Masters Dissertation:

Development and disparities among provinces in South Africa: a comparative analysis

Report presented by:

L Ramuhashi

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To:

Dr PW Baur

Department of Economics

University of Johannesburg

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Abstract: *Many studies of regional disparity in South Africa have focused on rural and urban developmental inequality. This research essay sets out to create an exploratory understanding based on an in-depth analysis of South African provincial inequality. The analysis was done by examining the theories related to economic development and then by analysing current economic development. The purpose of this research is to determine the cause of the widening developmental gap among different provinces in South Africa. Case studies were used to examine the widening poverty gap in countries such as Indonesia, Canada and China within the context of their experiences of provincial developmental disparities. Budget allocation and programmes such as IDP and IDZ are discussed within the context of examining whether the SA provincial disparity is diverging or converging.*

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AIDS	Acquired Immune Deficiency Syndrome
BS	Budget Statement
CoJ	City of Johannesburg
EMM	Ekurhuleni Metropolitan Municipality
EMPD	Ekurhuleni Metropolitan Police Department
FDI	Foreign Direct Investment
GBS	Gauteng Budget Statement
GCR	Global City Region
GDP	Gross Domestic Product
GDPR	Gross Domestic Product per Region
GNP	Gross National Product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IDP	Integrated Development Plan
IDZ	Industrial Development Zone
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
PBER	Provincial Budgets and Expenditure Review
PPP	Purchasing Power Parity
SDI	Spatial Development Initiative
UN	United Nations
US$	United State Dollar
VAT	Value Added Tax

Chapter 1

Problem statement

1. 1 Introduction

The economic development disparity that exists among different regions, among countries and within countries is a world-wide phenomenon. Economic development, in simple terms, refers to the upliftment of the standard of living of individuals within a specific region. This upliftment is in terms of education, health, infrastructure and employment levels. This research paper is not confined to economic development as it also extends into social development.

The aim of this research is to create awareness of the disparities among provinces. This research essay is important because it looks at the differences between Gauteng and the other provinces such as Limpopo and the Northern Cape. All nine South African provinces are compared with one another in order to assess how wide the development disparities that exist among the provinces. The provinces that the research covers are Gauteng, Limpopo, Northern Cape, North West, Kwazulu Natal, Western Cape, Eastern Cape, Mpumalanga and Free State.

It is important for the government to take into account the imbalances that exist among provinces so that the problem of clustering of economic activities in one place is addressed. These imbalances of economic activities may also lead to different municipalities failing to render efficient services to their communities. The distribution of economic activities can enhance economic development divergence if supported by government strategies as in the case of spatial development initiative and industrial development zones. The coordination of the Integrated Development Plan, here after referred to as IDP, and the Industrial Development Zone, hereafter referred to as IDZ, can speed up the process of reducing development disparity in different provinces.

1. 2 Background to the research problem

Provinces such as Gauteng achieve high rates of economic growth, whereas provinces such as Limpopo, Northern Cape and others are struggling to grow or develop rapidly. This creates vast economic development disparities among the provinces. The central government concentrates on the economic growth and development of the country as a whole. Yet economic growth and development disparities between provinces are increasing. Therefore, the government is expected to improve economic growth and development in all nine provinces. Even though one is quite aware that impartial economic development is impossible one is tempted to suggest that some balancing is sought (Gauteng provincial profile 2006: 56).

The disparities or imbalances of economic development in the nine provinces are thought to be caused by the availability of natural resources, their location, socio-political influences, education and other economic activities. All these factors contribute to imbalanced economic development experienced among the provinces. The uniqueness in terms of geographical landscape of the province also creates advantages and disadvantages on the path of economic development of such a province. Thomas (1973: 7) cited the example of the Western Cape which has its unique industries, such as wine making, because of its geographic location. In addition to what Thomas has outlined, in recent times there is the development of different IDZs that the government has introduced. The IDZs, as established in Port Elizabeth and East London or Coega and the Maputo corridors, serve as a good example of this development.

The gaps that one identifies in terms of researched material are that most research focuses on economic development of countries and not of specific regions or provinces. The most widely researched topic within this particular field looks specifically at rural and urban development disparities. Therefore, this present research explores these neglected gaps.

1.3 Aims and objectives of the research

The aim of this research is to provide an exploratory analysis of the development gap that exists within South Africa. This study will confirm whether the South African provincial development disparity is exhibiting a pattern of convergence or divergence and examine possible causes of this pattern. This provides a comparison of the development disparities that currently prevail among the nine provinces in South Africa. In providing this comparison, the study examines the following variables: Gross Domestic Product hereafter referred to as GDP, budget allocation, education, health, poverty, income, and employment levels.

Furthermore the research analyses the theories pertaining to economic development as the basis of the study. The comparison of the economic development of different countries is incorporated in order to learn how other countries have dealt with the problem of economic disparity among their provinces. The comparison is drawn between factors that favour development and those that do not favour development. The recommendations to counter provincial economic development disparities are mentioned and discussed.

1.4 Research Methodology

This research is literature-based and incorporates both qualitative and quantitative methodology. Integrating these two methodologies helps to formulate appropriate recommendations regarding the problem of disparities that exist among regions. The research technique followed in this study is to review the relevant literature and empirical studies. A comparative analysis among the provinces in South Africa and provinces in countries such as Canada, Indonesia and China is done in relation to the economic development disparities that exist. This research makes use of the available literature as primary source. The documents that have been used are journals, newspaper articles, as well as published and unpublished articles.

1. 5 Outline of the study

Chapter 2 defines and outlines the concept of development. This chapter provides a theoretical background to the study by examining the following development theories: the Linear-Stages Theory, Kuznets's characteristics of modern economic development, dualism conditions of economic development, cumulative causation concepts and the interregional model.

Chapter 3 compares different countries that have different intergovernmental systems and are at different levels of development. Countries such as Indonesia, Canada and China are used as case studies. Indonesia was chosen because it has, like South Africa, three spheres of government (i.e. national, provincial and local). Canada is used in this study because it is a developed country from which South Africa can learn. Lastly, China is used in this study because of the vast developmental disparities among its provinces, due to the preferential policies that exist in that country.

Chapter 4 examines the South African budget allocation to different provinces. The variation in budget allocation is observed and analysed with reference to developed and less developed provinces. Furthermore chapter 4 compares the development of different provinces in terms of infrastructure, GDP and economic growth. An analysis of provincial budgeting is undertaken to assess whether certain provinces are receiving a larger share of revenue from national government. This will show whether the national budget favours one province over the others. This research also analyses the strategies implemented in different provinces, and to some extent local municipalities, by national government. The economic development policy that the research focuses on is the IDP for metropolitan regions and the IDZs for different regions.

Chapter 5 summarises the main findings of the research essay and outlines some recommendations that will help to bridge the development gap that exists among provinces in South Africa. However, the recommendations discussed in chapter 5 are not the only solutions to the problem of development disparities but form part of bridging the development gap that exists among the provinces.

Chapter 2

Theories of economic development

2.1 Introduction

The aim of this chapter is to discuss and analyse the key concepts and theories of economic development. The theories of economic development are set out to enable government, academia, policy analysts, the private sector and the general public to understand and determine the importance of bridging the gap of economic development disparities in different provinces, as well as in different municipalities (Thirlwall 1999: 12). The economic development theories that are provided as a theoretical basis are: the Linear Stages Theory, Kuznets's characteristics of the modern theory of development, dualistic conditions of economic development, the process of cumulative causation concepts and the interregional relationship model.

2.2 Definition of development

Development is defined as the process of economic and social transformation within countries, according to Thirlwall (1999: 12). He also added that development has three basic components in its wider meaning which include life sustenance, self-esteem and freedom. Life sustenance is described by Thirlwall as the provision of basic needs, self-respect, independence and freedom. This refers to freedom from the three problems of want, ignorance and squalor so that people are more able to determine their own destiny. The determination of own destiny is in relation to the availability of choice in life. And this choice, among others, is the choice to improve one's standard of living (Thirlwall 1999: 12).

However, Todaro (2000: 739) defines development as the process of improving the quality of all human lives. Todaro and Thirlwall outline common aspects of development such as improving nutrition levels, medical services, education etc., through the establishment of social, political, and economic systems and institutions that promote human dignity and respect, and increase people's freedom by enlarging the range of their choice variables, through increasing the varieties of the available consumer goods and services. Todaro (2000: 77) quotes Streeten, stating that development must be redefined as an attack on the main problems of the world today: malnutrition, disease, illiteracy, slums, unemployment and inequality. Todaro (2000: 77) states that development measured in terms of aggregate growth rates has been a great success. This is mainly because GDP does not necessarily translate into reduction of poverty or of unemployment. But measured in terms of jobs, justice and the elimination of poverty, it has been a failure or only a partial success (Todaro 2000: 77).

2.3 Main theories of economic development

Theories such as the Linear-Stages theory, Kuznets's characteristics of the modern theory of development, dualism, the process of cumulative causation model and the interregional relationship model explain economic development and growth in different countries and can also shed light on the developmental gap that exists among different provinces. The above mentioned theories help in the quest to explain the developmental disparities that exist in South Africa. For the purpose of this research paper only the theories mentioned above will be discussed. It must be noted in advance that traditional and modern economic theories of development can only assist in understanding the problem of development disparities. Alone they are not the solution to the problem of uneven development as each country is unique in its developmental path. Therefore the solution of 'one size fits all' does not apply to solving or addressing developmental imbalances.

2.4 The Linear-Stages theory

According to Todaro (2000: 79) when interest in the poor nations of the world began to emerge after the Second World War, economists in the industrialised nations were caught off guard. They had no readily available conceptual apparatus with which to analyse the process of economic growth in largely agrarian societies characterised by the virtual absence of modern economic structures. Out of this sterile intellectual environment, resulting from the cold war politics of the 1950s and 1960s and the consequent competition for the allegiance of newly independent nations, Rostow introduced the stages-of-growth model of development. Its most influential and outspoken advocate was the American economic historian, Walt W. Rostow (Todaro 2000: 79).

Thirlwall (1999: 71) quotes Rostow's stages of growth as they present a political theory as well as a descriptive economic study of the patterns of the growth and development of nations. Thirlwall (1999:71) also indicates that the essence of Rostow's thesis, in so far as it is logically and practically possible, identifies stages of development and classifies societies according to those stages. Rostow distinguishes five such stages: traditional, transitional, take-off, maturity and high mass consumption. Todaro (2000: 80) supports the theory by indicating that the advanced countries had all passed the take-off stage and entered into self-sustaining growth. In contrast, the under-developed countries that are still in either the traditional society or the preconditions stage had only to follow a certain set of rules of development to take off in their turn into self-sustaining economic growth.

Thirlwall (1999: 71) indicates that for Rostow the whole of the pre-Newtonian world consisted of such societies, for example the dynasties of China, the civilisations of the Middle East, the Mediterranean and Medieval Europe, and so on. This theory applies even on a local scale where one region is underdeveloped and another region is highly developed. Rostow believes that traditional societies are characterised by a ceiling on productivity imposed by limitations of science. According to Thirlwall (1999: 71) the traditional stage is recognisable by a very high proportion of the workforce being active in agriculture (more than 75 percent), coupled with very little mobility or social change, great divisions of wealth and decentralised political power. The theory also acknowledges that recently there are very few, if any, societies that one would classify as still in traditional stage.

Todaro (2000: 80) shows that one of the principal needs of development necessary for any take-off is the mobilisation of domestic and foreign saving in order to generate sufficient investment to accelerate economic growth. Furthermore, Thirlwall (1999: 75) adds that the main economic requirement in the transitional phase is that the level of investment be raised to at least 10 percent of national income to ensure self-sustaining growth. The main directions of investment must be in transport and other social overhead capital in order to build up society's infrastructure. Thirlwall (1999: 75) also indicates that the preconditions for a rise in the investment ratio are: the willingness of people to lend risk capital, the availability of entrepreneurs, and the willingness of society at large to operate an economic system geared to the factory and the principle of division of labour.

According to Thirlwall (1999: 75) the surplus from the agricultural sector must be channelled from agriculture to industry, by the new elite, and there must be willingness to take risks and to respond to material incentives. He also states that because of the enormity of the task of transition, the establishment of an effective modern government is vital.

The preconditions to the take-off stage have been met in the transitional stage, meaning that the take-off stage is a short stage of development during which growth becomes self-sustaining. According to Thirlwall (1999: 75) investment must rise to a level in excess of 10 percent of national income in order for per-capita income to rise sufficiently to guarantee adequate future levels of saving and investment.

In practice the development of major export industries has sometimes led to take-off, thus permitting substantial capital imports. Grain in the United States, Russia and Canada, timber in Sweden, and to a lesser extent, textiles in Britain are cited as examples. Countries such as the United States, Russia, Sweden and Canada also benefited during the take-off stage from substantial inflows of foreign capital investment (Thirlwall 1999: 75).

Thirlwall (1999: 75) also emphasises that the sector or sectors that lead to the take-off seem to vary from country to country, but in many countries the building of railway lines seem to have been prominent. It is also argued that the condition for take-off depends on particular stimuli. According to Thirlwall (1999: 76) this has taken different forms, such as a technological innovation or more obviously, a political revolution, as for example in Germany in 1848, the Meiji restoration in Japan in 1868, Indian independence in 1947 and revolution in China in 1949.

Rostow argues that any industry can play the role of leading sector in the take-off stage provided four conditions are met. Thirlwall (1999: 76) explains the conditions as follows: firstly, the market for the product must expand rapidly to provide a firm basis for the growth of output. Secondly, the leading sector is to generate secondary expansion. Thirdly, the sector has an adequate and continual supply of capital from ploughed-back profits. Lastly, new production functions can be continually introduced into the sector resulting in increased scope for productivity (Thirlwall 1999: 76).

Then there is the stage of maturity, which Rostow defines as a period when society has effectively applied the range of modern technology to the bulk of its resources. According to Thirlwall (1999: 76) new leading sectors replace the old during the period of maturity, and Rostow sees the development of a steel industry as one of the symbols of maturity. In this respect the United States, Germany, France and Britain entered the stage of maturity roughly during the same time period. The maturity stage also has important political features. It is in this period when a nation grows confident and extends itself, for example Germany under Bismarck and Russia under Stalin. This is also the period when fundamental political choices have to be made by society on whether wealth should or should not be devoted to high mass consumption and the building of a welfare state. The balance between these possibilities has varied over time within countries and among countries. Ultimately, however, every nation will presumably reach the stage of high mass consumption whatever the balance of choices at the stage of maturity (Thirlwall 1999: 76).

Because according to Thirlwall (1999: 76) the developing countries have no likelihood of reaching this stage in the foreseeable future and only a handful of countries have reached it already, will not be further discussed here. For example, countries such as Zimbabwe will not reach this stage in the foreseeable future. In order to modify the discussion to suit the provinces, the Linear-Stages theory is used to classify the provinces according to the different stages outlined above. Table 2.1 shows different provinces within South Africa using the Linear-Stage theory. This table is customised to suit the South African case in terms of the classification of provinces.

