Eastern Cape Provincial Industrial Development Strategy (PIDS)

March 2010

GLOSSARY OF TERMS

AIDC	Automotive Industry Development Centre
AMTS	Advanced Manufacturing Technology Strategy
APDP	Automotive Production and Development Programme
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BEE	Black Economic Empowerment
BBBEE	Broad Based Black Economic Empowerment
BPO	Business Process Outsourcing
CAPEX	Capital Expenditure
CDC	Coega IDZ Development Corporation
CEF	Central Energy Fund
COFISA	Cooperation Framework on Innovation Systems between Finland and South Africa
COR	Coega Oil Refinery
CSIR	Council for Scientific and Industrial Research
CSP	Customised Sector Programme
CSDP	Competitive Supplier Development Programme
DOA	Department of Agriculture
DOL	Department of Labour
DEDEA	Department of Economic Development and Environmental Affairs
DFI	Development Finance Institution
DLG&TA	Department of Local Government and Traditional Affairs
DOST	Department of Science and Technology
DORT	Department of Roads and Transport
DPE	Department of Public Enterprises
DPW	Department of Public Works
DTI	Department of Trade and Industry
EC	Eastern Cape
ECDC	Eastern Cape Development Corporation
ECSECC	Eastern Cape Socio-Economic Consultative Council
ECTMP	Eastern Cape Tourism Master Plan
EG&I	Economic Growth and Infrastructure
EIA	Environmental Impact Assessment
EL	East London
ELIDZ	East London Industrial Development Zone
EMIA	Export Marketing and Investment Assistance
EPWP	Expanded Public Works Programme
ESKOM	Electricity Supply Commission of South Africa
EU	European Union
EXCO	Executive Committee
FDI	Foreign Direct Investment
FET	Further Education and Training
GDP (-R)	Gross Domestic Product (-Regional)
GDS	Growth and Development Summit
GOS	Gross Operating Surplus

GVA	Gross Value Added
HE	Higher Education
HEI	Higher Education Institution
HR	Human Resources
HRD	Human Resources Development
IAP	Industry Action Plan
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDZ	Industrial Development Zone
IPAP	Industrial Policy Action Plan
IMF	International Monetary Fund
IMS	Integrated Manufacturing Strategy
JIPSA	Joint Initiative on Priority Skills Acquisition
KAP	Key Action Programme
KZN	Kwazulu-Natal
LED	Local Economic Development
M&E	Monitoring and Evaluation
MEC	Minerals-Energy-Complex
MEC	Member of the Executive Council
MICE	Meetings, Incentives, Conferences, and Exhibitions
MIDP	Motor Industries Development Programme
MTEF	Medium Term Expenditure Framework
NEDLAC	National Economic Development and Labour Council
NERSA	National Energy Regulator of South Africa
NIC	Newly Industrialised Country
NIPF	National Industrial Policy Framework
NMBM	Nelson Mandela Bay Metropole
NMMM	Nelson Mandela Metropole Municipality
NMMU	Nelson Mandela Metropole University
OEM	Original Equipment Manufacturer
OTP	Office of the Premier
PE	Port Elizabeth
PGDP	Provincial Growth and Development Plan
PIAP	Priority Industry Action Plan
PIDS	Provincial Industrial Development Strategy
POA	Programme of Action
PPP	Public Private Partnership
R&D	Research and Development
RIDF	Regional Industrial Development Fund
RIDS	Regional Industrial Development Strategy
RIS	Regional Industry Strategy
ROI	Return on Investment
RRCC	Rapid Response Coordinating Committee
RSA	Republic of South Africa
SA	South Africa
SABS	South African Bureau of Standards
SDI	Spatial Development Initiative
SEDA	Small Enterprise Development Agency

SETA	Sector Education and Training Agency
SEZ	Special Enterprise Zone
SLA	Service Level Agreement
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
SOE	State Owned Enterprise
SPV	Special Purpose Vehicle
SWOT	Strengths, Weaknesses, Opportunities and Threats
TAP	Technology Action Programme
THRIP	Technology and Human Resource for Industry Programme
TIPS	Trade and Industrial Policy Strategies
UFH	University of Fort Hare
UPE	University of Port Elizabeth
VAT	Value Added Tax
VCF	Venture Capital Fund
VPC	Vehicle Processing Centre
WB	World Bank
WSU	Walter Sisulu University
WTO	World Trade Organisation

"Technology and the shape of national and global markets evolve too rapidly to permit a 'correct line' in industrial policy; social forces, social interests and coalitions shift to accommodate new strategic orientations and policy frameworks and, in so doing, structure new strategic and policy possibilities. Industrial policy is an endless process of definition and redefinition"

(Joffe, Webster, Kaplan, Kaplinsky and Lewis, 1995).

EXECUTIVE SUMMARY

This document presents the Eastern Cape's framework and broad approach to industrialization - the Provincial Industrial Development Strategy (PIDS). Industrial strategy, as referred to in this document, refers to deliberate government efforts to alter the structure and distribution of industrial activity to promote economic growth and development. Within this context, the Provincial Industrial Development Strategy provides a framework for state-led plans and interventions designed to build the productive capability to place the province on a more equitable and labour absorptive growth path. In view of the current global economic crisis, the PIDS also sets out goals and objectives for saving jobs and holding back the threat of deindustrialisation. The Eastern Cape industrial strategy is not limited to the manufacturing sector as it also encompasses service industries.

The PIDS has a time horizon of fifteen years, and its vision is "*A state-led industrialisation path towards a robust, resilient and sustainable industrial base by 2025."*

The success of the PIDS will be measured on the extent to which it will be able to protect and create jobs, as well as grow the economy. The strategic imperatives or goals of the PIDS are thus set out as labour absorption, economic growth and job retention.

The PIDS has multiple strategic objectives of an economic, social, environmental and political nature. These are stabilisation; protection; expansion; diversification; and transformation.

In order to achieve the set strategic objectives, the PIDS identifies high level interventions over the short, medium, and long term. Further, through a process of prioritization, six sectors are identified as the areas of focus. Lastly, PIDS sets specific areas of intervention that will be critical for the attainment of the strategic goals and objectives, the critical success factors/enablers, across all sectors. To summarise, the PIDS is best captured in the framework presented below:

The PIDS document covers the following sections:

- Review of the policy framework, as a reference point for the development of a provincial industrial strategy.
- In-depth situational analysis covering the structure and the historical overview of the Eastern Cape economy.
- Definition of the problem statement, based on the situational analysis.
- Presentation of the PIDS overall framework.
- Conclusion, covering the next key actions.

Lastly, further useful information is provided as an Annexure to the PIDS document. It covers a Literature Review of various approaches to industrial strategy; desktop review of the PIDS priority sectors- as a build up towards an Implementation Plan and Priority Industry Action Plans; and lastly, the Eastern Cape Sectoral Analysis, which has been adapted from the Eastern Cape Provincial Economic Profile and Outlook (2010).

Policy Framework

The Eastern Cape industrial strategy has been developed within the backdrop of an evolving national policy environment. Recently, the national Department of Trade and Industry unveiled a plan (Industrial Policy Action Plan II 2010/11 to 2012/13 (IPAP-II)) to scale up government efforts to promote long term industrialisation and industrial diversification beyond the current reliance on traditional commodities and non-tradable services. IPAP-II builds on the National Industrial Policy Framework (NIPF) and the 2007/08 IPAP, and aims to expand production in value-added sectors with high employment and growth multipliers. It also places emphasis on labour absorptive sectors.

IPAP II has drawn on some of the key interventions contemplated in the national Framework Agreement on the International Crisis, to ensure that the South African economy and society are buffered against the full impact crisis. These include maintaining high levels of public investment in infrastructure to support private and public job preservation and creation; deploying macroeconomic policies to address the economic crisis; utilising industrial and trade policies to rebuild local industrial capacity and avoid the erosion of the country's' manufacturing base; utilising a combination of measures on public employment, private sector initiatives, including training, to avoid massive job losses; as well as scaling up social interventions to address the jobs challenge and ensure social protection.

The post-2004 period has seen a shift in approach through ASGISA, the NIPF, Integrated Manufacturing Development Strategy, Regional Industrial Development Strategy etc, aimed at diversifying out of the highly monopolistic and capital intensive Minerals-Energy-Complex (MEC) through growing the non-commodity tradable sectors, especially sectors that are labour absorptive and provide opportunities for Broad Based Black Economic Empowerment (BBBEE). Despite these policy instruments, the next section on the situational analysis argues that even with accelerated economic growth in the country, and in the Eastern Cape Province in particular, the province has not benefited in terms of altering the structure of the economy and the spread of the industrial activity throughout the province.

At a provincial level, the strategy emphasises the need for synergy and linkages between PIDS, the PGDP and a host of other support strategies for industrialisation such as Local and Regional Economic Development Strategy, SMME Strategy, Tourism Master Plan, Rural Development Strategy and the Cooperatives Strategy.

Situational Analysis

- In line with the unprecedented levels of growth in South Africa in the mid 2000s, the Eastern Cape Province's economy performed relatively well during 1998 to 2000 and 2002 to 2006 registering growth rates from -0.44 percent to 4.34 percent and 1.66 percent to 5.23 percent, respectively. However, from 2006 to 2009, the economy of the Eastern Cape Province plummeted from 5.23 percent to -2.36 percent owing to the world financial crisis.
- Three quarters of the provincial Gross Value Added (GVA) stems from two regions: the Nelson Mandela Bay Metro (42.5%) and the Amathole District (32.5%).This is more pronounced in the manufacturing sector where 91% of GVA is contributed by the Metro and Amathole District.

- Half of the Eastern Cape economy (GVA) is generated by finance and community services.

- The primary sector is the worst performing out of the three sectors. The sector has experienced a downward trend in contribution to the provincial total output since 1995. On average, from 1995 to 2008, the primary sectors' contribution to the Eastern Cape total output was 2.7 percent. Agriculture, forestry and fishing is the dominant sub-sector in the primary sector, representing an average 94.6 percent of the primary sector, while contributing only 6.83 percent to the same industry at national level an average.

- The three most contributing districts within the Agriculture, forestry and fishing industry are Cacadu; Amatole and Chris Hani. Cacadu and Amatole district's contribution in

Agriculture, forestry and fishing has been decreasing whereas in the Chris Hani district there has been an increase in contribution of about 1.3 percent on average since 1995.

- The secondary sector has contributed an average of 21.5 percent to the total economy, while its share at the national level in this sector remained constant around 7.2 percent since 1995 to 2009. Manufacturing has dominated the sector over the past fourteen years, representing 83.4 percent of the secondary sector in the province but has contributed only 7.8 percent to the national manufacturing industry on average. The auto sub-sector is the most significant employer in the Eastern Cape manufacturing sector at 26.6%. This is followed by textiles, clothing and leather goods sub-sector (15.3%).

- The tertiary sector in the Eastern Cape contributed, on average, 75.8 percent to the total economy while at national level it only represents 9.3 percent. From 1995 to 2003, community, social and personal services industry played a leading role followed by finance, insurance, real estate and business services industry and wholesale and retail industry in the third position.

- Amatole district and Nelson Mandela Bay Metro represent together 63.7 percent of the total tertiary sector in the province; however their contribution has declined over the years. General government industry is dominating in Amatole district while finance, insurance, real estate and business services industry is leading in Nelson Mandela Metro.

- In total, Amathole (37%) and NMBM (30.5%) account for more than half of formal employment in the Province. Employment in the manufacturing sector is also concentrated in the Metro (49.1%) and in Amathole district (40.9%). Employment in Agriculture is predominantly in Cacadu (40.9%) and Amathole (20.4%). Employment in services sectors is concentrated in Amathole (38.2%) and in the Metro (29.1%).

Problem Statement

The preceding discussion points to an Eastern Cape industrial sector characterised by fundamental structural weaknesses due to various reasons. These include:

- Concentration of economic activity in the urban industrial centres of NMMM and Buffalo City.
- A manufacturing base dominated by the automotive sector.
- Declining manufacturing subsectors outside of the automotive sector.
- A small and declining primary sector.
- Stagnant Growth in district municipalities such as OR Tambo, Alfred Nzo and Ukhahlamba over the past 12 years, with social grant dependence increasing as a result of employment contraction on the mines and traditional manufacturing sub-sectors,
- Disinvestment from the former industrial decentralization zones such as Butterworth, and Dimbaza

- Insufficient public investment in economic infrastructure (transport, energy, ICT etc), particularly in the rural economy of the former Bantustan areas

Despite these challenges, the Province is well positioned to take advantage of export opportunities (through expanding its IDZs) and is well endowed with natural resources (for exploitation in tourism, agriculture and agro-processing and green industries). The province also has potential to grow the services and trade sector. With the appropriate support and public investment, significant opportunities exist to build a sustainable and labour absorbing agro-processing economy in the east of the Province, and significant opportunities exist for downstream beneficiation from heavy industries located at the two provincial IDZs. The extent to which the Province can take advantage of these opportunities will depend on the extent to which local productive capabilities and the delivery of enabling infrastructure, training and skills development can be sustained.

3.4 Strategic Framework for Industrial Development

The problem statement leads to three main strategic imperatives and goals that encapsulate the principal challenges that must be addressed through the Eastern Cape PIDS:

- **Economic Growth:** Increasing economic growth through strengthening of existing sectors and investment into new high potential industrial sectors, coupled with state investment in infrastructure.

- **Labour Absorption:** Improved labour absorption through skills development, especially for the youth, and through spatial spread of sectors, especially manufacturing industry.

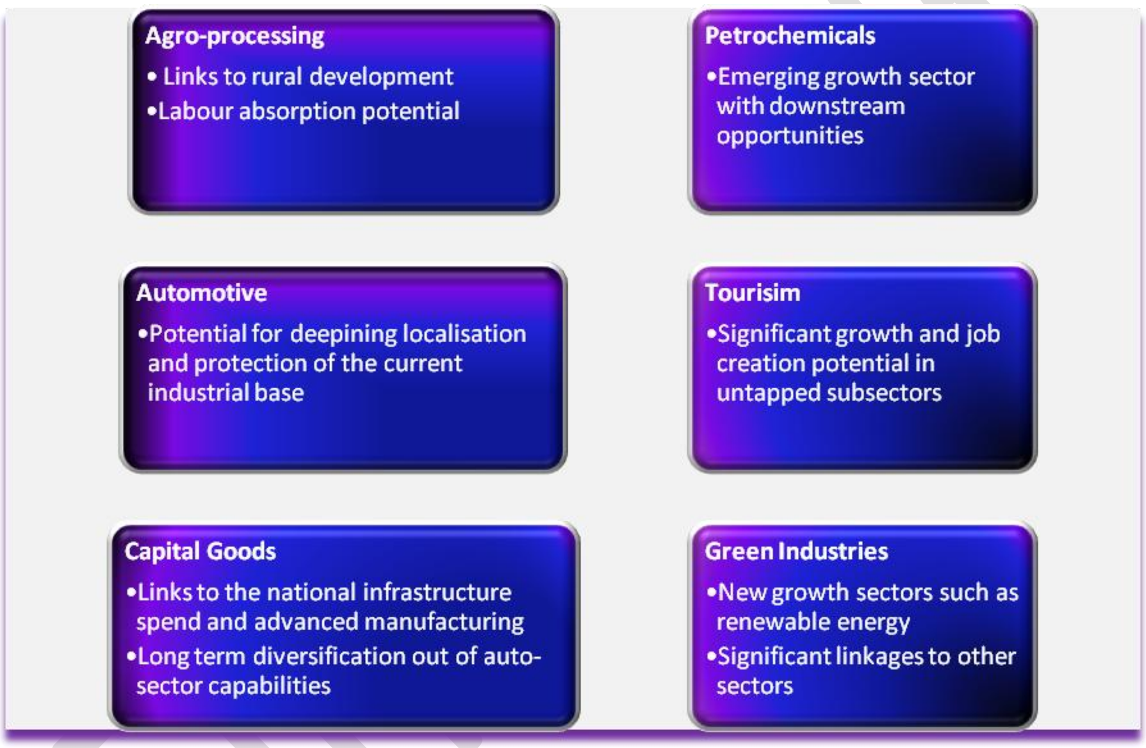
- **Job Retention:** The net retention of existing jobs through the development of sectoral industrial policies and strategies and through the utilization of bridging and retraining strategies in declining industries.

In order to realise growth objectives, protect current jobs and create new ones, the strategic framework prioritises five thematic areas, under the umbrella of strategic objectives. These are the following:

- **Stabilisation** of vulnerable and declining sectors as a result of the economic crisis and deindustrialisation.
- **Protection** - safeguard productive capacity of existing industries and retain current jobs.
- **Diversification** - deliberate efforts geared towards spreading employment and investment over a wide range of industrial activities.
- **Expansion** - increase the productive capacity of the province by investing in enabling infrastructure and innovation capabilities.
- **Transformation** - broadening the ownership of capital and assets; income distribution; and spatial distribution of industrial activity based on regional competitive and comparative advantages.

3.4.1 Priority Sectors

The Provincial Industrial Development Strategy emerges from a process of the analysis of the strengths, weaknesses, opportunities and threats in the provincial economy. It follows the concept of 'selective' or 'sectoral' industrial policy, in which specific priority sectors are targeted for industrial development in order to transform industrial structure. These sectors have been selected on the basis to which they contribute to national and provincial development goals, and the extent to which they create/protect jobs; the extent to which they enable industrial diversification into non-commodity tradable sectors, the extent to which they enable value-added linkages within and across sectors; and the extent to which they hold out direct benefits for BBBEE, co-operatives, SMMEs and enhance regional and local comparative and competitive advantages. These priority sectors are reflected below:



Critical Success Factors

The PIDS emphasises a central coordinating role to be played by provincial government in ensuring that an enabling support environment is created. This role is defined around the following critical success factors:

- Research and development (R&D) and innovation
- Training and skills development
- Infrastructure and logistics;
- Industrial finance
- Investment, trade and export promotion
- Institutional development

The PIDS document discusses each of these crosscutting critical success factors, considering the status quo, and identifying critical actions to address some blockages.

High Level Interventions

Lastly, the PIDS framework narrows down to three high level intervention areas over the short, medium, and long term. These are:

- Crisis support and socio-economic stabilisation
- Building a coherent economic development support environment
- Economic transformation and revitalisation

High Level Strategic Interventions for the PIDS

Short Term

- Government leading the response to the economic crisis
- Deindustrialisation is halted
- Skills development and SETA support in saving jobs
- Development of capabilities for an Innovation and R&D driven economy over the long term

Medium Term

- Heart of the Southern African Green Economy – Pioneering Renewable Energy Initiatives, Leading regional Carbon trading Facility and Best Practice Environmental Management
- Deindustrialisation is reversed
- Diversified Agro-processing economy, self sufficient in food production, and distributed across previously underdeveloped areas
- Efficient and responsive Economic Development Institutional Environment – Plans, Co-ordinates, Finances and Supports its People and Economy
- Development of coherent, resourced and implementable Sector plans in priority sectors
- Tourism destination of choice
- Greater levels of BBBEE transformation

Long Term

- Innovation and R+D driven economy with successful science techno and eco-industrial parks;
- Stable and innovative and diversifying auto sector;
- Capital Goods Hub of Africa

In the short term, the strategy must begin by addressing the consequences of the global economic crisis and the de-industrialising tendencies which threaten the long term industrial future of the Province. At the same time the strategy must ensure that provincial government and its entities are appropriately structured, skilled, enabled and resourced to deliver on the strategy as outlined below. This will entail ensuring that the province takes advantage of the emerging green industries, that it plans and implements priority sector plans and that it begins to put the building blocks in place to create a resilient and innovative economy that is able to stake its claim in the longer term capital goods sector.

CONCLUSION

This framework for industrialisation in the Eastern Cape has outlined the Province's broad approach to transform the structure and distribution of industrial activity to meet particular economic, social, environmental and political objectives. This approach has taken account of national policy direction and the confines of legislated areas of Provincial competence in industrial development.
As a framework, the PIDS has limitations in terms of setting specific targets in relation to job creation, job retention and economic growth. The PIDS has also fallen short of extensive data analysis of various sectors and modelling linkages between the sectors. In this regard, the next critical steps are clearly defined as the following:

- Development of a three-year PIDS Implementation and Action Plan that details resource impactions; institutional implications, and target setting. This plan should be in line with IPAP II.
- The Implementation Plan will include Priority Industry Action Plans, which should emerge from a process of engagement with all key role-players in respective sectors, and should reflect concrete outputs that will unlock opportunities and address identified constraints.
- Importantly, the Action Plans should contain details on the industry co-ordination and implementation modalities, and accountability mechanisms both to Provincial Government and other industry role-players.
- Institutional arrangements as proposed in this document also require further refinement in line with the IGR framework. Careful consideration must also be given to enhancing platforms for engagement with critical stakeholders outside the public sector.

The PIDS is also clear in stating that new capabilities will have to be urgently developed within provincial government, and the lead Department for industrial development in particular, i.e. DEDEA to ensure effective coordination and support of implementation activities, as well as and monitoring and evaluation.

CONTENTS

1. INTRODUCTION

1.1. Context

Times of crisis present both opportunities and constraints. The 2008/9 global slump in demand, the credit freeze, and escalating budget deficits signal an extremely limited horizon of opportunity. Yet the time for state driven industrial strategy has never been more opportune, with the private sector now joining labour in actively calling for state intervention in the economy and the state in many countries forced to take ownership of key sectors/companies. With widespread market failure, the state more than ever before, has significant room to shape the future and set the stage for a more equitable and transformed economy.

The consequences of the current global financial crisis for the Eastern Cape are experienced more severely than elsewhere due to overdependence on the automotive sector; high levels of provincial reliance on social grants; a large number of infrastructure-poor local municipalities located in very poor communities; the absence of local energy generation capacity; limited provincial capacity to link into national supplier initiatives and to maximise the developmental outcomes of the provincial government procurement spend. The Eastern Cape currently faces the threat of severe deindustrialisation with the manufacturing sector GVA (relying disproportionately on the auto-sector) plunging by almost a quarter (23%) in the first quarter of 2009.

In the current circumstances the state has an indispensible role to play in creating the conditions for national and provincial recovery. The past decade has seen unsustainable growth fuelled by consumer spending, real estate speculation and financial services. A major drive to diversify the economy is required which will have to rely on state investment accompanied by targeted interventions in key sectors as a cornerstone in the short to medium term. The state will have to focus on stimulating the economy through spending on major infrastructure and other jobs creating programmes. Such interventions should lay down a platform for long-term innovation and growth in the productive sectors, whose outcomes must ensure much higher levels of employment, sustainable economic activity and a significant reduction in poverty.

1.2. Purpose

This document outlines an industrial strategy for the Eastern Cape Province. Industrial strategy refers to deliberate government efforts to alter the structure and distribution of industrial activity to promote economic growth and development.

The Provincial Industrial Strategy is a set of dedicated government-sponsored plans and interventions designed to build the productive capability to place the province on a more equitable and labour absorptive growth path. Within the context of the current crisis it is also about saving jobs and holding back the threat of deindustrialisation. The success of the Industrial Strategy must be premised on the extent to which it is able to protect and create jobs, revitalise the manufacturing sector and transform the economy in terms of de-racialising and broadening ownership of capital and assets.

The Provincial Industrial Development Strategy is not limited to the manufacturing sector, as it also encompasses service industries. It is evident that the industrial strategy has multiple objectives of an economic, social, environmental and political nature. These include employment generation, increased growth and output, more even income distribution, more equal spatial distribution of economic activity, transforming ownership and control of production, and enhanced technological capacity.

1.1. Approach

Annexure 1 of this document provides a brief literature review on the various approaches to industrial development. It looks at the Neoliberal Approach [which is associated with the international policy consensus referred to as the Washington consensus] and the Structuralist Approach [which assumes a far greater role for the state in promoting industrial development].

The approach taken to develop the PIDS considered the fact that a provincial industrial strategy must be rooted in the overarching development plan for the Eastern Cape – the PGDP. Fundamentally, the PIDS builds on developing the strategic objectives relating to manufacturing diversification and tourism development within the PGDP.

On a more technical level, an industrial strategy becomes a necessary component of economic planning and development because of the existence of market failures – supply and demand conditions do not always produce socially optimal outcomes, thereby requiring varying degrees of intervention. This is all the more evident in the face of the global financial crisis that hit South Africa during 2008.

Industrial development cannot be viewed simply as the outcome of enterprises responding to cost pressures and market/profit opportunities. Government policy (and its implementation) is absolutely critical, whether macro-economic (interest rates, exchange rate, trade policy etc) or micro-economic (infrastructure, skills, incentives etc). Many of the policy instruments which impact on industrial development are the exclusive competence of national government, although there are sufficient 'concurrent functions' of industrial strategy that can be performed by more than one sphere of government to make the development of a sub-national industrial strategy viable.

These include infrastructure and logistics provisioning, industrial upgrading and recapitalization, skills development, incentives (albeit limited), research and development, investment facilitation, financial support, as well as co-ordination and compacting (and clustering). Importantly, the role of sub-national industrial strategy can greatly enhance the quality of implementation and impact of national policy initiatives and the extent to which (national) support measures and incentives can be leveraged for the Province.

