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AN ECONOMIC AND SUB-REGIONAL PERSPECTIVE ON THE
FUNCTIONALITY OF ONE REGION, OR TWO SEPARATE REGIONS
IN THE AREA MAINLY OCCUPIED BY PLANNING REGION D

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The objective of this memorandum is to make a preliminary sub-regional economic analysis of the current Region D, in order to derive suggestions in support of the demarcation in principle of one region, or alternatively two separate regions in the area which currently occupies Region D.

The document is organised around the following key-issues:

- * The demarcation of functional subregions in Region D.
- # A Regional Economic Analysis of Region D.
- * The implication of alternative demarcations on:
 - ~ The "viability" of regions,
 - The need for development assistance in Region D,
 - The required export-orientated future industrial policy in Region D.

2. DEMARCATION OF THE CURRENT REGION D IN FUNCTIONAL SUBREGIONS

Region D has a particular heterogeneous character as far as both institutional and socio-economic features are concerned. We also find quite diverse production structures within Region D. On the basis of these differences, it would seem as if the Region could be divided according to administrative boundaries for purposes of economic analysis. However, within each of these entities, a wide diversity of economic activity and demographic tendencies can be observed. In addition, close interaction currently exists between parts of the different administrative centres. From a regional economic point of view, suggestions for alternative regional demarcations in Region D should therefore be derived from a functional sub-regional analysis. ;

A subregion or sub-economy can be defined as a certain geographical area, which usually consists of a group of magisterial districts where the following criteria are satisfied.

*# A high degree of interdependence between the inhabitants and the areas within the region/subregion.

* A high degree of association/cohesion between the inhabitants.

A balanced economy i.e. not the sole reliance on one economic sector such as agriculture.

* The presence of a nodal point, a hinterland and main supply of labour. The nodal point should supply the main regional services, infrastructure and facilities.

These criteria, combined with the economic realities of Region D, i.e. population, economic activity and employment, can be used to demarcate Region D into 6 smaller, but still functional subregions, into 2 subregions or into 1 region, the latter being mainly the current Region D. The possible demarcations, shown on Figure 1 (attached at the end) are:

* 1 Region (existing Region D)

* 2 Subregions (D1 & D2 on Figure 1, called the Eastern Cape, and D3, 4, 5 & 6 on Figure 1 called the Border/Kei

â\200\230 region. The Great Fish River forms the main boundary between the 2 subregions).
 +# 6 Individual subregions (D1 - D6). -

Each of the subregions, which are detailed in Appendix 1, comply largely with the above criteria, i.e. a nodal point supplying regional services, a strong feeling of association and interdependence between magisterial districts, and the characteristic that whatever happens in a particular district, will have a bearing on the rest of the subregion. Of particular importance are the two main metropolitan areas of Port Elizabeth/Uitenhage (PEU) and East London/King Williams-town/Bisho (EKB), where the regional influence is much wider than the smaller nodal points, which are mainly regional service centres for their immediate hinterlands. An almost alarming degree of urbanisation is currently taking place in both PEU and EKB, with the result that the future economic viability of the whole region will largely depend on what happens in these metropolitan areas. â\200\230

Figure 1 illustrates that there is a natural (traditional or the result of past dispensations, so maybe we should just say existing) division in Region D which runs along the Fish River. This boundary is however not the result of the current system of planning regions which came about in 1982. Two functional subregions (D1 & D2) fall within the Eastern Cape section of Region D, while 4 subregions geographically fall within the Border/Kei region. This division is further functional in the sense that the roles and influences of the 2 main metropolitan areas are also geographically balanced.

It is therefore quite logical to argue that the current Region D should be divided into 2 regions. On the other hand it can be said that there is nothing wrong with all the subregions identified here, co-existing alongside one another in 1 big region as it is now. If we are therefore confined to merely this analysis, the final demarcation will be determined mainly by the cultural, political, language and traditional affiliations, used in support of either alternative.

We need, however, to make (1) a more in-depth analysis of the economic characteristics of the region, i.e. population, production and employment and (2) the economic development potential of the region.

The population is the ultimate objective of the development process, especially in the sense of the alleviation of poverty and the improvement in living standards. The population of a particular region is however also a subject or instrument in the development process, because it supplies the labour and entrepreneurial skills required in the economic process. The population trends in Region D are shown in Table 1.

TABLE 1 POPULATION TRENDS IN REGION D

% of E 4 % p.a. % % % % p.a.

