services. Typical among the strategic systems are sector-wide information systems for education, health, public financial management, and transportation.

3.2.1 Globalisation

“Globalization is a reality, and people who speak in terms of wanting it to happen or not are living in a fantasy world” - Jean-Francois 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 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 this important phenomenon and what are the consequences it holds for the city?

The rise of the global economy is associated with the growing integration of the production and markets of different countries. The reason for this remarkable development can be found in the dynamics of trade in goods and services and the flows of capital and technology. With the opening up of world markets, it has become increasingly convenient for multi-national firms to ‘shop around’ the globe for optimum resources, for example low cost labour required in a specific stage of the production process. Pugh’s example (1995: 283) serves to illustrate this point, where sections of the garment industry in the United States are managing the computer-aided designing and cutting of their garments in American factories and arrange for the sewing and finishing to be done in developing countries. The emphasis has clearly shifted from mass production to flexible production. This phenomenon is also backed up by astounding figures. According to Jacobsz (1996: 1) world exports have doubled as a proportion of world output in the last two decades, with a definite shift away from trade in raw materials towards more value-added manufactured goods. This new process has naturally led to the more efficient allocation of resources around the globe, enabling countries to specialize in the areas of high productivity and import in those areas where their companies are less productive.

Hamel et al (1997: 112) defines the process of globalisation as the growing integration of the world in an interconnected global economy, global financial system, global political system and global culture. It is apparent that the effect of globalisation is profound and could be traced to many spheres, but for the purposes of this research study the focus will be on the interconnected global economy.

Global integration has resulted in economic transactions and processes taking place with decreasing consideration for national borders. There has been a dramatic shift from erecting tariff barriers in order to assist domestic economies, to dismantling tariff barriers to achieve the same purpose. These tariff reductions are being reinforced by the movement towards trade agreements between different countries (like GATT and SADC), and will have the effect of making the concept of borders between countries insignificant in terms of commerce. The logic for this trend lies in the perceived benefit from opportunities in the global economy, despite the apparent disadvantages of opening up domestic economies to competition.

With the diminishing importance of national barriers, local, regional and national economies are being transformed into 'interdependent segments' of an integrated world economy (OECD, 1995: 7). This defers that local and regional economies are now exposed to the international economy in a way never experienced before. Any initiative directed at the economic development of a locality needs to take cognisance of it.

This 'opening up of the world', holds various promises for those areas that adapt successfully to the new economic order, ranging from the exposure to the advantages a favourable external environment can present like access to advanced technologies and capital to the more efficient allocation of productive resources, but it also holds dire consequences for those economies that do not gear themselves for the new economic order. The very nature of globalisation implies that it does not harbour the same consequences for everyone, and literature on the subject gives profound warnings for the inability to adapt to the new changing economic environment.

Although the integration of first world countries into this new world economy with its access to the latest technology and systems seem reasonable, the developing country as participant in this new milieu is not so clear. The World Bank (1995: 16) however, points out that the developing world stands to win from this changing environment. They go so far as to say that developing countries (including transition economies) are a driving force in globalisation based on the presumption that every country enjoys comparative advantages in one or more areas in relation to other countries. The reality is that whether the new order will benefit developing countries or not, more developing countries are drawn into the integration of world trade as they introduce outward oriented trade reforms. It is apparent that there will be no unhinged spectators. Countries either have to adapt to this new order or be left behind.

Economic transformation manifests itself in different ways in urban development and globalisation is no exception to the rule. A number of literary resources have recorded economic transformation in relation to urban development and globalisation could be seen as the latest process of economic transformation with its own unique spatial implications. Sassen (1994:9) narrows globalisations' impact down to three types of sites in cities where global processes are embedded, namely production zones, tourism centres, and major business and financial centres. It is however important to keep in mind that related trends also have a profound influence on the urban form that goes beyond Sassen's three sites, noticeably the increasing occurrence of sprawling cities as technological revolution diminishes the need for proximity (see paragraph 3.3.1).

3.2.2 Changing Competitive Environment

“Cities in relation to the more global space economy, is seen as a competitive one.”

Pugh (1995: 268)

Competition's playfield has changed in this new world order from being primarily local or region based before the 1970s because of limited transport and communication 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 this new world economy where national barriers are 'broken down', localities have to compete against each other for economic benefits. The need for cities to become competitive is therefore necessitated by the very nature of the new world order.

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 enterprises 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 3.1). They have found that four forces, usually the result of tradition, history or value systems, influence the competitive environment of any given country. Of these set of forces, "attractiveness and aggressiveness" are directly applicable to this study.

'Attractiveness' and 'aggressiveness' relate to the way in which a nation manages 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 the 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 the report as becoming a 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 in search for economic opportunities, as well as residents in a search of quality of life.