1.2. Alignment with National Policy Imperatives

Our ability to leverage national support measures will depend in part on how closely our industrial strategy is aligned to national policy initiatives, such as the Accelerated and Shared Growth Initiative-South Africa (ASGI-SA, 2005), the National Industrial Policy Framework (NIPF, 2007), the Regional Industrial Development Strategy (RIDS, 2006),the National Co-operatives Policy (2005) and the Industrial Policy Action Plan (IPAP II, 2010). The PIDS aims to provide the provincial 'landing strip' for these national initiatives, as well as provide the linkage between national industrial policy and local economic development (LED) efforts (as captured in the recent District Growth and Development Summits).

Many of the enabling levers for a regional industrial strategy such as the PIDS are set by national government. The recent shifts in government suggest that some of these may be reviewed which would have significant implications for the fortunes of economic development at the sub-national level. Some of these include:

- Reassessment of relationship between trade and industrial policy and to revisit tariff reductions negotiated in the early 1990s when South Africa was regarded a developing country and tariff reductions were higher than they should have been;
- Reassessing the macroeconomic policy environment to be more enabling and stabilising;
- Revisit the funding arrangements introduced in the Regional Industrial Development Strategy (RIDS)

1.3. Consultation Process

The finalization of the PIDS included an intensive process of consultation with a variety of role players including provincial and local government, business and labour during 2009-2010. These engagements included a number of road shows across the Province where the PIDS and the activities of the Rapid Response Coordinating Committee (RRCC) were presented to role-players in their various districts. These engagements have proved very useful in highlighting the different socio-economic development challenges across the province and the urgency of ensuring that the PIDS is localized through being embedded in local IDPs. Consultations have further highlighted that the broad priorities of the PIDS actually address the socio-economic challenges of the Eastern Cape but as always the implementation plans, the resources they can mobilize and their effective implementation will be the ultimate litmus test.

1.4. Document Structure

The structure of this document is as follows:

- Section two sets out the present policy framework governing industrial development in the Eastern Cape.
- Section three presents a situation analysis of industrial development in the Eastern Cape.
- Section four sets out our strategic framework.
- Section five points towards Priority Industry Action Plans in key economic sectors.
- Section six Conclusion

2. POLICY FRAMEWORK

This section is organized as follows: we first present an overview of the evolving policy environment; secondly, a review of national policy since 2000; thirdly, a very brief review of ASGISA and PGDP; and finally we highlight clear policy imperatives for the Province.

2.1. New Electoral Mandate

The electoral mandate of the new government in April 2009 includes the following five priorities, all of which have linkages to the challenges of economic development:

- Transformation of the economy to create decent work and sustainable livelihoods;
- Implementation of a comprehensive rural development strategy, agrarian reform, and measures to ensure food security;
- The provision of universal, affordable education, which empowers our people and promotes development;
- The creation of a national health care system, which promotes a healthy nation which is able to effectively participate in the developing our society;
- A comprehensive strategy to fight crime and corruption, to secure safe and cohesive communities, and make our public sector a powerful vehicle for delivery and clean governance.

National industrial policy is likely to be significantly affected by a number of changes in government since the April 2009 elections:

- The establishment of a national Department of Economic Development separate from the national Department of Trade and Industry (DTI).
- The establishment of a planning commission in the Presidency (green papers on planning and monitoring and evaluation).

The role of new Department of Economic Development is to ensure policy coherence in economic policy. The PIDS needs to ensure that there are clear linkages and ongoing engagement with the national processes underway to streamline industrial policy development and ensure greater levels of coherence. In many ways the PIDS must shadow the national processes associated with the developing of a national Department of Economic Development

2.2. Framework Agreement on the International Crisis

On February 19 2009, government and social partners in NEDLAC agreed on a ‘Framework for SA’s response to the international crisis’. The framework outlines bold, immediate and urgent interventions to ensure that the South African economy and society are buffered against the full impact of the international economic crisis. These include:

- Maintaining high levels of public investment in infrastructure to support private and public job preservation and creation ;
- Deploying macroeconomic policies in combination and aggressively, where required, to

address the economic crisis ;

- Utilising industrial and trade policies to rebuild local industrial capacity and avoid the erosion of the country's' manufacturing base;
- Utilising a combination of measures on public employment, private sector initiatives, including training, to avoid massive job losses;
- Scaling up social interventions to address the jobs challenge and ensure social protection

The political mandate and the framework agreement together constitute an economic vision, which aims to put our economy on a new growth path. This is being translated into a concrete programme which combines short term measures with longer term structural interventions to transform our economy. These will link immediate measures aimed to protect our economy and society in the face of the economic crisis with transformative measure deal with structural economic problems.

2.3. National Policy Initiatives Since 2000

Since 2000 DTI policy-formation has been in a state of flux. Having initiated IDZ's, SDI's and numerous industrial incentive programmes, the Department was ready for new directions. The Integrated Manufacturing Development Strategy (2001) was followed by the Micro-economic Reform Strategy (2002). These strategies are very similar to each other, involving selection of priority sectors for intervention; identification of cross-cutting issues relevant to improving the competitiveness of the priority sectors; and an emphasis on sectoral economic research and engagement with industry to identify and address critical constraints on industrial growth. Out of these strategy papers were developed several Customised Sector Programmes (CSP's). It is however too soon to assess the effectiveness of these CSP's and particularly their impact on industrial development in the Eastern Cape. The industrial intervention process that has emerged (partly from the work of DTI's Customised Sector Programmes) is one of strategic collaboration among key stakeholders (Government, Business, Labour, Development Agencies etc) in priority sectors, to create institutional/organizational arrangements to govern the implementation of agreed interventions. Talk of "regional growth coalitions" in RIDS amounts to the same thing.

In Provincial circles the correctness of these two strategies was not questioned (and indeed is inherent in the PGDP programmes already referred to). In particular, the move to not restrict 'industry' to 'manufacturing industry' was obviously correct. However, Provincial thinking took issue with these two strategies in two important respects:

Firstly, the Integrated Manufacturing Strategy, despite being 'integrated', failed to mention IDZ's at all. This was an unacceptable omission for a Province that had invested heavily, both politically and fiscally, in its two IDZ's.

Secondly, the two documents omit discussion of the importance of industrial incentives/direct subsidies. This is not acceptable to a Province that knows, for instance, that both rural industrialization and the success of its IDZ's depend on suitable incentivisation. On the other hand, ASGISA moots the possibility of incentives for rural call centers, and RIDS also moots the possibility of two new grant funds: The Thematic Fund and The Regional Industrial Development Fund (RIDF). RIDS explicitly raises the hope of an 'industrial development zones strategic support facility (both tax relief and infrastructure support)' (page 73).

DTI characterizes the contemporary approach to regional industrial policy as follows:

- A focus on enhancing physical and social infrastructure
- A multi-sectoral approach to development
- A focus on knowledge-based development and improving human capital
- A reliance on partnership formation, and the driving of development from “the bottom up” through regional agencies and partnerships
- A focus on unique programmes for each region, based on local strengths and weaknesses
- A focus on cluster development
- Support for business retention and expansion programmes

In view of this list it seems that the techniques of regional (sub-national) industrial support are no different to those from LED support. This **convergence** of Industrial Policy and LED Policy is natural and unproblematic (in fact, desirable). The implication is that sub-national (Provincial and Municipal) industrial strategies therefore amount to which industries/sectors/clusters/value chains to support and how.

2.3.1 National Industrial Policy Framework (NIPF)

The National Industrial Policy Framework (NIPF) was released by the DTI in June 2008. The focus of the NIPF is on the need to diversify the economy into more labour-absorbing and value-adding tradable goods and services (i.e. goods and services that can compete in export markets as well as against imports). The NIPF notes that South Africa is ‘sandwiched’ between two sets of countries: low cost China and India on the one hand, and advanced economies that dominate high technology production on the other.

The NIPF contains thirteen strategic programmes, that are:

- Sector Strategies (a few scaled-up CSPs)
- Industrial financing
- Trade policy
- Skills and education for industrialization
- Competition policy and regulation
- Leveraging public expenditure
- Industrial upgrading
- Innovation and technology
- Spatial and industrial infrastructure
- Finance and services for small enterprises
- Leveraging empowerment for growth and employment
- Regional and African industrial and trade framework
- Co-ordination, capacity and organization

Elements of these strategic programmes are outlined in our own Strategic Framework (see Section 4 below). It must also be noted that NIPF is a framework and focuses on principles and processes through which sector strategies will be developed and prioritized. Key Action Plans will be developed for high impact sectors, and five sector plans will be budgeted for in each MTEF. The initial sector plans under NIPF have not yet been finalized.

The RIDS is of great interest to this Province because it aims to promote regional industrialization outside the three traditional national metropoles, through for example the development of a Regional Industrial Development Fund (modeled on EU Regional Development Funds).

2.3.2 The National Industrial Policy Action Plan (IPAP II)

IPAP II was released in February 2010 with an estimated R3.6 billion allocated to its implementation. The IPAP is a three year rolling plan reviewed annually. IPAP II offers a distinctive framework for specific sector interventions and specifies job targets as well as identifying implementing agents for specific interventions. Overall the IPAP II promises to create 2.5 million jobs over ten years. What remains for the Eastern Cape to do is to develop an implementation plan for the PIDS through the provincial sector action plans aligned to the IPAP II Key Action Programmes (KAP). This must also be accompanied by the allocation through the provincial fiscus of resources to implementing key priority action plans. The Province must also use the IPAP II as a guideline in setting provincial targets in terms of job creations, resources allocation and where possible other indicators for achieving the PIDS. The Development of a Provincial Implementation plan is critical.

The sector priorities in the PIDS and IPAP II are aligned, as is the focus on the short term halt of deindustrialisation, crisis support measures, the medium term reliance on state infrastructure investments to build new industrial capability and the long term development of advanced manufacturing and other knowledge intensive sectors.

IPAP II at a Glance

Sector Clusters	Priority Sectors	Priority Interventions
Cluster 1: Qualitatively New areas of focus	Metal fabrication, capital equipment, transport equipment	• Industrial Financing • Procurement • Trade policies • Anti-competitive practices
	Green and Energy Saving sectors	
	Agro-processing (linked to food security and food pricing)	
Cluster 2: Scale Up and broaden interventions in existing IPAP sectors	Automotive, components, medium and heavy commercial vehicles	
	Plastics, pharmaceuticals and chemicals	
	Clothing, textiles, footwear and leather	
	Bio fuels	
	Forestry, Paper, Pulp and Furniture	
	Links between cultural industries and tourism	
	Business Process Servicing	
Cluster 3: Sectors with potential for long term advanced capabilities	Nuclear	
	Advanced Materials	
	Aerospace	

2.3.3 ASGISA

ASGISA is not an industrial policy, but rather an implementation programme, around the following themes:

- Infrastructure Programmes
- Sector investment (or industrial) strategies
- Skills and education issues

- Second economy interventions
- Macro-economic issues
- Public Administration issues

ASGISA aims to accelerate levels of growth in the country, with targets of 4,5% until 2009, and 6% between 2010-2014. Importantly ASGISA puts measures in place to ensure that growth reduces poverty and inequality in the country, through calling on the state to play a more active role in correcting market failures and accelerating economic transformation.

In order to pick up levels of economic growth, ASGISA aims to remove a number of obstacles to growth, including:

- Reducing the cost and ease of doing business;
- Reducing barriers to entry through targeting pro-poor growth sectors and through a range of second economy interventions including the provision of support packages and use of state procurement to enable BBBEE participation and partnerships in major investments;
- Reducing the cost and efficiency of logistics through the development of world-class logistics capability in the IDZs, and access linkages to the rural economy (e.g.. through Kei Rail);
- De-bottlenecking regulatory barriers through addressing EIA obstacles and identifying red tape issues in municipalities;
- Addressing our skills deficit through a targeted skills plan, and the establishment of JIPSA to prioritize and co-ordinate skills development; and
- Beefing up the capacity of the state to facilitate economic planning and development.

As regards sector strategies, ASGISA is aligned to NIPF, and is initially focused on three sectors, the so-called 'low-hanging fruit': BPO, tourism and biofuels. Future priority sectors of ASGISA include: agro-processing, metals beneficiation, creative industries, clothing and textiles, durable consumer goods and timber industries. As regards the latter, the Forestry and Timber Processing Initiative in this Province is one of the ASGISA priority projects (along with the Umzimvubu Development Zone).

The Umzimvubu Development Zone is an integrated socio-economic development initiative aimed at unlocking the dormant economic potential of the Mzimvubu Basin through the development of a modern agro-processing economy linked to value chain processing, manufacture and marketing.

Given the scope and scale of the project, Provincial Cabinet established a Special Purpose Vehicle, ASGISA-EC Pty (Ltd), to facilitate and co-ordinate project implementation.

2.4. Provincial Policy

The Provincial Industrial Development Strategy must be understood within the context of realizing the broad objectives of the Provincial Growth and Development Plan (2004-2014). 2014). In terms of industrial development the Eastern Cape's PGDP has three key thrusts:

- The development of agro-processing to enhance local beneficiation of primary products. This includes food products such as fruit, sugar and maize, and wood processing through to the manufacture of furniture. It requires consistency with agricultural initiatives and infrastructure to enable strong local linkages and marketing networks.

- Broadening and deepening of linkages with the auto sector.
- Diversification and broadening of manufacturing sector to reduce dependence on the auto sector. This requires both capitalising on the potential for exporting industries and those using imported inputs, as well as developing downstream beneficiation from heavy industries such as those to be located at Coega. A second dimension to achieving this is the interventions to build local capabilities, training and skills development in industries such as downstream chemicals, plastics and machinery. In this exports are not de-linked from the local economy. Firms' capabilities must be built to enable them to compete both locally and internationally.

Although the Provincial Growth and Development Plan (PGDP, 2004) has as a major programme area 'Manufacturing Diversification and Tourism', six years after its launch, PGDP programmes relevant to industrial development have not been adequately packaged and remain under-funded.

Some of the supporting processes for realizing a provincial industrial development process are already underway. The Eastern Cape Jobs Summit agreement (2006), for example, played an important role in sector prioritization and mapping out a basic agenda for all social partners in shoring up to the challenge of creating jobs in the province. The process of convening growth and development summits (GDSs) in all districts and the Mandela Bay metro were critical to the process of identifying economic priorities, key interventions and assembling partnerships for implementing these. More importantly these processes will play a critical role in building a platform for implementing a provincial industrial development strategy.

2.5. Policy Imperatives

It is clear that South Africa is committed to an interventionist industrial policy that is both pragmatic and responsive to the country's own experience and that of other countries. However, it is also clear that capacities to implement industrial policy are in short supply. Hence, the critical importance of developing a Provincial Industrial Strategy.

It is also clear that an active industrial development strategy must include the private sector as a key driver of economic activity, and that diversifying the provincial manufacturing sector will require significant targeted investment in social and economic infrastructure as well as resource investments in skills development, R&D, and industrial upgrading.

The design of concrete interventions in particular sectors must be linked to understanding the complexities of value chain governance, both through value chain research as well as intensive engagement with key role players within particular sectors. The nature of the value chain within particular sectors and subsectors, its modes of governance and linkages to the local economy necessitates an approach which develops Industry Action Plans which are sensitive to these dynamics and which identifies strategic points of maximizing the local insertion into these value chains. It is equally critical that linkages between the various sectors are clearly identified and optimised.

Industrial strategy cannot be understood purely within the context of the manufacturing sector and must include linkages with other sectors. The mutually reinforcing relationship between the services and manufacturing sector needs to be understood more thoroughly in the Eastern Cape. Similarly, provincial agriculture and agro-processing strategies must be designed to accompany this industrial strategy. This integration can be achieved through the process of assessing and updating the PGDP.

In conclusion to this section we note the following policy imperatives for the provincial industrial strategy:

- A more effective balance needs to be struck between export-led industrialization and the need for foreign direct investment on the one hand, and, a strategy that emphasizes the production of consumer goods and services for the domestic market on the other;
- Functional linkages need to be developed both within and between different segments of existing manufacturing capability and between manufacturing and agriculture more generally;
- The PIDS must ensure linkages are made with the rural development strategy through the PIDS implementation plan;
- Increased attention needs to be paid to the external account (imports and exports) and external dependencies reduced through a better utilisation of provincial production capability and raw materials.
- Ensuring the benefits of growth accrue more directly to non-monopoly segments of the manufacturing and agricultural sectors in general and social forms of ownership in particular, especially those located in the former bantustans.
- Recognizing the extreme fragmentation in our labour market, ensuring that our industrial strategy moves beyond benefiting just high skills high wage segments and increasingly absorbs the low skills low wage segments of the labour market.
- Scaling up investment in and delivery of strategic economic infrastructure in the rural economy (electrification, ICT, roads, rail, air, irrigation, storage and processing) in support of the development of a modern agro-processing sector.
- Rapidly building state capability to improve economic planning and facilitation in the Province, to address co-ordination failures within the state and between Government and other role-players, and to strengthen access and value chain linkages between the IDZs and the provincial economy;
- The economic crisis has highlighted how ineffective our industrial support measures are to protecting existing firms. Since risk and economic volatility are likely to be a feature of the global economy going forward, mechanisms to combat the former are critical;
- State procurement will be central to industrial development in the medium term with respect to export leakage and localization of capital good supplier manufacturing. Effective and developmental management of provincial procurement can also play a critical role in regional economic development.

3. SITUATIONAL ANALYSIS[1]

This section outlines the core features of the Eastern Cape economy. It provides an historical overview of industrial policy issues as well as locating the dynamics of the Eastern Cape economy within the national growth trajectory.

The core features of this overview suggest that:

- The Eastern Cape economy has been shaped by its role and location within the national economy;
- The structure of the Eastern Cape economy has not changed significantly over the past fifteen years although there are some positive emergent shifts and much potential to diversify and expand the provincial economy;
- Such transformation will only be possible through targeted state intervention in the economy through an active industrial strategy and targeted resource investments in critical areas of the economy. In the case of the agriculture and agri-processing sectors in the former homeland areas, massive investment (particularly in infrastructure) and state co-ordination will be required to unlock potential;
- There are some promising signs of an emerging growth trajectory in the province. This is however currently largely concentrated in the historically dominant economic hubs of East London and Nelson Mandela Bay. ASGISA-EC holds much promise for kick starting the agriculture, agri-processing, forestry and timber industries sectors in the eastern parts of the Eastern Cape.

3.1. Structure and Challenges of the Post Apartheid South African Economy

The post apartheid government inherited a host of formidable economic challenges in 1994 characterised by:

- an economy dominated by a highly capital-intensive and concentrated Minerals Energy Complex (MEC);
- outside of the MEC was an industrial sector which was not competitive by international standards;
- a small and highly export-oriented but battered agricultural sector in something of a state of crisis;
- massive inequality with one of the highest Gini coefficients in the world and a spatial division into an advanced (largely white) upper-middle income society and a backward low-income (mostly African) society;
- a history of massive state intervention both politically and economically;
- a slow-growing economy with massive unemployment;
- a worn capital stock, which was technologically neither suited to making use of the large reserve of unemployed, low-skilled labour force nor geared to produce the goods which the black majority of the population need;

[1] **Note on the limitation of data and statistics:** Regional (provincial) and particularly sub provincial (district and local municipality) data are notoriously inaccurate in South Africa. The last provincial manufacturing census for example was conducted in 1996 and many other official economic indicators are not provided below the provincial level. The economic data presented below should be understood within this context.

- a lack of skilled labour due to the low human investment in the black majority.

In 1994 the challenges of economic transformation included a sluggish economy (growing at an average of only 1% for the decade preceding democracy), highly inefficient, and dislocated from the global economy. A worn capital stock, uncompetitive industrial sector, and significant skills deficiencies driven by decades of massive under-investment in human capital investment in the black majority also placed severe constraints on growth in the post-1994 period.

Many of the economic policy choices of the first 15 years focused on macro-economic stabilization and strategically positioning South Africa in the global economy. Challenges speak to the extent to which trade liberalization, currency volatility and high real interest rates exacerbated volatility and vulnerability, particularly in traditional manufacturing sectors such as clothing and textiles, the durable commodities sectors, as well as agriculture.

The fact that many of these sectors were relatively labour intensive saw a significant contraction in employment in both the primary and secondary sectors between 1994-2004. Outside of the Spatial Development Initiatives (which are now yielding results in the IDZs) and the MIDP which has resulted in positive growth in the automotive sector, there were generally few direct state interventions aimed at industrial diversification with the result that many of the traditional weaknesses of the South African economy remained entrenched.

The post-2004 period has seen a shift in approach through ASGISA and the National Industrial Policy Framework, aimed at diversifying out of the highly monopolistic and capital intensive Minerals-Energy-Complex through growing the non-commodity tradable sectors, especially sectors that are labour absorptive and provide opportunities for BBBEE. Sectors that are being targeted include tourism, business process outsourcing, agro-processing and bio-fuels, forestry and timber processing, the creative industries, chemicals, and the automotive sector.

Recent high economic growth rates celebrated in South Africa must be tempered by a more realistic assessment of the patterns of growth, shifts in the structure of the economy as well as macroeconomic performance. These include the following:

- Neo-liberal macro-economic policies constrained employment and investment
- Financial liberalisation resulted in volatility and vulnerability
- Lack of state intervention resulted in market driven misallocation of capital
- Inflation targets chosen above competitive exchange rate
- Despite higher growth performance in GDP since 1999, the performance of the South African economy in relation to international trends remains poor
- The performance of the South African economy in terms of employment has been poor
- Economic growth and employment has been in the services sectors including finance & business services, trade, catering & accommodation, and transport, storage and communication
- The growth accruing to the services sector have been in cleaning and security, generally low wage activities within the services sector
- Services sector growth was also due to capturing outsourced services from the manufacturing sector
- Communications sector has contributed significantly to the value added growth in the services sector yet this sector has been responsible for shedding labour
- Limited diversification in the primary and secondary sectors – with the exception of the auto sector the South African economy remains dependent on the energy and resource

intensive sectors
- Traditional weaknesses of the South African economy have been further entrenched through increased concentration with very little diversification

3.2. Historical Overview of the Eastern Cape Economy

The historical relationship between the Eastern Cape and the national economies largely shapes the range of choices available for industrial development in the province today. The provincial industrial development strategy has to address the consequences of the spatial inequalities resulting from historical processes of active underdevelopment (former homeland areas) and the limited and uneven development of the industrial sector (largely in the urban centres of East London and Port Elizabeth). Both market and state failure in the former homeland areas over the past suggests that the critical mass for economic development in these areas is unlikely to result from market forces alone and must include a massive state sponsored and co-coordinated programme to unlock potential there.

Historically the fortunes of the Eastern Cape economy were linked to the South African economy in a number of ways:

- The former homeland areas were effectively labour markets for mining and included an underdeveloped subsistence agricultural sector constrained by communal land ownership
- A commercial agricultural sector in the western parts of the province (constituted mainly by what is currently the Cacadu district) which was heavily subsidized by apartheid government. This sector declined significantly after incentives and protective tariffs were removed in the 1990's.
- Industrial sectors in East London and Port Elizabeth, dominated by the historical development of an automotive sector cluster. Historically, the main role of the former homeland areas of the Eastern Cape in South Africa's industrial development under apartheid was as a labour reserve for mining. This essentially placed the Eastern Cape economy in a dependent status with income inflows from remittances. This was accompanied by limited local subsistence agriculture. The decline in mining employment has meant falling incomes and rising unemployment. And, the deep levels of poverty and high levels of unemployment, which are the main challenges for the PGDP, are a direct result of this apartheid legacy. These patterns also point up the urgency of a framework to develop a sustainable provincial economy with strong local linkages.
- As part of the apartheid government's 'homeland' policy, industrial decentralisation was encouraged through unsustainable incentives to firms to locate in areas such as Butterworth. The policy interventions since 1994 have been aimed at building strong local manufacturing agglomerations in areas based on their inherent economic strengths rather than unsustainable political goals. This has already born fruit in the growth of manufacturing in Buffalo City and Nelson Mandela Bay. The challenge is to broaden and deepen these industrial groupings and build linkages throughout the Province particularly in industries associated with agro-processing.
- The auto sector originally developed largely autonomously. The MIDP has ensured that this sector has continued to grow in recent years and now by far accounts for the largest industrial cluster in the Province. This provides opportunities and also poses important challenges. For the auto sector to contribute to sustained growth requires it being a catalyst to improve capabilities and skills development in relatively labour intensive industries such as metal products and plastics.

Post-1994 economic policy has, so far, not succeeded in significantly undoing the apartheid legacy. For example:

- Trade liberalization forced enterprises to restructure, increase productivity and shed labour to become internationally competitive.
- Macro-economic policy outcomes were unhelpful to industrial development: high real interest rates, high/volatile exchange rate, and low public infrastructure investment (till the last few years)
- The Spatial Development Initiatives (particularly the Wild Coast SDI) did not yield the expected results
- The effectiveness of the Small Enterprise Development Agency (SEDA) and the 23 Sector Education and Training Agencies (SETA's) is still to be demonstrated.