SUBREGION	Total	Urban	(Urd Gr	child	Econ	Second	Pop Gr
85-89	<14	Active	Educ	[85-89			
D1	29	78,6	3,0	34,8	37,6	47,8	2,2
D2	4	70,4	1,8	40,0	31,3	27,2	0,8
East. Cape	33						
D3	S	27,7	2,4	50,0	21,3	23,4	0,8
D4	11	26,8	3,4	48,8	14,9	29,0	1,4
DS	26	38,4	1,2	42,6	23,7	34,7	1,8
DÃ©	25	6,2	2,8	43,9	12,8	25,9	2,8
Border/Kei	67						
TOTAL	100						

BOURCE: DBSA, 1990

The Eastern Cape (D1 & D2) therefore houses 33 %, and the

Border/Kel region (D3

The population is further clustered around the centres. These centres are expected to record high population not only because of natural

inter~regional job-related

growth rates in the future

growth, but also due to intra &

migration.

housing, education, health

-D6) 67% of the population of Region D.

main ecocnomic

This has major implications for the provision of and infrastructure in the metro-

politan areas.

A further factor contributing to the expected high population growth, is the age structure of the population, especially the fact that roughly 50 % consist of children below the age of 14. The future development needs in the metropolitan areas are also highlighted by the relatively low level of education, the relatively small proportion of the population being economically active and the high urbanisation growth rate. The general message in Table 1 is therefore that heavy demands will be made in future on both PEU and EKB (but more on

EKB) to provide employment for entrants to the labour market.

through production, to which we now turn.

3

Growth in production,
of the different

Production Activity

as well as the relative contributions
Gross Geographic Product

subregions to the

(GGP) are shown in Table 2.

The Eastern Cape contributes 53%,
total production.
recovered slightly in 1985-1989.

experienced most severely in the
important point not shown

by the above tables,
which is having a negative

down in manufacturing and growth,
impact on employment in the formal sector.

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for the large numbers of new entrants.
This has to be made possible

and the Border/Kei 47% to
Growth in GGP slowed down in 1980-1985 and
1980-1985 was

The slump in
PEU metropolitan area.
is a slowing

biological

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TABLE 2 GGP STATISTICS FOR REGION D				
. GROWTH IN GGP (Av. % p.a.) CONTRIBUTIONS				
SUBREGION OF THE BUB~-				
70-78	75-80	80-85	85-89	REGIONB (%)
D1 4,0	2,4	0,3	1,4	49
D2 5,3	2,2	1,4	. %	1 4
East., Cape 53				
D3 4,7	34	1,6	3,5	3
D4 6,7	4,9	3,6	2,9	6
D5 5,8	3,8	3,1	3,1	29
D6 6,7	9,8	5,9	3,2	9
Border/Kei 47				
Region D 4,8 3,3 1,71 4;3				
RSA 3,3 2,8 2,0 11,3				
SOURCE: DBSA, 1990				

3.3 Employment
Employment statistics for Region D are supplied in Table 3.

TABLE 3 EMPLOYMENT STATISTICS: REGION D

% % % %				
SUBREGION	Supply	Demand	Unem-	Parti-
ployed cipate				
D1 46	47	25,1	62,3	
D2 5	5	12,4	57,5	
East. Cape 52 52				
D3 5	Â\$	19,0	47,6	
D4 7	6	38,5	33,9	
D5 25	27	20,8	46,1	
D6 12	10	32,0	29,1	
Border/Kei 49 48				

TOTAL 100 100

SOURCE: DBSA, 1990

When compared with other regions in South

has by far the highest unemployment rate.

tors are population growth and a lack of econecmic

Sub-region D1 is
workers.

families they are counted as inh
destination of migrants in Region D is Â\$

Once mi

the biggest source of migrants is D6.

The general pattern in Table is ther
tion rates in the Border/Kei and the
unenploymnet in
mand for employmen

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Africa, Region D

Contributing fac-

expansion.

the most important destination of wmigrant
grant workers are however joined by their
abitants.

The most impeortant

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ub-region D1, whereas

efore the low particÂçipa-
relatively high rate of
the metropolitan areas. The supply of and de-
t correlate wall with production activity.

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3.4 Summary of the regional economic analysis

TABLE 4 SUMMARY STATISTICS OF THE REGIONAL ANALYSIS
(% of TOTAL)

Eastern Cape Border/Kei

Production 53 47
Employment: Demand 52 48
Supply 51 49
Unemployment rate 25 20 (D5)
Population 33 67
Participation rate 60 38

The resources of Region D are under severe pressure. Future urbanisation and population growth, combined with the need for education, health, housing etc. will manifest itself in the metropolitan areas. The political reform process further creates an environment of high expectations, the need for stimulating poor areas and the need for something visible to be realized in the peripheral economic areas.

The key to future success in Region D lies in the metropolitan areas. The unemployment crisis and the developing needs of the future will have to be addressed mainly in the formal economies, i.e. industrial production of PEU and EKB. (Black et al., 1986; Heyl, 1981; Renders, 1980). Potential for industrial expansion exists particularly in those industries characterised by strong local backward linkages (supply of inputs) and those utilizing the harbours. The regional demarcation must therefore be evaluated in terms of the possible success of the industrial policies required for economic expansion in PEU and EKB. The areas which will now receive attention in this respect, is the concept of "viability" of regions, the need for development assistance, and the outward/export orientated industrial approach required in Region D.