Table 2.1 Different stages of the provinces within South Africa, using the Linear-Stages theory

Provinces	Gauteng	North West	Mpumalanga	KZN	Limpopo	N. Cape	W. Cape	E. Cape	Free State
Stages	4	2	2	3	2	2	3	2	2

Source: derived from own calculations (Thirlwall 1999: 76)

Table 2.1 shows the modification of Rostow's developmental stages used to explain how South African provinces can be classified according to those stages. Once more observing from table 2.1, Gauteng is the only province that has reached the maturity stage. Provinces such as Kwazulu-Natal (KZN) and Western Cape are categorised as stage 3. This is a clear illustration that these two provinces are still emerging and have the potential to reach the high mass consumption stage in the near future. Clearly provinces such as North West, Mpumalanga, Limpopo, Northern Cape, Eastern Cape and the Free State are classified as stage 2 for various reasons, e.g. the fact that the economies of these provinces are highly dependent on agriculture and provide a lower contribution to GDP in comparison to that of the more advanced provinces (Mpumalanga provincial profile 2006: 37).

2.5 Some criticisms of the Linear-Stages theory

According to Todaro (2000: 83) the aspects of development embodied in the theory of stages of growth do not always work. He argues that the basic reason why the Linear-Stages theory does not work is because more savings and investment are not a necessary condition for accelerated rates of economic growth, but rather because it is not sufficient condition for economic growth.

However, it is also suggested that there is a problem in terms of providing an operationally meaningful distinction between the stages of development, especially between the so-called transitional phase and the take-off phase, and between the take-off phase and the maturity phase. Critics have attempted to argue that the characteristics that Rostow distinguishes for his different stages are not unique to these stages (Thirlwall 1999: 77).

Todaro (2000: 83), on the other hand shows that the Linear-Stages theory fails to take into account the crucial fact that contemporary developing nations are part of a highly integrated and complex international system in which even the best and most intelligent development strategies are nullified by external forces beyond the countries' control.

Thirlwall (1999: 77) emphasises that despite these points of criticism, Rostow's stage theory still offers valuable insights into the economic development of different countries and also sheds light on developmental disparities that occur in the different stages of development. In addition, Thirlwall (1999: 77) indicates that the concept of a stage may be quibbled with, and with the Linear-Stage theory dismissed as a blueprint for development, there are certain features of the development process that do follow a well-ordered sequence. There are certain development prerequisites that countries neglect at their own peril. One of the prerequisites is the importance of agriculture that cannot be overemphasised in the early stages of development, together with the provision of infrastructure and political stability, if the preconditions for take-off into self-sustaining growth are to be met. Therefore, it can be concluded that the role of investment is important and the GDP per income growth is to be positive for a country to move from the take-off stage to the stage of maturity.

2.6 Kuznets's six characteristics of modern economic growth

The Kuznets hypothesis is based on the findings of the observations of inequality which seems to worsen during the early stages of economic growth before it eventually improves. The observation of inequality was done by Professor Simon Kuznets in the measurement and analysis of the historical growth of national incomes in developed nations (Todaro 2000: 120). The work by Kuznets was developed from the Linear-Stages Theory weakness of not being able to distinguish different stages of growth in the development of a country.

According to Todaro (2000: 121) economic growth can be defined as a long-term rise in capacity that enables a country to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology and the ideological adjustments that it demands. The sustained rise in national output is a manifestation of economic growth and the ability to provide a wide range of goods is a sign of economic maturity. Advancing technology provides the basis for continuous economic growth which is a necessary but not sufficient condition to achieving economic growth in order to realise the potential for growth that is inherent in new technology. Institutional, attitudinal and ideological adjustments must be made (Todaro 2000: 121).

Todaro (2000: 121) points out that Kuznets, in his analysis, has isolated six characteristic features that are manifested in the growth process of almost every developed nation. Szirmai (1997: 64) quotes Kuznets criticising Rostow's stages of growth as empirical and not easily distinguished. This is what motivated Kuznets to come up with the following characteristics of growth: high rates of growth of per capita output and population, high rates of increase in total factor productivity, high rates of structural transformation of the economy, high rates of social and ideological transformation, the propensity of economically developed countries to reach out to the rest of the world for markets and raw materials and lastly the limited spread of this economic growth to only a third of the world's population (Todaro 2000: 121). Furthermore, Todaro (2000: 121) classifies the first two characteristics as aggregate economic variables, the third and fourth characteristics as structural-transformation variables and the last two as characteristics affecting the international spread of growth.

Todaro (2000: 121) explains the high rate of growth of per capita output and population growth as experienced by developed countries, in large multiples of their previous historical rates during the epoch of modern economic growth roughly from around 1770 to the present time. He further explains that industrialised countries' annual growth rates over the past 200 years averaged almost 2 percent for per capita output and 1 percent for population growth or 3 percent for total output (real Gross National Product, hereafter referred to as GNP).

Gillis, Perkins, Roemer and Snordgrass (1996: 80) point out that Kuznets in his analysis suggests that the relationship between per capita GNP and inequality in the distribution of income may take the form of an inverted U-shaped curve. Ingham (1995: 78) indicates that, in terms of income distribution, Kuznets emphasised that in the early stages of economic growth, the distribution of national income tends to become more unequally distributed between individuals and households, but, over time, the distribution of money worsens. In the later stages of growth, national income becomes more evenly distributed. This is manifested in the decline of inequality in the later stages of economic transformation. This characteristic is based on the observation of cross-sectional data which was collected in a number of countries.

According to Todaro (2000: 122) the second aggregate economic characteristic of modern growth is the relatively high rate of increases in total factor productivity, the output that is generated from each unit of input. Other studies show that increases in total factor productivity account for between 50 percent and 75 percent of the historical growth of per capita output in developed countries.

The third important characteristic is the high rate of structural and sectoral change inherent in the growth process. Todaro (2000: 122) indicates that some of the major components of this structural change include the gradual shift away from agricultural activities to non-agricultural activities and, more recently, away from industry to services. This has resulted in the significant changes in scale or average size of productive units. As a result of this change, a correspondent shift took place in the spatial location and occupational status of the labour force away from rural, agricultural, and related non-agricultural activities toward urban-orientated manufacturing and service activities. Szirmai (1997: 64) indicated that both Rostow and Kuznets emphasise the importance of industrialisation in development. Furthermore, both Kuznets and Rostow support the notion that industrialisation takes place when productivity increases in sectors such as mining, agriculture or transport and that these must be complemented by a sufficient supply of labour as well as by support for the accumulation of capital and entrepreneurship through sufficient effective demand for industrial products (Szirmai 1997: 64).

For economic structural change to take place in any society, concomitant transformations in attitudes, institutions and ideologies are often necessary. According to Todaro (2000: 123), Gunnar Myrdal provides a lengthy list of these modernisation ideals in his seminal treatise on underdeveloped countries in Asia. This process of modernisation includes rationality in regarding the substitution of modern methods of thinking, acting, producing, and consuming for age-old traditional practices. The quest for rationality implies that opinions about economic strategies and policies should be logically valid inferences rooted as deeply as possible in knowledge of the relevant facts. Secondly, economic planning has to do with the search for a rationally coordinated system of policy measures that brings about accelerated economic development. Thirdly, social and economic equalisation requires the promotion of equality in status opportunities, wealth, incomes and standards of living. The fourth characteristic has to do with the improved institutions and attitudes necessary to increase labour efficiency and diligence; promote effective competition, social and economic mobility, and individual enterprise; permit greater equality of opportunities, make possible higher productivity, raise levels of living, and promote development (Todaro 2000: 123).

The fifth and the sixth characteristics of modern economic growth deal with the role of developed countries in the international arena. According to Todaro (2000: 123) the former of these relates to the history and ongoing propensity of rich countries to reach out to the rest of the world for primary products, raw materials, cheap labour, and lucrative markets for their manufactured products.

The last characteristic of modern economic growth relates to the limited international spread of economic growth to only a third of the world's population. Todaro (2000: 124) indicates that, in spite of the enormous increase in world output over the past two centuries, the spread of modern economic growth is still largely limited to less than one fourth of the world's population. The minority of the world's population enjoys almost 80 percent of the world's income. This is perpetuated by unequal international power relationships between developed and underdeveloped countries, which have a tendency to exacerbate the gap between the rich and the poor. Todaro (2000: 124) further indicates that economic growth of the developed countries is achieved at the expense of the underdeveloped countries. Therefore, the observation by Kuznets also illustrates what provinces are experiencing regarding poor provinces mostly producing the raw materials and the developed provinces entering the realm of manufacturing, processing and selling the final product. These conditions of uneven development enhance dualism of economic development.

2.7 Dualistic conditions of economic development

According to Todaro (2000: 93) dualism is a concept which is widely discussed in development economics and it represents the existence and persistence of an increasing divergence between rich and poor nations and rich and poor peoples on various levels. The condition of dualism may arise naturally as a result of specialisation or be imposed from outside by the importation of an alien economic system, that is, typically, capitalism.

However, Thirlwall (1999: 176) describes dualism as a situation in which developing countries may find themselves in the early stages of development, the extent of which may have implications for their future pattern and pace of development. In the context of this research essay, dualism refers to economic and social divisions within an economy.

Thirlwall (1999: 176) writes that dualism refers to economic and social divisions within an economy, such as differences in the level of technology between sectors or regions, differences in the degree of geographic development and differences in social customs and attitudes between an indigenous and an imported social system. Horwood (1965: 174) describes dualism in a way similar to Thirlwall, but writes that it is a characteristic that is present within the developing or underdeveloped countries. He also makes the point that South Africa's economic development programme recognises the dual character of the economy and it has not been possible to distinguish between the subsistence economy and the modern economy. Horwood (1965: 174), in his article, further says that what may be doubtful or wrong about some current prescriptions for raising living standards in this country stems from a fairly inadequate appreciation of the dual character of the economy.

In addition, Todaro (2000: 93) mentions that dualism embraces four key elements. The first element consists of "superior" and "inferior "aspects that coexist in a given space. In this research essay the coexistence of highly developed provinces and poorly developed provinces is outlined. The second element is that this coexistence is chronic and not merely transitional. This is not due to a temporary phenomenon, in which time may eliminate the discrepancy between superior and inferior elements (Todaro 2000: 93). The coexistence of highly developed provinces and less developed provinces occurs in South Africa. This development is supposed to be minimised to allow development to take place at the same rate among all provinces.

According to Todaro (2000: 93) the third element shows that not only do the degrees of superiority or inferiority fail to show any signs of diminishing, but they have in fact, an inherent tendency to increase. The productivity gap between workers in developed countries and their counterparts in less developed countries seems to widen with each passing year. Unlike Todaro, in reference to dual economies, Horwood (1965: 175) makes use of the terminology such as the "capitalist sector" and the "subsistence sector". He further explains that the capitalist sector is that part of the economy which uses reproducible capital, pays capitalists for its use and employs labour for wages and for profit making. In contrast, the subsistence sector is that part of the economy which does not use reproducible capital. The output per head is lower in the subsistence sector because it is not fructified by capital. The marginal productivity of labour in agricultural production may be zero or negative, thus constituting a case of disguised unemployment (Horwood 1965: 175).

Therefore, workers within the developed provinces earn more in comparison to workers in the less developed provinces. These superiority and inferiority elements are observed when the wage of a person in the developed province is compared to the wage of a person working in a poor province. Todaro (2000: 94) maintains that the interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior element, let alone "trickle down" to it. In fact, it actually serves to push the region down to "develop its underdevelopment".

According to Thirlwall (1999: 176) it is true that underdevelopment tends to be associated with social dualism, but it is perhaps misleading to regard social dualism as an underlying cause of backwardness and poverty. He further reasons that it would be difficult to argue that development is more rapid in the absence of a monetary sector, from which the existence of dualism stems. Even if the growth of the exchange sector makes little impact on the attitudes in the indigenous sector, it is bound to make some contribution to development by employing labour from the subsistence sector and disseminating knowledge. Thirlwall (1999: 176) furthermore argues that without the growth of the monetary sector it is difficult to envisage any progress at all. In short, it seems more realistic to regard social dualism as an inevitable consequence of development rather than as a basic cause of underdevelopment.

Similar reservations are raised over whether it is accurate to describe technological dualism as a cause of underdevelopment. As with social dualism, it is probably more realistic to regard it as an inevitable feature of the development process, though the difficulties that may ensue from gaps in technology between the rural and industrial sectors of the economy must be recognised (Thirlwall 1999: 176).

Maasdorp (2001: 506) acknowledges that the concept of technological dualism was introduced by Hirschman and Higgins who referred to foreign enclaves of capital-intensive activities which do not transform the entire economy. He describes the modern sector as having fixed technical coefficients of production and reasons that further technological advances favour capital-intensive methods. In the traditional sector technical coefficients are viable, thus enabling production to become increasingly labour-intensive until all available land is cultivated and the marginal productivity of labour falls below zero. This also results in disguised unemployment. Thus the gap between the two sectors widens progressively (Maasdorp 2001: 506). The interregional theory will further explain the disparities that exist between developed and underdeveloped regions.

2.8 The process of cumulative causation

According to Thirlwall (1999: 177) the hypothesis of cumulative causation is an explanation of the backwardness of developing nations and is associated with the hypothesis developed by Gunnar Myrdal in 1957. Basically, it is a hypothesis of geographic dualism, applicable to nations and regions within nations. This hypothesis is advanced to account for the persistence of spatial differences in a wide variety of development, indices including per capita income, rates of growth of industrialisation and trade, employment growth rates and levels of unemployment. He emphasises that the process of cumulative causation is a direct challenge to the static equilibrium theory, which predicts that the working of economic forces will cause spatial differences to narrow. Myrdal (1959: 12) regards the idea of a stable equilibrium as a false analogy.

However, he argues that the static equilibrium assumption, as applied to social reality implies that a social process follows a direction that moves toward a circuitous way- towards a position which in some sense or the other is described as a state of equilibrium between forces. Myrdal (1959: 13) emphasises that the system is by itself not moving towards any sort of balance between forces, but is constantly on the move in from such a situation.

Myrdal (1959: 14) also contends that in the context of development, both economic and social forces produce tendencies towards disequilibrium and the assumption in economic theory that disequilibrium situations tend towards equilibrium is false. Thirlwall (1999: 178) points out that if this is not the case, how can the tendency towards international divergence in living standards be explained?

Thirlwall (1999: 178) showed that Myrdal replaces the assumption of stable equilibrium with what he calls the hypothesis of circular and cumulative causation. He argues that the use of this hypothesis goes a long way towards explaining why international differences in levels of development and interregional development within nations may persist and even widen over time. Hirschman (1964: 63) also emphasises that the balanced growth theory is essentially an exercise in retrospective comparative statistics. He adds that the economy that has experienced growth at two different points in time will of course find that a great many parts of it have pushed ahead. This is: in terms of industry and agriculture, capital goods and consumer goods industries, cars on the road and highway mileage, each at its own average annual rate of increase. The individual components of the economy will not actually have grown at these rates throughout the period under review (Thirlwall 1999: 178).

Myrdal and Hirschman based their argument on the fact that no automatic spill-over of success from poorly developed regions to highly developed regions occurs. This is because Myrdal and Hirschman argue against the equilibrium-static theory and introduce the disequilibrium-static theory (Thirlwall 1999: 178). Therefore, in his theory, Myrdal bases his argument on circular and cumulative causation. In addition, Smith (1984: 148) introduces the Marxist ideology that, in the pattern of uneven development lie the logic and the drive of capital toward what is called a "see-saw" movement of capital. The accumulation of capital entails geographical development and the direction of this development is guided by the rate of profit. He further argues that capital moves to where the rate of profit is high, and these moves are synchronised with the rhythm of accumulation and crisis. Smith (1984: 148) concludes that the mobility of capital brings about the development of areas with a high rate of profit and the underdevelopment of those areas with a low rate of profit. Therefore, the mobility of capital to developed areas relate very well to the movement of capital to developed provinces mainly for a high rate of profit whereas less developed provinces are regarded as area with low rates of profit.