3.3. Structure and Performance of the Eastern Cape Economy

This section focuses on the structure of the provincial economy, its competitiveness and the labour market structure of the Eastern Cape. The analysis at times makes comparison between national figures and it also focuses on district analysis. The following observations are made:

- The Provincial industrial base has not benefitted significantly from the recent period of sustained growth.
- Heightened and sustained economic growth in the Eastern Cape on its own has:
    - Not ensured greater diversification of the economy;
    - Not managed to unlock the underdeveloped economy of the eastern part of the province;
    - Not improved the fortunes of the agricultural sector (decline in employment and growth)
    - Increased the structural dependence of the provincial economy on the auto-sector;
    - Over the period 1995 to 2008 the growth of the manufacturing sector was not 'jobless' it was 'job-shedding'.
    - Traditional strengths lie in the automotive industry and agro-processing with the former under stress due to the global crisis and the latter has yet to be realized;
    - Provincial export growth has been fast over the decade to 2007, due primarily to the auto sector, and to strong productivity growth across sectors and sub sectors;
    - Many manufacturing sub sectors have experienced severe job losses;
    - Manufacturing is very spatially concentrated: 90% of the value of manufacturing output is in Amathole District and Nelson Mandela Metro.

3.3.1. Structure of the Eastern Cape Economy

A snapshot (see Table below) of the most recent growth rates of the 2Q09 show that more than two thirds of the economy is in the red and experiencing negative growth rates. The hardest hit sector has been manufacturing which is a significant contributor to both GDP and employment in the province. Provincial growth has been buttressed by construction sector which in the last four quarters shows the highest growth rate yet it has the lowest contribution to GDP. Government services also show consistent positive growth rates. Annexure 3 of the PIDS provides further summarised information on the sectoral analysis of the province.

Eastern Cape Quarterly GDP Growth Rate

INDUSTRIES	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009
Agriculture	-2.1	7.8	-6.2	-0.8	-5.0
Mining	23.5	-4.3	6.8	-32.6	5.5
Manufacturing	13.2	-10.5	-22.8	-23.3	-11.5
Electricity	-0.3	5.3	0.1	0.9	0.1
Construction	11.3	18.1	14.4	14.4	12.0
Trade	-4.1	-6.8	0.1	-1.6	-2.9
Transport	3.2	3.4	0.6	-1.3	-0.8
Finance	1.1	0.8	0.3	-1.8	-1.9
Community services	3.9	6.1	2.6	3.0	2.3
Government services	2.7	5.6	5.0	2.6	2.3
Total (basic prices)	3.3	-0.2	-2.7	-3.7	-1.8
Tax less subsidies	1.8	-1.5	-3.8	-8.5	-8.2
GDPR at market prices	3.2	-0.3	-2.8	-4.1	-2.4

Source: Stats SA, ECSECC (2009)

According to Global Insight (2009) half of the Eastern Cape economy (GVA) is generated by finance and community services. Provincial distribution of GVA by sector closely matches national trends, except in mining and community services. Community services in the province contributes almost a third of GVA and the mining sector provincially is of no significance.

Gross Value Added per sector, 2008 (constant 2000 Prices)

	GVA (R'000)		Distribution (%)	
	RSA	**EC**	**RSA**	**EC**
Agriculture	33 591 670	2 196 758	2.9%	2.4%
Mining	64 144 768	92 033	5.5%	0.1%
Manufacturing	202 116 428	15 496 470	17.4%	17.2%
Electricity	25 376 183	1 017 434	2.2%	1.1%
Construction	47 322 000	2 663 908	4.1%	3.0%
Trade	175 436 123	13 806 473	15.1%	15.3%
Transport	127 551 757	8 585 829	11.0%	9.5%
Finance	255 378 000	19 992 534	22.0%	22.2%
Community services	228 395 462	26 327 442	19.7%	29.2%
Total Industries	1 159 312 392	90 178 881	100.0%	100.0%

Source: Global Insight, 2009

Turning to spatial structure of the Eastern Cape economic growth, the Table below provides the percentages of GVA per district municipalities. It shows that in total, the Metro accounts for 42.5% of the Province's GVA. This combined with Amathole district's contribution (32.5%) shows that three quarters of the provincial GVA stems from two regions. This is more pronounced in the manufacturing sector where 91% of GVA is contributed by the Metro and Amathole District.

Distribution of GVA per sector, 2008

	Total	Agriculture	Manufacturing	Services
Metro	42.5%	4.9%	60.5%	39.6%
Cacadu	7.6%	36.3%	4.0%	7.5%
Amathole	32.5%	21.1%	30.6%	33.3%
Chris Hani	5.8%	13.5%	1.9%	6.5%
Ukhahlamba	1.8%	7.2%	1.2%	1.7%
O.R.Tambo	8.9%	16.0%	1.7%	10.3%
Alfred Nzo	0.8%	1.0%	0.1%	1.0%
	100.0%	100.0%	100.0%	100.0%
Total GVA	86 405 506	2 196 758	15 496 470	68 712 278

Source: Global Insight, 2009. NB: Services includes Trade, Transport, Finance, and Community services

The Table below provides a breakdown of the manufacturing sector's GVA. It shows the high dependence on the auto sector which contributes almost a third of the manufacturing sector's GVA. Notwithstanding the linkages with other subsectors such as textiles, rubber products, metal products of which the auto sector is linked to along its value chain.

Gross Value Added Manufacturing sector, 2008 (constant 2000 Prices)

	GVA (R'000)		Distribution (%)	
	RSA	EC	RSA	EC
Food, beverages and tobacco products	31 536 861	2 059 468	15.6%	13.3%
Textiles, clothing and leather goods	8 379 643	1 183 951	4.1%	7.6%
Wood and wood products	22 635 897	787 247	11.2%	5.1%
Fuel, petroleum, chemical and rubber products	47 510 817	3 016 900	23.5%	19.5%
Other non-metallic mineral products	6 098 370	327 095	3.0%	2.1%
Metal products, machinery and household appliances	37 122 618	1 288 600	18.4%	8.3%
Electrical machinery and apparatus	7 733 818	858 649	3.8%	5.5%
Electronic, sound/vision, medical & other appliances	2 193 192	113 426	1.1%	0.7%
Transport equipment	18 605 582	4 574 080	9.2%	29.5%
Furniture and other items NEC and recycling	20 299 631	1 287 054	10.0%	8.3%
Total	202 116 428	15 496 470	100.0%	100.0%

Source: Global Insight, 2009

3.3.2. Structure of the Eastern Cape Labour Market

The Table below provides a breakdown of employment per sector. It shows that the Eastern Cape and the national labour markets have similar structure and pattern. Employment in the Eastern Cape is significantly more reliant on community services (35.1%) and creates virtually no mining related employment (0.2%).

Breakdown of Employment per sector (2008)

	Number		Distribution	
	RSA	**EC**	**RSA**	**EC**
Agriculture	792 203	60 022	7.3%	7.7%
Mining	515 519	1 443	4.7%	0.2%
Manufacturing	1 563 501	112 928	14.3%	14.6%
Electricity	80 863	3 501	0.7%	0.5%
Construction	574 969	31 425	5.3%	4.1%
Trade	1 893 449	108 037	17.3%	13.9%
Transport	501 424	20 363	4.6%	2.6%
Finance	1 544 106	58 246	14.1%	7.5%
Community services	2 292 518	275 345	21.0%	35.5%
Households	1 159 663	103 723	10.6%	13.4%
Total	10 918 215	775 033	100.0%	100.0%

Source: Global Insight, 2009

The spatial structure of the Eastern Cape formal employment, in the Table below provides the number and the percentage of people employed in the Eastern Cape's district municipalities by economic sector.

Spatial distribution of employment in the EC, 2008

Distribution	Total	Agriculture	Manufacturing	Community Services
Metro	30.5%	5.9%	49.1%	29.1%
Cacadu	10.1%	40.9%	4.8%	7.4%
Amathole	37.0%	20.4%	40.9%	38.2%
Chris Hani	7.9%	13.9%	2.1%	8.6%
Ukhahlamba	3.2%	10.4%	0.6%	2.9%
O.R.Tambo	9.6%	6.4%	2.5%	11.8%
Alfred Nzo	1.7%	2.3%	0.1%	2.0%
Total	100.0%	100.0%	100.0%	100.0%
Total Number	634 941	60 022	112 928	275 345

Source: Global Insight, 2009. NB: Services includes Trade, Transport, Finance, and Community services

The Table above shows that:

- In total, Amathole (37%) and NMBM (30.5%) account for more than half of formal employment in the Province.
- Employment in manufacturing sector is also concentrated in the Metro (49.1%) and in Amathole district (40.9%).
- Employment in Agriculture is predominantly in Cacadu (40.9%) and Amathole (20.4%).
- Employment in services sectors is concentrated in Amathole (38.2%) and in the Metro (29.1%).

The next table disaggregates employment in the manufacturing sector. It shows that auto sub-sector (26.6%) is the most significant employer in the Eastern Cape manufacturing sector. This is followed by textiles, clothing and leather goods sub-sector (15.3%). Electronic sub-sector

(1.5%) contributes the least to employment in the manufacturing sector.

Employment in manufacturing sector, 2008

	Number		Distribution (%)	
	RSA	EC	RSA	EC
Food, beverages and tobacco products	232 715	13 400	14.9%	11.9%
Textiles, clothing and leather goods	208 274	17 304	13.3%	15.3%
Wood and wood products	207 400	9 541	13.3%	8.4%
Fuel, petroleum, chemical and rubber products	192 324	13 440	12.3%	11.9%
Other non-metallic mineral products	72 315	3 089	4.6%	2.7%
Metal products, machinery and household appliances	347 836	13 826	22.2%	12.2%
Electrical machinery and apparatus	45 286	5 255	2.9%	4.7%
Electronic, sound/vision, medical & other appliances	25 297	1 722	1.6%	1.5%
Transport equipment	137 057	30 058	8.8%	26.6%
Furniture and other items NEC and recycling	94 997	5 293	6.1%	4.7%
Total	1 563 501	112 928	100%	100%

Source: Global Insight, 2009

The table below shows that between 1997 and 2007, the average annual growth rates for both the Eastern Cape and RSA are the same (3.1%). However, the average annual growth rate in the Eastern Cape employment is lower (1.5%) than that of the RSA (2.2%).

Growth and employment trends: 1997 - 2007

	TOTAL				MANUFACTURING			
	Employment growth rate		GDP growth rate		Employment growth rate		GDP growth rate	
Years	RSA	EC	RSA	EC	RSA	EC	RSA	EC
1997	1.1	2.3	1.8	1.8	(4.2)	(3.4)	2.7	0.9
1998	(0.3)	1.1	(0.4)	(0.4)	(3.3)	(3.1)	(0.2)	(1.7)
1999	1.8	2.6	2.5	2.5	(2.6)	(1.4)	0.6	2.1
2000	0.5	0.6	4.3	4.3	(1.5)	(1.0)	8.1	13.1
2001	0.7	(1.5)	2.7	2.7	(2.6)	(6.0)	3.2	5.6
2002	2.3	0.6	1.7	1.7	0.6	(3.0)	2.8	1.7
2003	2.8	2.7	2.7	2.7	(0.3)	(0.9)	(1.4)	(2.2)
2004	2.2	0.3	4.0	4.0	4.0	2.5	4.7	3.7
2005	3.3	1.5	4.6	4.6	2.7	1.4	4.6	3.3
2006	4.1	1.8	5.2	5.2	5.4	1.4	5.2	5.7
2007	5.2	4.0	5.0	5.0	0.9	(0.3)	3.9	2.4
Average annual growth rate	2.2	1.5	3.1	3.1	(0.1)	(1.3)	3.1	3.1

3.4. Problem Statement

Given this structure and performance of the Eastern Cape economy outlined above, we need to ask two critical questions related to identifying priority sectors for growth and create employment: Why is our industrial sector small, too capital-intensive and growing too slowly?

Where and how can new jobs be created? Possible answers to this question include the following:

- Trends in post 1994 policy and industry support which have led to de industrialization (and increasing capital intensity in the manufacturing sector) rather than industrial development
- Insufficient resource transfers into sectors with potential and underdeveloped areas – allocation of national incentives continue to flow into traditional sectors
- Relatively weak agricultural sector particularly in the eastern parts of the province where significant agricultural potential remains latent
- Limited investments in economic infrastructure particularly in underdeveloped regions
- Rapid liberalization and insufficient protection of local manufacturing
- Volatility of the rand
- Co-ordination failures and capacity of the state
- Concentration of business sector and activities in historically developed areas and sectors and undeveloped business and co-operatives sector in underdeveloped areas
- Absence of a provincial industrial development strategy to shape the economic development imperatives of the PGDP (2004-2014)
- Underdeveloped social partnership between government, labour and the private sector and active engagement in sector development initiatives

The Eastern Cape's coastal location, abundant labour and existing industrial strengths, especially in auto and agro-processing industries, make it a crucial province for manufacturing development in South Africa.

The baseline data for GDP-R, GVA and employment set out in this section require updating to the end of 2009, especially to more accurately define indicators of achievement for the PIDS.

Growth in the Eastern Cape over the past 10 years has been sluggish, averaging around 2%. Economic performance has been characterized by a dominant automotive sector (contributing more than 50% of manufacturing value added), declining manufacturing subsectors outside of the automotive sector, a growing services and trade sector, and a small and fairly stagnant agricultural sector.

In line with the national situation, this has changed since 2004 with growth rates of close to 5% now being recorded before the present recession. The triggers for growth appear to be the automotive sector, property, finance, construction, and trade.

The Coega IDZ and Deepwater Port, which is strategically positioned as an international trans-shipment and logistics hub between East Asia and US/EU markets, has already secured more than R25 billion investment. Importantly, these investments are spread across a diverse range of sectors including metals processing (aluminum smelter, steel mill), chemicals (chlorine refinery and desalination plant), mariculture, food processing, bio-fuels, business processing outsourcing and logistics. Similarly the East London IDZ, which is targeting automotive, agro-processing, bio-fuel, pharmaceutical and logistics investments, has already surpassed investment targets by almost 100% (securing investments of more than R750 million).

Growth patterns in the Province remain uneven, and concentrated in the urban industrial centres of NMMM and Buffalo City. Growth in district municipalities such as OR Tambo, Alfred Nzo and Ukhahlamba has been stagnant over the past 12 years, with social grant dependence increasing as a result of employment contraction on the mines and traditional manufacturing sub-sectors, as well as the disinvestment from the former industrial decentralization zones (Butterworth, Dimbaza etc).

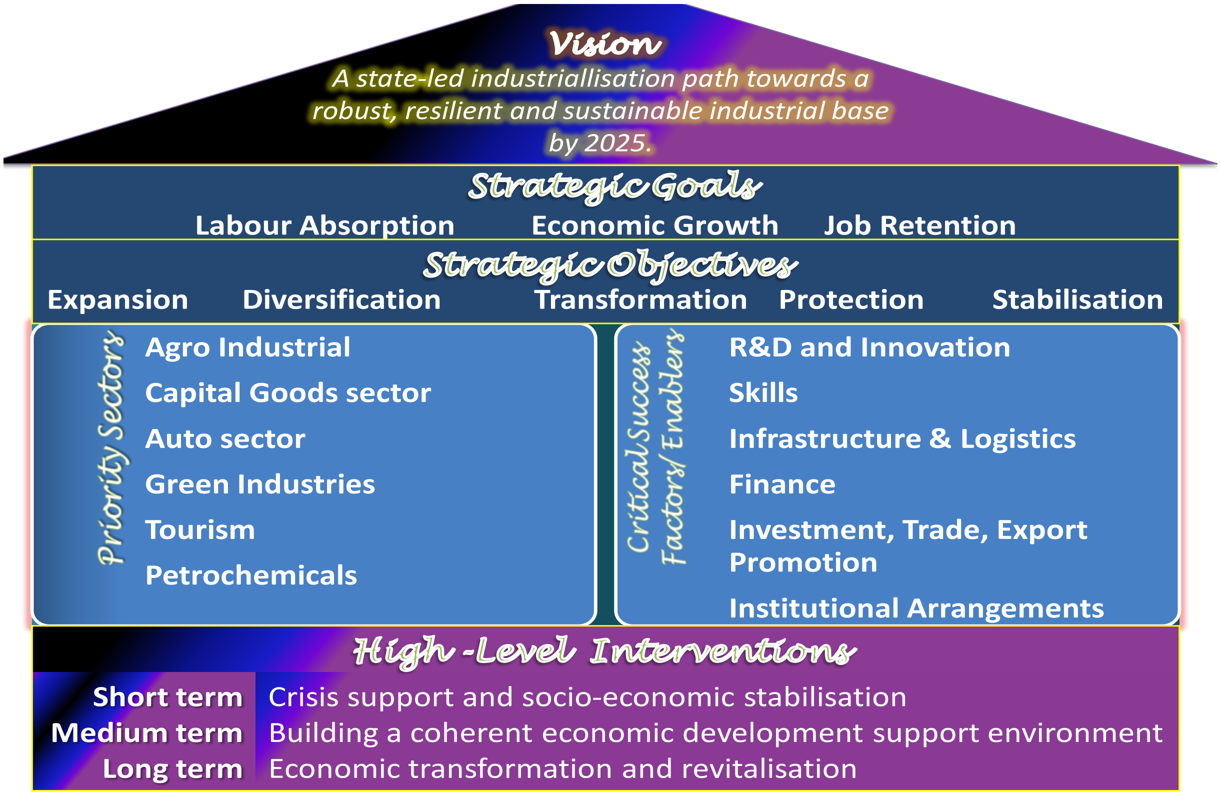
Public investment in economic infrastructure (roads, electrification, ICT etc) in the rural economy of the former bantustan areas has been insufficient to realize competitive advantage and attract private investment, even where development potential exists. At the same time, the Province is extremely well positioned to take advantage of export opportunities (through its IDZs) and is well endowed with natural resources (for exploitation in tourism, agriculture and agro-processing, and mining). With the appropriate support and public investment, significant opportunities exist through the Umzimvubu Development Zone to build a sustainable and labour absorbing agro-processing economy in the east of the Province, and significant opportunities exist for downstream beneficiation from heavy industries located at Coega in chemicals, plastics and machinery. The extent to which we can take advantage of these opportunities will depend on the extent to which we can build local productive capabilities, and deliver enabling infrastructure, training and skills development.

4. STRATEGIC FRAMEWORK FOR INDUSTRIAL DEVELOPMENT

In this section the industrial development strategic framework is outlined. It follows the concept of ‘selective’ or ‘sectoral’ industrial policy, in which specific sectors and industries are targeted for industrial development in order to transform industrial structure. In this regards, sectors and industries have been selected on the basis to which they contribute to national and provincial development goals (as for example articulated in ASGISA and the PGDP), and include the extent to which they create/protect jobs; the extent to which they enable industrial diversification into non-commodity tradable sectors, the extent to which they enable value-added linkages within and across sectors; and the extent to which they hold out direct benefits for BBBEE, co-operatives, and marginalized regions.

The proposed intervention areas are confined to provincial area of functional competence and/or concurrent competence, or at least areas where province can strongly influence the nature, distribution and sequencing of support interventions. These areas of intervention include infrastructure and logistics support; skills development; investment facilitation; finance for industrial development; research and development, and innovation support; and institutional development to foreground and co-ordinate the various sector interventions.

While the nature of these interventions is discussed in general terms below, the details will be outlined in the Priority Industry Action Plans. Importantly, support for industry must be based on reciprocity and support measures must be linked to and conditional on particular outputs (e.g.. Jobs, local content, BBBEE, etc) being achieved in those sectors. The Industrial Strategic Framework is outlined diagrammatically below.



4.1. Vision

The PIDS has a time horizon of fifteen years, and its vision is "*A state-led industrialization path towards a robust, resilient and sustainable industrial base by 2025.*"

4.2. The Strategic Goals of the PIDS

Three main strategic goals are identified from the situational analysis and encapsulate the principal challenges that must be faced through the Eastern Cape PIDS:

1. **Economic Growth:** Increasing economic growth through strengthening of existing sectors and diversification into new high potential industrial sectors, coupled with state investment in infrastructure;
2. **Labour Absorption:** Improved labour absorption through skills development, especially for the youth, and through spatial deconcentration of sectors, especially manufacturing industry;
3. **Job Retention:** The net retention of existing jobs through the development of sectoral industrial policies and strategies and through the utilization of bridging and retraining strategies in declining industries;

Further work is needed to both finalise the key elements of the strategic goals and to define short, medium and long term indicators of success.

4.3. The Strategic Objectives and High Level Interventions

In order to realise growth objectives, protect current jobs and create new ones, the strategic framework prioritises five thematic areas, under the umbrella of strategic objectives. These are the following:

- **Stabilisation** of vulnerable and declining sectors as a result of the economic crisis and deindustrialisation
- **Protection** – safeguard productive capacity of existing industries and current jobs and
- **Diversification**: deliberate efforts geared towards spreading employment and investment over a wide range of industrial activities
- **Expansion** -increase the productive capacity of the province by investing in enabling infrastructure and innovation capabilities
- **Transformation -** broadening the ownership of capital and assets; income distribution; and spatial distribution of industrial activity based on regional competitive and comparative advantages

High-level strategic interventions that encapsulate the above objectives are presented in the table below.

TIME FRAME	KEY ELEMENTS OF HIGH-LEVEL INTERVENTIONS AREAS
Short Term [1-5 years] **Crisis support and socio-economic stabilisation**	• Eastern Cape government leading the response to the Economic Crisis • Deindustrialisation is halted • Skills and Seta support in saving jobs
Medium Term [5-10 years] **Building a coherent economic development support environment**	• Eastern Cape is the Heart of the Southern African Green Economy – Pioneering Renewable Energy Initiatives, Leading regional Carbon trading Facility and Best Practice Environmental Management • Deindustrialisation is halted and reversed • Eastern Cape Diversified Agro-processing economy that is self sufficient in food production distributed across previously underdeveloped areas • Efficient and responsive Economic Development Institutional Environment – Plans, Co-ordinates, Finances and Supports its People and Economy • Development of coherent, resourced and implementable Sector plans in priority sectors • Tourism destination of choice • Greater levels of BBBEE transformation
Long Term [10-15 years] **Economic transformation and revitalisation**	• Innovation and R&D driven economy with successful science techno and eco-industrial parks • Stable but innovative and diversifying auto sector • Eastern Cape: the Capital Goods Hub of Africa

In the short term, the strategy must begin by addressing the consequences of the global economic crisis and the de-industrialising tendencies which threaten the long term industrial future of the Province. At the same time the strategy must ensure that provincial government and its entities are appropriately structured, skilled, enabled and resourced to deliver on the strategy as outlined below. This will entail ensuring that the province takes advantage of the emerging green industries, that it plans and implements priority sector plans and that it begins to put the building blocks in place to create a resilient and innovative economy that is able to stake its claim in the longer term capital goods sector.

Further work is needed to define both the key elements of the strategic objectives and the short, medium and long term indicators of success.

4.4. Priority Sectors

The Provincial Industrial Strategy emerges from a process of shared analysis on the strengths, weaknesses, opportunities and threats in the provincial economy. This has been facilitated through a number of research studies that were commissioned, including:

- An analysis of opportunities and constraints for industrialisation in the Eastern Cape
- An auto-sector study
- A study of the tourism, agro-processing and manufacturing sectors
- A study of the forestry and timber processing sector,
- Value chains studies and analysis of competitive advantage of districts, and
- District Socio-Economic Profiles for all six district municipalities and the metro
- A research paper on the developmental state and the implications of national industrial policy for the Eastern Cape.

This analysis clearly identifies both vulnerable sectors that require interventions to protect jobs and retain existing enterprises, as well as new sectors that hold out possibilities for growth, job creation and income redistribution.

The criteria for sector selection were derived from the PGDP, the Provincial Jobs Summit, ASGISA and the NIPF, with non-commodity tradable sectors being targeted, especially sectors that are labour absorptive, provide opportunities for BBBEE and social forms of ownership, and have value-added linkages to the rural economy. Priority sectors include agro-processing (including forestry and timber processing); tourism; petro-chemicals; the automotive sector, the green and capital goods. The priority sectors identified from this process are set out in the table below.

Sector	Reasons for Sector Selection
AGRO-PROCESSING	• Agriculture and forestry most significant potential for linking into the poorer regions of the province • Labour absorption of agriculture
CAPITAL GOODS SECTOR	• Links to the national infrastructure spend and the long term infrastructure investment horizon in Africa • National Support programmes CSDP (DPE), TAP (DOST), DTI • Links to diversification out of auto-sector capabilities
AUTO SECTOR	• Critical manufacturing sector and basis of Eastern Cape industrial economy

	• Strategic basis for diversification into new industrial sectors
GREEN INDUSTRIES	• Potential in Renewable energy, carbon extraction, environmental management and carbon trading facility • Green Industries emerging as the most promising emerging sector • Significant linkages to the Eastern Cape auto-sector, rural development, agriculture and environmental management
TOURISM	• Expansion of the services sector
PETROCHEMICALS	• Emerging growth sector

The PGDP, Jobs summit and the Provincial Industrial Strategy processes also identified some these priority sectors for growth and employment creation as well as retention. Economic growth and labour absorptive sectors include agro-processing, forestry and timber industries, tourism, petro-chemicals. Sectors important for jobs retention are the auto sector.