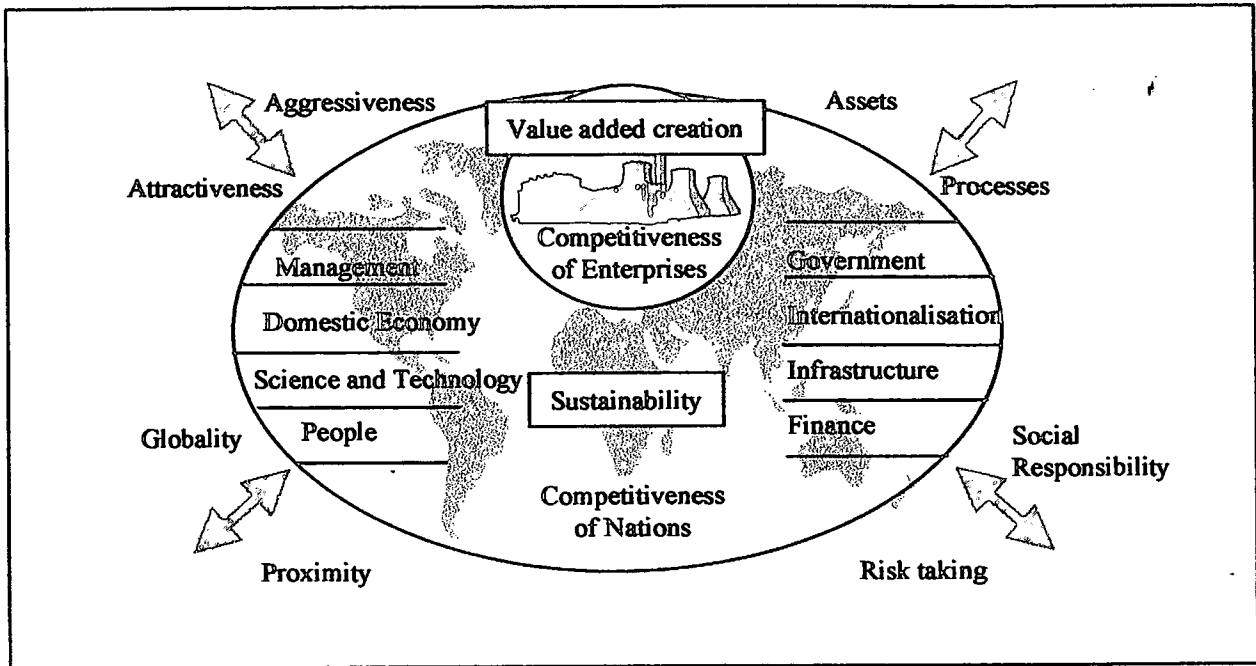


FIGURE 3.1 WORLD COMPETITIVENESS

Source: IMD, 1997: 1

3.3 INTERNATIONAL TRENDS AND NEW REALITIES

Certain international trends and new realities are embedded in this framework of globalisation and changing competitive environment that have direct consequences for the economic development of a locality. Of these, the most important include the technological revolution and rapid urbanisation, based on the first mentioned close relationship with globalisation and the profound influence the increase in urbanisation has on the attractiveness of a locality (as one of the major issues in the competitiveness debate).

3.3.1 Technological Revolution

If the process of globalisation entails the growing integration of markets for goods, services and capital, technological change can be viewed as one of the forces that drives globalisation. As the world markets open up, it is information technology that enables companies to locate different components of the same organisation at different localities around the world that is attractive to that part of the business. The vital resource for multi-national companies operating in this manner is *information*, that enables the company to

effectively manage the different components of the business. The technological revolution also serves to reinforce the new economic and social realities caused by globalisation. One example is the effect that advanced technology has on the locational patterns of industries and individuals, by reducing some of the competitive advantages central cities once held.

Through advanced telecommunications and other technological improvements, economic activities are connected in a way that enables them to be physically further apart. This is effectively reducing the competitive advantages that urban locations (with associated high levels of crime, pollution and congestion) once enjoyed. People and businesses now have more locational freedom to choose where they will live and work.

The economic development literature also shows that the importance of the locality per se, has diminished (OECD, 1995; Cox, 1995; Kanter, 1995). Where it used to be advantageous to be located close to markets or natural resources, it is now the availability of specialised technology-oriented infrastructure that has become more important. Determining factors are now research facilities, institutional and financial support to businesses and higher education services (see paragraph 3.4.3).

On the other hand, Graham (1997: 22) stresses that although current debate on the subject reduces the effect of technology on cities as a simple linear cause-and-effect relationship, the true linkage is much more intricate. He strongly criticises studies on the nature of the impact of current advances in telecommunications on cities as extremely simplistic, without taking into account that the way in which technologies are put to use into a unique setting will determine the effect they have in that setting or locality. It has to be kept in mind that some cities, notably in the developing world, have limited and inadequate access to information infrastructure. It therefore has to be accepted that the links between cities and telecommunication are complex and the effect of telecommunications can be different between places and periods.

3.3.2 Rapid Urbanisation

Urbanisation of the developing world is a clearly an unstoppable phenomenon. According

to the World Bank (1995: 25), less than 22% of the developing world's population was urbanised in 1960. By the year 1990, this percentage has grown to 34% and indications are that it will reach the 50% mark by the year 2020. This growth in urban populations is not however, restricted to developing countries. The proportion of populations living in large urban areas is expected to rise in the foreseeable future in *all* continents. Between 1994 and 2025 the proportion of the global population living in urban areas is expected to move from 45 to 61%; from 73 to 83% in Europe; from 74 to 85% in Latin America; from 34 to 54% in Africa; from 76 to 85% in North America; and from 70 to 75% in the Pacific region (Steele as cited in Graham, 1997: 23). Although the rate of urbanisation is relatively low in Africa, the trend is set to continue and increase at an unprecedented rate.

The continuing growth of cities is usually linked to diseconomies like pollution, traffic congestion, the added burden on the provision of services, and the high cost of living and doing business. Metropolitan areas continue however, to provide important advantages for both industry (in terms of labour supply, consumer markets and support services) and individuals (including medical, cultural and educational services, and a large and diverse labour market). As information economies weaken the need for proximity, it can be expected that the weighing of the benefits that metropolises hold against the disadvantages thereof will become more profound. The interplay of economies and diseconomies of large metros will play an important role in shaping the future of metropolitan areas, and have to be taken into account in any policy initiative that aims to make a locality attractive in terms of investment.

3.4 IS THERE ANY LOCALISED ROLE FOR CITIES TO PLAY?

".. territory - the place where endogenous and exogenous forces and characteristics meet."

Wilson (1995: 651)

The factors associated with the rise of the global economy, as discussed in the previous sections, like major developments in telecommunications and growing information industries and the globalisation of economic activity, have led to visions of the end of large compact cities. Pascal (1987: 597) advocates that cities' main reason for existence, namely face-to-face contact, is substituted by electronic networks and spaces. Images are depicted

of new rural societies, where people are free to locate in any chosen remote attractive setting. According to this standpoint the result would be the compact city becoming obsolete. Although the impact of the new economic order should not be underestimated, the chance that it will lead to a collapse of the modern city seems remote.

3.4.1 The Case in Favour of the Locality

The fact that economic activity is less and less restricted by interstate borders does not 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 the locality. The reality is that processes and activities of economic globalisation still require central places from which to operate.

An interesting angle is brought to this debate when the growth in telecommunications is linked to the growth in urbanisation and the dominance of growing urban regions. Rather than becoming obsolete with the unprecedented growth in telecommunications, cities continue to grow across the world as urbanisation accelerates rather than slackens. Telecommunications could 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." (Graham, 1997: 23).

It is easy to get carried away in the opportunities that the new global order brings, but the role of the contemporary city is still a meaningful place economically, socially and culturally. It must not be forgotten that access to new advanced technologies tends to be mostly limited to the use of a relatively small group of firms and organisations and that there is still limited access in other spheres to these technological advances.