2.9 Interregional relationship

The Naude and Krugell (2001: 499) article shows that the classic contribution towards understanding the economics of regional integration was made by Viner. In this theory the use of the terms trade creation and trade diversion are used to determine in which instances it will be beneficial for countries to engage in regional integration. This theory is focused on a country's trade relationship rather than on regional disparities. The interregional theory, as explained by Pinder, shows how the development of regions can be integrated into a single broad development (Pinder 1983: 25).

According to Pinder (1983: 25) interregional theories attempt to account for, and to predict the future of, broad interregional development contrasts observable within and among countries. This research is restricted to provinces within South Africa, but the interregional theory will be examined to increase the understanding of broad interregional development. Pinder (1983: 25) indicates that theoretical arguments relating to interregional growth processes are dominated by two schools of thought. The first school of thought claims that long-term development trends lead to a state of equilibrium.

According to this thesis the nature of the operation of economic mechanisms achieves balanced functioning within individual regional economies and also gives rise to the elimination of major interregional development contrasts.

The second school of thought referred to by Pinder, (1983: 26) demonstrates that the disequilibrium school maintains that theoretical reasoning and the available evidence point to the conclusion that long-term trends frequently widen existing developmental gaps. While some regions prosper, others suffer the handicaps of under-utilised resources, depressed incomes and restricted employment opportunities; under-achievement is the lot in such areas, an outcome that is in neither the regional nor the national interest (Pinder 1983: 26). The problem of economic disparities cannot be addressed by one theory but a combination of developmental theories can assist in finding more reasonable explanations for country and provincial developmental disparities.

2.10 Summary and conclusion

In this chapter the term development has been defined and a number of different theories which are related to economic development have been discussed. This chapter has also outlined different theories which explain the notion of economic development. The theories that were outlined are the Linear-Stages Theory, Kuznets's six characteristics of modern economic growth, the dualistic conditions of economic development and the process of cumulative causation.

The Linear-Stages theory is described as a political theory as well as a descriptive economic study of the patterns of growth and development of the nation. The Linear-Stages theory was expected to furnish a logically and practically possible way to identify stages of development and to classify societies according to those stages. Rostow describes five stages of development as follows: traditional, transitional, take-off, maturity and high-mass consumption. According to this theory every country or nation's development is expected to pass through all five of these stages.

To explain gaps left by the Linear-Stages theory, Kuznets's six characteristics of economic growth model took a different point of view. Kuznets, in his analysis, has isolated six characteristic features manifested in the growth process of almost every developed nation. He also criticised Rostows stages of growth as empirical and that they cannot easily be distinguished. This motivated Kuznets to propose the characteristics of growth as follows: high rates of growth of per capita output and population, high rates of increase in total factor productivity, high rates of structural transformation of the economy, high rates of social and ideological transformation, the propensity of economically developed countries to reach out to the rest of the world for markets and raw materials and lastly, the limited spread of this economic growth to only a one third of the world's population.

The dualism theory enhanced the discussion of Kuznets's six characteristics of economic growth model and gave a different perspective on the concept of economic development. In the context of this research paper, dualism is explained as encompassing economic and social divisions in the economy. Although this theory is not a perfect explanation of disparities that exist in different regions, it explains how different regions develop from a position of under-developed to a position of being highly developed. Where this model has failed, the interregional relationship and the process of cumulative causation have been incorporated in order to fill the unexplained gaps.

Since the Linear-Stages theory, Kuznets economic growth model and the dualistic theories did not outline all the answers to the question that the research has posed, the process of cumulative causation and the interregional relationship are examined to improve the possibility of finding solutions. The process of cumulative causation gives a different perspective to the discussion. The process of cumulative causation is a hypothesis of geographic dualism, applicable to nations and regions within nations and is advanced to account for the persistence of spatial differences in a wide variety of development indices including per capita income, rates of growth of industrialisation and trade, employment growth rates and levels of unemployment.

The interregional relationship theory shows how the development of regions is integrated into a single broad developmental region. This theory claims that the long-term development trends lead to a state of equilibrium. According to this theory the nature of the operation of economic mechanisms achieves balanced functioning within individual regional economies and also gives rise to the elimination of major interregional developmental contrasts.

The development of the Kuznets's six characteristics of economic growth, of the dualistic concepts model, of the cumulative causation model and of the interregional relationship theory occurred mainly because of the Linear-Stages Theory. Criticism of the Linear-Stages Theory was based on the problem of making operationally meaningful distinction between the stages of development, especially between the so-called transitional phase and take-off and also between the take-off and maturity stage. The Linear-Stages Theory also failed to take into account the crucial fact that currently developing nations are part of a highly integrated and complex international system in which the best and most intelligent development strategies are nullified by external forces beyond the countries' control. Lastly the criticisms of each theory have been included in each theory-specific discussion.

Chapter 3

International experience of provincial economic development disparities

3.1 Introduction

The purpose of this chapter is to focus on other countries' experience of the provincial economic development disparities and how best South Africa can draw on important lessons from these experiences. History has shown that development inequality exists in almost every country; however, it tends to exist on different levels. The countries that will be examined as case studies in this study are Indonesia, Canada and China. These countries have been chosen because their governmental structure is very similar to that of South Africa (this is especially true in the case of Indonesia). Bearing in mind the similarities between South Africa and Indonesia, South Africa can draw on the experience that Indonesia has gained over years and learn from these experiences.

Canada has a distinct governmental structure, and its standing as a developed country can help inform the South African government in respect to bridging the developmental gap among the different provinces. The developmental structures of China as well as the vast differences among the inland and coastal provinces can also assist in realising the objective of this paper (Coulombe and Day 1999: 155). The comparison of economic development disparities is done through examining the successes and failures that these countries have experienced over a certain period of time. The levels of provincial economic developmental disparities in these countries are analysed and good policies are recommended for South Africa. Although these countries differ from South Africa in aspects such as; political regime, demographic features, economic growth, spatial organisation and geographical features there are lessons that South Africa can learn from these case studies.

It is widely acknowledged that in the primarily agrarian and pre-industrial stage of economic development regional disparities in the level of economic activity and general well-being are not expected to be wide. This is due to variations in the fertility of the soil, the availability of water resources, and the climatic conditions, meaning that some regions will naturally be more productive than others. The process of industrialisation and economic development in a country results in the concentration of capital and skills in those favourable locations where there is proximity to markets and where there are rudiments of economic infrastructure (Todaro 2000: 121).

3.2 Indonesia

It should be noted in advance that the analysis of Indonesia as a case study is mainly based on the similarity of its government system with that of South Africa. The analysis of Indonesian development and of disparities among its provinces will take the following route, namely, physical geography and population, development after 1990 and lessons from Indonesia's experience.

3.2.1 Physical geography and population

The analysis of physical geography and population in Indonesia will help to indicate the distribution of natural resources, population, the size of the province and where and how most economic activities are taking place. This analysis will inform the explanation of development and disparities among the provinces of Indonesia. According to MacAndrews (1978: 459) when looking at any national programme in Indonesia, the size, diversity, and differences in the levels of development of various provinces are first emphasised. He indicates that by far the largest country in Southeast Asia, with a land area of two million square miles and a population of 135 million, Indonesia ranges some 3,000 miles from Irian Jaya in the East to North Sumatra in the West, and contains no fewer than 13,667 islands. Within this large area there are, inevitably, marked disparities in levels of development, concentration of the population and diversity among different groups and cultures (MacAndrews 1978: 460).

By far the most important region, from a historical perspective and in terms of population distribution and concentration of resources, is the central island of Java, followed by the larger islands of Sumatra, Sulawesi and Kalimantan. Development, both past and present, has been centred on these islands, with a marked bias towards Java in concentration of resources, political power, historical significance, and population. The "outer islands," as they are known, will take on increasing importance as Indonesia develops in the next decade (MacAndrews 1978: 460). In South Africa, Gauteng, the Western Cape and Kwazulu-Natal contribute 65 percent to the total GDP. The six other provinces contribute more or less than 35 percent in terms of total GDP and available resources that are found in those provinces (Gauteng provincial profile 2006: 40).

MacAndrews (1978: 460) mentions that the disparities in Indonesia are underlined by both the present land area and the distribution of population in the various areas. Java only constitutes 6,1 percent of Indonesia's total land area but contains 63,3 percent of the country's total population. Therefore the population concentration shows where most of the resources are found and even the extent of the uneven distribution of those resources. Sumatra, Sulawesi and Kalimantan follow respectively: Sumatra with 17,2 percent of the population and 24,9 percent of the land area; Sulawesi with 7,2 of the population and 9,4 percent of the land area; and Kalimantan with 4,4 percent of the population and 28,3 percent of the land area. The rest of the Indonesian population, 7,3 percent, lives in the other provinces. MacAndrews (1978: 460) further mentions that the national average is 59 people per square kilometre, but Java has a density of 565 people per square kilometre, while Sumatra has only 38, Sulawesi 37, and Kalimantan 9 persons per square kilometre, respectively. Thus Java has a population density some ten times the national average (MacAndrews 1978: 460).

Comparing South Africa and Indonesia shows that, Gauteng, though the smallest province geographically, contributes about 33,3 percent to GDP and its population is 8,8 million. Gauteng has the second largest population; following Kwazulu-Natal with a population of 9,9 million and a contribution of 16,7 percent to the national GDP (Gauteng provincial profile 2006: 1). The other provinces share the other 50 percent of GDP contribution. There are a number of similarities when one compares Java to Gauteng.

Unlike South Africa, with only a few ethnic groups, Indonesia has 300 ethnic groups with distinct and strong cultural boundaries. According to MacAndrews (1978: 460) this cultural diversity is underlined by the existence of six officially recognised religions. The other problem faced by Indonesia is the uneven growth of the country, both historically and in recent years, with the heaviest concentration of developmental resources on the central island of Java. However, from the mid-1960s there has been an increasing emphasis on the development of the outer provinces (MacAndrews 1978: 460). To support MacAndrews, Drake (1981: 472) indicates that the uneven distribution of population, most of who live on the 7 percent land area of Java and Bali, along with the corresponding contrasts in population density, underlies many of the problems and tensions of the Indonesian nation-state. Indonesia has given rise to the general acceptance of a core-periphery model or an interregional relationship, which considers Java and Bali as a congested nuclear core and the outer islands as an under-developed, sparsely populated periphery.

Legge (1990: 128) acknowledges the fact that the economic dimension in Indonesia takes account of economic disparities among regions and this is proved by the importance of agriculture and mining in the GDP of each province, a consumer price index in the capital of each province, the percentage of the population living below a defined poverty line and the percentage of people living in deprivation. Other indices were also examined to enable a comparative judgement to be made about living standards; the use of fuels other than wood or charcoal for cooking, and possession of a sideboard. Taxation contributions to the central government, provincial government expenditures, and central government support for provincial developmental programmes give an indication of economic development disparities (Legge 1990: 128).

3.2.2 Development after 1990

Resosudarmo and Vidyattama (2006: 31) state that since the beginning of the 1990s, the disparity of income per capita across regions in Indonesia has become a crucial topic. They also state that from then onwards, regions that fell behind started showing their dissatisfaction with the central government, demanding larger income transfers and greater authority in constructing their development plans. Resosudarmo and Vidyattama (2006: 31) note that rapid political change finally took place a few years after the economic crisis of 1997: Indonesia drastically shifted from a highly centralised government system to a highly decentralised one in 2001. Yet the issue of regional income per capita disparity has not disappeared, and the reasons for this have not yet been discovered.

Resosudarmo and Vidyattama (2006: 41) emphasise the fact that not only in Indonesia but throughout the world, the existence of per capita income/output disparities among regions or countries has been an important issue. An econometric study was undertaken in order to find the determinants of income or output per capita and determine whether there is evidence of income/output per capita convergence. Resosudarmo and Vidyattama (2006: 32) show that most of this econometric work suffers from the problem of omitted variables and endogenous bias.

Resosudarmo and Vidyattama (2006: 33) illustrate that in the mid-1990s and early 2000s because of economic crises and social unrest other provinces experienced negative average annual GDP per capita growth, i.e. Maluku, Aceh, West Java, Central Kalimantan. Some of these provinces actually experienced positive GDP growth i.e. Riau, Central Java, Yogyakarta and Central Kalimantan.

From Resosudarmo and Vidyattama (2006: 33)'s study observing the historical growth of provincial GDP per capita, the following conclusions were drawn. Firstly, no province was either the fastest or the slowest growing region in the entire period of observation. Secondly, growth variation during 1984-1996 was much less than in other periods of observation, therefore, before the crisis most provinces grew relatively closer to the national average rate. There are only a few provinces, such as Papua, Aceh and East Kalimantan, of which growth rates fluctuated significantly. Thirdly, the growth of mining sectors, physical infrastructures and population, as well as of the ability to engage in international trade typically measured by trade openness, was historically important in inducing higher provincial GDP per capita growth.

Meanwhile, the economic crisis and social unrest were factors that contributed to a slowing down in the growth rate of all provincial GDP per capita. Although provincial growth varies over time as previously mentioned, Resosudarmo and Vidyattama (2006: 33) show that there are some provinces that are always, or almost always, among the five richest and others that are always among the five poorest. East Kalimantan, Riau and Jakarta are always among the richest provinces and Aceh has been considered as having a high GDP since the early 1980s, whereas East and West Nusa Tengera have always been among the poorest. It is therefore important to understand how severe provincial per capita income disparities are in Indonesia.

3.2.3 Lessons from the Indonesian experience

Drake (1992: 307) emphasises that Indonesia has made substantial efforts to create greater interdependence among its different regions, which operated more independently in the past. To a lesser extent, the core-periphery relationship developed in Indonesia, with the periphery supplying most of the raw materials for manufacturing in the core. Furthermore; Resosudarmo and Vidyattama (2006: 33) illustrate that in Indonesia, some of the outer island provinces, especially parts of Sumatra and Kalimantan, have long resented the disproportionate benefits that flow to Java from export earnings generated in the periphery. Drake (1992: 308) adds that provinces such as East Kalimantan, Riau, North and South Sumatra, Aceh, Maluku and Irian Jaya contribute far more to the national economy on a per capita basis than they receive in services or investment. Other provinces, such as East Timor, South-East Sulawesi, West and East Nusa Tenggara and Bengkulu among the outer islands, as well as most of Java, benefited enormously from their incorporation into the country and, on a per capita basis, consume far more than they produce.

Drake (1992: 308) emphasises the fact that each government struggles with the problem of how best to promote the economic development of the entire country. The choice is between equality of development by directing investment to poorer areas, which are less well endowed with natural resources or more geographically remote areas, and the concentration of productive activities in the places where they can be more profitable, followed by redistributing the higher rate of surplus generated. Gauteng Treasury (2007: 19) alludes to the fact that most governments struggle to devise an equitable formula to distribute provincially equitable shares to its provinces. This matter is raised specifically when we look at the South African situation in which the equitable shares distribution is biased in favour of provinces which are densely populated, for example Kwazulu-Natal and Gauteng.

Drake (1992: 308) furthermore illustrates the fact that economic development is promoted partly to improve people's standard of living and partly to promote national integration, as increased economic activity leads to greater linkages among different regions of the country. Since the early 1970s, the Indonesian government has recognised the need to balance economic growth with equity to attain national stability and integration.