The sectors set out in the table above are therefore judged to have the best potential in terms of meeting the strategic goals and objectives of the PIDS.

Critical factors for supporting these industries include research and development (R&D) and innovation, training and skills development, infrastructure and logistics, industrial finance, and investment, trade and export promotion; and firm institutional arrangements. It is proposed that each sector develop a 'Priority Industry Action Plan', which will specify the exact nature and sequencing of support measures. These Action Plans should be developed in close consultation with the private sector and labour in each sector, thereby creating the initial conditions for sector dialogue and co-ordination. A brief snapshot of each of the priority sectors is set out in Annex 2 to lay the groundwork on which Priority Industry Action Plans can be developed.

The NIPF provides key criteria for sector selection:

- Only a few sectors should be prioritised, otherwise State resources will be spread too thinly, and the scale of interventions will be insufficient to be transformative
- Priority sectors should have been subjected to thorough economic analysis
- Ideally, priority sectors should be labour-intensive, non-traditional tradables
- Ideally, priority sectors should already have undertaken a robust "self-discovery" process to arrive at a clear identification of the constraints and opportunities that require government intervention.

In the following sections we briefly discuss the critical success factors for industrial support, namely: research and development (R&D) and innovation, training and skills development, infrastructure and logistics, industrial finance, and investment, trade and export promotion.

4.5. Critical Success Factors

4.5.1. Research & Development and Innovation

It is widely recognized that investment in innovation and technology is under-provided by the market due to its risky nature and long time-horizons. Therefore greater state support for innovation and technology development is necessary in order to contribute to the national target of increasing R&D expenditure to 1% of GDP.

The importance of technology and knowledge intensity in promoting innovation within industry and developing new industrial capabilities is emphasised in the following national strategic frameworks:

- National Research and Development Strategy
- Advanced Manufacturing Technology Strategy
- Integrated Manufacturing Strategy

Four important dimensions of technology and industrial development have been identified:

- Technological upgrading within industries;
- Entry into more complex activities;
- Increasing local content involving local innovations and design; and
- The mastering of more complex technological tasks within industries.

Building technological capabilities results from linkages with input suppliers, competitors, with unrelated industries, tertiary education institutions and technology centres, with international relationships being key in the process. Historically, technology strategies were related to the apartheid government priorities in defense, liquid fuels and resource extractions and processing. The new trends in industrial and technology strategy are for downstream value adding and employment creation.

The AMTS (Department of Science and Technology) and the IMS (DTI) have similar objectives in terms of the envisaged role of developing production capabilities using technological advances through partnerships between the public and private sector.

Seven national innovation funds which directly support manufacturers in R&D development have been identified as follows:

- Innovation Fund
- Competitiveness Fund
- Support Programme for Industrial Innovation
- Sector Partnership Fund
- National Research Fund
- Technology and Human Resource for Industry Programme (THRIP)
- Khula Technology Transfer Fund.

It will be critical for the Eastern Cape Provincial Industrial Development Strategy process to engage and harness these funds through facilitating partnerships between the private sector and public sectors with a particular focus on engaging the local higher education sector. This is particularly the case since the existing distribution of these funds seems to be largely bypassing the province. Currently the THRIPS and innovation fund allocations reflect historical imbalances in terms of funding allocations and reinforce the trend of resources flows to the historically white institutions which received 75% of R543 million during 2002. Rhodes University has been allocated R6.8 million, PE Technikon R2.3 million, UPE R950 thousand and Fort Hare R492 thousand for 2002. Thus during 2002 the total allocations from THRIP and the innovation fund to all higher education institutions in the Eastern Cape amounted to only

1.9% of the national total.

It will be critical to develop a provincial R&D strategy for the province that identifies clear areas for R&D related to priority sectors. This will enhance the ability of the province to form partnerships and draw down a larger share of resources for promoting local innovation. This strategy should also pave the way for institutionalization of key R&D partnerships through techno-parks, business parks and agri-parks linked to key priority sectors. The relationship between industry, the higher education sector and technology and research centres in the province is currently extremely weak and needs to be energized through the processes of sector engagement envisaged in the provincial industrial development strategy.

There is a need to harness the R&D potential of the province in terms of:

- Focus on priority sectors
- Accessing national R&D funding in support of local priorities
- Insitutionalise R&D and skills development through techno and agri parks located in key localities responding to specific sectors (facilitate partnership and ensure short to medium term sustainability for higher risk)

The Eastern Cape Province has a nucleus of a diverse industrial base that is anchored by the automotive sector, forestry, agriculture and others. Some of the largest manufacturing companies such as Daimler Chrysler, Volkswagen and GM have manufacturing facilities in the province. In 2005/6 R&D business expenditure was ranked 5th among the nine provinces (R242m), which although far below the leading province is not at the bottom of the list.

Another valuable asset that the province has is the four established universities that should provide the province with the skills and expertise that it requires. Some of the national science councils such as CSIR and SABS have regional branches in the province and provide research capacity. Although collectively the research output of these universities is not high, some have good publications outputs.

Some of the research that is undertaken such as in the automotive sector has important economic importance for the province. These universities are able to attract funds from national and international sources, although their share is still modest compared to the leading provinces. These universities are attracting funds from the Technology and Human Resources for Industry Programme (THRIP) which is meant to integrate research with industry through human capital development. Furthermore, the programme is intended to promote industry-university co-operation in R&D.

Within the province there are a number of technology support organizations that are meant to transfer technologies from universities to SMEs. These are located at NMMU (Automotive and Chemicals) and WSU (Tooling and Design). There is also an incubator for the chemical sector in Port Elizabeth. The province also has a number of intermediary organizations, such as regional development agencies, business support centres and business chambers.

A number of recent initiatives in the province are notable. These include:

- The development of the industrial development zones in East London and Port Elizabeth
- The proposed establishment of a science park in East London
- The development of a bio-economy by Nelson Mandela Metropolitan University
- The COFISA initiative that is meant to stimulate innovation in the province

Despite these positive characteristics, the overall benchmark against other regions reveals that the regional innovation system is not well developed. The following are some of the key findings that were made:

- Low level of R&D inputs and outputs (manpower, intellectual property, publications, etc.)
- Low level of dependence on local institutional inputs (universities, R&D institutes, intermediary agencies, etc.)
- Low level of scientific workforce
- Low pass rate especially at matriculation level
- Lack of synergy and collaboration among diverse knowledge institutes
- Uneven distribution of the R&D and innovation infrastructure across the province.
- Lack of innovation funds and venture capital

The province is currently consolidating work around Innovation. This will culminate in a Provincial Innovation Strategy. To date, baseline information has been compiled, and a detailed SWOT analysis of the Province's Innovation system has also been done.

4.5.2. Skills Development

The entire success of the industrial strategy of the province, as well as the general attainment of the PGDP goals by 2014, depends on continued interventions on the supply side to increase the provincial skills base, as well as supporting activities that promotes entrepreneurial dynamism amongst society.

A key feature of all successful industrial interventions across the high performing East Asian economies, as well as the economies of China and India, has been the exponential growth in the skills base and the entrepreneurial zeal of society that is able to rise to the challenges of an industrialising and modernising economy. Indeed, significant resources in the high performing economies mentioned above went towards education in general, but into specialised science and technology institutes in particular, in addition to resources dedicated towards entrepreneurship development and innovation.

A major source of collective benefits from local agglomerations of economic activity is in skills and experience. Firms typically under-invest in training as they cannot reap the full returns (assuming people move between firms). There are also cumulative causation effects that reinforce vicious or virtuous circles. The existence of a local industrial base means there is a network of skills and support services. The absence of such a base means firms are unlikely to locate meaning the skills and support services do not develop.

There is currently insufficient integration between industrial policy objectives and skills and education systems. There is therefore a need for much closer alignment between industry policy and skills and education development, particularly with respect to sector strategies. At the level of vocational training there is need for much greater co-ordination between the development and implementation of sector strategies and the corresponding SETA's. The critical requirement for any successful industrialization process is the provision of adequate numbers of graduates in tertiary technical fields such as science and engineering. South Africa's recent growth spurt has highlighted weaknesses in this area.

Improvements on the tertiary technical front require a much larger pool of school leavers with university entrance in maths and science. There is also a requirement to strengthen the integration between tertiary institutions and industries in the same geographic area. Our universities can form a fundamental pillar of industrial clustering.

The skills crisis in the province is reflected in the following trends:

- Shifts away from the semi/unskilled labour force
- Skills shortages in specialised critical areas (such as engineering)
- Skills needs of emerging/new sectors

Local skills development, guided by the Provincial Skills Development Plan, is based on the ability of the province to:

- Harness and maximise the local impact of the institutions in the province involved in skills development – this includes partnerships with the FET colleges, Universities and other skills development agencies. Universities in particular are currently under-responsive to the skills needs of the province and should be engaged by developing partnership arrangements in specific high priority areas (engineering, agro-processing, mariculture and construction etc)
- Harness and maximise the local impact of institutions associated with national skills development – through engaging the SETA's in sector specific sectors linked to strategic sector interventions
- Partnerships with private sector particularly established auto sector in promoting government/private sector and HE arrangements (provincial auto-sector institute)
- Need to promote cross sector skills development – scarce skills for provincial growth and development
- Ensure that the key government departments develop requisite skills aligned with key priority sector interventions (cluster support, agriculture extension, construction, co-operative and small business support etc)

JIPSA (including JIPSA-EC) is an important institutional development to address coordination failures between industry, higher education and training institutions, and Government. JIPSA will look at developing scarce skills in the following areas:

- High level planning, engineering and project management skills for the 'network industries': water, energy, telecommunications and transport
- Town and regional planning and engineering skills for spatial development and the delivery of public services
- Intermediate artisan and technical skills
- Planning and management skills for the public education and healthcare systems
- Mathematics, science, ICT and communication in public schooling

At the Provincial level, extensive work has been done to identify priority skills requirement across various occupational categories. This work is a useful guide to scarce skills categories. However, more detailed skills requirement will be outlined in the Industry Action Plans.

Provincial Skills Requirements	
Main Occupational Category	**Minor Occupational Category**

Provincial Skills Requirements		
Main Occupational Category	**Minor Occupational Category**	
Senior officials and management	Experienced and qualified managers in: • Project managers • Financial managers • Sales and marketing managers	• General managers • Business leadership • Entrepreneurs
Engineers and high level development specialists	Experienced and qualified engineers in: • Mining • Agriculture • Chemical • Electrical • Mechanical • Electronics • Civil • Design • Nuclear • Clinical • Surveying • Valuators • Train drivers	• Disaster Managers • Development economists • Development Planners • Civil engineering • Industrial technicians • Electrical engineering • Mechanical engineering • Architects • Town & Regional Planners • Transport Engineers • Transport Planners • Transport economists • Black pilots • Avionics
Financial and E-commerce specialists	Financial specialists, including: • Chartered accountants • Auditors • Actuaries	• Financial/business analysts/ consultants/advisors • Researchers including: • Marketing surveyors • Bookkeepers
Technicians and associated professionals	Technicians including: • Clinical • Phlebotomy • Medical • Water • IT	• Electrical • Electronic • Aircraft • Mechanical
Service/shop/market sales workers	Service personnel including: • Recruitment specialists	• Sales personnel
Skilled agricultural/fisheries workers	• Veterinarians • Veterinary Technologists • Agricultural Engineers • Agricultural scientists	• Agricultural Researchers • Plant pathologists • Soil Analysts • Agricultural economists • Land-use Planners
Craft and related trade workers	• Plumbers • Electricians • Mechanics	
Plant and machine operators	• Machine operators • Plant operators	
Health	• Pharmacists • Medical Doctors • Nurses • Environment health • Physiotherapists • Radiographers • Dentists • Occupational therapists	• Dental Therapists • Speech therapists • Health promoters • Dieticians • Clinical Psychologists • Epidemiologists
Environmental Skills	• Bio diversity Managers • Coastal and marine management • GIS Specialists	• Economist • Air quality management • Waste management
Social Development	• Social Workers	• Community Development Practitioners/Workers
Sports, Recreation, Arts and Culture	• Linguists • Archivists	• Aquarists • Sport Psychologists

4.5.3. Infrastructure and Logistics Support

The provision and maintenance of infrastructure remains perhaps the single most important requirement for economic development.

In this respect we are largely talking about economic infrastructure that has a direct impact on competitive industrial potential; that includes transport, electrification, technology development, water and amenities services, as well as ICT, and the servicing of land and factory space. This is not to suggest that any less emphasis should be placed on social infrastructure – schools, libraries, health facilities – as these do have multiplier impacts on the economic potential and performance of the province in the medium to long term.

The provision of industrial infrastructure is an important way to foster industrial clustering and industrial development, both in areas of existing industrial agglomeration and in underdeveloped areas with economic potential. Support for industrial infrastructure in the Province has so far been focused on the IDZ's, i.e. Coega and the East London IDZ.

An IDZ is defined as a purpose-built industrial estate linked to an international port or airport that leverages investment in export-oriented manufacturing industries (see draft IDZ Policy, DTI, 2007). Industrial Development Zones (IDZ) in South Africa were established to meet four primary objectives:

- Promote competitiveness of South African enterprises through the export of value-added manufactured products with linkages to South Africa's economy and natural resources.
- Attract foreign direct investment (FDI).
- Select and attract targeted advanced foreign production and technology methods in order to gain experience in global manufacturing and production networks.
- Develop linkages between domestic and zone-based industries to optimize infrastructure, technology / skills transfer.

The benefits offered by an IDZ include:

- Duty-free production for exports;
- VAT-suspension for supplies procured in SA;
- A single-window facility (one-stop shop) for all the necessary regulatory and documentation services for investors;
- Efficient administration characterised by speed and convenience;
- The provision of world-class infrastructure that offers international best practice environment (see draft IDZ Policy, DTI, 2007).

As has been mentioned in Section 3 of this report, the Coega and East London IDZs are surpassing investment targets, with Coega having secured more than R25 billion (another R18b in pipeline) and ELIDZ attracting R750 million across a range of sectors including metals processing, chemicals, mariculture, food processing, bio-fuels, business processing outsourcing, automotive, and logistics.

These investments will no doubt increase should current proposals on the table be successful to consider tax holidays for IDZs (as is the practice in most other economic development zones elsewhere in the world). Proposals are also on the table to transfer accountability of both IDZs from Provincial Government (as the current shareholder) to the DTI, which will establish one executing authority for the Coega, East London and Richards Bay IDZ's. This, it is argued (by the DTI), will provide more funding security, and greater coherence with a 'national investment promotion strategy'.

Importantly, whatever decisions are taken vis-à-vis ownership and accountability, it is critical to ensure effective value chain and access linkages to the local and provincial economy. Key here will be reliable transport linkages between the IDZs (upgrade of R72), as well as to Gauteng, to the proposed freight airport in Bhisho, as well as access linkages to the rural economy (operationalisation of Kei Rail to link with forestry and Umzimvubu initiatives). Also priority for the expansion and sustainability of the ELIDZ will be the widening and deepening of EL harbour.

Other critical infrastructure projects for the Province are:

- Upgrade of EL and Mthatha Airports
- Upgrade PE to full international status (with airfreight capability)
- Development of Bhisho Airport as international airfreight/logistics hub
- NMB Vision 2020 projects
- Upgrade existing industrial estates
- Science/High-Tech Parks (such as proposed UFH/WSU techno Park in EL)
- Wild Coast Meander
- Incubators (such as the Furniture Incubator in Mthatha)
- Ugie-Langeni road (and other infrastructure to support PG Bison project at Ugie)
- New cold chain facilities
- New broadband hotspots
- the accelerated delivery of agricultural infrastructure (irrigation infrastructure, dipping tanks, holding dams etc),
- extended coverage of the electricity network
- Auto and Logistics Parks
- Upgrading of EL-PE road (R72)
- Development of rural transport network (including N2 Toll Road, R63, R61, access roads, and public transport services)
- Development of urban public transport networks
- Accelerated provisioning of low cost housing (particularly in the metro)
- Development of 2010 sports facilities
- Umzimvubu Water Transfer, hydro-electricity, and irrigation

The details of these and other priority infrastructure projects will be outlined in the sector-specific Industry Action Plans. Province must develop an integrated infrastructure plan (CAPEX Plan) utilizing cost-benefit and opportunity value assessment methodologies to prioritize across competing sectors and projects (given fiscal limitations). The provision of economic infrastructure also requires improved inter-governmental relations, with cost sharing across spheres and departments becoming the norm. More effective lobbying of SOEs (ESKOM, Transnet etc) will become vital going forward, as will the development of project packaging and financial structuring capability (and the capability to manage complex PPPs).

4.5.4. Industrial Finance

The state has an active role to play in correcting market failures in the provision of finance for economic development. This is not something new in South Africa. Historically, the country developed a fairly sophisticated development finance infrastructure and capability to meet the political objectives of the apartheid state and the class interests of Afrikaner capital.

Today, access to finance and capital remains one of the key barriers preventing new entrants (particularly the poor and historically disadvantaged) from economic participation. This has been exacerbated by the slow pace of transformation in the private banking sector. In this regards, the state has established (in some cases inherited) a number of financing instruments, including the IDC, National Empowerment Fund, Khula, Land Bank, Mafisa, Apex/SAMAF, ECDC, Uvimba, among others. In addition, there exist a number of grant-based instruments for poverty reduction and LED (amounting to some R100 million per year in the province).

Of these institutions, the IDC is quantitatively the largest player, with an exposure in the Eastern Cape of approximately R1.5 billion (42% in the chemicals industry and 13% in agriculture). The Eastern Cape has accounted for 13% of the total value of IDC approvals since 1996, and the institution has committed itself to expanding its portfolio in the province (particularly in new sectors such as forestry and timber processing, agro-processing, and tourism). There is clearly a need for the Province to engage IDC on future investment targets in the priority sectors of the industrial strategy.

While it appears at face value that the instruments for industrial and development finance are in place, concerns need to be addressed on three fronts:

- Financing is not sufficiently aligned with the overarching industrial policy objective of transforming industrial structure. Too large a proportion of industrial finance is still going to traditional MEC sectors, with insufficient funding to rapidly grow targeted sectors;
- There is insufficient decentralization of financing mechanisms to the provincial level, which mitigates against greater geographic access to instruments administered at the national level and which also results in co-ordination failures with other financing instruments;
- There is insufficient investment and technical support for pre-project activities, including scoping, feasibility studies, project design and financial structuring;

In being legislatively compelled to show returns on investments, development finance institutions may be overly risk-averse, and reluctant to finance new entrants and new sectors/functional activities. As Rodrik reminds us: ‘It is Government which should spawn new areas of specialization. The main purpose of industrial policy is to diversify the economy and generate new areas of comparative advantage –‘new’ referring both to products that are new to the local economy and to new technologies for producing an existing product’.

Going forward, three actions are paramount:

- Firstly, the various DFIs and grant-based funds require to be engaged around aligning their instruments with the Priority Industry Action Plans that will flow from the Provincial Industrial Strategy. The Industry Action Plans, particularly if they are driven by mandated implementing agents, will in turn ensure greater co-ordination across the various financial instruments to optimize resource leveraging around priority projects.
- Secondly, both the ECDC and Uvimba, as Province’s principal development financial institutions, need to be geared and resourced to play a meaningful role in the implementation of the various Priority Sector Action Plans. This could include designing customized and subsidized finance packages for SME’s/co-operatives in the highest priority sectors. It may be necessary to review the enabling legislation of these institutions to ascertain whether they are in fact geared to play this developmental role.
- Thirdly, a provincial Venture Capital Fund should be established to provide venture capital and equity finance to facilitate BEE and LED in support of the Priority Sector Action Plans. This Venture Capital Fund, which could conceivably be located in ECDC, will enable the state to direct equity finance to high-priority industrial projects, where risk/return profiles may be unattractive to private equity/venture funds. The Fund could be capitalized through gearing up allocations from the provincial fiscus with private/concessionary funding.

4.5.5. *Investment, Trade and Export Promotion*

There are several aspects of investment facilitation that are critical to the effective delivery of Priority Industry Action Plans. These include:

- Removal of constraints on new industrial investment
- Subsidisation of pilots in new areas that if profitable will be replicated by the private sector and/or co-operatives
- Incentives to attract new investments
- Investment promotion (including project development and financial structuring)

Incentives to promote industrial development are provided in a variety of ways: grant-based (e.g. Critical Infrastructure Programme, Enterprise Investment Programme), tax-based (e.g. tax-beaks for SMME's), duty credit-based (e.g. MIDP), loan risk-based (e.g. Khula) and development pricing of key inputs (e.g. electricity). Incentives can be provided by the national, provincial or local government level. DTI offers a very wide range of incentives. For example:

- Enterprise Investment Programme provides grants of up to 30% of new industrial investment by manufacturing and tourism enterprises.
- The Critical Infrastructure Programme (CIP), designed to attract large-scale investment (over R50 million). During the period 2001-05 the Eastern Cape had 6 CIP projects, with projected new jobs of over 28,000.
- The Eastern Cape has been a major beneficiary of MIDP
- The Black Business Supplier Development Programme, which provides business development services to black suppliers. From 2002 only 37 of these grants were made in the Eastern Cape (2% of SA total).
- The DTI incentives portfolio is under constant review, and new incentives being considered that offer potential benefit to the Eastern Cape include:
- Tax incentives for enterprises establishing in the IDZ's
- New RIDS incentives for enterprises establishing outside SA's three main urban conglomerations (funded from a Regional Industrial Development Fund)
- New priority industry incentives. For example, DTI recently launched a BPO incentive scheme, although it has failed to attract any investors (see Business Day, 30 May 2007), and will need to be made more attractive.

Provincial Government does not yet offer any industrial incentives, aside from the provision of infrastructure (e.g. for major PG Bison investment in Ugie). However, the envisaged Priority Industry Action Plans could include new provincial incentives, particularly if the fiscal resources required are not too large. In this regard it is interesting to note that DTI's incentives budget is only about R3 billion. A provincial interest subsidy on ECDC finance for priority industries is one possibility that can be considered. The Province can also assist provincial enterprises to become aware of and access DTI incentives, and to engage DTI on targets for investment incentives flowing to provincial enterprises.

The Eastern Cape has also not accessed significant amounts from current national incentive schemes. There are indications that the bulk of these incentive schemes are accessed by companies located in the urban industrial centres of Gauteng and the Western Cape in particular. It will be critical to ensure that greater levels of existing incentives are secured by provincial enterprises. In light of the current global economic crisis it is also becoming increasingly evident that lagging regions such as the Eastern Cape must be able to access some form of incentive/s in the short to medium term in order to enable the development of local competitive advantage in particular sectors or subsectors.

Municipalities can facilitate new investment through provision of infrastructure, subsidization of enterprise start-ups (through local development agencies etc), concessional land sales and concessions on rates and municipal services for new investors.

In a number of sectors and in the geographical areas of the former bantustans, the absence of adequate investment support has undermined competitive potential. The inability to appropriately package investment opportunities to leverage private and public finance has severely constrained investment inflows, as has the failure to address investment bottlenecks (such as land administration). This has been compounded by weak indicative economic planning at municipal level (see section 5.7). In instances the IDC has responded by establishing municipal develop agencies, although the impact of this strategy as well as the role definition of agencies vis-a-vis the LED support role of municipalities needs to be established).