3.4.2 The Changing Role of the City

Although there is general agreement on globalisation trends, there is less consensus on accompanying economic and political dynamics. In current literature on the subject, the focus is on how cities can adapt to and learn to live with the effects of telecommunications-based change. But more recent sources stress the need for a paradigm shift in the way cities see their role in this regard. According to the OECD report (1995: 18) and Graham (1997: 27) cities should focus on ways these effects may be altered or reshaped through policy initiatives. The local economy must therefore not be seen as a finite process of adaptation, but rather as a dynamic system involved in the process of continual change. One example of how cities use the new technology that is reshaping the context within which they operate, is the increase in attempts to use telecommunications as policy tools for economic, social and cultural development.

The policy implications of this shift (development is subject to favourable factors but is not the necessary outcome of external factors) are notable. From regional and national planning of growth poles, emphasis on factor and transport costs, recruitment of outside firms and investors, and trust in automatic trickle down mechanisms, comes a more finely tuned attention to territory that Wilson (1995: 651-653) describes as the clustering of social relations, the place where endogenous and exogenous forces and characteristics meet and where the needs of the community and business (private sector) must be aired and addressed. This change in emphasis reflects the same transition made with regard to LED policy, from the initial phases of smokestack chasing to an emphasis on the need to make use of the opportunities that globalisation has to offer and building of human capital.

3.4.3 What Should Cities Strive for?

"In order to know where to go from here: depends a good deal on where you want to get to." - Anonymous

Given the background to the new economic order, and its influence on the economic role of cities, the question of what cities should strive for is a very valid one. It is important to accept that cities are different and that there is no universal formula that will result in

'successful' cities. Every city's potential is still locked up in its own uniqueness, even though the new economic order makes increased interaction and contact an every day reality.

From the discussion on the changing economic environment, it is evident that cities need to make themselves attractive for investment, in competition with other localities that also aim to attract mobile capital. Kotler et al (1994: 10-13) divides circumstances that determine a locality's competitive position into two sets: those external factors outside of the influence sphere of the local community, and characteristics that usually lie within the local influence sphere. The factors outside of the influence sphere of the local community have been discussed under sections 3.2 and 3.3 as forces influencing the working of a city. But what about the factors that fall inside of the local influence sphere? These are important because it is not sufficient for cities to only attract resources, they must also keep them and develop them.

Under the heading of the local influence sphere, a region's assets can be broken down into two categories: *hardware*, that would incorporate the physical resources and *software*, that include skills and knowledge (Drakakis-Smith, 1996: 685). In order to maximise a region's capacity to produce effectively and competitively and to create and sustain growth, local players have to make use of the best possible way to let these two types of assets interact and complement each other. This correlates to a key-element of LED, that entails the optimum use of human, physical, institutional and economic resources.

The discussion in the previous section of this chapter has hinted at the shift in importance of the 'software' attributes in relation to the hardware attributes. Given the changes in context and competition that cities around the world are confronting, a region's human capital is increasingly becoming the most important form of wealth for a region. The choices that cities make with respect to human capital will therefore have profound effects on the competitiveness of the region. One of the easiest ways to disconnect the city from the global economy is to create a human resource base that neither meets the needs of global firms, nor is capable of creating competitive local firms.

In this new knowledge-based economy, cities need to take note of the changes that have taken place in the location choices of multinational corporations they aim to attract. In making their location choices, these corporations according to the OECD (1995: 8), review three main factors: production cost estimates, potential market position advantages and to a growing degree, local supporting services. For products with a low added value, the production cost is usually the determining factor. For products with a high added value, today's locality decisions is even more complex: businesses evaluate the education structure, the availability of skilled workers and the concentration of local support enterprises in deciding on the optimum location. The attributes of the labour market and its ability to adapt to changes will be a crucial factor in the success of cities. One way of ensuring a dynamic labour market that boasts a wide range of skills and rapid job matching processes is to concentrate and invest in small and medium sized industries. In combination with a entrepreneurial culture, this should result in an economy where industries would locate and invest in.

It is evident from this discussion that the quality of support services are of increasing importance in making a locality attractive to investment, but it also correlates to factors that determine the quality of life for residents.

3.5 LED'S APPLICABILITY TO NEW REALITIES CITIES FACE

It is evident from the discussion in *Chapter 2* on the phases of LED, that the third phase has already begun to address the new realities that localities face in the new global economic order. Localities were warned that they need to gear themselves to become attractive to increasingly footloose investors, and the importance of investment and developing of human, intellectual and technological resources were stressed as well as the importance of a good quality of life for its residents.

The real important contribution is however made in the fourth phase, where policy initiatives have been refined based on the outcome of LED strategies, projects and plans entered into earlier. Emphasis shifted to include the quality of both the physical and social environment and the restructuring to the changing economic environment is even more

profound to include the need to co-ordinate education and training (skills building) with the market needs in the LED strategy. Focus is once more on the support to small businesses, but also on the relationship between local and regional development.

Overall LED has succeeded in staying relevant to the needs of localities by providing practical guidance to localities that face increased competition, new technologies, increased urbanisation (that necessitates an emphasis on the quality of the physical environment and social issues), and a shift in the importance of crucial assets. LED also provides incentives for localities to pro-actively address their role in the changed economic order.

3.6 CONCLUSION

The aim of this chapter 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 for questions relating to the nature of internationalised economic change and the implications for the economic development of cities. From the first section of the chapter it is evident that the nature of the new economic order holds profound consequences for the economic development of cities. This new order implies that boundaries between nations are diminishing in importance and localities are exposed to all the elements associated with the opening up of world markets. This includes the perceived benefits of globalisation like easy access to new technologies and capital, as well as the increase in competitiveness. As the mobility of capital, amongst others, has increased, cities 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.

The technological revolution is one of the forces that is driving globalisation as it makes it increasingly easier for multinational firms to locate certain parts of their business in different parts of the world. The technological revolution is also said to have an impact on the importance of the central city (with increasing diseconomies associated with rising urbanisation) as it makes it possible for economic functions to be located further apart.

The discussion in the latter section of the chapter comes to the conclusion that the locality still has an important economic function in this globalised economic world order. Cities must accept globalisation as an inevitable process far beyond the control of cities around the world, and exploit the reality of these movements, as opposed to remaining passive and being exploited by them. With this in mind cities need to accept the importance to invest in human capital and to take note of the changing importance of attributes that makes a locality attractive for investment and adapt their policies accordingly. One important route open to cities to become attractive for investment as the importance of the hardware attributes are diminishing, is to concentrate on the locality's software attributes.

A point that is picked up in this chapter, but mentioned in the previous, is the applicability of LED to the new realities cities face. These new realities were discussed in the preceding sections of this chapter. From the discussion it is evident that the latest two phases of LED are in fact directly applicable to these new realities created by the economic internationalisation process.