Drake (1992: 309) mentions that economic planning in Indonesia has been more consciously integrative, at least since 1974 and the beginning of the second five-year developmental plan. She also indicates that the five-year developmental plan seeks to widen opportunities for employment so as to achieve a more equitable distribution of income, and to integrate the Indonesian economy. The five-year developmental plan emphasises the following aims: regional development, attempts to harmonise provincial growth rates and to improve conditions in the poorest provinces by allocating a portion of all development activity to them. However, critics argue that despite impressive plans and theories of economic development, in practice uneven development has continued and has even been promoted by governmental policies (Drake 1989: 246). Specifically the dynamic economic sectors have been overly centralised in Java, and the economic deregulation of the late 1980s led to at least a perception that disproportionate benefits have gone to other provinces.

Drake (1992: 309) argues that the Indonesian government seems to give more serious attention to the uneven social effects of development. New incentives are being explored for developing peripheral areas of Indonesia. Drake (1992: 309) adds that a sizable portion of the increased developmental expenditure for 1991 and 1992 was earmarked for roads, education and rural infrastructure in the eastern part of the country. Drake (1992: 309) also shows that during the past twenty-five years Indonesia has fostered an environment that is favourable to investment and economic development. From the Indonesian case valuable lessons such as equal promotion of all provinces, development of peripheral provinces and the five-year developmental plan are lessons that South Africa can use for its development and to reduce disparities.

3.3 Canada

A Canadian case study may be of great value because it is a developed country and also plays an important role in global economy. This case study will indicate how some of the industrialised nations are progressing in terms of development and disparities among their regional states/provinces. The analysis of Canada, as case study, will follow the following format: the background to development and disparities, and the Canadian experience in provincial developmental disparities.

3.3.1 Background to development and disparities

According to Coulombe and Day (1999: 155) the phenomenon of capital accumulation, as described by the neoclassical growth model, can explain much of the observed decline in regional dispersion in Canada. Coulombe and Day (1999: 155) describe the regional disparities in per capita incomes as a sustained feature of the Canadian economy. They also show that the Canadian regional income differential appears to have been roughly constant. This shows that there has been neither convergence nor divergence according to the study done by McInnis (in Coulombe and Day 1999: 155) in 1968 which examined the evolution of relative regional disparities from 1926 to 1962. A study, done by Maxwell in 1994 quoted in Coulombe and Day (1999: 155) shows that the regional per capita income disparities have shown a decrease of disparities since the 1970s. However, it remains to be seen whether regional per capita income disparities have completely been eliminated, despite decades of economic growth and an active regional development policy instituted by the federal government.

According to Coulombe and Day (1999: 159) not all models of economic growth predict the convergence of regional per capita incomes or output. In endogenous growth models of the type developed by Romer in 1986 on convergence, instead, the gap between rich and poor regions continues to widen over time. The possible divergence of per capita income arises as a consequence of constant returns to capital accumulation.

Chaudhry (1971: 528) mentions that Canada's Atlantic region, consisting of the four eastern provinces: Newfoundland, Prince Edward Island, New Brunswick and Nova Scotia, during 1958 contained 11 percent of the national population but produced less than 6 percent of the GNP. Per capita personal income in the Atlantic region was estimated to be 25-30 percent below the corresponding national average during the early 1960s. Therefore, the problem of regional disparities continues to be a challenge to developed counties and to developing countries, with the developing countries having wider disparity gaps compared to developed countries (Coulombe and Day 1999: 155).

3.3.2 The Canadian experience in provincial developmental disparities

Atkinson and Bierling (1998: 72) acknowledge that in Canada there is a similarly confusing blend of evidence and arguments for convergence and divergence among the provinces. On the one hand, as explained by Atkinson and Bierling (1998: 72) researchers point to provincial disparities in revenue-generating capacity (which is itself a product of differences in factors such as unemployment rates and economic diversification) as a constraint on possible convergence. This argument suggests that provinces with unequal revenue-generating capacity cannot exhibit similar spending patterns. Different political traditions, evident most obviously in the case of the province of Quebec, also account for different levels of convergence, although the argument is typically less precise.

On the other hand, Atkinson and Bierling (1998: 73) point out demand-side explanations of government growth for arguments favouring convergence. To the extent that provinces increasingly resemble one another in terms of education and income, citizen expectations of the state may begin to coincide and provinces may offer increasingly similar levels of government services. Added to this is the role that the federal government has played in both minimising revenue disparities through equalisation, and in influencing provincial spending priorities with share-cost programmes. Atkinson and Bierling (1998: 73) acknowledge the fact that this process can work in reverse. They also note that during the past quarter century the Canadian provinces have exhibited both increased similarity and divergence in their spending patterns.

According to Atkinson and Bierling (1998:77) Simeon and Miller, while analysing provincial expenditures over the period 1956 to 1974 in 1980, found a growing similarity in per capita spending, both overall and specifically in the areas of health, education and social welfare. This provincial expenditure is quite similar to that in South African provinces. Differences among the provinces remained relatively constant in the area of transport and communications, while in the areas of trade and industry, and natural resources, dispersion actually increased. Atkinson and Bierling (1998: 77) mention that Simeon and Miller hypothesised that the effect of increased federal government involvement in the fields of health, social services, and education, through equalisation and shared-cost programmes, at least in terms of expenditures. Convergence in these fields contrasted with areas of increasing depression, such as transport and natural resources, where the federal government had a relatively small role.

3.4 China

China is an economic power-house but its developmental disparities across the country are highly divided, according to Liang (2006: 1). In the light of the above-mentioned situation, China is a good case study for regional disparities that exist among provinces. The following structure will be observed when examining the Chinese case study: firstly the background of development and disparities in China, secondly an explanation of the provincial disparity experience and lastly a discussion on the factors which are credited to China's regional developmental disparities.

3.4.1 The background of development and disparities in China

Ntuli (2005: 1) examines the issue on regional disparity by looking at each regional contribution to China's phenomenal growth. The article acknowledges that the increasing regional income disparities in China have recently attracted a great deal of attention. According to Liang (2006: 1) the China's Open Door policy and economic reforms since 1978 have led to not only rapid economic growth, but also worsening income distribution disparity.

The article further indicates that the urban/rural divide is the consequence of industrial policies to foster urban development implemented during the Maoist period (1949-1978). Liang (2006: 1) conceded that preferential government policy and concentration of trade and foreign direct investment (here-after referred to as FDI) along the coastal areas have significantly promoted economic growth in these regions. The coastal-interior dichotomy and the widening regional income disparities have posed serious challenges for China's future development.

3.4.2 Brief explanation of the provincial disparities experience

In this section the paper will briefly analyse the provincial disparities experienced within China. The approach will be to look at the disparity gap that exists among some of the inland and coastal provinces. The main focus, among these differences will be on the GDP and GDP per capita for some of the provinces.

Ntuli (2005: 1) reports that Guangdong is the China's first provincial economy open to the world and have continued to be the largest provincial economy in China. In 2004 Guangdong GDP reached US$ 194 billion. Jiangsu is ranked second after Guangdong in the Chinese provincial economy. Shangdong and Zhejiang are ranked third and fourth, respectively. The article further reports that the other economies with a GDP above US$ 1000 billion are Hebei and Henan.

Ntuli (2005: 1) acknowledges that, while GDP is an important indicator of the size of the economy, GDP per capita reflects a more accurate picture of growth dynamics and the wealth of the various regions. The article also mentioned that in 2004 China's GDP per capita reached US$ 1, 268. When comparing the inland and coastal provinces, the article emphasises that the inland provinces are far behind the coastal provinces in terms of economic development.

Ntuli (2005: 2) notes that China has been gaining prominence in international trade, but such internationalisation is limited to its coastal region, even after 26 years of open-door policy reform. Ntuli (2005: 2) mentions that in 2004 China attracted US $60,6 billion in FDI. The article further notes that three quarters of this investment is channelled into the coastal region, while one quarter is channelled into the inland regions. It is also worth mentioning that the concentration of foreign trade in the coastal region is even higher.

3.4.3 Factors credited to China's regional development disparities

There are a number of factors that are associated with economic development in China. Firstly, Liang (2006: 1) mentions that different factors have been used to explain China's regional disparity. The article quotes Tsui who examines the effect of China's regional disparity, and finds a positive relationship between decentralisation and worsening regional disparity before 1985. Furthermore Liang (2006: 1) shows that Lee's investigated the relationship between FDI and the regional development gap and concludes that the difference in the FDI contributes to China’s regional disparity.

Further, factors such as the role of local protectionism are dominant in development literature as explaining China’s regional disparity. Some authors consider geographical factors and regional preferential policies as the main causes of the economic boom in the coastal regions. Liang (2006: 2) mentions that other researchers have examined the contributions of various types of public investments in the least-developed western regions to reducing regional inequality, whereas additional investment in the coastal and central regions tend to increase regional inequality. In addition, investment in rural research and development in the western regions have the largest and most favourable impacts on decreasing regional disparity.

3.5 Overall lessons

The first overall lesson is with regard to the developmental disparity in Indonesia, which is highly influenced by political decisions because most of the resources are distributed to the well-developed provinces such as Java. The introduction of the five-year development plan to reduce disparity in Indonesia was aimed at harmonising provincial growth rates and improving conditions in the poorest provinces by allocating at least a portion of revenue to underdeveloped provinces (Drake 1992: 309). The five-year development plan was meant to bridge the disparity gap between the coastal provinces and the inland provinces.

The second overall lesson that stands out from the Canada case study, according to Atkinson and Bierling (1998: 72) is in relation to the revenue-generating capacity of different provinces. The lack of provinces’ revenue-generating capacity also applies to the South African context where provinces such as Gauteng and Western Cape are in a better situation to generate revenue. The persistence of the inability of provinces to generate revenue may lead to a situation of development disparities within the provinces.

Liang (2006: 2) emphasises geographical factors and regional preferential policies as the main cause of the economic boom in China's coastal regions. The coastal provinces are regarded as highly developed whereas the inland provinces are considered to be poor. Unique geographical features are common characteristics that influence developmental disparities in Indonesia, Canada, China and South Africa. It is worth noting that the developmental disparity in China is influenced by different factors such as geography, regional preferential policies, the flow of FDI and the 1978 open-door policies.

3.6 Summary and conclusion

In this chapter which examined international experiences of provincial disparity, the information shows how provincial economic developmental disparities unfolded in other countries and how best South Africa can learn from those countries. The examined countries are Indonesia, Canada and China. The analyses for these countries were done through examining the successes and the failures observed in those countries.

Although preferential treatment is not a policy in Indonesia, provinces such as Java benefit from the channelling of investment towards the developed provinces at the expense of less-developed provinces. On the other hand Indonesia takes into account economic disparities among regions, as indicated by the importance of agriculture and mining in the GDP of each province and the percentage of people living in deprivation is acknowledged. Due to the concentration of resources in a few provinces, the poorer provinces, which fell behind, started to show their dissatisfaction with the central government, demanding larger income transfers and greater authority in structuring their development plans. It is also noted that rapid political change finally took place a few years after the economic crisis of 1997. Therefore the political change brought about change in distribution of investment.

In Canada the phenomenon of capital accumulation as described by the neoclassical growth model explains much of the observed decline in regional disparity. Coulombe and Day assert that regional disparities in per capita income have long been a feature of the

Canadian economy. They also show that the Canadian regional income differential appears to have been roughly constant. This indicates that there has been neither convergence nor divergence in economic disparities.

The study done by Coulombe and Day show that not all models of economic growth predicts the convergence of regional per capita incomes or output. It is concluded that the gap between the rich and the poor regions continues to widen over time. The other point raised is with regard to the unequal revenue-generating capacity of Canadian provinces. To the extent that provinces increasingly resemble one another in terms of education and income, citizen expectations of the state may begin to coincide and provinces may offer increasingly similar levels of government services. Added to this is the role that the federal government has played in both minimising revenue disparities through equalisation, and in influencing provincial spending priorities with share-cost programmes. Lastly, in Canada, the differences among provinces remain relatively constant in the areas of transport and communications, while dispersion in the area of trade and industry and natural resources actually increased.

In China's experience the developmental gap occurs between the coastal and inland provinces. The coastal provinces are regarded as highly developed whereas the inland provinces are considered to be less developed. It is worth noting that the developmental disparities in China are influenced by different factors such as geography, regional preferential policies, the flow of FDI and the 1978 open-door policies. In conclusion the most dominant factor is the preferential policy that is largely biased towards the coastal provinces.

Chapter 4

Provincial economic development and disparities in South Africa

4.1 Introduction

This chapter focuses on analysis of revenue and expenditure for social welfare and the infrastructure of different provinces so as to explain the economic development disparities in South Africa. Although consumers, business and national government all play a role in the economy as a whole, this research essay will focus mainly on the revenue generating-capacity and the spending patterns of the nine South African provinces.

According to Gauteng Treasury (2006: 115), Provincial Budgets and Expenditure Review, here after referred to as PBER, South Africa's governmental system places provinces at the centre of government's programme for delivering a better life for all. The statement indicates that the provinces are responsible for the delivery of coexisting functions such as school education, health, social welfare services, housing, agriculture and transport. The PBER document furthermore emphasises that a core government priority is to strengthen these coexisting functions. Management information systems involve developing or clarifying the policy and legislative frameworks, strengthening the planning, budgeting and implementation processes, improving department's management capabilities, strengthening financial and performance management and putting in place or strengthening management information systems and reporting processes.

Coordination of projects/programmes that the national, provincial and local government are implementing can enhance equal development. The national, provincial and local authorities have joined hands to bridge the disparity gap by the introduction of the IDZ which is managed by the national government and the IDP which is managed by the local authorities. Coordination of projects/programmes that the national, provincial and local government are implementing can further equal development. These strategies and programmes have the successes and the failures which are to be outlined (Gauteng Treasury 2006: 115).

4.2 Trends in provincial budgets

The analysis of trends in provincial budgets is to give an indication as to how the economic development disparities are diverging or converging in terms of funds allocated to different provinces. The provincial financial budgeting process focuses on the following classification of the provincial revenue. According to the Gauteng Treasury (2007a: 17) the classification of provincial revenue is as follows: province's own revenue, equitable share and conditional grants. This allocation of revenue shows, across the country, how the large shares of revenue are allocated and spent in different provinces on different projects or programmes.

4.2.1 Own revenue

The provinces' own revenue is the income that provinces generate to improve services to their people. This depends on the economic activities and the capacity that each province has to generate revenue. Since the provinces are in no way able to generate more revenue to render public services, government transfers what is known as "equitable shares". To varying degrees the problem of development disparity arises from the capacity of provinces to generate their own revenue (Gauteng Treasury 2007a: 18).

Gauteng Treasury (2007a: 18) defines an equitable share as an unconditional transfer to the provincial governments to fund the gap that provinces are experiencing due to their limited fiscal capacity and the significant expenditure responsibilities assigned to them. The equitable share is determined through a consultative process and the formula being used places priority on the provision of social services such as education, social development and health. Gauteng Treasury (2007a: 18) indicates that as a result, the formula is redistributive and biased towards the poorer provinces. The above statement suggests that the government is well aware of the economic developmental disparities that are operative in South Africa. With these disparities decreasing annually the measures such as the IDZ and IDP should help to facilitate the curbing or minimising of these challenges (Gauteng Treasury 2007a: 18).