4. CONCLUSION

An important argument used in support of the demarcation of only one region, is the suggestion that the Border/Kei sub-region might not be "viable" on its own and will therefore be better off with the Eastern Cape. The same label of non-viability is sometimes attached to the TBVC-states in general. This might be partly true in a political sense regarding their "legitimacy", but not necessarily in an economic sense.

The fact that an area imports goods or depend on aid does not

mean that it is not viable, because that would condemn most of the world's federal states, provinces and regions to supposed non-viability. There are also extremely successful mini-gtates such as Singapore, to mention only one.

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The above sub-regional analysis points out that the Border/Kei subregion from an economic and functional perspective, is not less viable than the Eastern Cape. It is rather a question of how - to manage development assistance in the most efficient and productive way. This is the issue to which we now turn.

REGION D

S.

The main development needs (health, education, housing etc.) in the current Region D will not be addressed merely by creating one region. Subsidization of socio-economic spending, urgently required in the rural areas of the Border/Kei region cannot be financed by the Eastern Cape portion of the region, because the latter needs an injection of development aid itself.

It is an accepted fact that in all regionalised countries wealthier regions subsidize poorer regions via the national treasury. (Development and Democracy, 1993). In some cases the level of transfer payments is decided by the central government (e.g. USA and Germany). In others it is according to an institutionalised formula (e.g. Canada and Switzerland). (Free Market Foundation of Southern Africa, 1992). The latter should be considered for South Africa.

Tables 1 and 2 show that substantial differences exist between the Eastern Cape and the Border/Kei sub-region in respect of not only the amount, but also the type of development assistance and socio-economic relief which are required. This is illustrated by the way in which the presentation of certain statistics, such as the participation rate and the degree to which the population is urbanised, creates averages of quite diverse separate values for the two subregions.

The Eastern Cape and the Border/Kei sub-region therefore need their own separate "formulas" in so far as the amount and the type of development assistance are concerned. This is difficult to achieve in a one region demarcation, mainly because of the bureaucratic nature of the process. The demarcation of two separate regions could however contribute to the optimisation of the process of development assistance. Where feasible, regions should also be smaller rather than bigger.

The location of the Eastern Cape far from the main markets of South Africa, combined with the inward industrial policies of the past, have left PEU and EKB in an awkward position. This further happened in an era of political embargoes and trade sanctions. :

If the formal economies of both PEU and EKB is to absorb the large numbers of unemployed persons, and to generate substantial wealth, an outward, competitive industrial policy with the emphasis on producing competitively for the export market, is required. This is the policy of export-driven industrial growth, which has been successfully applied by the new industrial giants such as South Korea, Singapore and Taiwan.

. In South Africa and more particularly in PEU and EKB, the successful implementation of this approach will require stronger incentives than the current policies to promote exports, such as the zero VAT rating, low interest rate loans, etc. The current difficulty in achieving success in terms of this approach, is illustrated by SACOB's recent finding that South African manufacturers are at a 15% cost disadvantage to those in countries in the organisation for Economic Co-operation and Development. (Bank of Lisbon, 1993). It can however be argued that the policies required to develop both PEU and EKB into export orientated industrial centres will most probably be more efficient in the event of two regions rather than one region.

The formal industrial development efforts in Region D during the previous decade, has (1) been spread over too many remote growth points, (2) applied differential incentives within Region D, (3) fostered artificial development at the expense of other areas within Region D, and has consequently failed to generate the kind of agglomeration economies necessary for a sustained process of industrialisation. Many diverse and often poorly linked industries have been established at the various industrial growth points. (Black & Roux, 1988). The opportunity costs have also been substantial, especially in the sense of development which could have taken place in the metropolitan areas of PEU and EKB. (Black & Roux, 1988; Coetzee, 1986). These were the main reasons for the major changes to the nature of industrial incentives in 1991. (Dept. of Planning and Provincial Affairs, 1991).

Despite these changes to the incentives, a political dispensation should not be created now in Region D wherein the problems of the previous industrial development policy, especially differential treatment within a particular region, will be repeated. In a one region demarcation, policies to promote industrial growth in the one metropolitan centre might be at the expense of the other. This will be made worse by the inevitable choice of a regional capital. In the event of two regions, both PEU and EKB will receive additional capital status, which will allow both the Eastern Cape and the Border/Kei to focus on the industrial growth in PEU and EKB respectively. We now turn to some of the ways in

which this could be achieved.