CHAPTER 4

LED: A SOUTH AFRICAN PERSPECTIVE

4.1 INTRODUCTION

The South African economy is burdened by, amongst other, problems of unemployment, poverty, insufficient basic services for all its citizens, inequality, high levels of urbanisation, high population growth, insufficient economic growth and low productivity. These problems are most evident in the cities and enormous pressure is exerted on government to address economic development at the local level. From the background provided in the previous two chapters, it is evident that LED as a systematic approach to address these problems on a local scale enjoys a high profile in international circles as a solid basis from which to address local problems. South Africa has also looked towards LED as an approach to address local problems and it is incorporated in various policy documents. However, this country has still a lot to learn from the newest developments in LED, especially with regard to changes in the external environment.

The discussion in considering LED in South Africa is opened by first providing background to the economic framework within which South African cities operate. Hereafter, the effect of the changes in the external economic environment on the country will be discussed. South Africa's history has kept it, until recently, isolated from the global economy, and as a result its cities, firms and industries were left far behind their global competitors. The South African government has however committed itself to opening up the country to global markets and is moving rapidly to comply with the requirements of the trade agreements it has entered into. It is therefore evident that South Africa is also increasingly being exposed to the volatile international environment. It is important to keep in mind that South Africa's unique history with regard to urban form, distinguishes it from other cities around the globe. This however, does not mean that the international experience is lost for South Africa.

The last section of this chapter will deal with LED in South Africa, by providing background to South Africa's experience of LED, and then moving on to South African policy initiatives that have a bearing on LED at a national and local level. A brief overview of the responsible parties for LED in South Africa is provided before discussing the future considerations in terms of LED for this country.

4.2 BROAD OVERVIEW OF THE SOUTH AFRICAN ECONOMY

Every city's unique economic base must be evaluated as a first step in developing a LED approach, but in South Africa the lack of reliable data on a local level places a severe restriction on researching the economic base of a locality. For the purpose of this study, it is therefore useful to sketch the economic framework within which South African cities operate.

4.2.1 Demographic Overview

South Africa has a population of approximately 40 million people (CSS, 1996) that makes it the 24th largest country in the world with the 29th largest GDP. According to the October Household Survey of 1995 (CSS, 1996: 1) 50,3% of the population resides in non-urban areas and 49,7% in urban areas. The proportion varies from 88,8% of the people in the Northern Province living in non-urban areas in comparison to only 5,5% in Gauteng (See figure 4.1).

The percentage rural population of five of the nine the provinces (Northern Province, Mpumalanga, North-West, KwaZulu/Natal and Eastern Cape) are in excess of 60%. It is evident that the anomalies are responsible for the average of $\pm 50\%$ that suggest a seemingly even distribution between urban and rural populations, but which in fact is untrue. The projected growth of 3,7% per year for the urban population implies that the urban population would reach the 73% mark at the turn of the century. From this projection it is obvious that South Africa did not escape the world wide trend of urbanisation.

Regarding the age structure of South Africa's population, the Central Statistical Services

(1994) has calculated the age dependency ratio on 70,6 for South Africa. This implies that the population below the age of 14 years and above the age of 65, constitutes approximately 70% of South Africa's population. With an average life expectancy at birth of 62 years, it is obvious that the largest portion of this ratio must be constituted by children under the age of 15. South Africa therefore has a extremely young age profile that holds major implications for long term employment, economic growth and urbanisation.

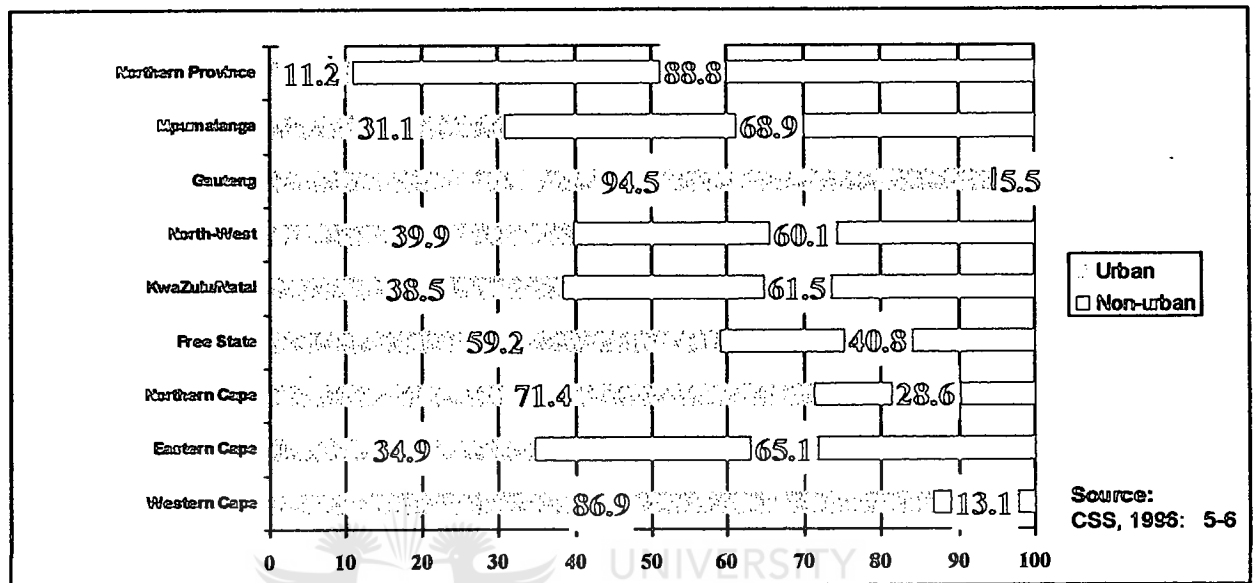


FIGURE 4.1 PERCENTAGE DISTRIBUTION OF URBAN AND NON-URBAN POPULATION BY PROVINCE, 1995

4.2.2 Household Income

South Africa has long been regarded as a country that harbours the most unequal society in the world. According to Whiteford and McGarth (1994: 44-60) in the period from 1917 -1970 the white population group's share of income has stayed relatively constant at approximately 70% against a population share of less than 20%. The same authors found that in the period stretching from 1980 to 1991, whites' share of income has declined, while the income share of the other population groups has risen (see Table 4.1). Table 4.1 shows that coloureds' share of income and that of the Indians have stayed relatively constant with the incomes of the blacks rising more dramatically in this period. It is clear however that the change in the income pattern has altered very slowly over time and that the distribution stays extremely skewed to the advantage of the whites.