The provincial entities charges with investment promotion face the current challenges and constraints:

- Lack of trade and investment strategic leadership in the province
- Trade & Investment is competing with other priorities within ECDC i.e. enterprise development and business finance
- Weak and duplicated IP specific research for the EC province

Going forward, provincial investment promotion and facilitation must include the following:

- Sharpening the roles of existing provincial agencies and the IDZs, and co-ordinating their efforts with district and metro initiatives
- Developing (project development and financial structuring) capability in ASGISA-EC Pty (Ltd) to leverage public and private investment behind key economic initiatives in the east of the Province;
- Lobbying for increased provincial share of national SOE and pension fund investments, and possibly facilitating legislative amendments where necessary to enable SOEs to become more innovative and risk-taking;
- Creating streamlined provincial capability (outside of the IDZs) for investment targeting, promotion and co-ordination
- International marketing to highlight the Province's ideal location as site for manufacturing, especially for firms drawing on both imported inputs and with proportion of exported output.
- Developing a clear and targeted investment strategy for each prioritized sector that aligns with the broader strategic intent of the industrial strategy; and
- Developing business retention and job protection strategies in consultation with industry and labour in vulnerable sectors
- Removal of constraints on new industrial investment
- Subsidisation of pilots in new areas that if profitable will be replicated by the private sector and/or co-operatives
- Introduce incentives to attract new investments and encourage expansions
- Strengthen investment promotion, project development and financial structuring
- Ability to deliver enabling infrastructure and top structures sometimes constrained by limited financial resources

- Alignment of strategy with other SOEs to ensure delivery of strategic infrastructure such as rail upgrade
- Flexibility of land disposal policy in the IDZs for land acquisition by investors in the IDZs
- IDZ specific tax incentives as a differentiator between IDZs and other competing privately owned industrial parks

4.5.6 Institutional Development

4.5.6.1 Features of the developmental state

Both ASGISA and the National Industrial Policy Framework recognize the central role that the state requires to play in facilitating industrial diversification into non-traditional tradable goods and services, and in transforming our industrialization path to make it more labour absorbing and equitable (both in terms of benefiting historically disadvantaged individuals and marginalized regions). As the Department of Trade and Industry (DTI) points out:

'The government's approach to economic transformation is based on the understanding that the necessary changes on the economy will not emerge spontaneously from the invisible hand of the markets but from collective efforts aimed at shaping economic development and such efforts should be championed by the state. This suggests a developmental state; and a developmental state is one that is capable of leading efficiently in the definition of a common national agenda, mobilising all society to take part in its implementation and directing society's resources towards this common goal'…(cited in Bezuidenhout and Moussouris, 2007).

At the centre of a developmental state is a clear industrial policy, which aims to change the country's industrial structure. As the DTI argues:

'[I]ndustrial policy should play a central role in identifying and addressing constraints that impede economic development. International evidence, especially from the newly industrialised countries (NIC) reveals that no country has ever industrialised without an active industrial policy. The experience of the NICs demonstrates that developing countries are not restricted to responding reactively to global forces but can strategise about their current and potential participation in the global division of labour, through purposive interventions in their industrial economies'…(cited in Bezuidenhout and Moussouris, 2007).

But while the strategic intent of Government to build a developmental state is clear, the exact nature of the features and institutional capabilities that need to be assembled is more complex and ambiguous. An examination of relevant literature suggests that the developmental state has the following core features:

- ***Coherence*** refers to the ability of the state to develop and articulate a coherent development vision and strategy, and align all institutional machinery across all organs of the state and strategic institutions in society in support of the envisaged goals and outcomes.
- ***Capability*** refers to the ability of the state to develop, shore up, and leverage the necessary strategic, technical, and organizational know-how and competence to formulate and implement projects aligned to its development strategy.
- ***Embedded autonomy*** (see Evans cited in Bezuidenhout and Moussouris, 2007) refers to the ability of the developmental state to develop sufficient autonomy to avoid capture by elites and parasitic elements, while at the same time avoiding a drift towards authoritarianism through building social compacts with particular groups and classes which

share a common development vision and goals.

4.5.6.2 Capacity Gaps

With this understanding of the developmental state in mind, it is instructive to briefly assess institutional capacity across the economic services departments and agencies active in the Province in order to identify gaps and formulate interventions for institutional development. In summary, capacity constraints exist in three areas.

(a) **Co-ordination failures**

Despite significant improvements in inter-governmental relations and aligning the planning frameworks of local, provincial and national government, there still exist significant vertical and horizontal co-ordination failures that constrain effective planning, budgeting and implementation around an economic transformation agenda and set of priorities. These co-ordination failures are particularly evident in support areas such as infrastructure, HRD, and R&D, where outputs are not sufficiently aligned to economic development imperatives.

Co-ordination failures occur when one activity depends on another. Co-ordination is particularly important where investments are large and need to be planned in advance, as this means that they depend on being able to predict how all factors which impact on the investment will develop. This applies to industrial development in terms of the viability of a firm depending on it being able access the necessary inputs and anticipate the growth of demand, as well as to broader considerations of links between industrial activity, skills and infrastructure. A coherent plan in itself addresses co-ordination problems as it sets out the linkages between different activities and institutions. It should therefore:

- Anticipate bottlenecks and possible constraints before they occur
- Influence expectations by mapping out future developments on which different agencies can make decisions.
- Collect and disseminate information, which itself influences decisions
- Ensure more direct co-ordination of activities over which Provincial government has control such as certain infrastructure expenditure.
- Link training and skill developments with projected needs of the Provincial economy.

(b) **Economic planning**

The co-ordination role is therefore fundamentally about the collection, analysis and dissemination of information. The weak economic research, indicative planning, monitoring and knowledge management capability in DEDEA and municipalities across the province severely constrains the ability of the provincial and local state to intervene decisively and consistently in the economy and seriously engage with industry. Linked to (1) above, the absence of technical capability undermines the ability to effectively implement national policy, and align IDPs/LED strategies with the PGDP and national strategies such as NIPF and ASGISA.

(c) **Industry compacts**

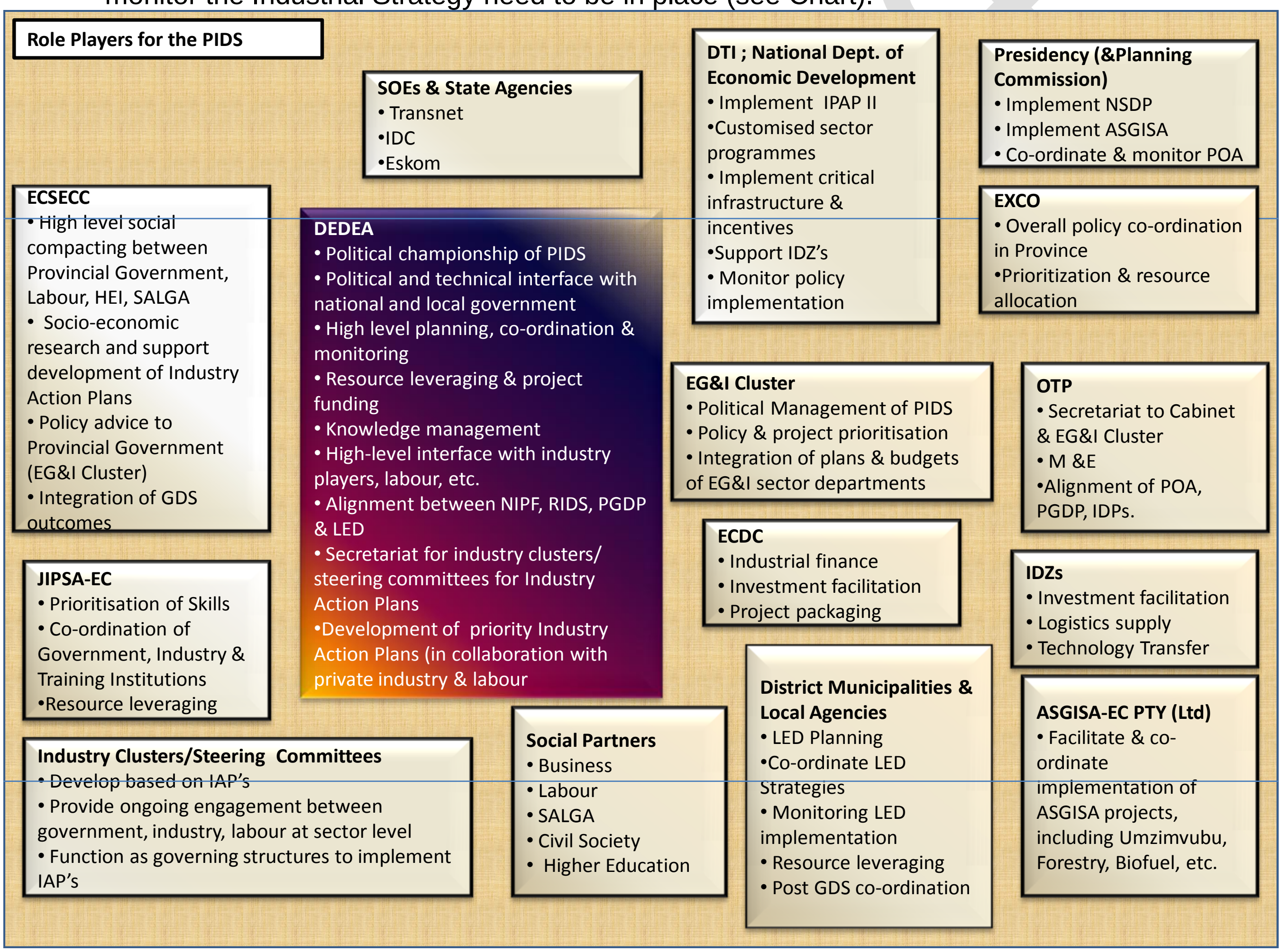
The third area of capacity weakness relates to how the state engages and compacts with industry (and other role-players such as labour and higher education institutions). While institutions such as ECSECC and processes such as the Job Summit and District Growth and Development Summits have facilitated high level compacts around broader development agendas, meaningful compacts have not been developed at sector and industry level around reciprocal outputs that achieve political and developmental outcomes.

4.5.6.3 Priority interventions

Going forward, three interventions are proposed to rapidly build institutional capacity to implement the industrial strategy.

(a) **Establish coherent institutional arrangements**

Firstly, a clear set of coherent institutional arrangements to plan, co-ordinate, implement and monitor the Industrial Strategy need to be in place (see Chart).



The above arrangements map out the roles and responsibilities of the various government departments and agencies so as to optimize synergies, harness capabilities where they exist, and avoid duplication of mandates and resources. The institutional arrangements should also clearly specify the mechanisms for engaging social partners in the various aspects of the design and implementation of the Industry Action Plans.

At the centre of these arrangements is the Department of Economic Development and Environmental Affairs (DEDEA), which will have the responsibility for political championship and overall co-ordination of the Industrial Strategy. The DEDEA will also be the formal link to DTI (through MinMec), to ensure alignment and resource benefits from the NIPF and RIDS. The DEDEA will also provide ongoing secretariat support to the industrial sector clusters/steering committees that will be established to oversee the Industrial Action Plans.

Lines of accountability will be through DEDEA to the EG&I Cabinet Committee. The OTP will play a key role in monitoring alignment with PGDP thrust and targets, in identifying bottlenecks, and in ensuring horizontal and vertical integration across Government and state entities. Similarly, the Presidency will play a key role in ensuring alignment with ASGISA and the Programme of Action, and will ensure the participation of national departments and SOEs in aspects of the Industrial Strategy.

ECSECC will play a support and advisory role to DEDEA in the design of the Industry Action Plans that flow from the Industrial Strategy. These IAPs will need to be co-ordinated and resourced by DEDEA. ECSECC will also provide ongoing data and analysis to assess performance and impact against industry targets, and will also facilitate high level compacting where necessary to address particular bottlenecks that arise among and between the social partners that disrupt implementation of the Industrial Strategy.

The specific institutional arrangements that pertain to each sector/industry should be clearly spelt out in each IAP. Lines of accountability and governance need to be clear, and relationships with organizations like ECDC clarified. ECDC has the provincial mandate to co-ordinate investment facilitation in the Province (including structuring investment partnerships), and also has the core function of providing development and equity finance.

Enhanced synergies with the IDZs will be critical to the successful implementation of the Provincial Industrial Strategy. In particular more thought needs to be given to how to use IDZ capability for broader provincial benefit, as well as developing stronger value chain linkages between IDZ-located industries and those outside. Again, the precise role the IDZs will play in meeting the objectives and outcomes of the Provincial Industrial Strategy should be articulated in each Industry Action Plan.

Finally, the role of District Municipalities and the Metro (and to a lesser extent local municipalities) needs to be emphasised. District Municipalities will be responsible for the development of LED strategies and plans (industrial roadmaps) to ensure the Industrial Strategy and the Industrial Action Plans have a clear spatial configuration where economic need and economic potential intersect. To some extent these LED plans and priorities are articulated in the GDS Agreements. Ongoing engagement between district municipalities and other economic services agencies active in the Province will be facilitated through the MEC's Economic Development Forum.

(b) **Build capability**

Clear institutional arrangements may address co-ordination failures, but they will not ensure effective implementation unless capacity gaps are urgently addressed. The role of the DEDEA in championing, co-ordinating, and resourcing the industrial strategy is vital. This will require refocusing (and possibly restructuring) the DEDEA, and developing a minimum set of technocratic capabilities (research, planning, knowledge management, monitoring etc). In the short term, DEDEA should harness this capability (from existing entities such as ECSECC, ECDC, the IDZs, universities etc) to rapidly develop its knowledge base of all aspects the economy.

The ability of DEDEA to ‘drive’ and co-ordinate the Industrial Strategy will be dependent on the extent to which it is informed about all aspects of economic development in the Province, and has the technical weight to yield authority over the myriad of economic players in the Province. The establishment of an Industrial Co-ordinating Unit in DEDEA should be considered to provide secretariat and technical support to the various cluster/steering committees.

Short-term capability also requires to be harnessed in ECSECC to develop the Priority Industry Action Plans. While ECSECC has general economic planning capability, and the institutional memory gained in the development of the Industrial Strategy itself, it will need to in-source short-term sector experts to work with industry, government, labour and other role-players to develop the Industry Action Plans.

As government and its SOEs move into an interventionist mode accompanied by significant investments in infrastructure and incentives for targeted sector interventions, it is critical that the province positions itself appropriately in order to maximize the local share and impact of these initiatives. This requires increasing capacity in project packaging, financial structuring and partnership facilitation. This is particularly the case for leveraging investment into areas that have development potential but are not currently prioritized for private and public investment. It is also critical for leveraging investment for co-operatives, and for partnerships between private capital and small-scale players/new entrants. Key organizations targeted to develop this capability include ECDC and ASGISA-EC Pty (Ltd). The development of private sector capability in developmental investment facilitation and in the business development services sector more generally should be supported.

District Municipalities also need to develop minimum economic planning capability to facilitate LED planning and post-GDS co-ordination. Economic planning needs to form part of the hands-on support programme for local government, with DEDEA facilitating and resourcing this support (in collaboration with the Department of Local Government and Traditional Affairs).

An internship programme could be one instrument to leverage the necessary technocratic capability into the state. Conceivably, young economists/development planners with basic degrees can be contracted as research trainees, provided post-graduate training through distance education in an appropriate specialization (fiscal economics, industrial economics, tourism economics, infrastructure economic etc), grounded in policy research and networks, and afterwards deployed to relevant departments/municipalities for two-to-three years.

Finally, Higher Education Institutions should be targeted for capacity development. The fact that our Eastern Cape HEIs receive such a tiny proportion of the state R&D funds available for innovation, technology and HR support for industry development indicates that they are insufficiently geared to play their role in industrial development. The specific role of HEIs should be clearly spelt out in the Industry Action Plans.

(c) **Develop industry compacts**

The third area of intervention vis-à-vis institutional development relates to how the state meaningfully engages with private industry and other role-players to achieve industry level compacts in support of the overarching objectives of the Industrial Strategy.

A number of issues stand out for consideration:

- The process of developing the Priority Industry Action Plans should in itself begin to establish and build relationships of trust among and between various role-payers. This suggests that the Action Plans must emerge from a process of intensive and consistent engagement between role-players within the sector.
- If the Industry Action Plans are to be successfully implemented, and industry compacts sustained, they must be built on the basis of reciprocal commitments and perceived collective benefit. The convening of sector summits in key sectors may be necessary to broaden consultation and engagement prior to the finalization of an Industry Action Plan.
- It is important to note that the dynamics of particular sectors lend themselves more to compacting-type arrangements than others. In some sectors and industries, it may be easy to facilitate agreement among the role-players on industry priorities, and mutually determined institutional and funding arrangements for promoting collective interests. In some instances, this may take the form of industry clusters, and in others broader steering committees or reference groups. The balance of state, industry and other role-players (labour, HEIs etc) will differ in each sector.
- Linked to above, the identification of role-players must be linked to value chain analysis, and therefore may realistically include industry players from other sectors. At the outset, it will be critical to distinguish between producer and buyer driven value chains when identifying role-players from whom reciprocal commitments are required.
- The core business of the industry clusters/steering committees will be to develop and oversee implementation of the Industry Action Plans. Business and labour should refrain from using industry clusters to circumvent institutional collective bargaining machinery.
- To be effective, the industry clusters/steering committees require dedicated coordination and secretariat capacity, and a direct line of accountability to the political champion of the Industrial Strategy (MEC of DEDEA).

5. CONCLUSION

This Industrial strategy has outlined the broad government efforts (within the confines of legislated areas of Provincial competence) that are necessary to transform the structure and distribution of industrial activity in the Province to meet particular economic, social and political objectives. These objectives include job creation (and job retention), increased and sustained growth and output, more even income distribution, more equal spatial distribution of economic activity, transforming ownership and control of production (including de-racialising ownership and promoting social forms of ownership), and enhanced technological capacity.

The rationale for an industrial strategy has been borne out of market failures in which supply and demand conditions have not produced optimal outcomes, particularly relating to job creation and the extent to which the economy is being de-racialised and transformed.

The scope of the industrial strategy has not been confined to manufacturing, with service sectors such as tourism also being included.

The strategy acknowledges the central role and impact that areas of national competence have on industrial development (especially fiscal, trade and monetary policy), but has used as its point of departure the assumption that a sub-national industrial strategy can enhance the quality of implementation and impact of national policy initiatives and leverage resources for provincial priorities. The strategy is also premised on the assumption that Province has sufficient instruments to make an impact, including infrastructure and logistics provisioning, industrial upgrading and recapitalization, skills development, incentives (albeit limited), research and development, investment facilitation, financial support, as well as co-ordination, compacting, and clustering.

The strategy is also cognizant of its limitations. On its own it will not achieve its objectives. As highlighted in the strategy, the experience of the High Performing Asian economies has illustrated that industrial strategy must be accompanied by substantial state-driven programmes of land and agrarian reform, coupled with significant investments in health, education and human resource development, and infrastructure. The accelerated development of an affordable and efficient transport network is similarly a key enabler for the industrial strategy.

The strategy aligns with the broad policy and strategic thrust of the National Industrial Policy Framework, and the programmatic thrust of ASGISA. As noted in the strategy document, the Provincial Industrial Strategy aims to provide a provincial ‘landing strip’ for national initiatives, and the linkage between national industrial policy and local economic development (LED). In this sense, many of the outcomes of the recently held GDS’s are captured in the strategy.

The Industrial Strategy targets a few priority sectors so that limited (financial and technical) resources are not spread too thinly. Sectors have been selected on the basis that we have competitive advantage, and on the extent to which they create/protect jobs; enable industrial diversification into non-commodity tradable sectors; enable value-added linkages within and across sectors; and hold out direct benefits for BBBEE, cooperatives, and marginalized regions.

The high level interventions in identified priority sectors are outlined in this document. The detailed interventions, including resource implications and institutional responsibilities, will be developed in the Priority Industry Action Plans. These Action Plans must emerge from a process of intense engagement with all key role-players in the sector, and should reflect concrete outputs that will unlock opportunities and address identified constraints. Importantly, the Action Plans should contain details on the industry co-ordination and implementation modalities, and accountability mechanisms both to Provincial Government and other industry role-players. New capabilities will have to be urgently developed within the state in general and DEDEA in particular, to ensure effective implementation.

REFERENCES

1. Chang. H-J 2002: Kicking Away the ladder
2. DEDEA 2010 : Eastern Cape Economic Profile and Outlook
3. DTI 2006: Regional Industrial Development Strategy (RIDS)
4. DTI 2007: National Industrial Policy Framework (NIPF)
5. DTI 2010: National Industrial Policy Action Plan II (IPAP II)
6. Eastern Cape Government 2004: PGDP
7. Eastern Cape Government 2005: Eastern Cape Provincial Growth and Development Plan (PGDP), 2004-2014
8. Eastern Cape Government 2006: Jobs Summit
9. ECSECC 2006: Automotive Study (Ian Russell)
10. ECSECC 2006: Industry Strategy Document (Chris Edwards)
11. ECSECC 2006: Industry Study (Urban-Econ)
12. ECSECC 2007: Growth and Development Strategy (GDS) Socio-Economic Profiles
13. ECSECC 2007: Timber Study
14. FARM 2003: Report on EC Forestry Sector
15. Fine. B. and Z. Rustomjee 1996: The Political Economy of South Africa: From Minerals-Energy Complex to Industrialisation, Hurst and Company
16. Lall, S 2003: Reinventing industrial strategy: The Role of Government Policy in Building Industrial Competitiveness. G24 International Group
17. NEDLAC 2002: An Evaluation of Industrial Policy Perspectives In the South African Context.
18. Roberts & Mohamed 2006: Questions of Growth, Questions of Development, ASGISA Workshop

19. Roberts S March 2002: Assessing industrial development in the Eastern Cape and the role for Provincial Government – A Preliminary Analysis

20. Rodrik D September 2004: Industrial policy for the Twenty-First Century, paper prepared for UNIDO

21. Routledge Westhuizen, C van der 2005: Trade and Poverty - A case study of the South African clothing Industry, TIPS Annual Forum

22. Tarp F and Brixen P 1996: The South African Economy; macroeconomic prospects for the medium term

ANNEXURE1. APPROACHES TO INDUSTRIAL STRATEGY

It is now generally undisputed that those countries which have experienced significant economic performance in economic and employment growth over the past two decades have followed strategies which contradict the dominant policy consensus referred to as the 'Washington Consensus' (Rodrik, 2006; Roberts and Mohamed, 2006). The High Performing Asian Countries (Japan, Hong Kong, Taiwan, Singapore, Malaysia, South Korea etc) of the 1970s, '80s and '90s all adopted industrial strategies and an interventionist state model that promoted industrialization and equitable growth.

The experience of these countries also shows the symbiotic relationship between equity and growth, with high levels of equality being a cause rather than just a result of economic growth. These initial conditions of equality were in many instances achieved through state-driven programmes of land and agrarian reform, coupled with significant investments in health, human resource development, and infrastructure. Ha-Joon Chang has recently (2007) demonstrated how most developed countries have developed through interventionist measures and high levels of infant industry protection which are now denied developing countries through global institutions such as the WTO and World Bank. Alice Amsden's recent work on 'policy rights' suggests that the developing world needs to reclaim the policy space ruled out by the 'Bad Samaritans' and actively find ways to implement national industrial policy measures to protect and promote local industry.

The extent to which poverty and inequality in South Africa is economically costly and growth-inhibiting has been captured in the work of May, Carter, and Padayachee (2004), who argue that the relatively sluggish growth experienced over the past decade is a direct result of the large numbers of people trapped in poverty, and unable to participate in wealth generating activities. This suggests that the need to more urgently address levels of poverty and inequality is neither simply ideological nor philanthropic, but is rather an essential condition for sustainable industrial development.

This section outlines the two core approaches to industrial policy, and briefly assesses their application to industrial policy in South Africa.

Lall (2003) suggests that there are broadly two approaches to industrial policy: a neo-liberal and a structuralist approach.

1.2.1. THE NEOLIBERAL APPROACH

The neoliberal approach is associated with the international policy consensus referred to as the Washington consensus and promoted through such international financial, policy and trade agencies as the IMF, World Bank and the WTO, and is based on the following core assumptions:

- The objectives of industrial development are best realised through liberalisation with the state playing a limited role
- Integration into the international economy through market driven resources location will result in the emergence of 'natural' comparative advantage

- The role of the state is limited to maintaining a stable macro-economic environment, supporting an economy open to international resource flows determined by markets, and ensuring the provision of basic ‘public goods’ such as human capital and infrastructure
- The key engine of growth is the private sector
- The role of international institutions such as the WTO are to formulate and implement the ‘rules of the game’ for international trade

Applied to South Africa, this perspective is captured in the World Bank’s analysis and policy recommendations (see NEDLAC, 2002).

- The weakness of South African manufacturing rests on it its historical protection from international competition
- South Africa’s high unemployment is due to high real wages and the costs of capital
- Apartheid weakened the economy through economic restrictions and an inefficient education system constraining the development of small businesses
- Industrial strategy should include trade liberalisation and export promotion as a basis for economic growth
- Skills development is important within the context of prudent macroeconomic policies
- Investor confidence is a critical factor to promoting economic growth, and is best promoted through sustainable and consistent economic policies
- State intervention in the economy to promote industrial development must be avoided and should be market driven

1.2.2. THE STRUCTURALIST APPROACH

The structuralist approach on the other hand assumes a far greater role for the state in promoting industrial development. The main assertions of this approach include the following:

- Dynamic competitiveness cannot be left to the market alone and requires effective government interventions
- Experiences of the developed world and successful emerging economies point to various forms of government intervention as being a critical ingredient of their success
- Accepts the need for greater openness associated with globalization, but market failures necessitate targeted interventions by government to maximize the impact of market forces
- Acknowledges past industrial policy failures internationally but argues that these call for improving government capabilities for intervention rather than avoiding intervention *per se*
- The experience of poor and developing countries who have introduced neoliberal policies have not matched the performance of more interventionist economies in terms of industrial growth and export expansion
- Increasing globalization and technological developments require more not less interventions.