4.2.2 Conditional grants

The Gauteng Treasury (2007a: 18) defines a conditional grant as earmarked funds provided by national government to provinces for the achievement of specific targets. Gauteng Treasury (2007a: 18) further indicates that all conditional grants have clearly stipulated conditions that recipients have to meet to access those grants fully. Conditional grants allocations are generally made in trenches and require strict reporting. These conditional grants allocations are used, amongst other purposes to ensure the fulfilment of nationally determined policy objectives, to address backlogs and to effect transition through supporting capacity building and structural adjustment within recipient administrations. An example of such conditions is with regards to funds allocated for HIV/Aids programmes. The allocation of this kind of funds may even extend to infrastructure-building enterprises like roads and bridges (Gauteng Treasury 2007a: 18). In terms of infrastructure, it is quite realistic that the developed provinces have better infrastructure as compared to less-developed provinces

4.2.3 Provincial expenditure trends from 2002 to 2009

The provincial expenditure trends helps to explain the economic developmental gap that persists in terms of the funds spent in different provinces. In the Gauteng Treasury (2006: 121) it is reported from 2002/03 to 2005/06 total provincial expenditure has grown substantially, from R116,3 billion to R161,1 billion and this expenditure represents a real growth rate of 6,6 percent a year. Gauteng Treasury adds that this level of growth placed provinces in a better position to stabilise services, particularly social services.

Table 4.1 Provincial budgets (in billions) over the MTEF period

	2006/07	2007/08	Percentages of provincial budgets	2008/09	Percentages of provincial budgets
E. Cape	**26 827**	**30 480**	**12%**	**33 874**	**10%**
Free State	**11 626**	**12 947**	**10,2%**	**14 178**	**9%**
Gauteng	**34 500**	**36 082**	**4%**	**38 588**	**6%**
KZN	**37 192**	**41 933**	**11%**	**47 010**	**11%**
Limpopo	**22 899**	**25 501**	**10%**	**28 319**	**10%**
Mpumalanga	**12 805**	**14 277**	**10%**	**15 460**	**8%**
N. Cape	**4 395**	**4 855**	**9%**	**5 153**	**6%**
N. West	**14 400**	**16 024**	**10%**	**17 670**	**9%**
W. Cape	**18 379**	**19 855**	**7%**	**21 622**	**8%**
Total	**183 020**	**201 903**	**9%**	**221 873**	**9%**

Source: Gauteng Treasury, 2006

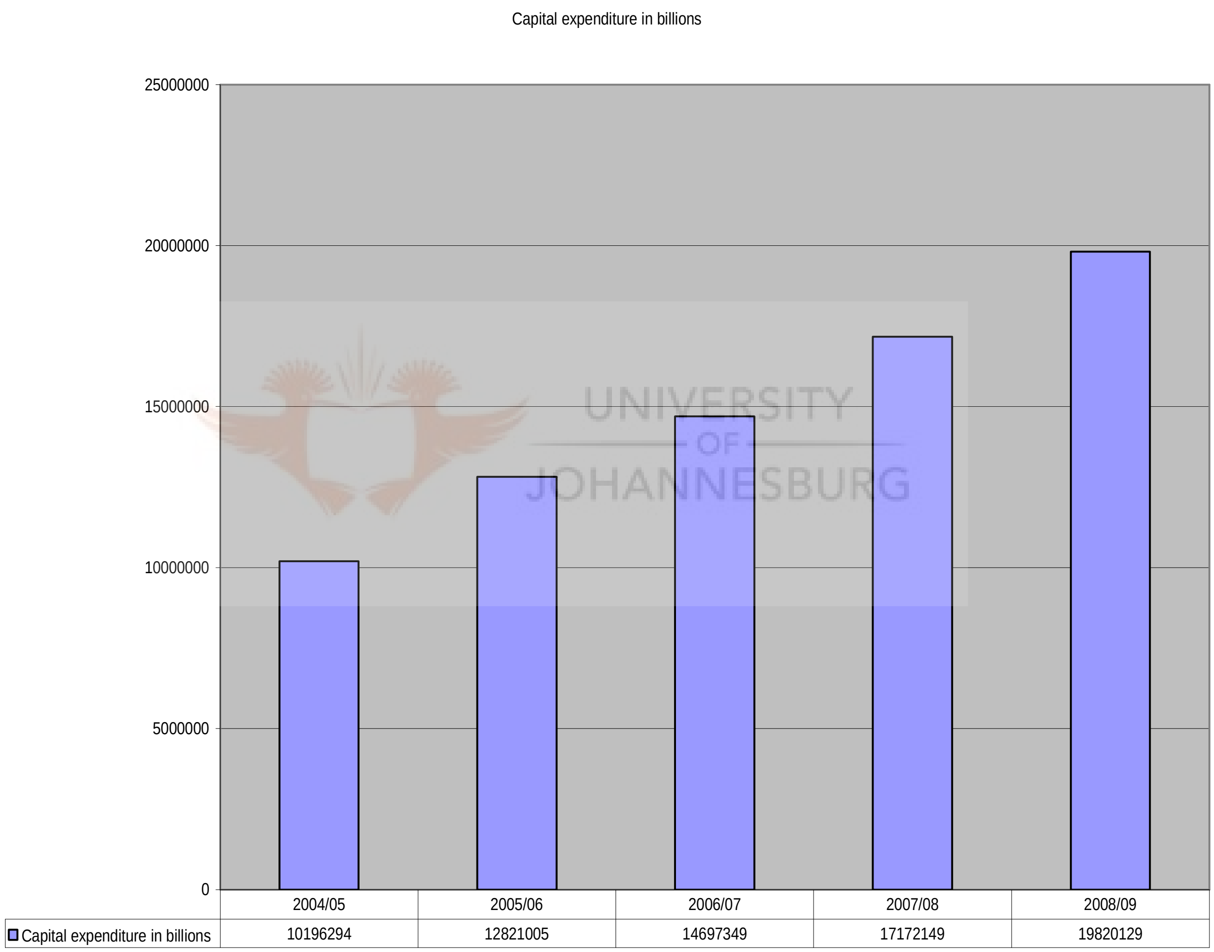
From table 4.1 above, the 2006 provincial Medium Term Expenditure Framework (hereafter referred to as MTEF) budgeted to spend R183 billion in 2006/07. Table 4.1 also shows that over the MTEF period, provincial expenditure increased to R221,9 billion in 2008/09 at an average annual rate of 11,2 percent. Kwazulu-Natal province has the highest budget of R41,933 billion for the financial year 2007/08 and the province with the lowest budget is the Northern Cape with only R4,855 billion for the same financial year. However, Gauteng has received the second largest amount in funds with R36,082 billion for the 2007/08 financial year.

The Gauteng Treasury (2006: 121) emphasises that the funds allocated to provinces are targeted at improving the quality of social services and further increasing their financial recipients. The table also shows how the budgetary growth of all the provinces over the MTEF period. This table indicates the extent to which less developed provinces less funding. This is evident when we look at provinces like Northern Cape with only R5 153 billion going forward to MTEF outer years (Gauteng Treasury 2006: 121).

4.2.4 Capital expenditure

The graph below shows the continuous growth in capital expenditure from 2004 to 2006 and the projected growth over the period of Medium Term Expenditure Framework 2006/07-2008/09.

Figure 4.1 Capital expenditure growths for Gauteng



Source: Gauteng Treasury, 2006

Capital expenditure continues to be the fastest growing item in provincial expenditure (Gauteng Treasury 2006: 121). The area of expenditure that grew most rapidly between 2002/03 and 2005/06 is capital expenditure, which grew by 16,1 percent per year, on average. In 2005/06 capital spending grew by 20,5 percent and is budgeted to grow at an average rate of 13,5 percent per year over the Medium Term Expenditure Framework (Gauteng Treasury 2006: 141). Capital accumulation shows the prosperity of the provinces. Although this is not shown per province, this graph helps to show that provinces are committed to development. This is true, since it is acknowledged that accumulation of capital is instrumental in the development of a province or a country. Thirlwall (1999: 75) emphasises that investment must rise to a level in excess of 10 percent of national income in order for per capita income to rise sufficiently to guarantee adequate future levels of saving and investment. However, the growth of capital has to be complemented by the growth of social and economic service spending in order for the economy to grow (Gauteng Treasury 2006: 141).

4.2.5 Spending on social services

The Gauteng Treasury (2006: 122) notes that spending on social services (education, health and social welfare) still makes up the bulk of total provincial expenditure at 74,3 per cent in 2006/07. Furthermore, Gauteng Treasury (2006: 122) reports that expenditure on these three functions grew by 6,7 percent in real terms over the period 2002/03 to 2005/06. Given that most of the expenditure on social service goes to programmes that meet the needs of poor persons and households, real growth of the magnitude set out here goes a long way to improving the quality of life of most South Africans. This occurs when people who receive social grants spends most of their grants back into the economy in the form of buying necessities such as food. In actual fact this resembles the multiplier effect because an injection of social investment leads to the enhancement of the standard of living of poorer people and of the population at large.

4.2.6 Spending on non-social services

Although these functions account for only about 25 per cent of total provincial expenditure, they are very important to economic growth and employment creation. The Gauteng Treasury (2006: 123) notes that provinces are responsible for a range of non-social services, which include public works, provincial roads and transport, housing and local government, agriculture, sport and environmental affairs.

The Gauteng Treasury (2006: 123) reports that the provinces have prioritised their non-social services spending. Priorities in these functional areas over the 2006 MTEF period include: The newly approved comprehensive housing strategy that aims to speed up housing delivery and develop sustainable human settlement (to implement this strategy, R3 billion is added to the new Integrated Housing and Human Settlement Redevelopment grant over the MTEF) introducing comprehensive agricultural support to emerging farmers, including those who receive land through the land reform and land restitution programmes, expanding the

The Gauteng Treasury (2006: 123) reports that the expanded public works programme is one of the programmes which government aims to provide people with income-earning opportunities that include opportunities to acquire skills that improve their chances of getting future employment.

Gauteng Treasury (2006: 123) another priority is with regard to the promotion of mass-participation selected sporting activities by historically disadvantaged communities. This priority is to be achieved through the Mass Sport and Recreation participation programme grant. The other provincial spending on non-social service is with regard to the Gauteng Rapid Rail link project. Imagine if this Gauteng rapid link were established in other parts of the country, how it would benefit that province or region, but unfortunately this is to be done in Gauteng which already has multi-transportation systems. In essence this encourages the growing disparities gap among the provinces. A number of investors will rather invest in Gauteng than in any other provinces because of its well developed and sophisticated infrastructure (Gauteng Treasury 2006: 123).

4.2.7 Compensation of employees

The Gauteng Treasury (2006: 124) remarks that the success of recent expenditure management initiatives has seen personnel costs being contained at acceptable and sustainable levels. Not spending on employees' salaries has created a fiscal space for spending on non-personnel inputs and capital items. This has occurred because of the introduction of three years salary negotiation which allows government to plan its expenditure over the medium term expenditure framework.

Table 4.2 Provincial expenditure on compensation of employees

Financial year	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Rand in millions	**73 617**	**80 719**	**87 513**	**95 124**	**104 945**	**112 793**	**120 095**
Compensation of employees%	**63, 3%**	**61, 2%**	**61, 6%**	**59, 0%**	**57, 3%**	**55, 9%**	**54, 1%**

Source: Gauteng Treasury, 2006

Table 4.2 above shows the trend of employee compensation decreasing over time. Furthermore, the MTEF projections decreased from 57,3 percent in 2006/07 to 54,1 percent in 2008/09. Therefore, as things stand, provincial government are able to spend more money on items other than employees' salaries. The reduction in employee compensation gives room for the allocation of provincial budget to other needs.

According to the Gauteng Treasury (2006: 124) province's the total expenditure on the compensation of employees rose to 63,3 percent of total provincial expenditure in 2002/03. This left few resources for non-personnel inputs and capital expenditure in 2002/03. However, more recent efforts to restrain growth in salaries, limit the intake of new personnel and the expansion of the fiscal envelope have contributed to the share of provincial expenditure going towards compensation of employees declining to more acceptable levels. In addition restraint in salary increases might lead to poor employee morale and ultimately to the resignation of highly skilled personnel.

4.2.8 Payments for capital assets

The Gauteng Treasury (2006: 125) defines capital expenditure as inclusive of spending on physical assets such as construction and rehabilitation of buildings, roads and other immovable assets, but exclusive of capital transfers. The construction of roads and road maintenance in a less-developed province may, according to Linear-Stage Theory stimulates economic growth of a region. Therefore, spending on capital may enhance the growth and development of different provinces. However, the unequal spending on capital assets between developed provinces and less developed provinces may lead to developmental disparity.

4.3 Comparison of social variables among provinces

In this section the social variables are discussed and an analysis developed of how different provinces fare in terms of these variables. This analysis shows how developmental disparity increases in terms of these social variables. The variables that this paper refers to are education, employment, unemployment, gross domestic product and human developmental index.

According to Todaro (2000: 329) developing countries have invested huge sums of money in education. The investment of large sums of money in education highlights to the understanding that higher level of education can lead to a country, province or region being highly developed. Employment and unemployment levels, like other variables are able to show the developmental disparity that exists among different provinces. High levels of employment are associated with developed provinces and high rates of unemployment are characteristic of less developed provinces. According to the Gauteng Treasury (2006: 125) in countries such as South Africa high levels of unemployment exist in developed as well as in less developed provinces. This situation (of high level unemployment in developed provinces) can be attributed to the migration of people from less-developed to developed provinces. Todaro (2000: 329) emphasises that the GDP is a principal indicator of development and economic well-being. The GDP is chosen as one of the variables because a high growth rate is attributed to developed provinces. In addition the HDI is used, in this research, as a variable that measures the country's (province's in the context of this research) economic and social well-being.