TABLE 4.1 SHARE OF INCOME PER RACE GROUP, 1960 TO 1991

Year	Blacks	Whites	Coloureds	Indians
1960	20.5	71.9	5.6	1.9
1970	19.8	71.2	6.7	2.4
1980	24.9	65.0	7.2	3.0
1991	27.6	61.2	7.3	3.9

Source: Whiteford & McGarth, 1994: 53

Although the gap between white and black income has diminished since the 1970s, the gap is far from closing and statistics illustrate the extent of current disparities along racial divides (SAARF, 1996). According to statistical information the largest portion of white household income is more than R6 000 per month, against the 75,3% of black household income that is less than R1 400 per month (SAARF, 1996: 13-16).

4.2.3 Living Conditions

Each year an estimated three quarter of a million people migrate from the rural centres of South Africa in search for an opportunity to a better life (Tosterud, 1996: 35-39). Most of these new urbanites take up residence in the squatter camps, and join the majority of the poor section of the population living in what is generally termed as informal settlements. These poor families face less than ideal living conditions in such settlements. Statistics shows that 27,4% of black against 98,4% of whites have internal piped water; a third of black families still use wood as their main energy source for cooking (40% for heating); 45% of black families use pit latrines while 99,9% of whites have flush or chemical toilets (CSS, 1996: 57-67). These figures show stark contrast with regard to living conditions and quality of life. If South African cities want to become attractive to investment and improve the quality of life of its residents, it will have to address these discrepancies as a matter of urgency.

4.2.4 Education and Skills

According to the SAARF study (1996: 19-50), only 24,6% of the total population has formal training after the level of matric, and a staggering 30% of the South African population has

not finished primary education. The October Household Survey (CSS, 1996: 45) indicates that the rate of unemployment for unskilled people, namely 34% was markedly higher than the average unemployment figure of the economically active population, namely 29,3%. Among those who had successfully completed at least twelve years of schooling the unemployment ratio was much lower at 18%.

If South African cities intend to become an internationally competitive player, they will have to invest heavily in the transformation of their presently low-skilled, and consequently unproductive labour pool into a high-skilled work force.

4.2.5 Employment and Unemployment

The October Household Survey (CSS, 1996: 46) indicates that 29,3% of South Africa's economically active population is unemployed. The unemployment rate in urban areas is higher at 53% than in the non-urban areas, which is 47%. It is generally accepted that the problem of unemployment in this country is largely structural, which means that unemployment is not responsive to changes in economic activity. This is not surprising given the economic, social and political repression of the apartheid system.

The ability of the formal sector to provide employment opportunities in the South African economy is totally insufficient. According to the South African Reserve Bank (1997a: 7) total formal-sector employment increased only once during the past seven years, when the average level of employment rose marginally by 0,7% in 1995. The result was a loss of approximately 392 000 jobs between 1989 and 1996, as the average level of employment in the formal sectors fell by 6,9%. This inability of the formal sector to provide jobs to the growing population has led to new entrants looking towards the informal sector as a means to earn a living.

Despite the importance of steering job opportunities to the formal sector, the informal sector has probably the best potential to provide income and employment opportunities to the largest quantity of people in South Africa. In addition to provide an income for poor people, it also serves to provide flexibility to the manufacturing process and the service sector. The importance of this sector therefore also need to be taken into account when a

LED approach is postulated in South African localities.

The impact of the increased international competition that South African industries will face in the next few years must also be kept in mind in the 'employment and unemployment' scenario, as this will impact heavily on the already high level of unemployment in South Africa.

4.2.6 South Africa's Economic Base

Before 1920, agriculture and later mining, formed South Africa's economic base, but since then has developed to manufacturing (IDC, 1997: 2). Although South Africa has always strongly relied on its natural resources, the manufacturing sector which is relatively large and diversified, constitutes an ever increasing share of GDP. Currently manufacturing comprises 25,5% of GDP and agriculture, manufacturing, trade and general government sectors currently account for approximately 60,0% of the total GDP. Agriculture, forestry and fishing comprise only 5,28% of South Africa's GDP (CSS, 1997: 1).

South Africa's growth rate has performed poorly in the last decade. The country's real GDP declined almost continuously from the third quarter of 1989 to the fourth quarter of 1992. However, in the first half of 1993, the prolonged decline in real economic activity gave way to an economic recovery in 1993, 1994 and 1995. In 1996 however, real GDP fell short of the rate achieved a year earlier. The growth momentum has never recovered and has weakened further up to the third quarter of 1997 (SARB, 1996: 6-7).

The South African economy is one of the most 'open' economies in the world, in the sense that foreign trade accounts for a much higher share of the gross national product than in the case of many other countries. South African exports represent a significant 23% of the GDP (IDC, 1997: 51). This also means that the economy is highly susceptible to trends and developments in the economies of major trading partners.

In the manufacturing sector some of South Africa's industries have been protected by tariff barriers and had the opportunity to develop and become reasonably competitive. Large areas of the South African industry are however, neither competitive nor technologically

as advanced as its competitors. South Africa evidently has a long and hard road ahead in becoming internationally competitive and it is important for all spheres of government to have their policies geared towards reaching this goal.

4.3 IMPACT OF CHANGES IN THE EXTERNAL ENVIRONMENT .

In this section, the explanatory framework within which LED operates, will be discussed in terms of the South African situation seeing that after many years of economic isolation, South Africa has only recently fully re-entered the global arena. The aim of this section is to draw attention to the effect of changes in the external economic environment on South Africa.

4.3.1 Applicability of International Experience to the South African Situation

South Africa's history of the systematic enforcement of racial divisions in every sphere of society, has resulted in cities that reflect characteristics that are common to both the 'first' and 'third' world. New local government structures in South Africa have to deal with urban areas where poverty and degradation in the townships co-exist with modern cities with highly developed industrial and commercial infrastructures.

The question that comes to mind is, given the important lessons international experience and literature hold with regard to LED experience and the changing economic order, how applicable is this to South African cities. Should South African cities be considered within the same context of advanced capitalist societies or those of urban areas in the developing world?

Parnell (1997: 891-906) argues that a range of theoretical perspectives that usually exclude developing countries and focus on advanced capitalist societies, can be effectively applied in studying cities that are usually depicted as 'third' world. Parnell comes to the conclusion that post-modernity is not a distinctive feature of the industrialised world and it is correct in viewing South Africa from fresh vantage points that includes the examination of the South African city in the context of the changing world economy. South Africa could therefore also look towards the world economy to explain patterns of urban change.