In the South African context, this approach is best captured in the work of Fine and Rustomjee (1996), who look at the relationship between the state and market in terms of how they support the interests of specific social classes. This approach includes the following positions:

- The manufacturing sector has always been peripheral to the South African economy which has historically been dominated by mining and finance capital, which have been supported by the industrial policies of the apartheid state in support of what Fine and Rustomjee call the Minerals-Energy Complex (MEC).

- Building a strong local manufacturing sector must be understood against the dominant economic interests in the economy, which are supported by the state
- Core institutions such as the IDC, large state corporations such as ISCOR and oppressive labour laws were historically responsible for industrial strategy and in effect shaped the MEC, characterising the South African economy
- High unemployment is associated with the structure of the South African economy, and its continued dominance by mining and finance capital which have historically been supported by the economic policies of the apartheid state
- To diversify out of the MEC will involve massive state investment in infrastructure and other areas of the economy in order to promote local demand and promote investment in new sectors

1.3. CONCLUSION

The Structuralist approach clearly offers a more rigorous and historically accurate framework for analyzing dynamics in South Africa's industrial sector. The approach also provides a basis for understanding the central role of state intervention in industrial development in the apartheid era, and how the state mediated class relations in the interests of (mining and finance) capital. At a macro-strategic level, the approach is correct in its call for the state to lead a process of industrial diversification and restructuring into the non-commodity tradable sectors to de-racialise the economy and broaden ownership of capital and assets.

At the same time, the structuralist approach has certain limitations in identifying pragmatic interventions at a micro-economic and industry-specific level. Here the approaches of Michael Porter (1994) and Dani Rodrick (2004), among others, are informative, and need to be utilized within the broader strategic thrust of the structuralist approach. In particular,

- Michael Porter's work is relevant in reminding us how Government policy and interventions need to be understood within the context of how it influences competitive advantage, and what particular role national, provincial and local government can play in improving competitive advantage through improving the quality of inputs (factors), assisting with innovation and upgrading, and promoting greater co-operation between firms through supporting clusters;
- Dani Rodrick's assessment of industrial policy as a discovery process is important in highlighting the necessity for institutional mechanisms to be created where firms and government (and labour) learn about underlying costs and opportunities and engage in strategic co-ordination. Rodrick also points out that it is innovation and experimentation (both with new products and new technologies) that enables diversification into new areas of comparative advantage. It is Government that should support such innovative activity (through R&D etc) to spawn new areas of specialization.
- The *Global commodity chains approach is instructive for highlighting the complexities of g*lobal production processes, in distinguishing between producer and buyer driven value chains (i.e. OEMs in the auto sector and Woolworths in the food sector respectively), and how Governments and firms can assist the insertion of local economies into global systems of production, in a manner that optimizes local content and benefit.

ANNEXURE2: TOWARDS PRIORITY INDUSTRY ACTION PLANS

The purpose of this section is to provide a brief snapshot of the priority sectors, and suggest possible components of industrial support packages to lay the groundwork on which Priority Industry Action Plans can be developed. The sectors are organized as follows:

- Agro Industrial
- Capital Goods
- Auto sector
- Green Industries (renewable energy, carbon extraction, environmental management and carbon trading facility)
- Tourism
- Petrochemicals

These industries are discussed below in terms of production output, input cost, gross value added, labour remuneration, imports, exports, taxes and subsidies on production, gross operating surplus, and sector employment.

The Table below provides a snapshot of selected sub-sectors for the Eastern Cape. It shows the size of the sub-sectors in terms of production output, intermediate consumption expenditure, gross value added, compensation of employees, gross operating surplus, trade, employment, and taxes less subsidies on production. The Table shows that in 2008, the manufacturing industry used 109 799 workers to produce output worth R72.4 billion of which R56.9 billion accounted for cost of production and R15.5 billion for gross value added. This provincial income generated (gross value added) in the manufacturing sector was distributed as follows: R7.4 billion toward the workers in the form of wages and salaries, R8.0 billion toward investors in the form of operating surplus, and the remainder toward taxes less subsidies on production. In other words, in 2008 those 109 799 people employed in the manufacturing sector were remunerated R7.4 billion in total. In the same year, the manufacturing sector had a positive trade balance of R1 billion.

Eastern Cape industry snapshot, 2008

Indicators, 2008 (Rm)	Manufacturing	Food, beverages and tobacco	Textiles, clothing and leather goods	Wood and paper; publishing and printing	Transport equipment	Construction
Production - Output	72,474	11,344	3,177	3,069	30,394	8,397
Input Cost	56,982	9,132	2,389	2,114	25,924	5,593
Gross Value Added	15,491	2,212	788	955	4,469	2,804
Labour remuneration	7,429	817	471	638	2,546	1,669
Gross Operating Surplus	8,008	1,371	321	305	1,942	1,098
Imports	41,407	627	753	171	0	0
Exports	42,506	1,111	1,125	52	0	0
Number of people employed	109,799	15,469	10,524	6,669	34,484	38,954
Taxes on productions	173	25	12	15	46	37
Subsidies on production	118	1	16	3	65	-

2.1. MANUFACTURING REVIEW

The following SWOT Analysis looks at the Eastern Cape economy and focuses specifically on the Manufacturing sector.

Strengths	Weaknesses
• Skilled and productive auto sector workforce • Infrastructure for export oriented industries • Shared support services for auto industry • Thriving dairy industry	• Poor project packaging (private and public) • No project management capacity • Poor infrastructure (rail, road, telecoms) • Lack of technical capacity (provincial and local government) • Poor planning and implementation • Poor performing municipalities • Distance from local and foreign markets • Poor lobbying by Province at National level • Poor government-to-industry communication • Misalignment of strategy, particularly with big SOEs involved in infrastructure and logistics programmes
Opportunities	**Threats**
• Revival of old industrial areas (Butterworth; Fort Jackson; Dimbaza, etc) • Dairy processing • Timber beneficiation • Availability of land for forestry and agriculture • Availability of vibrant commercial centres (Umtata, Butterworth etc) • Potential collaboration between industry • Renewable energy and bio-fuels • Waste conversion • Targeted procurement • Public works programme • Optimal utilisation of RRCC	• Shrinkage of exports particularly in the automotive sector • Limited access to finance • Brain drain • Competition from other SEZs (particularly Asia, Africa and SA) • Trade protectionism • Power supply constraints • Bureaucracy in licensing (incl. EIA)

2.2. AUTOMOTIVE

2.2.1. INDUSTRY SNAPSHOT

The transport equipment sub sector, represented by the motor industry in the Province, is the anchor of the manufacturing sector in the Eastern Cape. The Eastern Cape automotive industry is located in Port Elizabeth, Uitenhage and East London, and is dominated by three vehicle assemblers (Daimler Chrysler, Delta Corporation, and Volkswagen), with at least an additional 50 or so large companies with an annual turnover of more than R15 million. The industry contributes 60% to South Africa’s passenger car exports.

Transport equipment sector's contribution to RSA economy

			2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Employment	EC Contribution to RSA	26.8	26.2	25.7	25.1	24.5	24.1	23.7	24.0	23.5
		Contribution to EC manufacturing sector	30.3	30.9	31.1	31.1	31.2	31.3	31.5	31.3	31.4
2	Output	EC Contribution to RSA	25.1	25.0	24.6	24.7	24.4	23.7	23.4	23.1	22.8
		Contribution to EC manufacturing sector	37.5	40.9	38.5	39.3	40.4	42.0	42.0	42.3	41.9
3	Labour remuneration	EC Contribution to RSA	23.5	23.3	23.1	23.2	23.1	22.5	22.2	22.0	22.1
		Contribution to EC manufacturing sector	29.2	29.2	30.7	30.3	31.0	30.9	30.8	32.3	34.3
4	Input cost	EC Contribution to RSA	25.3	25.2	24.7	24.8	24.5	23.8	23.5	23.2	22.9
		Contribution to EC manufacturing sector	40.5	44.2	41.3	42.4	43.5	45.6	45.7	45.9	45.5
5	GOS	EC Contribution to RSA	24.7	25.1	25.1	25.3	24.9	24.2	23.7	23.4	22.9
		Contribution to EC manufacturing sector	25.2	29.4	25.9	25.4	25.8	26.6	26.5	26.7	24.3
6	Taxes on production	EC Contribution to RSA	23.2	23.5	24.1	24.3	24.0	23.4	23.0	22.8	22.8
		Contribution to EC manufacturing sector	21.6	22.3	23.2	23.2	23.4	23.6	23.9	26.6	26.5
7	Subsidies on Prod.	EC Contribution to RSA	25.6	25.5	25.8	26.0	25.5	24.8	24.3	24.0	23.9
		Contribution to EC manufacturing sector	50.1	48.8	52.2	53.5	54.1	54.2	53.9	56.1	54.8
8	GVA	EC Contribution to RSA	24.0	24.1	23.9	24.0	23.8	23.2	22.8	22.6	22.4
		Contribution to EC manufacturing sector	27.2	29.1	28.0	27.6	28.2	28.5	28.4	29.1	28.9

Source: own calculations, Quantec, 2009

In 2008, the transport equipment sub-sector's output in the Eastern Cape was valued at R30.3 billion. This output was produced at a total cost of R25.9 billion, generating a GVA of R4.4 billion. The sub-sector employed 34 484 people and paid labour remuneration of R2.5 billion.

The Table above shows that the sub-sector contributed almost 31.4% to total employment in the Eastern Cape's manufacturing sector and 41.0% to total output of the Eastern Cape manufacturing sector. The Eastern Cape transport equipment sub-sector contributed 22.4% to the country's transport equipment sub-sector's GVA.

The output in this sub-sector has almost doubled over the last 10 years although growth has fluctuated in the sub-sector. The Table below shows that the sub-sector's employment has constantly declined in the Eastern Cape while that of the country has shown minuscule growth. In general, GOS has grown at a faster rate than labour remuneration, which implies unequal income distribution in the sub-sector. The largest GVA growth in the sub-sector was experienced in 2000 and 2001 followed by a negative growth in 2002 and 2003. Input cost has grown at a faster rate than output affecting the sustainability of the sector in a long run.

Transport and Equipment: Growth rate 2000 - 2008

			2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Employment	RSA	1.31	1.58	0.94	0.89	1.20	1.85	2.06	(3.25)	1.96
		EC	(0.64)	(0.53)	(1.23)	(1.39)	(1.05)	(0.04)	0.21	(2.01)	0.08
2	Output	RSA	13.28	(0.34)	3.59	1.89	4.03	6.91	4.82	0.71	(0.72)
		EC	16.14	(0.11)	4.76	2.91	2.46	4.34	3.52	(0.55)	(1.82)
3	Labour remuneration	RSA	3.41	(0.06)	5.01	(2.41)	5.63	4.83	4.30	7.55	4.77
		EC	8.13	(0.99)	4.00	(1.97)	5.13	2.32	2.76	6.64	5.23
4	Input cost	RSA	32.59	22.39	(2.83)	7.29	8.18	9.65	2.50	3.22	2.01
		EC	36.07	21.84	(4.76)	7.59	6.97	6.46	1.35	1.60	0.71
5	GOS	RSA	48.53	31.03	(8.22)	(5.15)	6.94	11.37	7.46	8.93	(6.51)
		EC	50.24	33.28	(8.19)	(4.76)	5.37	8.18	5.23	7.55	(8.30)
6	Taxes on production	RSA	8.20	(1.94)	11.93	(0.32)	0.57	2.87	(8.49)	5.71	0.43
		EC	10.93	(0.55)	15.00	0.34	(0.72)	0.18	(9.87)	4.82	0.24
7	Subsidies on production	RSA	(9.45)	4.50	28.18	37.04	(38.02)	63.71	15.00	5.78	(26.85)
		EC	(7.76)	4.22	29.65	37.92	(39.05)	59.35	12.56	4.32	(27.10)
8	GVA	RSA	17.87	12.20	(1.29)	(4.11)	6.98	6.92	5.36	8.19	0.18
		EC	22.47	12.98	(2.05)	(3.79)	6.09	4.21	3.57	7.10	(0.56)

Source: own calculations, Quantec, 2009

2.2.2. ASSESSMENT OF THE MIDP

Under apartheid, the industry was encouraged by tariff protection. In 1995 the nature of protection changed under the Motor Industry Development Programme (MIDP). Under the MIDP, the producers are subsidised by being given duty rebates on imports proportional to their exports. Thus, not surprisingly, both the exports and imports of vehicles and components have grown rapidly. As a result of the MIDP, the auto-sector survived the liberalisation of the 1990's and used this cushion to restructure from an inward focused to a globally competitive export oriented sector.

The DTI reviewed the MIDP in 2000 and extended the scheme from 2007 to 2012. It is now reviewing it again, this time in the context of extending the scheme beyond 2012, and addressing issues relating to WTO compliance and exploring options for greater local content and expanding the local component sector.

It is likely that some form of protection/incentive will continue to be given to the industry and it is likely that the industry will continue to grow. But the growth in direct jobs created is unlikely to be very rapid. Over the last five years, employment grew at 1% for every 4% of growth in net output. This pattern is unlikely to change so that if the growth in net output in the next five years is the same as in the last five (namely about 4% pa), the annual increase in direct jobs in the Province's car industry can be expected to be 1% - or about 500 a year.

But despite the successes of the MIDP, it has failed in some key respects:

- The Auto-sector is perhaps one of the least transformed sectors in terms of empowerment.
- Despite successes in catalytic converters the local content in terms of component manufacturing remains extremely limited.
- Local consumers pay comparatively more for vehicles than their counterparts elsewhere in the world (Competition Commission, July 2005 submission to the MIDP review process).

Going forward, the fortunes of the South African and Eastern Cape auto sector may increasingly come under threat from:

- Increasing manufacturing capacity emerging in Asia, particularly China
- Structure of production internationally – scale platforms
- The inability of the new APDP to support the development of local component manufacturing capability
- The negative consequences of critical capabilities linked to the auto-sector being disestablished by the consequences of the current global crisis
- The inability of the local auto sector to enter the low carbon or fuel efficient markets due to local fuel quality and the constraints of the underdeveloped regional innovation system.

2.2.3. PRIORITY INTERVENTIONS

Given these threats in the context of the important role that the automotive sector plays in the Provincial economy, it is imperative that the sector develops an Industry Action Plan and set of enabling institutional arrangements. At minimum, the plan should build on existing initiatives in the Province and address the following:

Deepening Localisation of the Automotive Sector

Clustering

The concept of clustering in the auto sector was pioneered in the Eastern Cape (Fish river Cluster), but has been effectively realized and sustained in Gauteng. The focus to date has been on OEMs achieving gains through volume sharing on freight logistics. It is proposed that a provincial automotive cluster with the main focus being on the development of 1st, 2nd, 3rd, and 4th tier suppliers. Important will be to improve synergies with institutions asked with co-ordinating component manufacturing investment and support, including the Nelson Mandela Bay Logistics Park (situated in Uitenhage), the East London IDZ, and the Coega IDZ. It is proposed that the AIDC provide secretariat support to the clustering initiative.

Supplier development

Building on the Tirisano supplier development programme, there is a need to deepen the impact of the MIDP through a programme of focused support on 1st, 2nd, 3rd, and 4th tier component manufacturers for supply to OEMs based in the province, as well as nationally and internationally. This is also a mechanism to ensure new entrants to the sector, and address transformation and BBBEE. Interventions include stimulating activity within the sector, and facilitating new investments and partnerships. Opportunities include:

- The processing of dual-phase steel into body panels in the Province either by press shops of the auto assemblers or by the main manufacture of body panels (Trident Steel). This lighter steel is being required by the auto industry and is to be produced by Iscor.
- Creating conditions for manufacture of plastic components – including targeted investment support, negotiation of supply of feedstocks from domestic manufactures (Sasol, Sentrachem etc) and imported sources, marketing support to OEMs and 1st tier suppliers.
- Building on the success of the production of catalytic converters, supporting the increased production of other components, such as exhaust systems, wheels, airbags, air conditioners, auto-related electronics, auto paint, diesel injectors.

Aligning training and R&D

Support for training and R&D to improve quality and productivity must be at the centre of any plan to support the automotive sector. A number of initiatives have begun which need to be further developed and consolidated. These include research partnerships (e.g., between the CSIR, NMMU and the NMBMM) to examine the technology needs of the auto sector, the development of a post graduate auto sector management qualification (certificate course) by Rhodes University in partnership with a number of OEMs, and the development of a Mechatronics laboratory at NMMU in May 2006 to supports the mechatronics engineering degree.

In addition, Coega has established Human Capital Solutions to investigate and source skills for OEMs and suppliers establishing plants in Coega (and the Province). This provides a good basis for a more formalized auto-sector R&D programme and skills development programme.

Enabling infrastructure

Significant progress has been made in providing the enabling infrastructure for the further development of the auto sector. This includes the development of the Auto Supplier Park in the East London IDZ, the Auto Supplier Park in the Coega IDZ, and the Nelson Mandela Bay Logistics Park in Uitenhage.

Going forward, the upgrade of the East London Harbour (deepening and widening), together with improved rail links to Gauteng, will enable the East London IDZ to develop capability as a world class Vehicle Processing Centre (VPC), and will ensure value chain and transport linkages with the Gauteng-based OEMs. Similarly, the upgrade of the R72 will improve access linkages between OEMs and suppliers located in East London and NMMB. The development of air freight capability to service the two IDZs (and Uitenhage) will also improve access and market linkages to global value chains.

As noted above, the automotive sector dominates the province's manufacturing GVA and it is in the EC province's interest to retain this sector in order to avoid loss of employment. Below are the possible additional interventions that DEDEA could undertake in the future:

- Update and centralise database of automotive suppliers in the Province
- Implement early warning crisis system for companies in crisis through RRCC and provide information in respect of emergency assistance.
- Assist component manufacturers to develop alternative product line and identify alternative markets
- Facilitate full utilisation of EMIA programme and other DTI programmes.
- Provide support to component suppliers and link support to employment creation.
- Incentivise disassembly of vehicles as part of the "green" initiative. Such initiative has potential to create a new industry and create employment up to 60% compared to the vehicle assembly business.
- Incentivise use of biodegradable materials in auto components manufacturing as well as manufacturing of alternative fuel driven vehicles
- Upgrade rail network and wagons for a cost effective distribution of fully built vehicles nationwide as well as collaborate with other industries to optimally utilise both loads on the Port Elizabeth or East London to Durban and Port Elizabeth or East London to Johannesburg corridors.
- Improve further development of the automotive sector by redefining the role and institutional arrangements of the AIDC. Regardless of the successes of the AIDC in the development of the automotive sector the following challenges have been experienced:
    - Limited funding for project implementation compelling AIDC to supplement its grant funding deficit through self generated revenue. AIDC is currently 70% funded through self generated funding.
    - Provincial vs. national footprint with the principal shareholders as provincial based industry and key clients with national focus such as the DTI, merSETA and DoL).
    - Staff attraction and retention has become a challenge due to limited funding.

2.3. AGRO-PROCESSING

The agri-processing sector and sub sectors will be critical to the economic development of the Eastern Cape and key to the economic transformation agenda of the PGDP - manufacturing diversification and agrarian transformation. Agri-processing is a critical priority sector particularly in the context of the recent rural development focus adopted by government in the post-Polokwane period. Agri-processing is a complex sector for a number of reasons, these include the following:

- The critical linkage between various agri-processing subsectors and agriculture;
- The diversity of the agri-processing sub-sectors and thus the challenges associated with developing industrial action plans will necessitate a number of sub-sector engagements (despite most of them being characterized as buyer driven value chains);
- The fortunes of the sector are intertwined with the complexities of resolving communal land issues in the former homeland areas.

Food, beverages and tobacco contribution to RSA economy

		2000	2001	2002	2003	2004	2005	2006	2007	2008
1 Employment	EC Contribution to RSA	7.7	7.6	7.5	7.4	7.3	7.4	7.4	7.4	7.5
	Contribution to EC manufacturing sector	13.8	13.5	13.2	13.1	13.2	13.6	13.8	13.8	14.1
2 Output	EC Contribution to RSA	7.1	7.2	7.3	7.5	7.5	7.4	7.5	7.7	7.8
	Contribution to EC manufacturing sector	13.0	12.7	13.0	13.2	13.5	13.7	14.1	15.2	15.7
3 Labour remuneration	EC Contribution to RSA	7.1	7.2	7.3	7.4	7.4	7.4	7.5	7.5	7.7
	Contribution to EC manufacturing sector	11.7	11.7	10.8	11.2	11.7	12.5	12.0	12.1	11.0
4 Input cost	EC Contribution to RSA	7.1	7.3	7.4	7.6	7.5	7.5	7.6	7.8	7.9
	Contribution to EC manufacturing sector	12.9	12.5	12.9	13.1	13.5	13.7	14.1	15.4	16.0
5 GOS	EC Contribution to RSA	6.7	6.9	6.9	7.1	7.0	6.9	7.0	7.1	7.2
	Contribution to EC manufacturing sector	15.3	15.0	16.1	15.6	15.0	14.9	15.8	16.1	17.1
6 Taxes on production	EC Contribution to RSA	6.8	6.8	6.8	6.9	6.9	6.9	6.9	6.9	7.0
	Contribution to EC manufacturing sector	16.5	16.1	15.7	15.6	15.4	15.7	14.8	14.7	14.3
7 Subsidies on Prod.	EC Contribution to RSA	6.9	6.9	6.9	7.1	7.2	7.0	7.1	7.2	7.0
	Contribution to EC manufacturing sector	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.5
8 GVA	EC Contribution to RSA	6.9	7.0	7.1	7.2	7.2	7.1	7.2	7.3	7.3
	Contribution to EC manufacturing sector	13.4	13.4	13.6	13.6	13.5	13.8	14.0	14.3	14.3

Source: own calculations, Quantec, 2009

The size of this sub-sector is very significant. Recent developments in the Food, beverages and tobacco sub-sector show that in 2008, the sub-sector's output in the Eastern Cape was valued at R11.3 billion. This output was produced at a total cost of R9.1 billion generating a GVA of R2.2 billion. The sub-sector employed 15 469 people and paid labour remuneration of R817 million.

The Table above shows that the sub-sector contributed almost 14.1% to total employment in the Eastern Cape manufacturing sector and 15.7% to total output of the Eastern Cape manufacturing sector. The Eastern Cape Food, beverages and tobacco sub-sector contributed 7.3% to RSA Food, beverages and tobacco sub-sector's GVA.

The Table below shows tremendous Trade growth in Food, beverages and tobacco sub-sector. In 2008 the sub-sector's export in the Eastern Cape grew at a faster rate (33.8%) than in the country as a whole (21.8%). Employment in this subsector declined during 2000-2004 and recovered afterward.

Food, beverages and tobacco : 2000 - 2008

%

			2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Employment	RSA	(3.67)	(3.30)	(2.49)	(1.31)	0.67	1.07	0.82	(1.82)	0.95
		EC	(4.82)	(4.56)	(3.71)	(2.65)	(0.63)	2.39	1.46	(1.59)	1.90
2	Output	RSA	7.61	5.42	3.14	2.15	6.42	5.11	2.41	7.57	2.98
		EC	11.59	7.10	4.59	4.70	6.27	4.08	4.06	9.86	4.54
3	Labour remuneration	RSA	5.92	(1.84)	(9.22)	0.55	7.47	9.96	(2.02)	0.86	(10.65)
		EC	10.09	(0.55)	(8.40)	2.91	7.31	9.22	(0.88)	2.15	(9.42)
4	Input cost	RSA	8.11	5.89	3.48	4.09	7.26	4.69	1.71	8.33	4.02
		EC	12.06	7.56	5.12	6.73	7.14	3.59	3.64	10.88	5.61
5	GOS	RSA	6.45	9.50	10.91	(7.44)	0.68	4.33	11.33	8.00	5.76
		EC	10.34	11.87	12.15	(5.87)	(0.09)	3.59	11.92	9.27	7.26
6	Imports	RSA	7.42	17.72	22.72	0.56	20.14	8.35	26.50	42.45	34.58
		EC	0.14	25.21	3.90	8.58	(17.63)	11.11	(4.63)	57.76	21.79
7	Exports	RSA	24.96	21.38	29.50	(11.44)	(9.34)	12.37	4.85	12.34	33.80
		EC	6.86	20.40	68.95	(4.30)	(15.53)	(11.34)	(2.95)	12.74	9.41
8	Taxes on production	RSA	(0.44)	(6.73)	7.09	(1.69)	(2.22)	2.11	(16.82)	(6.83)	(3.16)
		EC	3.44	(6.07)	7.50	(0.09)	(2.70)	1.38	(16.41)	(6.10)	(2.72)
9	Subsidies on production	RSA	34.20	(5.89)	12.33	32.64	(46.67)	73.13	3.79	(2.23)	(4.21)
		EC	33.10	(5.10)	12.45	35.89	(46.10)	69.49	4.59	(1.49)	(6.33)
10	GVA	RSA	6.05	3.93	2.03	(4.23)	3.42	6.67	5.00	4.88	(0.80)
		EC	10.07	5.60	2.83	(2.26)	3.00	6.02	5.66	6.05	0.32

Source: own calculations, Quantec 2009

In this section we very briefly profile several agribusiness sub sectors:

- Biofuels
- Food & Dairy
- Leather, wool and mohair
- Meat processing

2.3.1. BIOFUELS

The biofuel industry involves production of fuel derived from any type of biomass. The aim of Government is to grow the local biodiesel industry so that it is able to supply 2% of the diesel consumed in South Africa. AsgiSA has identified biofuels as a priority sector, and the Department of Minerals and Energy has completed a biofuels strategy.