Export processing zones (EPZ,s) could up to now not get off the ground in Region D, mainly because of the complex system of trade restrictions, intensive regulation and a tax system which inhibits foreign investment. (Bank of Lisbon, 1991). Some of the principles of the EPZ approach should however be introduced in the Eastern Cape in the form of individual firms (or export processing units) producing for the export market. They should enjoy substantial benefits such as tax holidays, access to all inputs free of customs duties and a set of free trade circumstances approximate to those found in export processing zones. Both PEU and EKB could derive maximum benefit from this approach if they are in different regions, because in their competition for export markets, the two regions will be "forced" into becoming more productive, being more competitive in attracting industrial activity and develop a culture of more local value-added in industrial

. production. On top of this, both PEU and EKB will enjoy the additional benefits of being the regional capital, with the result that one metropolitan area will not develop at the expense of the other.

A further potential for industrial development lies in the aggressive marketing of PEU and EKB nationally and inter-nationally in order to attract industrial investors. Other regions in South Africa have recognized this need, hence the Greater Durban Marketing initiative, the Kwa-Natal Marketing Initiative, Wesgro in the Western Cape, Southern Cape Initiative and Vaalgro in the Vaal triangle. These organisations are pro-actively involved in attracting investors to their regions whilst also accessing international markets for their industrialists. Competition between the regions, and especially between the industrial centres, will therefore be part and parcel of the new dispensation. In Region D this is already organised on a natural basis in the form of the Border Development Forum and the East Cape Regional Development Forum. (MCI, 1991).

How do we overcome the above cost disadvantage of South African producers to those in the European markets? The current political reforms in South Africa are opening the markets to Africa. Moves are already afoot to incorporate South Africa in the Preferential Trade Area (PTA) and the Southern African Development Community (SADC). The harbours of PEU and EKB are not only sufficiently equipped with the necessary infrastructure, but are ideally positioned geographically to access these Southern African markets.

7. SUMMARY

The main economic criteria in terms of which the alternative demarcations of the Eastern Cape, Border, Ciskei and Transkei should be evaluated, are 5 i

- + The economic functionality and viability of regions,
* The optimal way in which the development needs within the above regions could be addressed,

- * The type of future industrial policies required to achieve the highest possible economic growth rates in the two main industrial centres.

This paper suggests that two regions could be notified on the grounds of all the above criteria, while one region can be supported on the basis of merely one.

Functional regions in the form of the Eastern Cape and the Border/Kei region already exist within the current Region D. This should be formalised in the demarcation of two separate regions in the area now mainly occupied by Planning Region D. A roughly equal distribution of economic activity, employment and the roles of the main metropolitan centres (PEU & EKB), currently exists between the Eastern Cape and the Border/Kei subregions. Both subregions are therefore economically viable on their own. A major difference is however the amount and type of development assistance required in the Eastern Cape and the Border/Kei subregions. These needs could be addressed best in the event of two regions being demarcated, be-

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â\200\230 cause in the event of one region, certain areas within the region will be advanced at the expense of others. Seeing that the subsidization of development assistance by the national treasury remains a bureaucratic process, the develeopment needs could also be addressed more effectively in the event of the two regions being treated as separate, in order to avoid the possible blurring of the specific needs of the individual areas in Region D.

In addition to the above arguments, a future export orientated industrial policy in Region D, with the emphasis on competition, maximum levels of local value-added and the attraction of foreign investment, is required if Region D wants to follow the recipe of several successful countries. This policy could be instituted more successfully when two separate regions are demarcated in Region D.

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Subregion D1:

Subregion D2:

Subregion D3:

Subregion D4:

Subregion DS5:

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APPENDIX 1

PUNCTIONALLY DEMARCATED SUBREGIONS

Adelaide

Albany

Alexandria

Bathurst

Bedford

Fort Beaufort

Hankey

Humansdorp

Joubertina

Kirkwood

Mpofu

Peddie

Port Elizabeth

Uitenhage

Victoria Rast

Aberdeen

Cradock

Graaff-Reinet

Hofmeyr

Jansenville

Middelburg

Pearston

Somerset East

Steytlerville

Willowmore

Albert

Aliwal North

Barkly East

Elliot

Herschel

Lady Grey

Maclear

Steynsburg

Venterstad

Cacadu

Cofinmvaba

Hewu

Indwe

Moltena

Queenstown

Sterkstroom

Tarka

Wodehouse

Xalanga

Cathcart

Centane

East London

Gouwa
Keiskammahoek

King williams' Town

WOad

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Komga
Mdantsane
Middledrift
Ngamakwe
stutterheim
Tsomo
Zwelitsha

Subregion D6: Engcobo

Gatyana
Idutywa
Libode
Mganduli
Nggeleni
Tsolo
Untata
Unmzimvubu
Xhora

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D1 & D2 = EASTERN CAPE o5 iR
Â\$ource: DBSA, 1990 D3, D4, D5 & D6 = BORDER/KEI .

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