4.3.2 Globalisation and Increased Competition

South Africa's political transformation and its move towards a more outward oriented macro-economic policy, is pushing the country to become part of the integrated world economy. The Governor of the South African Reserve Bank, Dr Chris Stals (1997: 3) has publicly announced South Africa's commitment to a policy of further economic liberalisation and integration of the South African economy in the global markets.

One advantage of the increase of capital movements in and out of South Africa, is that in contrast to the past, where regions and their firms were forced to rely on the domestically available financial capital, this is no longer the case. Regions and firms now have the ability to obtain access to financial capital from around the globe. Factors like the government's favourable macro-economic policies that underline the need for tight fiscal and monetary policy, and the process of trade and exchange control liberalisation have had a positive influence in laying claim to investment capital.

With the opportunities globalisation brings, new harsh realities are also evident. Seeing that tariff barriers have sheltered South African industries from international competition in the apartheid era, the reintegration into the world market will have an inevitable destabilising effect on the spatial economy as domestic enterprises are exposed to global competition. Previously, policy measures like the Structural Adjustment Programmes, the Regional Industrial Development Programmes and other support measures to local industries were some of the means that the government used to increase job opportunities and to ensure economic growth. Rather than focusing on becoming internationally competitive through the development of the labour force, technological advances and increases in productivity, South African enterprises tended to look towards government for protection and assistance.

As a result, South African manufacturers have lagged significantly in terms of world competitiveness with respect to, amongst others, technologies being used, inefficient and low-skilled work forces and insufficient management. In the eyes of the world, South Africa's economic competitiveness performance is poor and getting worse. According to the World Competitiveness Report (IMD, 1997: 8-9), South Africa ranked 43rd out of 46

countries three years ago, and this position has slipped to second last in 1997 (see Table 4.2). The reason for this decline is the low scoring in finances, management, science and technology, and internationalisation. As shown in Table 4.2 South Africa's scores only improved in the areas of government (43rd to 35th) and infrastructure (32nd to 28th).

A very important factor for LED's prospects is what the World Competitiveness Report terms the 'people' factor. Aspects considered in the Competitiveness Report as the people factor include population characteristics, work-force characteristics, employment, unemployment, education, quality of life and the conduct of the work force. For the last six years South Africa has ranked last in this category.

TABLE 4.2 FACTORS OF COMPETITIVENESS

FACTORS	RANK				
	1993	1994	1995	1996	1997
Domestic Economy	41	42	42	44	42
Internationalisation	32	35	38	39	46
Government	43	38	35	37	34
Finance	23	26	27	31	36
Infrastructure	32	37	30	32	33
Management	32	35	38	40	37
Science & Technology	29	28	31	34	40
People	46	46	46	46	46

Source: IMD, 1997: 7

The conduct of the workforce, which includes aspects like flexibility, violence and the values of the society (which are crucial factors to LED), is another aspect that has deteriorated, slipping from a position of 42nd in 1992 to 45th in 1996. South Africa's workforce is characterised by what the Reserve Bank (Stals, 1997: 7) terms inflexible conditions, and despite unemployment of approximately 30% of the work force, workers continue to demand wage increases in excess of the rate of inflation and of productivity gains.

In terms of world-level skills endowments, South Africa suffers serious deficiencies. The creation of skills itself is a slow, incremental process, and requires considerable effort and investment. In the longer term, high-level skills will have to be raised for South Africa to become and stay competitive. With regard to technology (another low scoring element for South Africa) it has become obvious that while technology is a driving force in globalisation, in an environment like South Africa (as pictured), the lack of technological considerations worsens the problem. The way in which South Africa's localities address their software attributes will be an extremely important determinant of the future economic well-being of localities and their firms and residents.

It can also be expected that the reintegration into the global economy and trade liberalisation will have an effect on South Africa's spatial landscapes. As South Africa's integration into the world economy increases, global trends will increasingly be transferred onto South African cities, although the consequences of these trends in the global economy can be expected to take on a specific South African form.

4.4 LED IN SOUTH AFRICA



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4.4.1 Background

For most of South Africa's documented history, local governments have been mainly involved in the passive delivering and maintenance of infrastructure and services and the collection of services and rates charges. Local governments' role was largely to react in a passive and non-involved manner to the development needs of communities. Factors like rapidly rising rates of unemployment and poverty, the political transition and global economic restructuring have, however, induced South African local authorities to adopt LED strategies. However, the majority of initiatives launched until recently, follows a largely traditional approach, where economic strategies of most local authorities still concentrate primarily on marketing exercises, providing incentives and attempts to attract investment from outside. Most of these LED projects corresponded to *ad hoc* projects that lack a holistic approach to the economic development of a local area.

Nevertheless, in recent years some creative initiatives were undertaken that include the Metropolitan Development Forum and Operation Jumpstart in Durban, PMB 2000 in Pietermaritzburg, the PWV Economic Development Forum and the Stutterhorn Development Foundation (Maharaj, et al, 1996: 159). These initiatives were based on the involvement of the major stakeholders in the different regions or centres to use their resources to deal with the country's economic development problems.

4.4.2 Policy Initiatives

Several government policies applicable to different levels of government have direct and some indirect implications for LED initiatives of which the most important will be discussed below.

The *Reconstruction and Development Programme* (RDP) entrenches the local economic initiative (ANC, 1994). The RDP's second principle reflects the fundamental basis of LED (ANC, 1994: 83): *"This programme must become a people-driven process... Development is not about the delivery of goods to a passive citizenry. It is about involvement and growing empowerment."* The RDP (1994) document further states: *"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 of small businesses and agricultural development, etc.)"*.

Also at national government level, South Africa's *Growth Employment and Redistribution Strategy* (GEAR) can broadly be described as a framework for sustainable economic growth and development with an outward oriented approach (Department of Finance, 1996). It is a macro-economic strategy that aims to strengthen economic growth in South Africa with a broadening of employment opportunities and the redistribution of economic opportunities. Central to this strategy is the aim to achieve a competitive fast growing economy that is conducive to employment creation and a redistribution of income and opportunities in favour of the poor; a society that has access to health, education and other services; and a quality environment in terms of the needs of citizens and business.

The promotion of small, medium and micro-enterprises receives considerable attention in the document and is promoted as a key element of the GEAR in terms of employment creation and income generation. It is evident that this policy document has employment creation as its central priority and local economic initiative is well entrenched in its concepts and therefore provides an excellent national platform for LED.