4.3.1 Education

Table 4.3 Educational levels per province (%)

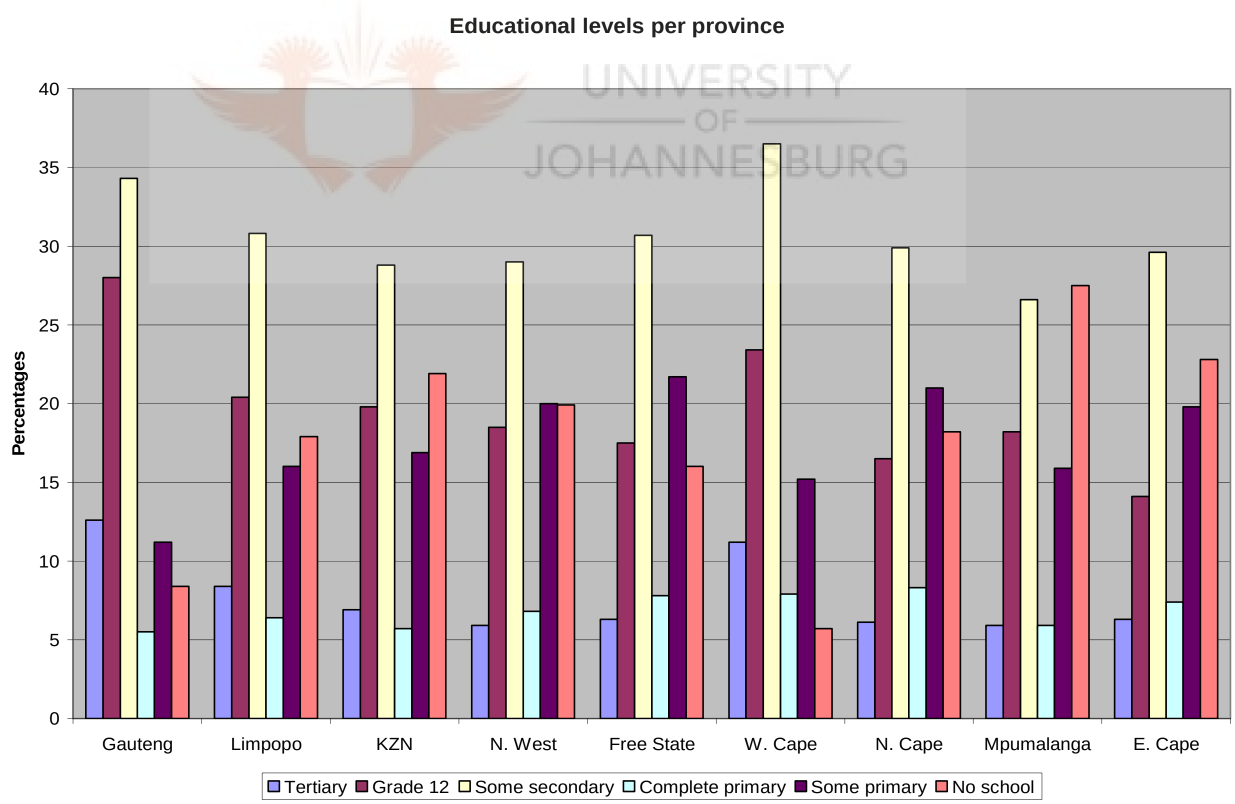
	Gauteng	Limpopo	KZN	N. West	Free State	W. Cape	N. Cape	E. Cape	Mpumalanga
Tertiary	12, 6	8, 4	6, 9	5, 9	6, 3	11, 2	6, 1	6, 3	5, 9
Grade 12	28, 0	20, 4	19, 8	18, 5	17, 5	23, 4	16, 5	14, 1	18, 2
Some secondary	34, 3	30, 8	28, 8	29, 0	30, 7	36, 5	29, 9	29, 6	26, 6
Complete primary	5, 5	6, 4	5, 7	6, 8	7, 8	7, 9	8, 3	7, 4	5, 9
Some primary	11, 2	16, 0	16, 9	20, 0	21, 7	15, 2	21, 0	19, 8	15, 9
No schooling	8, 4	17, 9	21, 9	19, 9	16, 0	5, 7	18, 2	22, 8	27, 5

Source: Gauteng provincial profile, 2006

Table 4.3 above explores educational levels per provinces and shows that Gauteng has the second lowest percentage of people aged 20 years and above, who have had formal schooling, namely 8,4 %, while Limpopo has the highest percent with 33,4%. This is attributed to the fact that Gauteng is highly urbanised and Limpopo is dominantly rural (Gauteng provincial profile 2006: 40).

When comparing Gauteng and the Western Cape, Gauteng has the highest percentage of people aged 20 years or older with post-school qualifications, namely 12,6 percent, followed by Western Cape with 11,2 percent. The reason for this is that most highly-educated people move from the less developed areas to the more highly developed provinces like Gauteng, which creates developmental disparity among the provinces. These two provinces are the only provinces with percentages higher than the national average of 8,4 percent. It is also noted that the provinces with the lowest percentages of people over the age of 20 years with a post-school qualification are North West and Mpumalanga (Gauteng provincial profile 2006: 40). It is widely acknowledged that education helps to reduce the level of developmental disparities between countries in terms of contribution to the economy. Therefore provinces such as North West and Mpumalanga will fall behind in terms of development because of the smaller number of people with post-school qualification.

Figure 4.2 Educational levels per province



Source: Gauteng provincial profile, 2006

Figure 4.2 indicates the literacy levels for different provinces. Mpumalanga has the highest level of people who have no schooling. However, Gauteng on the other hand, has the second lowest percentage (only the Western Cape was lower) of people aged 20 years and older who have no formal schooling, namely 8,4 percent whilst Limpopo has the highest number of people who have no formal schooling, namely 33, 4 percent. The educational levels have an impact in terms of economic disparities since those who are not educated are expected to earn lesser incomes and therefore their standard of living will also be low. It is expected that provinces with large numbers of uneducated people will be less developed and have fewer people employed (Gauteng provincial profile 2006: 40).

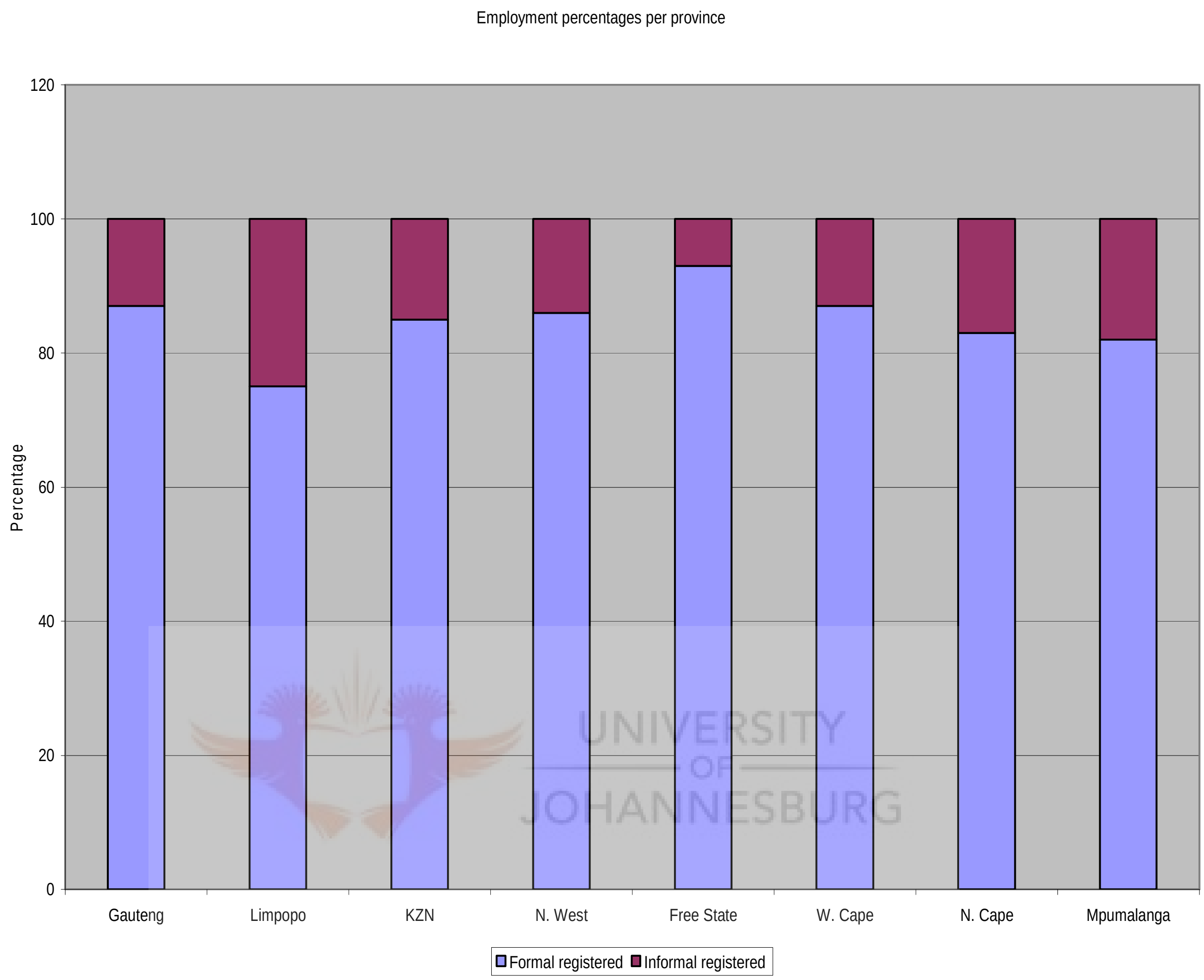
4.3.2 Employment

Table 4.4 Employment percentages per province

	Gauteng	**Limpopo**	**KZN**	**N. West**	**Free State**	**W. Cape**	**N. Cape**	**E. Cape**	**Mpumalanga**
Formal, as registered in %	87, 0	75, 0	82, 0	85, 0	86, 0	93, 0	87, 0	83, 0	82, 0
Informal, as registered in %	13, 0	25, 0	18, 0	15, 0	14, 0	7, 0	13, 0	17, 0	18, 0

Source: Gauteng provincial profile, 2006

Figure 4.3: Employment percentages per province



Source: Gauteng provincial profile, 2006

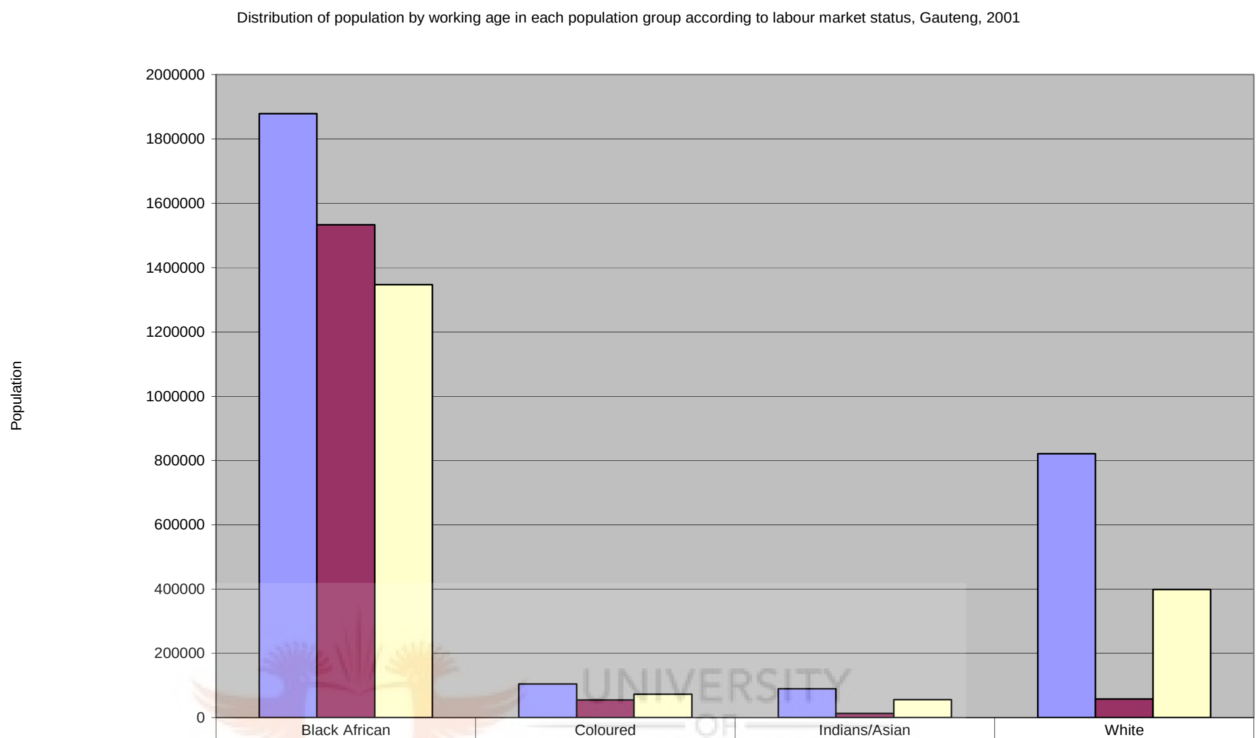
Figure 4.2 shows employment in the formal and informal sectors, excluding agriculture, by province in South Africa in 2001. According to Gauteng provincial profile (2006: 64) the formal sector accounted for the largest share of employment, through out the country, at approximately 85 percent.

In addition, the report emphasises that at 93 percent of the population, Western Cape had the highest proportion of people employed in the formal sector followed by Gauteng and the Northern Cape both at approximately 87 percent. In addition, Gauteng provincial profile (2006: 64) observed that there is a large variation in formal sector work opportunities across provinces, with Limpopo province accounting for the smallest proportion of those employed in the formal sector (approximately 75%) and hence for the largest proportion of those employed in the informal sector (approximately 25%). Gauteng accounts for approximately 13 percent of employment in the formal sector (Gauteng provincial profile 2006: 64). Lastly, Table 4.4 shows that less developed provinces depend largely on employment in the informal sector, unlike the developed provinces which depend highly on employment modernised formal sector.

4.3.3 Unemployment

In terms of the strict definition, a person is regarded as unemployed if that person takes steps to find employment (Barker 2003: 19). The Labour Force Survey of 2001 as quoted in the Gauteng provincial profile of 2006 indicates that the national unemployment rate was 29,5 percent. This level of unemployment shows that the unemployment variable is a challenge to all the provinces, despite the fact that it differs from one province to another. High unemployment levels do not necessarily mean that a province is less developed; it can either be less developed or highly developed.

Figure 4.4: Distribution for each population group according to labour market status, Gauteng



	Black African	Coloured	Indians/Asian	White
Employed	1878737	104789	89611	821640
Unemployed	1533023	55135	13189	58265
Not economically active	1346294	73476	56239	398655

Source: Gauteng provincial profile, 2006

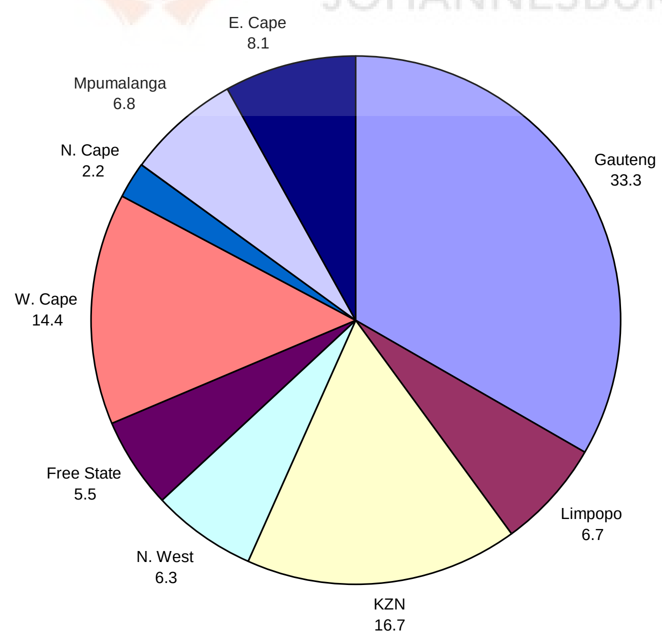
Figure 4.4 show the number of employed, unemployed and not economically active population in Gauteng in 2001. The official unemployment figure in Gauteng was highest among black Africans, standing at 1,5 million or 32%, followed by coloured persons at 55 135 or 24%, Indians at 13 189 or 8% and whites unemployed at 58 265 or 5%. On average the unemployment figure in Gauteng during 2001 stood at 26 percent. In line with the structural sector model the largest number of unemployed people is found in the less developed regions or provinces (Todaro 2000: 84). The burden of the more economically advanced provinces is the large number of unemployed people who migrates there (Gauteng provincial profile 2006: 69).

According to Gauteng provincial profile (2006: 27) migration is defined as the movement into and out of countries, and within countries, from non-urban to urban areas or vice versa, or from one province or state to another. The Gauteng provincial profile further illustrates that Gauteng and Western Cape gained an estimated 600 000 migrants between 1996 and 2001, whereas seven other provinces have lost between 9000 and 160 000 persons each (Gauteng provincial profile 2006: 28).