Optimal feedstocks and where they can be best grown have not yet been determined, though under-utilized arable land in our former homelands may be suitable. The competitiveness of this new industry may be heavily dependent on tax incentives offered by National Government, and it is not yet clear that the cultivation of biofuel inputs offer the best use of land in our various agro-ecological zones.

2.3.2. FOOD PROCESSING

Food-processing companies (Nestle, Cadbury's, SAB, CocaCola, Magwa Tea, Pineapples, Parmalat, Clover etc) presently directly employ about 12,000 people. This subsector can only be grown on the back of increased farm production (e.g. in the former homelands) and strong supply chain relationships between producers and processors.

The food processing sector is not homogenous and reflects significant differences between sub-sectors and activities in terms of the structure of the value chains. Markets, technologies employed, linkages with upstream agriculture etc are fairly diverse across this sector. This has significant implications for developing sector strategies, convening sector forums/clusters.

The Eastern Cape's contribution to national milk production has increased from 13.8% in 1997 to 20.5% in 2004, which can be attributed to a gradual shift of dairy farms to coastal areas. It is estimated that 2,900 people are employed in the dairy industry in this Province. About 40% of provincial milk production is exported out of the Province for processing. There is potential to increase both milk production and processing.

Measures to support small firms, in geographical clusters, along with marketing links will be built upon to ensure that an increased proportion of the Province's need for food are supplied locally. Co-operatives can be encouraged in this area, and direct government support given for marketing and distribution.

Export markets require measures to enable large-scale production and processing, with high levels of quality and efficient supply. Existing success in these areas, for example, in citrus and pineapple processing need to be broadened to enable the entry and improved participation of emerging farmers. Links with institutions providing agricultural support to ensure a package of measures covering irrigation, land-use, extension services, marketing etc. Export opportunities also exist in organic vegetable produce. This requires accreditation through agencies which now have recognized branches in South Africa. It provides specific opportunities for land-use where land has not been subject to pesticides, and does not there have to undergo a long process of 'cleaning'.

Cultivation of new crops such as hemp, paprika and other spices. Ongoing pilot projects in the Province will lead wider roll –out through co-ordinated measures supporting production marketing, especially for smaller- scale producers.

2.3.3. LEATHER, WOOL AND MOHAIR

Many manufacturers of footwear and general leather products closed during the last decade as a result of foreign competition, but the South African leather industry has grown significantly due to the expansion of the automotive leather upholstery industry (as a consequence of MIDP). The Eastern Cape leather industry directly employs about 2,000 people. The industry can be grown by improving the quality of hides and skins coming from the former homelands, and also the export of wet-blues requires further attention.

The Eastern Cape is home to more than half of SA's wool-sheep, but produces only 26% of the wool clip. The mohair industry directly employs 7,200 people. Both industries offer development opportunities, as has been proven in recent years.

2.3.4. MEAT PROCESSING

Livestock is farmed in most parts of South Africa amounting to some 13,5 million cattle and 28,8 million sheep. South Africa normally produces about 85% of its meat requirements. Livestock farming in the Eastern Cape is widespread for both commercial and subsistence farming activities. The table below gives an idea of the significance of various types of livestock farming for the Eastern Cape. Two fifths of South African goats (39.4%), almost one third of sheep (31%) and more than one fifth of cattle (22.4%) are farmed in the Eastern Cape. The vast majority of provincial cattle (71%) and goats (73%) are farmed in communal farmers.

Not only are many livestock exported live and slaughtered outside the Eastern Cape (60% of pigs) but the abattoirs in the Eastern Cape (found mainly in Nelson Mandela Bay, East London, Queenstown, Mtatha and Kokstad) are generally running below slaughtering capacity. These shortfalls are largely due to the quality of natural grazing. Central to unlocking the significant potential of the meat processing and livestock farming sector is thus improving local feeding capacity. This single intervention will provide the basis for unblocking the whole meat processing and livestock farming value chain, particularly in the poorest and most underdeveloped parts of the province.

According to calculations by the DOA if the quality of feed of the current herd (cattle) results in a 30% increase in body mass the value of the gain in terms of live weight kilograms (R111,3 million in the first year) by far exceeds the total value of the imported meat into South Africa (R68,7 million). These projections are for cattle with similar potential obtaining for the small stock. The unlocking of this value chain in the poorest areas in the Eastern Cape will have huge consequences for livelihoods security. The challenges for ensuring the stabilization and expansion of this sub sector include the improvement of livestock feeding, ensuring appropriate logistics infrastructure (cooler trucks, storage facilities etc) as well as the long term expansion of the capacity of local abattoirs.

2.3.5. CONCLUSION

Central to supporting an emergent vibrant agro-processing sector is the alignment and coherence between the provincial agriculture strategy, the provincial agro-processing strategy and the development at national level of a strategy for agriculture. Similar planning and co-ordination constraints obtain as they do within the planning and coordination of the industrial sector. The agro processing sector is composed of a fairly diverse range of sub sectors from biofuels, to dairy to canning and tanning. These sectors in fact exhibit very different characteristics within their value chains as far as technology, markets, skills, firm structure, and competition. This should be taken into account by a provincial agro-processing strategy. Sector engagement processes might require a far more detailed set of engagements with various subsectors.

Cross cutting issues relating to agro processing

While the agro-processing sub sector is diverse there are a number of cross cutting issues which will affect the fortunes of all sub sectors. These issues include:

- Resolving the issue of land tenure and communal land issues
- Utilities (water and electricity)
- Infrastructure - transport, irrigation
- Market access (dominance by large buyers)
- Quality inputs
- Competition from cheap imports
- Skills

2.3.6. PRIORITY INTERVENTIONS

Agro-processing has been identified as one of the sectors that will assist the Eastern Cape in diversifying its manufacturing base beyond the automotive sector. In order to achieve that it is suggested that DEDEA undertake the following:

- Expand feedstock base locally through a robust crop growing / husbandry programme province wide. This programme should be government supported through the following:
    - Land availability for crop growing or animal feeding
    - Availability of such infrastructure as irrigation systems and/or hydroponics,
    - As well as such agricultural consumables as seedlings and fertilisers
    - Provide targeted training
    - Provide technical assistance and market access.
    - In order to derive maximum value and for investors to remain competitive, the focus should be on high value and/or organic crops.

- Provide an integrated logistics platform through creation of consolidation points or centres – in form of silos for dry products, cold storage facilities for perishable products as well as road and/or rail network in order to ensure efficient supply chain.
- Establish a multi-stakeholder forum/ partnership in order to ensure integrated planning and implementation, leveraging of financial resources in creation of agro-processing regional based nodes where maximum benefit will be derived by linking crop growing/ husbandry, processing to end product and distribution.
- With the Eastern Cape accounting for approximately 40% of SA's milk production, milk processing to a range of dairy products should be localised and milk production expanded to ensure future supply.
- Similarly, fruit processing (citrus and deciduous fruits) including pectin processing plants should be set up in close proximity to growing nodes.
- The IDZs should provide readily available turnkey solutions in form of mini processing facilities as well as distribution centres (for sorting, packaging and labeling for local distribution or exports) in order to reduce the initial capital outlay and improve return on investment (ROI) for investors in food, meat or dairy processing.
- Furthermore, growing of canola, soya and sunflower in the province should be supported in order to create further opportunities for development of bio-fuels. A multi-stakeholder collaboration will ensure success of this initiative and investment promotion agencies would be required to find investors with technology and finance for bio-fuels production.

2.4. CHEMICALS & PETROCHEMICALS

With the primary feedstock capacity for petrochemicals from the planned R90 billion oil refinery at the Coega IDZ, the Eastern Cape will improve primary fuel production capacity opening new upstream and downstream opportunities for associated products and chemical feed stock. It is envisaged that PetroSA's crude oil refinery will produce over 400 000 bpd diesel, petrol and petroleum products as well as sulphur and petroleum coke that can be beneficiated further. It is envisaged that the COEGA Oil Refinery (COR) will also produce a number of organic commodity products such as ethanol and other alcohol blends as well as limited quantities of olefins available in process streams to serve as feedstock for downstream chemical production. The project's estimated schedule is as follows:

The Coega oil refinery is regarded as a national strategic project and has been sanctioned at Cabinet level. The viability of the project is underscored by projected growth in demand for petroleum products in the next five years. At a growth rate of 5% per annum oil consumption in Africa will grow to 8.5 million barrels per day in 2012. The land allocation for the project will be approximately 600 hectares, 5000 direct jobs and 35000 indirect jobs will be created. Such a key project has also necessitated the development of a tank farm. Both the former and the latter will enable the development of the necessary downstream chemical industry complex to support job creation. The tank farm project also has a significant impact on the further redevelopment of the Port Elizabeth Waterfront with the removal of the tank farms that are located at the current PE harbour.

Although most investment will be driven by private sector, the CDC will be required to plan for the detailed feasibility for the next phase of the project and provision of infrastructure thereof. These two projects will change the economic landscape of the Eastern Cape Province by creating a new industry and through its downstream benefits impact the socio-economic landscape of the Eastern Cape positively. In that light this project should be supported by DEDEA in the following manner:-

- Get an undertaking from Transnet to upgrade rail and improve access to rail from Port Elizabeth to Johannesburg in order to enable distribution of fuel products nationwide. Considering three scenarios, the capital investment required for the rail upgrade is estimated between R320 million and R1 billion.
- Alternatively, Transnet can install a dedicated pipeline connecting Coega and Johannesburg. This option would require a capital investment of approximately R10billion i.e. 10 times greater than the rail upgrade costs. However, the latter's advantage is its inherent potential to reduce operational costs for the refinery as well as make available rail and road for alternative use.
- Water supply capacity in the NMBM also requires an upgrade. Considering PetroSA's water requirements of 1000 tons per hour, the current water supply capacity could only provide 100 tons per hour. The capital investment required for the upgrade is approximately R4.5 billion for which the NMBM is currently seeking funding.
- In order to achieve maximum utilisation of regional based human capital, in collaboration with PetroSA, Coega and DEDEA should support targeted skills development.
- DEDEA should support projects that will emanate from the Supplier Development Programme that will be developed by Coega in collaboration with PetroSA by leveraging resources from DEDEA, SEDA, ECDC's Enterprise Development Unit and other agencies looking after SMMEs.

2.5. CAPITAL GOODS

The metals, metal products, machinery and equipment subsector is a large employer in the Eastern Cape (more than 14,000 employees) and one of only two manufacturing subsectors not to have contracted employment since 1995 (the other one being furniture). The subsector has been well researched: there is a DTI Customised Sector Plan for Capital Goods and Naledi have prepared detailed reports on the engineering industries.

This industry is particularly attractive because of the huge capital investment programmes of Eskom (power generation and distribution), Transnet (rolling stock etc) and PetroSA (new oil refinery at Coega). These investments are likely to cost nearly R1 trillion over the next decade, and the parastatals have recognized the need to source as much capital procurement as feasible from SA producers. To this end the three parastatals have established Supplier

Development Programmes to help create the necessary local capacity.

There is a clear case for a local capital goods sector – some of the supporting reasons for this include minimising export leakage through increasing local manufacturing of capital goods linked to the South African infrastructure investment programme as well as that of the rest of Africa which is likely to increase significantly over the medium to long term. The Eastern Cape has to make a case for itself to access at least part of these investments and prioritising the sector in the PIDS is part of this process of staking a claim. It obviously requires more than expressing an intention though – this requires building competitive advantage – using the capabilities already existing in the auto sector as a basis but also building R&D and innovation capabilities within the regional innovation system to support partnerships between local higher education, science and technology organisations and the private sector in building local competitive advantage in capital goods production.

While the details of the sector for the Eastern Cape are being developed it is significantly different from other sectors since the main investments are made by the state. The priority intervention is therefore for DEDEA to engage the three parastatals to explore how to grow the provincial capital goods industry.

2.6. GREEN INDUSTRIES

Global warming, environmental awareness, rising oil prices, increasing electricity prices and improvement in technology have necessitated diversification of SA energy mix - through renewable energy among others. Furthermore, the South African (SA) government through the DME has set a target of producing 10 000 GWh by 2013 from the different renewable sources. Given the fact that renewable energy is mainly driven by legislation in countries where it has succeeded, NERSA recently made a pronouncement on one of the most critical drivers in the development of renewable energy i.e. feed-in-tariffs for different renewable energy alternatives. However, the local demand for renewable energy e.g. solar remains extremely low due to high initial capital outlay. Given SA's high solar radiation and good wind profile in the some coastal sites national government through DME must influence development of a policy framework that will provide incentives in order to increase local demand of alternative energy and DEDEA on the other hand, must strive to influence policy towards developing certain underdeveloped areas in SA including EC to be used as manufacturing centres for renewable energy. In order to achieve that, the following interventions are suggested;

- With the attractive feed-in-tariffs recently announced by NERSA, DEDEA may support development of solar or wind farms particularly in high density areas with existing transmission infrastructure (unless budget could be set aside to develop transmission infrastructure). The success of this initiative will require collaboration and partnerships with the regional electricity distributors (i.e. municipalities) through conclusion of purchasing power agreements. DEDEA could use such solar and wind farms as form of business model for SME development and would ensure increased use of some unutilized or underutilized land.
- Improvement of the current capital investment subsidies - Attractive subsidies will encourage both residential and commercial property owners and/or users to invest in renewable energy e.g. solar thermal or photovoltaic. Current subsidies offered by ESKOM are not effective and DEDEA should influence NERSA or DME or CEF for a more effective subsidy platform. Collaboration with municipalities is also crucial.

- Introduction of legislation (national legislation or municipal bylaws) that will encourage approval of new building plans for new residential and commercial property developments to be subjected to installation of solar thermal or photo voltaic for partial supply of power. This option can be practical once the subsidy platform has been created and will automatically increase local demand by domestic and commercial property owners.
- Furthermore, setting of thresholds for use of green energy by industries should be encouraged through legislation. This will also raise demand of renewable energy in SA, in the country and assist SA to meet its green energy commitments.

Although availability of domestic market has not been set as a precondition for setting up of production facilities for such renewable energy products as solar cells, solar panels etc. in a particular market, major producers abroad expand their operations offshore mainly in low cost locations. Given that SA is not a low cost location; production for exports could be supported by a growing local market. National support for economically depressed areas in SA can be done through a deliberate effort to direct all manufacturing of such components as solar cells, solar panels, components for wind turbines to such areas by:

- Creating tax havens for manufacturing of solar cells and solar modules in economically depressed areas
- Lobbying national government to steer manufacturing of such renewable energy to IDZs in the EC in order to optimally utilize infrastructure that government has already invested in.
- Develop support infrastructure i.e. international airfreight facilities in case of solar cells and port for solar modules as well as land availability for expansion
- Such manufacturing centres should also be supported by a robust skills development programme in order to ensure availability of the right skills.

2.7. TOURISM

2.7.1. INDUSTRY SNAPSHOT

The tourism industry is a growth sector of the Eastern Cape economy, and because of its employment-intensity and linkages to the rural economy, the sector must be given very high priority in the provincial industrial strategy. In fact the sector has been identified as one of the fastest-growing creators of jobs in the country, with the potential to create 45 000 new job opportunities per annum in the Eastern Cape.

Tourism has grown strongly since 1994. This is evident both from official statistics and the observation of new investments in hotels, private nature reserves, golf courses, guest houses and B&B's. According to the Centre for Tourism Studies at NMM University, employment in the tourism industry now exceeds the manufacturing industry (100,000), and accounts for about 10% of the provincial economy (a greater % than for SA as a whole). In particular, the Eastern Cape is a major beneficiary of expanding domestic tourism, based on rising real disposable incomes, and in particular the emerging black middle class.

In 2003, 6.5 million international tourists visited South Africa of those around 500,000 visited the Eastern Cape. In the same year the province received a total of 1.8 million domestic tourists making approximately two trips each i.e. 3.6 million trips.

The Province is the third most popular for domestic tourists (after the Western Cape and Gauteng), but only in seventh position in receipt of foreign tourists. This is important because foreign tourists spend more, stay longer and generate more employment than domestic tourists. In particular, the Eastern Cape seems to be underperforming its neighbours, Western Cape and KZN, in terms of tourism development. This is in spite of significant tourism potential (cultural, heritage, and natural resource based).

Explanations for this under-performance include the shortage of well-defined tourist infrastructure (roads and accommodation), poor tourism product development, marketing and branding, and an absence of a tourism network (routes, generic marketing, and tour operators). Our Province also lacks an international airport, in contrast to our two neighbours. This is something that Provincial Government needs to resolve in collaboration with National Government. The paucity of information available to tourist clients limits the potential diversity of tourist experiences. Tourists from outside the Province find it difficult to conceptualise a complete holiday package in the Eastern Cape and instead visit discrete sites. Equally the absence of institutional capacity to co-ordinate tourism development, including the planning of infrastructure and facilities, and intervene where there are bureaucratic hurdles (such as unresolved land claims), has created uncertainty and risk for private sector investors.

Other constraints that must be addressed include negative tourist perceptions about safety and security (particularly for the Wild Coast), in spite of declining levels of crime.

These perceptions, although misconceived, undermine the competitiveness of the tourist sector. Finally, the sector is insufficiently transformed, with BBBEE and historically disadvantaged communities not having benefited sufficiently from the tourism boom.

Here the state needs to play a much more active role in facilitating partnerships, and in actively supporting transformation goals (through financial and non-financial support, skills development, licensing etc).

2.7.2. PRIORITY INTERVENTIONS

A number of priority interventions are necessary to drastically improve the competitiveness of the provincial tourism industry in the run-up to the 2010 World Cup to commercially exploit the Province's manifold tourism assets (coast, mountains, game reserves, culture, heritage etc).

Product development and investment support

A number of priority tourism projects in the Province require active state support. The nature of this support requires to be spelt out in the Industry Action Plan. These projects include, but are not limited to:

- Amatole Park and Living Museum, linking existing reserves and scheduled areas into a diverse park, with a centre to showcase natural and cultural history and heritage.
- The development of East London Waterfront and Marina, through PPP.
- Upgrading of facilities (possibly through CPPPs) and improved marketing of reserves, including Addo, Fish River, Baviaans, Karoo, Pondoland, Dwesa and Hluleka reserves.
- Mandela Development Corridor, linking Wild Coast tourism attractions with heritage sites including Mandela's birthplace (in Qunu) and museum (in Mthatha), with the eco and adventure hotspots of the Drakensberg.

- Gariep Lake Development, including the development of a inter-provincial mega reserve, and the establishment of a single management entity with CPPP facilities development to draw in tourists to the Karoo Heartland and Friendly N6 routes and fully develop resort potential on the lake itself.
- Product development, branding and marketing of a series of heritage routes, linking heritage and liberation struggle sites, art and craft projects, and ecotourism attractions under strong brands and operational management;
- Karoo Rail Tourism needs to be scaled up to an inter-provincial initiative linking small Karoo towns through the revitalization of the defunct rail network.
- Madiba Bay Leisure Park and Waterfront, integrating cultural, adventure and craft attractions in the NMMM.
- Maluti-Drakensberg Trans-frontier Park, to unlock opportunities for resorts, infrastructure and community tourism development in the Maluti area of Alfred Nzo district.
- Wild Coast tourism development, including product development and promotion of community-driven trails, campsites, and tourism accommodation, the zoning of areas for the development of new resorts, and the development of Port St John's and Coffee Bay as tourism nodes and service hubs.

Infrastructure development

Key infrastructure projects that require to be championed and implemented to unlock tourism potential include:

- N2 Toll Road, to provide easy access to the Wild Coast from KZN,
- Wild Coast Meander from Kei Mouth to Port St John's to unlock tourism and reserve development of the southern Wild Coast;
- Reserve development, including the upgrading of access roads and facilities development (possibly through PPPs);
- The development of PE Airport into a fully-fledged international airport, and the development and servicing (including flights) of East London, Mthatha and Port St John's airports;
- The resuscitation of the Karoo Rail network (possibly through PPP);
- Upgrading and maintenance of the R72 linking NMMM and East London
- Waterfront and marina development in Port Elizabeth, East London and Port St John's (possibly through PPP)

Optimizing LED benefits

There is the (often correct) perception that the tourism industry hasn't sufficiently transformed in terms of BBBEE and benefiting the poor. This suggests the need for detailed tourism value chain research to identify specific economic opportunities and spin-offs for SMMEs and the poor (such as has been successfully achieved through the B&B initiative linked to the Grahamstown Festival). These include:

- More active partnership and joint venture facilitation in mega tourism development in the Province, to ensure BBBEE and community interests are achieved;

- Local supply of fresh food products to hotels and B&Bs.
- Laundry and cleaning services to hotels and B&Bs.
- Maintenance of the physical structures (plumbing services, landscaping, provision of reliable transport for tourists and workers, general building maintenance, security).
- Development of art, craft and heritage centres;
- Tour guiding, canoeing, horse-riding, etc. by SMME's.
- Tour buses, boating and other tourist transportation.
- Improving skills throughput through the Tourism, Hospitality and Sport Education and Training Authority (THETA), and linking skills development with business and job opportunities.
- Financial and non-financial support to new entrants

Institutional development

The tourism sector is characterized by a myriad of state and non-state actors, without strong co-ordination at provincial level. This has allowed bottlenecks to develop vis-à-vis attracting public and private investment in tourism assets, with weak joint branding and marketing of the Province and its tourism products among and between the public and private sectors. The Eastern Cape Tourism Board needs to build capability to lead the sector, and the Tourism Master Plan requires to be finalized to unite all role-players around a common set of priorities.

There also need to be stronger efforts made by municipalities to build Local Tourism Associations, which are well positioned to market local tourism products, and co-ordinate municipal projects (functional public toilets, signage, look-out points, rest-stops etc) to enhance the local tourism experience.

The recently completed Tourism Master Plan (2009) identifies the following eight priorities:

- Tourism product development
- Tourism marketing Management
- Infrastructure
- Transformation
- Safety and security
- Human Resource Development
- Research and Development

Key Challenges and opportunities identified in the Master Plan include the following:

Tourism Challenges and Opportunities	
Challenges	**Opportunities**
Small market share	Unique offering
Product development lacking	Relative under development
Limited research and knowledge management	Untapped Partnerships
Limited resource allocation (0.7% vs. 7%)	Growth Markets
Under developed enabling infrastructure	Leverage for infrastructure development

Varying levels of destination readiness	Develop MICE industries
Uncoordinated cooperative governance	

The critical short, medium and long term priorities for the tourism sector in the Eastern Cape include the following (overleaf):

Short, Medium and Long Term Priorities for Tourism		
***-Infrastructure development**		
Short Term	**Medium term plans**	**Long term plans**
Priority roads: Addo, Coffee Bay, Mkhambathi, Great Fish, Baviaanskloof, ports, airlift in EL and Mthatha)	Access roads (R72 PE to EL and Willowvale), Wild coast, upgrade Mthatha airport, Port St John's airstrip, Tourism information centers and port facilities for cruise liners	Upgrade all tourism network roads, info centers throughout the Province, port facilities and upgraded airstrips
Destination readiness		
Short Term	**Medium term plans**	**Long term plans**
Signage, ISO22000, Safety and security, product audits	Product and experience signage, service excellence programmes, targeted HRD, M&E safety and security and destination management system maintenance	Product and experience signage, service excellence programmes, targeted HRD, M&E safety and security and destination management system maintenance
Research and information		
Short Term	**Medium term plans**	**Long term plans**
Quarterly industry info		
Marketing		
Short Term	**Medium term plans**	**Long term plans**
Attracting premier events, soccer, EC from above, developing the brand)	Build tourism brand, continue focused domestic and African markets and target high growth international markets	Build tourism brand and grow international markets
Product development		
Short Term	**Medium term plans**	**Long term plans**
GCP projects, Kiwane campsite, BEE for Regent Hotel expansion, Nelson Mandela tours	Resort development for Wild coast, new brand positioning, product diversification, ICC for PE and investment in GCP projects	Resort development for rest of the coast, implement 5 GCP projects, product diversification
Transformation		
Short Term	**Medium term plans**	**Long term plans**
Monitor Government spend on hospitality and focused interventions on 10 facilities per year		

In the short term, the strategy must begin by addressing the consequences of the global economic crisis and the de-industrialising tendencies which threaten the long term industrial future of the Province. At the same time the strategy must ensure that provincial government and its entities are appropriately structured, skilled, enabled and resourced to deliver on the strategy as outlined below. This will entail ensuring that the province takes advantage of the emerging green industries, that it plans and implements priority sector plans and that it begins to put the building blocks in place to create a resilient and innovative economy that is able to stake its claim in the longer term capital goods sector.