In addition South Africa's *Trade and Industrial Policy* (DTI, 1996) that falls under the responsibility of the Department of Trade and Industry (DTI), represents a movement away from the previously high levels of protection and inward oriented economy to a more open economy that emphasises the need to compete internationally. South African cities are therefore becoming another integral part in the global economy, but will also face the consequences of the new economic order like increased competition. DTI is also responsible for South Africa's regional industrial development that was used for decades by the previous government as an instrument to further its apartheid ideology in trying to direct investment to 'black' areas to discourage migration from those areas to 'white' cities. The current *Regional Industrial Programme* has gone through a range of changes and has eventually been scaled down to represent a grant programme tailored to the needs of the small and medium-sized firms.

It is clear that the national economic policy initiatives are designed to facilitate overall economic recovery rather than to address the economic development of localities. Two documents that were recently released, namely the *Urban Development Framework* (1997) and the *Green Paper on Local Government* (1997) are, however, directly applicable to economic development at the local level, and should provide a 'local' platform for LED.

The *Urban Development Framework* (DoH, 1997) was initiated by the now disbanded RDP Office, and finalised by the Department of Housing (DoH). The aim of the document is to outline the urban initiatives that will form the substance of imperatives of, amongst others, the GEAR and two priorities listed in the document relating directly to LED's key principles. The first being the need to establish new ties and co-operation agreements between local governments and the civil society (that will include the private sector and community organisations). The second priority stresses the need for coordination between local economic development initiatives and integrated spatial and socio-economic

frameworks. This priority specifically relates to the locality, without stressing the need for the much needed linkage between local initiatives and strategic regional planning. The promotion of urban economic growth is further identified as one of the four key programmes of the urban development framework.

The Department of Constitutional Development is primarily responsible for LED policy and has drawn up the *Green Paper on Local Government* (1997). This document reflects the fundamental transformation that local government in South Africa is undergoing that will have a profound effect on the way local areas operate. The document reflects a very important shift towards a new developmental local government system that is directly in line with LED objectives that stress the need for government to steer policies and actions towards developmental growth. The objective of integration into the international economy (by addressing the new realities for localities caused by globalisation), is however, not so clearly addressed in a holistic fashion. This could be attributed to the fact that South Africa is a relative new comer to the international field in many ways, but this is certainly an area where policy could be improved in line with the latest developments in LED.

The *Green Paper on Local Government* represents the policy document that one looks towards to find an enabling policy framework for LED initiatives, and the document does in fact reflect to a large degree most of the principles of the latest phase of LED like local procurement, support to small suppliers and local training programmes. The holistic approach associated with LED, is however, still lacking. For example, policy initiatives in the document focus on the building of human capital, but because of the lack of a holistic approach, key issues like the coordination of education and labour training services with changing market needs are lost.

It is clear from the overview of the RDP, GEAR, the Industrial Promotion Policy, the Urban Development Framework and the Green Paper on Local Government, that if implemented, LED initiatives will be complementary to the national policy initiatives.

4.4.3 Responsible Parties

While local governments in the Americas and Europe have been central roleplayers in

LED, local governments in South Africa have focused on their key roles in terms of service delivery and maintenance of services like electricity, water, sewerage and other waste removal; development control; the construction and maintenance of roads and other public facilities; and the operation of health facilities. Although there were some exceptions in terms of ad hoc LED programmes and a few creative LED initiatives, local government has followed the broadly traditional approach to the economic development of a locality. The Green Paper on Local Government represents a milestone with regard to government policy and LED objectives in terms of turning towards a developmental role for local government. Based on the findings of *Chapter 2* however, it must be accepted that the real roles of local governments will ultimately depend on relative institutional and political power of local governments, and also on the economic base of local governments (financial ability).

With regard to the other spheres of government, the constitution backs the notion of cooperative government, which implies that national, provincial and local government are each distinctive and have equal status. This new system of intergovernmental relations that is emerging emphasises the autonomy and interdependence of the different government spheres and this should support the local government in its role to take responsibility for its own economic development.

It is encouraging to note that all the policy documents referred to earlier, enforce the notion that shared growth from which all citizens should benefit, is impossible without a cooperative development partnership between an enabling local government, business, labour, the organised community, the informal sector and the unemployed. It is accepted that the involvement of these sectors is crucial for the success of LED.

4.4.4 Future Considerations in Terms of LED for South Africa

If consideration is given to key elements of LED and how South Africa performs in terms of these, it is obvious that South Africa faces no small challenge. South Africa has a young age profile that puts an additional burden on the economy that is already unsuccessful in accommodating new entrants to the labour market. The country is characterised by a high level of income inequality and poor living conditions for the largest part of its population.

The country's labour force is described as inflexible, low-skilled and South Africa scores low in terms of workforce conduct. Furthermore, South African industries are not competitive or technologically as advanced as their competitors. It is obvious that considerable investment in the software attributes of South Africa is necessary in every respect.

Another important issue to consider is the reality that detailed information is an absolute prerequisite for meaningful interventions by local government in the economic growth of the area under its control. In South Africa, the lack of useful economic data especially at the local level, places a severe limitation in determining the factors that affect the level and growth of economic activity in local economies. These factors are supposed to form the basis for LED strategies and procedures to be developed by local government in coalition with other stakeholders.

An aspect that South African cities have to consider and where reliable detailed information is also going to be required, is the assessment of the locality within a region. The economic functioning of South African cities must be seen within the collection of other town and cities in a larger region. The geographic patterns of development and trade with and around the cities must be examined to identify the function of the local economy within the regional economy and ways in which local functions might be strengthened. Aspects to be considered could include population characteristics and trends; location of employment centres; and special regional functions (eg universities, airports).

Two last issues for consideration are the role of the informal sector and the impact of information technology on South African cities. The role of the informal sector in the South African economy must be appreciated and incorporated into LED strategies, because of its usefulness in serving as a basis to build businesses. The impact and usefulness of technology also needs to be considered as an increasing number of local authorities in South Africa are using information systems to manage their local areas of jurisdiction. This correlates to the notion that cities are not helpless in the advent of changing realities, but that they can influence their own destiny.

4.5 CONCLUSION

The main purpose of this chapter was to provide an indication of the consequences of LED and the latest developments in this approach, plus the appropriateness of international experience and the impact of global economic change on South Africa, with reference to policy initiatives. From the discussion in this chapter it is evident that South African cities are operating in an environment that is in dire need of initiatives that will assist localities to gear themselves for the changed economic order, as well as to ensure internal growth. In terms of South Africa's population characteristics, work-force characteristics, employment, unemployment, education, quality of life and the conduct of the work force, the country has scored miserably by international comparison. This is shocking if one considers that the 'people' factor that encompasses all these elements is crucial to the success of LED.