4.3.4 Gross Domestic Product per Region (GDPR)

According to the Western Cape provincial profile (2006: 81) gross domestic product per region, hereafter referred to as GDPR, is defined as the annual estimate of GDP per region. The pie chart below shows how different provinces contribute to the national economy.

Figure 4.5: The gross domestic product per region in percentages for 2003



Source: Gauteng provincial profile, 2006

Figure 4.5 shows the contribution of each province to the economy of South Africa. This chart shows that the largest contribution to the economy of the country is from Gauteng with 33, 3 percent, followed by Kwazulu-Natal (KZN) with 16, 7 percent and the Western Cape at 14, 4 percentage. Gauteng provincial profile (2006: 81) notes that the smallest contribution came from the Northern Cape with 2, 2 percent. Preliminary estimates indicate that the highest real annual economic growth rate per region, as measured by the GDPR at market prices for 2004, was recorded in the Western Cape with 5,3 percent followed by Kwazulu-Natal and North West with 4,9 percent each and Eastern Cape with 4,6 percent. From figure 4.5 we note that Gauteng province has a higher level of economic activities than other provinces. This shows that economic growth varies from province to province in South Africa. With this kind of economic growth taking place in only a few provinces the result will be continuous disparities between the provinces.

Mpumalanga provincial profile (2006: 109) also notes that Mpumalanga annual economic growth of 4,2 percent was below the national average growth rate. According to Mpumalanga provincial profile (2006: 109) the major contributors to the GDP of the province are finance, real estate and business services. It also shows that the lowest contributor to the economic growth rate of Mpumalanga are electricity, gas and water (0,3%), and for South Africa as a whole the lowest contributors were agriculture, forestry and fishing at 1,7 percent. The GDP and GDPR of the provinces are limited in measuring human development.

4.3.5 The human development index

According to Todaro (2000: 69) the problems associated with using per capita GDP/GNP as a measure of development are well known. Among the major objections to this measure are its failures to include non-marketed subsistence production, including much of women's work, and to incorporate welfare and income distribution considerations. Furthermore, as a result, there have been numerous efforts both to remedy its defects and to create other composite indicators that serve as complements or alternatives to this traditional measure. Basically, such indicators fall into two groups, those that seek to measure in terms of a “normal” or “optimal” pattern of interaction among social, economic, and political factors and those that measure development in terms of the quality of life. In this section the focus will be on the human development index. (Todaro 2000: 69)

Todaro (2000: 747) defines the human development index, hereafter referred to as HDI, as an index measuring national socioeconomic development, based on measures of life expectancy at birth, educational attainment and adjusted real per capita income. The HDI attempts to rank all countries on a scale of 0 (lowest human development) to 1 (highest human development) based on three goals or end products of development: longevity as measured by life expectancy at birth, knowledge as measured by a weight average of adult literacy (two third) and mean years of schooling (one-third), and standard of living as measured by real per capita income adjusted for differing purchasing power parity, hereafter referred to as PPP, of each country’s currency to reflect cost of living and for assumption of rapidly diminishing marginal utility of income above average world income levels (Todaro 2000: 73). Table 4.5 assists in showing human development and disparity in South Africa and in its different provinces as per HDI.

Table 4.5 HDI for South Africa and the provinces, 2000-2003

	2000	**2001**	**2002**	**2003**
Eastern Cape	**0.64**	**0.63**	**0.63**	**0.62**
Free State	**0.7**	**0.69**	**0.68**	**0.67**
Gauteng	**0.77**	**0.76**	**0.75**	**0.74**
Kwazulu Natal	**0.67**	**0.65**	**0.64**	**0.63**
Limpopo	**0.62**	**0.61**	**0.60**	**0.59**
Mpumalanga	**0.68**	**0.67**	**0.66**	**0.65**
North West	**0.64**	**0.63**	**0.62**	**0.61**
Northern Cape	**0.7**	**0.69**	**0.69**	**0.69**
Western Cape	**0.78**	**0.77**	**0.77**	**0.77**
South Africa	**0.70**	**0.69**	**0.68**	**0.67**

Source: Gauteng Treasury’s PERO, 2007

Table 4.5 also provides the HDI for South Africa and for its nine separate provinces. South Africa, on average, from 2000 to 2003 has an HDI of 0.69 which is regarded as the medium level of human development. This is common to all nine provinces as they have an HDI of above 60 from 2000 to 2003. However, in most provinces the HDI has slightly decreased except in the Northern Cape and Western Cape which maintained the same level of HDI for most of the period under review (Gauteng Treasury , 2007b: 71). From table 4.5 conclusion can be drawn that HDI ranges from 0,59 (Limpopo) to 0,77 (Western Cape) in 2003 for South African provinces, therefore this indicates that there is developmental disparities among South African provinces.

4.4 Favourable and unfavourable factors for economic development disparities

A question which frequently arises when dealing with disparities is why spatial disparities exist in developing countries? Kanbur and Venables (2003: 7) emphasise the fact that the natural characteristics of a region influences the future development of the region. Such characteristics include proximity to rivers, coasts, ports and borders, or endowments of climate or natural resources. Evidently these factors account for provinces such as Gauteng, Western Cape and Kwazulu Natal being highly developed. Gauteng is highly developed because of its mineral resources, Kwazulu-Natal and Western Cape because they are developing along the ocean. In terms of Northern Cape, it is underdeveloped because of its location in a semi-arid region where few economic activities take place (Gauteng provincial profile 2006: 84).

Kanbur and Venables (2003: 7) confirm the fact that efficiency gains from proximity of economic activities influence the development of a region. Interactions between economic agents (firms and consumers) are more efficient in densely populated areas than where people are widely dispersed. The problem of developmental disparities can be reduced through proper coordination and implementation of different strategies directed at holistic development.

4.5 Strategies and programmes aimed at minimising economic development disparities

In this section the main purpose is to analyse different national or provincial strategies. The strategies that this paper refers to is the Industrial Development Zone, hereafter refers to as IDZ, and the Integrated Development Plan, hereafter refer as to IDP. The analysis of the IDZ focuses on the latest development and on whether this programme increases the developmental disparity gap. The successes and failures of the IDZ are observed and listed in this research paper. When analysing municipal IDP this chapter will evaluate whether the IDP is effective in promoting economic development in different municipalities? (City of Johannesburg: 2004: 1).

The above mentioned strategies are evaluated to assess whether they address the economic developmental disparities in the provinces and on local municipality level. Pretorius and Blaauw (2004: 2) outline that the world has experienced significant changes in the structure of the international economy in recent years. They also show that with the weakening of state control in many countries, individual localities are able to pursue more appropriate locally determined developmental strategies. The limited success achieved by state regional developmental policies in many countries support this trend. In South Africa the most localised policies are the IDZ, Spatial Development Initiative, hereafter refer to as SDI, and even the IDP. These policies were formulated with the aim of achieving high economic growth and development in each and every region of South Africa. This is to be achieved without increasing the economic development disparity gap among the provinces and within the provinces.

Despite initiatives such as IDP, IDZ, SDI and Global City Region (GCR) the national and provincial government are still active role-players in the regional developmental field. The South African government has implemented various plan and programmes with the aim of addressing the growing disparities. Those plan and programmes are the IDZ and SDI of which the focus is on addressing disparities on the national scale (City of Johannesburg: 2004: 1).

4.5.1 The Integrated Development Plan (IDP)

In this section, the focus is on a single major metropolitan area, Ekurhuleni Metropolitan Municipality. The IDP of this metropolitan area mainly furnishes the strategic plan for how the areas are to be developed. The City of Johannesburg (2004: 1) defines the IDP as a planning process, which combines legislative requirements, stake-holder's needs, political priorities, intergovernmental alignment, budgetary parameters, and institutional capacity. The IDP of each of the three metropolitan regions of Gauteng is based on the same priorities that are to be discussed below.

4.5.2 Brief overview of Ekurhuleni Metropolitan Municipality (EMM)

The Ekurhuleni Metropolitan Municipality was established after the municipal elections held on the 5th December 2000 and is responsible for rendering municipal services to the area formerly known as the East Rand. It is the country's fourth largest municipality and one of the six metropolitan areas within South Africa. It is bordered by Johannesburg to the east and Tshwane to the north. The region has approximately 2, 5 million residents and comprises some 19 000 hectares of land. It has 8000 big businesses and 37 000 small, medium and micro enterprises. The region is responsible for 23 percent of the gross domestic product of Gauteng, Sub-Saharan Africa's most economically powerful region (Ekurhuleni IDP 2004: 14).

4.5.3 Background Ekurhuleni: IDP

The Ekurhuleni IDP (2004: 1) is endorsed by Sections 152 and 153 of the Constitution, which state that the local government is responsible for the developmental process in municipalities, which includes municipality planning. The constitutional mandate of IDP relates to management, budgeting and planning functions of local government. The IDP objectives give a clear indication of the intended purposes of municipal-integrated developmental planning. The IDP objectives aims to ensure sustainable provision of services; promote social and economic development; promote a safe and healthy environment; give priority to the basic needs of communities; and encourage involvement of communities.

According to Ekurhuleni IDP (2004: 1) the Millennium Declaration was adopted by UN member states in 2000. The Declaration contains eight Millennium Development Goals hereafter referred to as MDG, that range from, poverty reduction, health, and gender equity to education and environmental sustainability. The South African constitution, MDG and the State of the Nation address by the President of South Africa, President Mbeki, as well as the provincial premier and the Executive Mayor of Ekurhuleni all helps in establish the IDP of Ekurhuleni.

According to Ekurhuleni IDP (2004: 1) the following political directives of the people's contract are to be pursued: to create work and fight poverty; integrate and build sustainable non-racial secure communities; align different developmental policies to the municipal IDP's; integrate the principles of sustainable development into the country's policies and programmes and reverse the loss of environmental resources. These political directives are linked to the national, provincial and local programmes. The priority programmes that are linked to it are: the Expanded Public Works Programme; the Integrated Sustainable Rural Programme; IDP review processes; and lastly the Inner City Regeneration Programme. All those programmes and political structures inform what should go into the metropolitan IDP. The programmes of IDP relate to urban renewal and job opportunities form an integral part of the metropolitan strategic planning. In addition the metropolitan IDP is informed by legislative requirements, stake-holder's needs, political priorities, intergovernmental alignment, budget parameters, and institutional capacity. The IDP is regularly reviewed in order to align and assess the progress in as far as development of individual projects is concerned (Ekurhuleni 2004: 1).

4.5.4 The Ekurhuleni Metropolitan Municipality (EMM) IDP review process

According to the Ekurhuleni IDP the 2004/05 IDP review process has been one of many challenges. The enactment and coming into operation of the Municipality Finance Management Act (MFMA) have played a major role in the time-frame and process of the IDP and it should not be seen in isolation from the 2002 to 2006 adopted IDP and its subsequent reviews. This process has laid the foundation for Ekurhuleni to fulfil its role within the context of developmental local government. The Ekurhuleni IDP also indicates that the review of the IDP is a continuous process that works towards the achievement of the vision of EMM to be a smart, creative and developmental city (Ekurhuleni 2004: 1).

The EMM IDP aligns itself to the five key priorities of the Gauteng provincial government. This is done to support harmonisation of provincial and municipal plans. Furthermore, the Ekurhuleni IDP (2004: 4) lists the five priorities as follows, to enable faster economic growth and job creation; support the priorities for fighting poverty and building safe, secure and sustainable communities; support the priority to develop healthy skilled and productive people; supports the priority to deepen democracy and nation building and realise the constitutional rights of our people; support the priority of building an effective and caring government. These key priorities have a bearing on enhancing people's standard of living in Gauteng. In essence, if these priorities are implemented fairly and managed well they will help bridge the gap between areas which are well developed and those which are underdeveloped. According to Ekurhuleni IDP document (2004: 6) the following EMM priorities are strategic: urban renewal; fighting poverty and under-development; job creation; safety and security; and to enhance public participation in expanded programmes.

Urban renewal

The Ekurhuleni IDP document (2004: 6) stipulates that intensive research has been completed in the Ekurhuleni region to identify areas requiring particular attention. This has resulted in a deliberate effort to uplift and upgrade those needy areas through projects such as inter-alia the Inner City Housing Project in Germiston and in the hubs of Ekurhuleni, and within various urban areas on the existing business districts and nodes

Fighting poverty and under-development

The Ekurhuleni IDP (2004: 6) mentions that various projects have been initiated specifically to address poverty and expedite access by all to free basic services in the region. Initiatives such as the agric-farm projects and urban agriculture are spearheading the effort to put an end to poverty, unemployment and malnutrition in all areas within Ekurhuleni.

Job creation

In terms of job creation the Ekurhuleni IDP (2004: 07) shows that job creation and the use of labour in the procurement of goods and services by the municipality are addressed through the use of an affirmative procurement policy. The IDP document further state that, the affirmative procurement policy is a key element in ensuring that the community benefits from new, sustainable economic opportunities that positively contribute to fostering job creation. The question of whether this procurement policy is playing a major role in creating employment in Ekurhuleni needs to be seen.

Safety and security

The recent establishment and consolidation of the Ekurhuleni Metropolitan Police Department, (hereafter referred to as EMPD), has greatly enhanced the area's ability to combat crime and secure communities and property. The delimitation of Ekurhuleni into three precincts has ensured a more appropriate distribution and utilisation of resources in the fight against crime within the municipality. The ongoing provision of street lights and associated basic services has helped to decrease the crime statistics in Ekurhuleni Metropolitan Municipality (Ekurhuleni IDP 2004: 07). This local priority is in line with

Gauteng's provincial crime strategy which the department of Safety and Security has implemented.

Enhancing public participation

The Ekurhuleni IDP document (2004: 7) reports that the administration has provided impetus and support to the establishment of ward committees, which serve as a platform for the public to interact with municipal issues. The road shows headed by the mayoral committee have provided the public with the opportunity to inform and influence the strategic imperatives of the municipality. The Ekurhuleni IDP document also shows that the budgetary process is now community-driven, since it is now taking identified needs from the public meetings across Ekurhuleni into consideration and incorporating these into the IDP. The above-mentioned strategic issues are supported by the departmental portfolio strategies and business plan, according to the Ekurhuleni IDP document (2004: 7).

4.6 An evaluation of EMM integrated developmental policy

According to City of Johannesburg IDP (2004: 1) the IDP is an annual strategic developmental plan for a financial year. The IDP is an ongoing cumulative planning process which takes into account the impact of past plans and, where necessary, makes changes to take changing realities on the ground into account. As already stated the main focus of the Ekurhuleni IDP is to integrate its developmental plan for all the regions in Gauteng.

The Ekurhuleni IDP (2004: 8) identifies a list of priorities per constitution of the country (South Africa) and UN document on socio-economic development and also the political directives. Although, the IDP is a good policy document, there are problems in its implementation.

The first problem is the slow service delivery as opposed to the key priorities mentioned in this document. The cause for this is that the budget is aligned to all the projects that need to be implemented in a particular year. Secondly, the issue of crime is a major stumbling block in the way of achieving what the EMM IDP is to achieve. The third problem is that poverty and unemployment contribute to slow economic growth and development in this part of Gauteng. The fourth problem is skills deficiency (Ekurhuleni IDP 2004: 07).

In terms of managing all mentioned and anticipated projects it is a serious challenge to the region. Lastly, bias is another problem to achieve all the priorities mentioned in this document (Ekurhuleni IDP 2004: 07). Therefore, the IDP document stops short of explaining how it can bridge the gap of development between affluent areas and poor areas in this metropolitan region. In an attempt to find a solution to the problem of developmental disparity in South Africa the IDZ was introduced in different parts of the country at the beginning of 2000.