ANNEXURE 3: EASTERN CAPE SECTORAL ANALYSIS

This section has been extracted from the Eastern Cape Provincial Economic Profile and Outlook, published in February 2010 by Department of Economic Development and Environmental Affairs. It is reproduced in this Annexure for the purpose of further information on the Situational Analysis. For detailed tables and figures, the reader should refer to the original publication.

The first section highlights the share of each industry in the Eastern Cape's total output from 1995 to 2008. Manufacturing, wholesale and retail trade, finance and general government industries contribute the most to the Eastern Cape's output. General government services sub-sector has decreased while the finance industry has increased since 1995. Manufacturing, wholesale and retail trade have been more stable and constant, on average, since 1995.

PRIMARY SECTOR

The primary sector is the worst-performing of the three sectors. Its contribution to the provincial total output has been on a decline since 1995. On average, from 1995 to 2008, the primary sector's contribution to the Eastern Cape's total output was 2.7 percent, which is higher than the 2008 contribution. Compared to the national primary sector, it contributed only 2.1 percent on average. Agriculture, forestry and fishing is the dominant industry in the sector, representing an average 94.6 percent of the primary sector, while contributing only an average of 6.8 percent to the same industry at a national level.

The districts that contributed the most to agriculture, forestry and fishing industry were Cacadu, Amatole and Chris Hani. Cacadu and Amatole districts' contribution to agriculture, forestry and fishing has been decreasing, whereas in the Chris Hani district, there has been an increase in contribution of about 1.3 percent, on average, since 1995. On the other hand, Alfred Nzo and OR Tambo, being the lowest-contributing districts in the industry, have seen an increase in contribution.

SECONDARY SECTOR

In the Eastern Cape, the secondary sector has contributed an average of 21.5 percent to the total economy, while its share in this sector at the national level has remained flat at around 7.2 percent since 1995. Manufacturing has dominated the sector over the past 14 years, representing 83.4 percent of the secondary sector in the province, but only contributing an average of 7.8 percent to the national manufacturing industry. Electricity, gas and water is the least contributor, with 6.5 percent of the secondary sector, while construction industry accounts for 10.1 percent.

Approximately 86.1 percent of the manufacturing industry in the Eastern Cape comes from the Nelson Mandela Bay Metro and the Amatole districts. Even though their share in the provincial manufacturing industry has declined over the years, they're still playing a leading role in this industry. Alfred Nzo and UKhahlamba are the lowest-contributing districts in electricity, gas and water since 1995.

TERTIARY SECTOR

The tertiary sector in the Eastern Cape had an average contribution of 75.8 percent to the total economy, while contributing 9.3 percent to the national tertiary sector. From 1995 to 2003, general government services (29.4 percent) has played a leading role, followed by finance, insurance, real estate and business services (25.6 percent), and wholesale and retail (20.7 percent) in third place. Since 2004, there is a shift in the ranking, with finance, insurance, real estate and business services (28.0 percent) taking the top position, followed by general government services (25.9 percent). Transport, storage and communication has lagged behind, with only 11.9 percent over the period 1995-2008.

Amatole district and Nelson Mandela Bay Metro represent 63.7 percent of the total sector in the province. However, their contribution has declined over the years. General government industry dominates in Amatole district, while finance, insurance, real estate and business services leads in Nelson Mandela Metro. Alfred Nzo and Ukhahlamba contributed less to this sector on average.

3.1 SECTORAL GROWTH ANALYSIS

PRIMARY SECTOR

During the period 1995 to 2008, the primary sector in the Eastern Cape contributed less than 3 percent to the economy. Equally, growth in this sector, both nationally and provincially, has been disappointing for the past 14 years. In fact, there is a dive in the sector’s growth, from 1.3 percent in 1995-2000 to 0.9 percent in 2001-2008. Provincially, the sector grew from an average rate of minus 0.2 percent in 1995-2000 to an average of 3.1 percent in 2001-2005. In light of the negative growth experienced provincially throughout 1995-2000 and the sluggish growth nationally, the average growth of 1.7 percent for 2001-2008 may not seem so bad as it also exceeds the national level for that period. Agriculture, forestry and fishing (AFF) has exhibited the same characteristics of growth shown by the provincial primary sector. This is not surprising given that agriculture, forestry and fishing contributed more than 95 percent to the primary sector’s output for the Eastern Cape.

SECONDARY SECTOR

The secondary sector in the Eastern Cape has been dominated by the manufacturing industry, followed by the construction industry. Jointly, these two industries contributed more than 90 percent of the sector’s output, with manufacturing contributing more than 80 percent of this figure. The growth rate of manufacturing has been slightly below that of South Africa during the two latter periods investigated, that is, 2001-2005 and 2001-2008. Oddly, the period 2001-2005, which was typified by sustained economic growth in the country, shows no improvement in the growth rate of manufacturing sector. The growth of manufacturing in the Eastern Cape appears to lag the national growth for all periods considered. Turning to the construction industry, growth rose to a remarkable 11.1 percent in 2001-2005 from 2.1 percent in 1995-2000, and has remained above the 11-percent margin for the period spanning 2001 and 2008. This increased growth level in the construction industry, although above the national growth, has been aligned to the national growth rate.

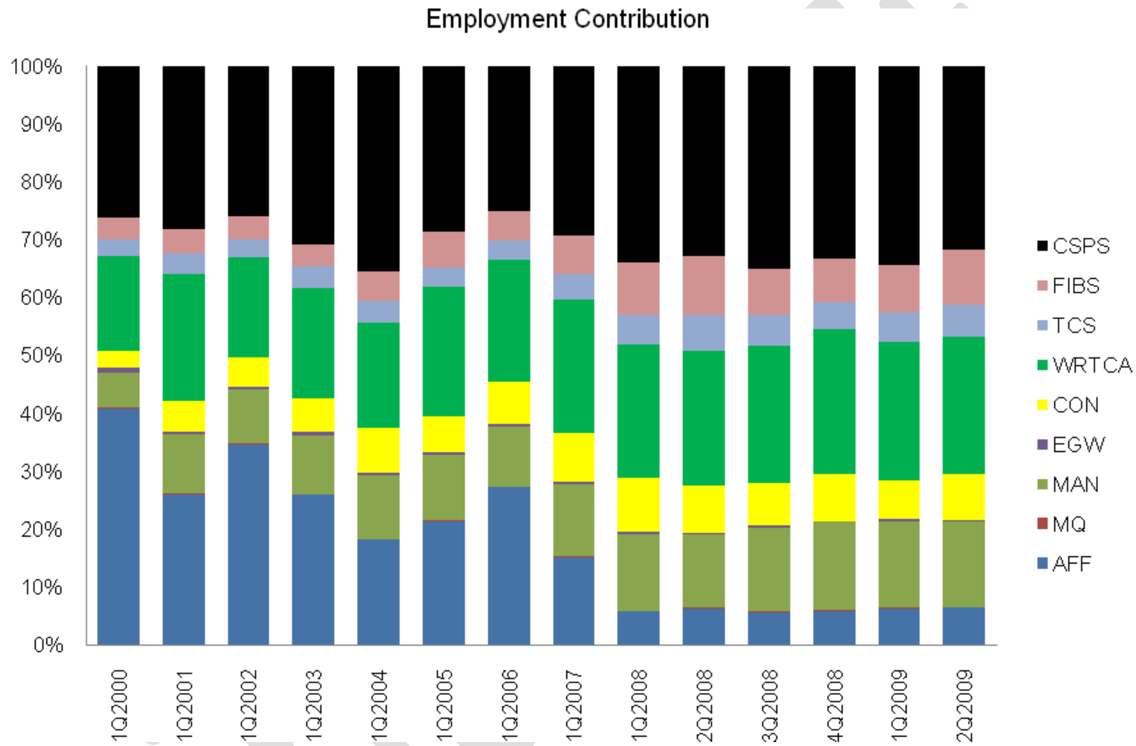
TERTIARY SECTOR

The tertiary sector in the Eastern Cape contributes more than 75 percent to the economy of the province. Both provincially and nationally, the sector has experienced steady growth. This is despite the fact that provincial growth has always lagged national growth, by almost 1 percent. Industries that have driven growth in this sector were finance, insurance, real estate and business services (FIBS); community, social and personal services (CSPS); and transport, storage and communications (TSC), despite showing signs of decline during the period 2001 to 2005 with the exception of finance, insurance, real estate and business services. Provincial growth in finance, real estate and business services has shown enormous growth after jumping from an average growth of a mere 1.2 percent in 1995-2000 to 6.3 percent in 2001-2005, and has remained within the 6-percent level of growth for the period 2001-2008. Growth in this industry has closely tracked national growth. Analysis shows that average growth in community, social and personal services in the province experienced a marginal decline in 2001-2005, but overall has been growing at an almost similar rate with the national level. The transport, storage and communications industry declined slightly in growth in 2001-2005 to 4.8 percent when compared to the growth level of 1995- 2000, which averaged 5.1 percent. The decline in growth is even more apparent when comparing the average growth rate in 2001-2008 with that of 1995-2000.

3.1 EMPLOYMENT SECTORAL ANALYSIS

The figure below illustrates the change in the contribution of employment (formal and informal) of different industries to the total employment in the Eastern Cape between 2000 and 2009.

Figure: Industry Employment share of the total in Eastern Cape, 1Q2000 – 2Q2009



From this figure, it appears that agriculture, forestry and fishing has lost momentum over the period 2000 to 2009. Its contribution to the total (formal and informal) employment in the province was about 40.9 percent in the first quarter 2000, while it only represented 6.4 percent in the same quarter of 2009. Over the same period, manufacturing and finance, insurance and business services have doubled their employment contribution. Wholesale and retail trade; catering and accommodation saw an increase in contribution from 16.5 percent in the first quarter of 2000 to 23.6 percent in the same quarter in 2009. Also, the contributions from construction, transport and community, social and general government saw a slight increase over the period, while those of mining and electricity decreased.

3.3 SPATIAL SECTORAL ANALYSIS

AMATOLE DISTRICT MUNICIPALITY

The total Gross Value Added (GVA) for 2008 was R22.4 billion in 2008, a growth rate of 1 percentage from 2007. Amatole DM is the second largest economy in the province. Of the total GVA, the sectors which contributed the most to the economy of the district were general government service and finance and insurance, with 23 percent apiece, followed by manufacturing with 15 percent, and wholesale retail and trade with 14 percent. Jointly, these sectors contributed about 75 percent to the GVA of the district. Sectoral Contribution Analysis

Amatole is the second-largest contributor to the primary sector, with only 18.3 percent of the total sector in the province. The primary sector's contribution in the district economy has been less than 2 percent on average, with agriculture holding an average of 94.2 percent of this sector in the entire district. The share of both primary and secondary sectors in the district economy has decreased over the years. The secondary sector has represented an average of 21.5 percent of the district production and 27.6 percent of the total sector in the province. On average, the manufacturing industry alone has contributed 81.3 percent to the sector, representing 26.9 percent of the provincial manufacturing industry. The tertiary sector is the dominant sector in the region, with 76.7 percent of the total production. Finance, insurance, real estate and business services, general government and wholesale industry are the major industries, with 80 percent of the tertiary sector.

The primary sector contributed less than 2 percent to the economy of the Amatole District Municipality (DM) in 2008. More than 95 percent of this contribution was derived from the agriculture, forestry and fishing industry. Between 1995 and 2000, growth in this sector was negative, in line with provincial growth, and started growing around 2001 and 2005 before declining, although it still remained slightly above 1 percent. The growth rate of the DM has always been less than that of the province. The growth of agriculture, forestry and fishing, which has been a mirror image of the entire primary sector in the Amatole DM despite showing the same trend as the national growth, has always lagged the provincial growth rate.

The secondary sector, which is the second-largest contributor to the district's economy, has experienced negative since 2001. This growth rate is contrary to the one showed by the province, which has been both positive and growing steadily. This pattern of growth has been mimicked by manufacturing, which is the leading industry within this sector. There has been a gradual contraction in the growth of the secondary sector in the Amatole DM.

The tertiary sector, which is the dominant sector in the Amatole DM, is the only one that has shown resilience from 1995 to 2008. It recorded positive growth, which has been increasing steadily over the period under review. This has been the case for the provincial growth of the sector. Out of the three leading industries in terms of growth, only two have grown without decreasing in momentum, namely, finance, insurance, real estate and business services and general government services. Growth in finance, insurance, real estate and business services increased between 2001 and 2005, and also between 2001 and 2008, compared to the growth between 1995 and 2000. General government services has grown gradually despite the difference in growth recorded between the district and provincial growth in 2001 and 2006, when provincial growth shot up to just above 6 percent, while the district trailed with 1 percent. Wholesale and retail trade, catering and accommodation has declined in growth when compared to the period 1995 to 2000. Also, in relation to the provincial growth, this industry's growth has dropped.

ALFRED NZO DISTRICT MUNICIPALITY

Alfred Nzo is the smallest economy in the province. The total Gross Value Added for 2008 was R2.1 billion, a growth of almost 3 percent. Of this total, the sectors which contributed the most to the economy of the district were general government services with 35 percent, followed by community, social and personal services with 18 percent, finance and insurance with 14 percent, and wholesale and retail trade with 11 percent.

The tertiary sector has contributed an average 88.1 percent to the district output, representing only 2.7 percent of the sector at the provincial level. The secondary sector, with 7.5 percent of district output, represents less than 1.0 percent of the Eastern Cape secondary sector. The district economy is dominated by tertiary industries, with general government playing the leading role. Wholesale and retail trade, catering and accommodation is the second major contributing industry. Community, social and personal services is third, and finance fourth, with 11.8 percent of total output.

The primary sector has experienced a trend reversal in its growth figures, in spite of the positive growth displayed from 2001 to 2005. Growth in the Alfred Nzo District Municipality has been driven by the agriculture, forestry and fishing industry, which accounted for most of the provincial growth between 1995 and 2000.

The secondary sector shows a decline in the sector's growth when comparing the years 1995 to 2000 against the years 2001to 2008, while at a provincial level, a steady incline was observed in this sector's growth. Growth in the district's secondary sector has been driven by growth experienced in the manufacturing industry, which consistently outperformed that of the province, despite showing signs of falling during the period 2001 to 2008, when contrasted against the growth rate seen between 1995 and 2000.

The tertiary sector's growth has been moving in the opposite direction to that of the province, which showed an improvement in growth. Industries that have been at the forefront of growth in this sector are general government services, with growth levels that surpassed the province's from 1995 to 2008.

CACADU DISTRICT MUNICIPALITY

The Gross Value Added was R11.4 billion in 2008, making it the third-largest economy in the region. The 2008 GVA saw growth of 8 percent from 2007. Finance and insurance contributed

24 percent, wholesale and retail trade 18 percent, general government 16 percent and manufacturing 12 percent.

The primary sector percentage of the district total output has declined from 14.4 percent in 1995 to 6.1 percent in 2008, and this trend is not about to stop. Over that period, it contributed an average of 10.6 percent to the district's economy, with agriculture being the dominant industry in the sector. Cacadu is the largest contributor to the primary sector, with 35.6 percent of the total. The secondary sector contribution to the district's economy grew from 13.8 percent in 1995 to 20.1 percent in 2008, with manufacturing leading the sector. The construction industry's share of the secondary sector increased slightly over the years, and was at 28.3 percent in 2008. The tertiary sector is the dominant sector in the district, representing 73.6 percent of its output. The contribution of finance, insurance, real estate and business services has increased over the years, and since 2003 has become the leading industry in the sector. Transport, storage and communications is the lowest-contributing industry in the sector.

Similar to the province's primary sector's growth, the primary sector in the Cacadu District Municipality rose from negative territory between 1995 to 2000 to an average growth of almost 3 percent in 2001 and 2008. Overall, the period 2001 to 2008 experienced positive growth in the district, with a trend that closely resembled that of the province. This sector's growth was driven by agriculture, forestry and fishing, with almost similar growth rates. Despite lagging provincial growth, this industry's growth has tracked the provincial trend.

The secondary sector showed impressive growth from 1995 to 2008, with growth levels rising from about 6 percent between the years 1995 to 2000 to almost 14 percent between 2001 and 2008. This growth rate was fuelled by the construction industry and manufacturing, which recorded growth figures of about 19 percent and 12 percent respectively between 2001 and 2008. These growth figures were above those of the province by a considerable margin.

The tertiary sector has shown resilient growth since 1995, and continued to grow between 2001 and 2008, reaching almost 9 percent, compared to 4 percent for the province. Industries that have been the cornerstone of this growth were transport, storage and communication; finance, insurance and business services; and wholesale and retail trade, catering and accommodation. These industries, at a provincial level, have failed to keep pace with the district's growth levels, and in some instances even recorded a decline in growth, as can be observed in wholesale and retail trade, catering and accommodation; and transport, storage and communication.

CHRIS HANI DISTRICT MUNICIPALITY

The total Gross Value Added for 2008 was about R8 billion, a growth rate of 6 percent. Chris Hani DM is the fifth-largest economy in the region. Industries in the tertiary sector contributed the most, totaling 84 percent of GVA. These were general government with 28 percent, finance and insurance with 17 percent, wholesale and trade with 16 percent, community services with 13 percent and transport and communications with 10 percent.

The tertiary sector, with an average of 84.6 percent of the total production in the district, is the highest contributor, followed by the secondary sector, with only 10.8 percent of district output. General government is the most dominant industry, representing 31.9 percent of district output.

Wholesale and retail trade, catering and accommodation is the second-largest, followed by finance and business services with 14.4 percent of district output. Since 1995, finance has increased, while wholesale and retail trade has stagnated. As a consequence, in 2008, finance was the second-largest contributor to the district. The primary sector, which represents less than 5 percent of district output, has been on a downward trend since 2001.

Growth in the Chris Hani District Municipality's primary sector has improved when compared to the declines experienced during the period 1995 to 2000, recording an average of about 5 percent between 2001 and 2008, while the province registered growth of 1.7 percent for the same period. This growth has been supported by growth in the agriculture, forestry and fishing industry.

The secondary sector has shown sustained growth levels that have marginally exceeded the province's growth rate, moving from 2.6 percent during 1995 and 2000 to 8.1 percent between 2001 and 2008, while the province itself rose from 2.6 percent between 1995 and 2000 to 3.2 percent in 2001 and 2008. The backbone of this sector is manufacturing and construction. However, growth in the construction industry has followed the province's growth for the periods discussed.

Growth in the tertiary sector exceeded provincial growth from 1995 to 2008. This growth was underpinned by three industries, namely, general government services, wholesale and retail trade, catering and accommodation; and finance, insurance, and business services.

NELSON MANDELA BAY METROPOLITAN

In 2008, the Gross Value Added was R31.6 billion, a growth rate of 0.04 percent from 2007. Nelson Mandela Bay Metropolitan is the largest economy in the province. Sectors that contributed the most were manufacturing with 28 percent, finance and insurance with 24 percent, wholesale and retail trade with 16 percent and general government with 12 percent. These industries had a joint contribution of about 80 percent to the GVA.

The major driver of the metro's economy since 1995 has been the tertiary sector, with an average contribution of 69.7 percent of total district output, representing 36 percent of the tertiary sector in the province. The secondary sector followed, with 29.8 percent of the district's output, which is approximately 54.1 percent of the secondary sectors in the province.

The manufacturing industry has been playing a leading role in the province since 1995, with an average contribution of about 27.1 percent to the province's economy. In second position is the finance, insurance, real-estate and business services industry, with a contribution of about 23.9 percent, followed by wholesale and retail trade, catering and accommodation, with 15.2 percent. The primary sector is the lowest contributor, with less than 1 percent of provincial output.

The Nelson Mandela Bay Metropolitan has the largest share of the economy of the Eastern Cape. Its primary sector's growth rose from 3.4 percent between 1995 and 2000 to 5 percent in 2001 and 2008, and has consistently outperformed the province's primary sector's growth. Agriculture, forestry and fishing was the industry that propelled growth in this sector from 1995 to 2008.

Growth in the secondary sector for the period 2001 to 2008 has shown a decline compared to the growth rate observed between 1995 and 2000. This is contrary to the province's growth rate, which has increased steadily from 1995 to 2008. Construction and manufacturing are the industries that have supported growth in the metro. Between 2001 and 2008, the construction industry showed an increase of more than 9 percent in the rate of growth, from 1.7 percent during the period 1995 to 2000. When comparing these figures to the province's growth figures, there is an apparent lag. The manufacturing industry's growth declined from 3.3 percent during the first period considered, to 1.8 percent between 2001 and 2008.

The tertiary sector, which is the main driver of the economy in the metro, experienced a decline in growth from 2.2 percent between 1995 and 2000 to 1.5 percent between 2001 and 2008. At a provincial level, an increase of 1.2 percent in growth was observed between 2001 and 2008. The decline observed in 2001 and 2008 was indicative of the slump in growth from 2006 to 2008, as growth was around 1.8 percent between 2001 and 2005. Between 1995 and 2000, finance, insurance, real estate and business services registered negative growth in the metro, while the province had a positive growth rate of just above 1 percent. Conditions improved between 2001 and 2005, when the metro had a growth rate of almost 4 percent while the province registered a figure of more than 6 percent. From 2001 to 2008, wholesale and retail trade, catering and accommodation; and general government services experienced a slump in growth of 2.2 percent and 1.4 percent respectively after the period 1995 and 2000, in line with provincial growth.

O.R. TAMBO DISTRICT MUNICIPALITY

The Gross Value Added for 2008 was R9 billion, a growth rate of 3 percent from 2007. This made O.R. Tambo the fourth-largest economy in the province. About 84 percent of GVA came from the tertiary sector. Sectors that contributed the most were general government with 29 percent, community services with 16 percent, finance and insurance with 15 percent, wholesale and retail with 13 percent, and transport and communication with 11 percent.

The contribution of the primary sector to O.R Tambo district output has stagnated over the last 14 years, with an average percentage of 2.5. The tertiary sector contributes most to the district economy with an average percentage of 88, followed by the secondary sector with 9.5 percent. Although the tertiary sector dominates the district economy, it represented only 11.1 percent of the tertiary sector of the province in 2008, a decline of 12.4 percent on 1995. The tertiary industries are the most dominant in the district economy, with general government in front, followed by community and social services, with industry and finance in third position.

The primary sector in the O.R. Tambo District Municipality experienced growth levels that exceeded 4 percent after emerging from negative territory between 1995 and 2000. Growth in this sector was driven by agriculture forestry and fishing, which rose above 5 percent between 2001 and 2005 before declining between 2001 and 2008.

The secondary sector in the DM has grown robustly, from less than 3 percent between 1995 and 2000 to more than 10 percent between 2001 and 2008. This is significantly higher than the province's growth. Manufacturing and construction contributed the most in terms of growth, both registering more than 10 percent, while electricity, gas and water declined from 2001 to 2008. This industry was growing at almost 9 percent between 1995 and 2000, and has since dropped to minus 2 percent. The negative growth level in the electricity, gas and water industry prevailed at provincial level as well.

Growth in the tertiary sector, in line with the provincial tertiary sector, has been steady since 1995. Industries that recorded positive growth in this district were general government services; community, social and personal services; wholesale, retail and trade, catering and accommodation; and finance, insurance and business services. Growth in the community, social and personal-services industry has been around 3 percent since 1995, while finance, insurance and business services grew from less than 1 percent during the years 1995 to 2000 to almost 5 percent between 2001 and 2008. General government services experienced gradual growth towards the latter part of the period 2001 and 2008, while wholesale, retail and trade, catering and accommodation experienced a decline in growth compared with 1995 to 2000.

UKHAHLAMBA DISTRICT

In the Ukhahlamba district, the primary and secondary sectors have lagged the tertiary sector. It occupied an average 80.5 percent of the total production of the district, followed by the secondary sector with 10.6 percent and the primary sector with 8.9 percent. While the tertiary sector is the largest contributor in the district, it only represents an average 4 percent of the tertiary sector at the provincial level. Also, the primary sector's contribution to district output declined from 13.7 percent in 1995 to 2.5 percent in 2008, making the area more vulnerable to any external shock.

Ukhahlamba District Municipality is the only district that experienced negative growth in the primary sector, from 0.5 percent between 1995 and 2000 to minus 4 percent between 2001 and 2008. The industry that drives growth in this sector is agriculture, forestry and fishing, as it holds the largest share of output in this sector. Growth in this industry dropped to almost minus 5 percent during 2001 and 2008.

The secondary sector grew from less than 8 percent between 1995 and 2000 to over 20 percent between 2001 and 2008. Manufacturing; construction; and electricity, gas and water all achieved growth in excess of 20 percent from 2001 to 2008. Provincially, growth in manufacturing has remained constant, with construction growing aggressively. However, electricity, gas and water contracted to minus 0.5 percent.

The tertiary sector in the district has grown aggressively, from almost 7 percent between 1995 and 2000 to 14 percent between 2001 and 2008. The industries that contributed to growth were general government services; wholesale, retail and trade, catering and accommodation and community, social and personal services, which all had positive growth. Provincially, wholesale, retail and trade, catering and accommodation experienced a decline in growth.