Furthermore, the 'unique' nature of South African cities regarding their 'first' and third world components brings doubt to mind if theory relating to changes in the world economy and its impact on the locality are applicable to the South African scenario. New information on this issue indicates however, that South Africa's history of separate development does not imply that international experience in this regard is lost to South Africa. South Africa can in fact benefit from the wealth of information available on LED.

The discussion on the impact of changes in the external environment in a South African context shows that policy initiatives that are steering the country back to the global arena, hold severe consequences for a country that was shielded from this impact for a number of years. South Africa's competitive position reflects the dismal state of our competitiveness in terms of the rest of the world, which is largely due the country's history of protectionism.

In considering LED in South Africa (as reflected in policy and conduct), it is evident that although the country could be rewarded for the progress that it has made that South Africa has not yet grasped the full meaning and advantages of the LED approach. Creative initiatives that were undertaken based on the involvement of the major stakeholders in the different regions or centres to use their resources to deal with their locality's economic

problems, show that cities are taking the first steps in taking responsibility of their economic future. Although new policy initiatives are firmly positioning LED as an integral part of the institutional workings of local economies, it is evident that South Africa has not yet succeeded in adopting a holistic LED approach to address the economic development of localities.



CHAPTER 5

SUMMARY AND CONCLUSION

5.1 SUMMARY

The aim of this study was to provide sufficient background information on LED as a possible local solution to local problems that would complement national policy initiatives, given the realities that South African cities face with regard to inequality, poverty and unemployment and the inability of national government initiatives to address location specific issues, plus the impact of changes in the external economic environment. A categorisation was made between the substance and concerns of LED and the explanatory framework of LED, after which key concepts were applied to the South African context.

The purpose of the chapter on the substance and concerns of LED (*Chapter 2*), was to provide 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. The study has highlighted the key elements of LED as a discipline and put it into context with the consideration of the course of LED over time. This framework indicates that policy initiatives aimed at improving the economic development of a locality has changed over time in respect of objectives, methodology and rationale in response to economic restructuring. The latest phase is the most important to this study as it represents the newest developments in LED and is based on international experience and focuses on globalisation and building human capital. This corresponds to the important shift in LED literature over last two decades away from the perception of a locality as a passive location of economic activities.

The fact that the latest wave of LED incorporates phenomena like globalisation and stresses the importance of human capital, 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 *Chapter 3*.

The purpose of *Chapter 3* was to provide insight into the international debate (explanatory framework) with regard to the larger economic structure and the spatial setting within which cities function. Any discussion on LED would be insignificant if this framework was not taken into account as it is inextricably linked to the economy of cities. The nature of internationalised economic change is provided with specific reference to the process of globalisation and the changing competitive environment, plus the interrelated issues of the technological revolution and rapid urbanisation. From this discussion it is evident that the changed economic order has resulted in a scenario where cities have become interconnected components of an integrated economy where they have to compete for scarce resources. The fact that the world markets have opened up (with the support of technological advances), has given multinational firms leverage in this competitive playfield by having almost a free hand in deciding where to locate. Cities therefore need to become attractive for investment, and once resources have been attracted, cities need to keep and develop these resources. The last point (keeping and developing resources) correlates closely to the need for localities to be conducive to internal growth.

The discussion in the second section of the chapter focussed on the changed role of the locality in this new global world, and the conclusion is drawn that the locality still retains its economic significance even if technology reduces the need for proximity and diseconomies push development further away from urban centres. Cities need to accept the inevitability of globalisation and related trends and need to take on a pro-active role in terms of their position in the global economy and to use the advantages to the full. This includes the manipulation of assets that prove crucial to become attractive for investment, but also to become conducive to internal growth.

The discussion in this chapter also concluded that LED has succeeded in staying relevant to the needs of localities by providing practical guidance to localities that face increased competition, new technologies, increased urbanisation (that necessitates an emphasis on the quality of the physical environment and social issues), and a shift in the importance of crucial assets. LED also provides incentives for localities to pro-actively address their role in the changed economic order.

The purpose of *Chapter 4* was to provide an indication of the consequences of LED and the latest developments in this approach, plus the appropriateness of international experience and the impact of global economic change on South Africa, with reference to policy initiatives. From the discussion in this chapter it is evident that South African cities are operating in an environment that is in dire need of initiatives that will assist localities to gear themselves for the changed economic order, and also to ensure internal growth.

The 'unique' nature of South African cities regarding their 'first' and third' world components brings doubt to mind if theory relating to changes in the world economy and its impact on the locality are applicable to the South African scenario. New information on this issue indicates however, that South Africa's history of separate development does not imply that international experience in this regard is lost to South Africa. South Africa can in fact benefit from the wealth of information available on LED.

The discussion on the impact of changes in the external environment in a South African context shows that policy initiatives that are steering the country back to the global arena, hold severe consequences for a country that was shielded from this impact for a number of years. South Africa's competitive position reflects the dismal state of our competitiveness in terms of the rest of the world, which is largely due the country's history of protectionism.

A review of the LED experience in South Africa, with regard to previous initiatives and policy documents, shows that considerable progress has been made in terms of adopting LED as an approach by which to address a locality's economic development. Creative initiatives that were undertaken based on the involvement of the major stakeholders in the different regions or centres to use their resources to deal with their locality's economic problems, show that cities are taking the first steps in taking responsibility of their economic future. The latest developments in the LED approach has however, not yet been incorporated in policy documents or practice of local governments.

5.2 CONCLUSION

South Africa's negotiated revolution has rid the country of decades of racial oppression and has opened the way for South Africa to be incorporated into the global economy. This move towards integration in the world economy is a brave one as it holds not only benefits, but also some harsh new realities for the different 'segments' of the integrated whole. One of the benefits is the easy access (and at last applicability) South Africa now enjoys to the wealth of experience in the field of the economic development of a locality, of which South Africa is in dire need for.

The denial of economic and political freedoms and benefits to the majority of the population, and the recent entering into the global economy has necessitated the adaptation of a broad range of incentives to address the current realities South Africa face. In light of the need for 'bottom up' initiatives to complement 'top down' initiatives and the current emphasis on the important economic role and function of the locality, focus has shifted to LED as an approach that takes the dynamics of the global economic environment into account in guiding localities to economic development.

Rather than proposing a blueprint on how LED should be implemented in South Africa, this study represents the outcome of research into the substance and concerns of LED, the explanatory framework within which it operates and the applicability and application of these to the South African situation.

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