4.7 Industrial Development Zone (IDZ)

Coega IDZ (2005: 1) defines Industrial Development Zones as purpose-built industrial sites linked to an international port or airport and specifically designed to attract new investment in export-driven industries. Coega IDZ illustrates that all companies investing in IDZ will receive tax incentives on a duty-free basis from foreign countries and VAT-free purchases and sales from South Africa. IDZ developed in South Africa have industries supporting large manufacturers in custom-secured areas, with top-notch industrial and office park environments as well as other services. Lastly, South African IDZ also has a one-stop centre to facilitate regulatory procedures and requirements. The above-mentioned incentives are granted to companies which are interested in investing in IDZ.

4.7.1 Costs and benefits associated with Coega IDZ and Deepwater Port

According to Coega IDZ (2005: 1) a multi-billion rand industrial development complex and deepwater port is to be developed 20 kilometres east of the city of Port Elizabeth in the Eastern Cape. The Coega project is being developed to become the logistic hub of Southern African trade. The Coega project is regarded as the first and one of the largest IDZ to be established in South Africa, let alone in Africa. Coega IDZ (2005: 1) endorses the project being in line with South Africa's vision of becoming a manufacturing centre of the world. It is also noted that this IDZ is already well-serviced by transport networks, a skilled labour force and utility services. Coega IDZ (2005: 1) further indicates that the project boasts a world-class industrial infrastructure, including inter-model transport linkages and cost-effective bulk services.

Coega IDZ (2005: 1) highlights two major benefits of Coega IDZ, namely; job opportunities and costs reduction. Under job opportunities Coega IDZ (2005: 1) reports that during the construction period the project will generate additional income of between R1, 6 billion and R2, 4 billion nationally. It is estimated that between 36 500 and 57 500 direct, indirect and induced jobs will be created, either in the form of existing jobs being sustained or new jobs being created. Coega IDZ (2005: 1) also reports that by February 2005 the total number of people employed during the construction phase of the project added up more than 11 300 with a total wage bill of over R90-million. Coega is also complementing the region's already proliferating automotive industry (as Africa's largest and most successful vehicle assembly and component manufacturing hub).

Under costs reduction Coega IDZ (2005: 1) shows that businesses in the southern Africa region rely on projects like Coega to reduce logistical costs and improve efficiency. It is proclaimed that Coega is an ideal site for warehousing, assembly and other logistical operations while its deepwater port offers competitive advantages to businesses in surrounding areas. Due to an excellent transport network, world-class industrial infrastructure (including roads, rail, bulk electricity and water, sewage and hazardous waste processing facilities) Coega is regarded as the best industrial zone in South Africa and even in Africa. There are a number of projects that are associated with Coega IDZ of which is two are the deep water port and new generation smelters.

4.7.2 Is Coega IDZ the solution to the problem of economic developmental disparities in the Eastern Cape province?

The solution to the question of provincial economic developmental disparities lies with whether the project is achieving the objectives and the goals for which it was established? The Coega project seems to be achieving the desired social benefits. According to Coega IDZ (2001: 1) it is reported that 11 300 jobs have already been created. Within 4 to 5 years targeted job opportunities are from 36 500 to 57 500 direct and indirect jobs. Coega seems likely to reach this target because the early phase of the development has already reported some successes. In terms of economic benefits Coega IDZ has proved that it is a success story.

The Coega IDZ project has partly addressed the problem of unemployment and economic development in the province of the Eastern Cape. This is in line with creating equity economic development. Or is it increasing the inequality gap among provinces? This remains to be seen. It is expected that the economy of Eastern Cape will grow rapidly in the next few years because of the magnitude of this project.

Although the question of benefits has, to a large extent, been addressed the negative costs have not been touched upon. The negative costs relate to the environment. These environmental costs have been sidelined because of the large number of communities that are expected to benefit and are already benefiting (Coega IDZ 2005: 1). However, environmental degradation and pollution are problems that can affect the province in the long run.

4.8 The impact of IDP and IDZ on the South African economy

Every municipal district is supposed to have an IDP. In that case, the IDP's will not necessarily contribute to a lessening of the disparities in the country. Although these programmes benefit small part of South Africa, those areas will experience much-needed development to improve all aspects of their provinces. Benefits of the IDP for Ekurhuleni are as follows; job creation; and urban renewal to; safety and security. In terms of job creation; this will have a positive impact on reduction of level of unemployment for the Ekurhuleni metropolitan region and for the entire South Africa. Coega IDZ (2005: 1) states that the urban renewal of townships can stimulate economic growth in areas which are not actively participating in the South African economy and also create of economic hubs.

Several IDZ's are planned and being implemented for South Africa and are mainly targeted the less developed province so as to help in decreasing the disparities. However, this research essay has concentrated on Coega IDZ in Port Elizabeth. The short-term benefits of Coega IDZ in Port Elizabeth relate to the promotion of economic growth in the Eastern Cape Province. The successes of Coega IDZ will culminate in social and economic benefits to the province and these will trickle down to the country as a whole (Coega IDZ 2005: 1).

4.9 Summary and conclusion

In this chapter, economic development and developmental disparities of different provinces were analysed through focusing on revenue and expenditure on infrastructure of South African provinces. It is indicated that the provinces are responsible for the delivery of concurrent function such as school education, health, social welfare services, housing, agriculture and transport.

Trends in provincial budgets were analysed with the aim of explaining the economic developmental gap that is experienced among South African provinces. In terms of South

African provincial systems the provinces are not able to generate a great deal of revenue but strongly depend on transfers from national government. This gives national government power to decide how to distribute these transfers. Although there are formulae which are followed national government is biased towards certain provinces in distribution of national revenue.

Further developmental plan and programmes that enhance services delivery and creations of employment are the IDZ and the IDP. Although, these policies are for different spheres of government they seem to be focusing on one and the same objective. The above-mentioned policies, if coordinated and implemented well, can bring South Africa holistic economic development.

In addition to the IDZ and IDP, other favourable and unfavourable factors help to explain whether the problem of the economic developmental disparities gap is increasing or decreasing. Favourable factors of development support the provinces to become highly developed. Unfavourable factors may cause the less-developed provinces to remain so. But with turn-around strategies and good leadership from government unfavourable factors can be converted to favour the under-developed provinces so they may develop at a reasonable rate. Some of factors favouring development or causing under-development of provinces are associated with the physical and geographic conditions of the area. These may include proximity to rivers, coasts, ports and borders, or endowments of climate or natural resources.

Evidently these factors accounted for provinces such as Gauteng, Western Cape and Kwazulu-Natal's financial and other development. Gauteng is highly developed because of its mineral resources, Kwazulu-Natal and Western Cape because they are situated along the ocean. The Northern Cape is under-developed because of its location in semi-arid region where few economic activities take place. In terms of provinces such as Limpopo the problem is the markets distance, which is a major setback in terms of transport costs. Another problem is the provincial economy's huge dependence on agriculture. Lastly the efficiency gained from proximity to interactions with the economic agents is more characteristic of densely inhabited areas than of widely dispersed population.

To curb the problem of economic developmental disparities most countries design a number of programme and policies. South Africa is no exception. Some of these policies and programmes may work against the intended objectives. For example, the IDZ programme (in particular Coega) is intended to develop the Eastern Cape, but it may eventually create an area of nucleated economic activities that fails to spill over into the adjacent areas or to the larger area of other provinces. If all programmes and policies that government have formulated are implemented and properly coordinated by all the agents of the government, the challenge of the economic developmental disparity gap can be minimised.

Chapter 5

Conclusion and recommendations

5.1 Introduction

The aim of this chapter is to summarise the main findings of the study and to make recommendations in relation to development and disparities in South Africa. The lessons learnt from theories and from case studies of different countries are taken into consideration to assist in outlining possible solutions to the developmental disparity that prevails in South Africa.

5.2 Summary of the main findings

In order to achieve the goals of this study, which is to analyse the development and disparities among provinces in South Africa comparatively, the research paper is divided into five chapters. Chapter one is a brief introduction to the purpose, relevance, and structure of and an introduction to the analysis of economic developmental disparity in the South African provinces' context.

The main aim of chapter two was to examine and compare different types of theories and more fully explain the problem of developmental disparity in South Africa. The importance of this chapter lies in the definition of economic development, in the different theories of economic development, criticism of theories and their relevance to economic developmental disparities among the South African provinces.

The Linear-Stages Theory proposed by Rostow was analysed and discussed in relation to development and disparities. Chapter two touched on how different areas or provinces in this case should grow from mere subsistence or the traditional stage to a high mass production stage. According to this theory every region, province or country should follow the same scheme of economic development. The critics of this theory conclude that it is unrealistic for all provincial development to follow the same pattern, for every region, province or country is unique, regarding its own circumstances and situation. The six characteristics of modern growth theory developed by Kuznets explain the observation of characteristics of developed countries and the pattern of growth occurring in a number of countries. The theory of dualism outlines a situation in which, in the early stages of development, developing countries may find themselves: the extent of which may have implications for the future pattern and pace of their development. This theory concludes that it is very rare or not possible for the economic development of one province to have a spill-over effect of development on other regions.

The Cumulative Process is a theory which basically opposes the static equilibrium assumptions. It emphasises that the coexistence of spatially different geographic developments of a province is possible. This does not necessarily mean that the province which is under-developed will catch up with the province that is highly developed.

The Theory of Interregional Relationship focuses on trade relationships rather than on regional disparity. This theory conclusively indicates that it is quite possible that one region may prosper; while other regions may suffer the handicaps of under-utilised resources, depressed incomes and restricted employment opportunities which are neither in the provincial nor national interest.

Chapter three focuses on the analysis of three case studies: the international experience of provincial developmental disparities. Based on observations made for Indonesia, Canada and China, this research paper concludes that economic developmental disparity exists around the world and among all countries. This chapter also concludes that the factors that contribute to economic developmental disparities differ from country to country and from province to province. In Indonesia the economic developmental disparity was mainly caused by uneven distribution of resources and the over-concentration of people in one province. The Canadian experience in economic developmental disparity was exacerbated by one province not having the capacity to generate revenue as compared to other provinces. Although this finding is based on economic developmental disparity in

Canada it is also applicable to South Africa. However, in China the economic developmental disparity is different from that in Canada. It may be concluded that in economic development disparity in China is mainly caused by the coastal economic development preferential policy that promoted or fast-tracked development in coastal provinces at the expense of inland provinces.

Finally, in chapter four, observations and explanations are made with regard to different variables that influence developmental disparities in South Africa. Those variables are analysed to see how they influence the economic developmental disparity in South Africa. Conclusions are drawn that South African developmental disparity continues to diverge and there are no indications that less-developed provinces will reach equity with developed provinces such as Gauteng, Western Cape and Kwazulu-Natal. It may also be concluded that the economic developmental disparity divergence will persist even though the provincial equitable share formula is greatly inclined to poor provinces. Lastly, policies such as IDP and IDZ were evaluated in relation to the developmental disparity that exists in South Africa.

5.3 Recommendations

The major plan/programmes mentioned in this research essay is the IDP and IDZ. The IDP with its good aims and objectives is a good policy and the short-term costs and benefits of this policy have been realised yet the long-term costs and benefits are to be realised. The IDZ on the other hand has been developed to improve areas in different provinces.

The government should enlarge opportunities for employment to achieve a more equitable distribution of income and to integrate the South African economy from first and second economy. This must be done through the promotion of regional development, attempts to harmonise different provincial growth rates; and to improve conditions in the poorest provinces by allocating at least a portion of current economic developmental activity to them.

However, critics argue that, in reality, despite the impressive plans and theories of economic development the uneven development has continued and has even been exacerbated by preferential policies, as in China's case. Unlike China, South Africa has no preferential policies for any provinces. The preferential policy is not a good policy since it promotes a few provinces over all other provinces.

A large/sizable portion of the increased revenue for and expenditure on development should be earmarked for infrastructure. Infrastructures that are of great importance in development are: roads, education, health, housing and poverty alleviation. As more investment is directed to roads, more links between rural and urban areas will enhance development in the under-developed areas. Education is the best investment in human development any country can ever undertake. Therefore, if primary and secondary institutions of higher learning are made more accessible to students, knowledge will be imparted to the youth of this country. The problem of illiteracy has to be reduced for the country to achieve high economic growth. It is common sense that if people are educated they will be more highly productive and can easily improve the economic growth of the country if given an opportunity to participate in the economy. Through housing projects, employment is created and the process leads to poverty alleviation.

Capital accumulation in a country is one of the major elements that can uplift the people's standard of living. If savings and investments improve this will lead to better development of areas through proper investment and even by more enterprises being established and this will have a positive effect on high economic growth.

Foreign direct investment (FDI) is the other element that can help less-developed provinces to improve their levels of unemployment, education, and poverty. If FDI is not fairly distributed to the nine provinces of South Africa the country can probably move to convergence of developmental disparity. However, with clustering and agglomeration of economic activities, most industries or FDI will be invested in areas where there is development and potential for development. This in essence leaves areas with defective infrastructure unconsidered for development and will lead to the gap of development increasing. Therefore, government must introduce or improve policies regarding FDI to favour less-developed provinces.

The other point of concern is with provincial equitable shares from national government which are supposed to favour less-developed areas. In reality these equitable shares are more easily distributed to rich or developed provinces such as Kwazulu-Natal, Western Cape and Gauteng. This is largely because of the concentration of population found in developed provinces as compared to sparsely populated provinces. This is one of the features that weight provincial equitable shares. The weighting must change and more weighting should be focused on balanced development of provinces. It is imperative that education, health and infrastructure be given more weighting than population, as the latter advances the development of already developed provinces. Ultimately this will create an opportunity for less-developed provinces to receive more revenue from central government.

In terms of income inequality among provinces, this should be reviewed to allow for people who are willing to move to less-developed provinces to attract more investment. This is inline with what the South African government is trying to do with scarce skills, in which people are given incentives to settle in regions where there are few professionals or skilled people. These incentives are particularly connected to the education and health sectors and if successfully implemented, they may encourage rapid development in rural areas or less-developed provinces.

Another challenge is that of provinces' unequal revenue-generating capacity, so that they cannot exhibit similar spending patterns. The capacity of province such as the Western Cape, Kwazulu Natal and Gauteng to collect revenue may enhance the developmental disparity. Provinces such as Limpopo, North West, Northern Cape, Mpumalanga, Free State and Eastern Cape do not have the capacity to generate reasonable revenue for themselves to reduce this developmental disparity. With innovations in sustainable industries such as agriculture, mining and tourism these provinces may be able to improve their GDP, thus enhance their economic development and be able to generate more revenue.

Although most raw materials are transported to the developed provinces from less-developed provinces, the less-developed province ultimately does not receive more benefit from its output. The initiatives of establishing industries related to the raw materials extracted within those provinces are supposed to be encouraged, irrespective of the cost of transport of finished products to the consumer markets. Therefore this research paper recommends that a subsidy or tax concession of some kind be initiated, to enable industries to survive the exorbitant costs of transport, electricity and water.

The last challenge the South African government is faced with is the migration of skilled workers to developed provinces leaving poorer provinces with fewer skilled workers. This research paper recommends fast-tracking of the expanded public work programme, which employ people with less skill and promote investment on the less developed provinces by means of improved infrastructure. This will lead to the creation of employment and will also discourage people from migrating to developed provinces.

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