FREE MARKET PLANNING IN REGIONAL DEVELOPMENT: A CASE STUDY OF THE CISKEI

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ABSTRACT

Regional planners in an international context have tried to decentralise growth to underdeveloped regions via growth pole and growth point policies. In South Africa, a similar programme in the form of the Industrial Decentralisation strategy was attempted. Both internationally and locally, these traditional regional planning tools failed. As a result of this failure, 'new' approaches emerged placing emphasis on new strategies such as Free Enterprise Zones and Export Processing Zones. A Free Enterprise Zone was introduced locally in the Ciskei. The aim of the discourse is to test whether or not the implementation of a free market policy has succeeded in South Africa. To test this, a comparison is conducted between the pre and post 'free' enterprise period within the Ciskei examining the number of industries established and the number of jobs created. A similar comparison was conducted between Ciskei and Kwazulu to determine the extent of success of the 'new' policy.

PREFACE

'Free' market planning has emerged as a relatively new strategy for regional planners. In South Africa, the Ciskei recently (1984) introduced a strategy, placing emphasis on the 'invisible' hand of the market as a tool for regional development. The aim of this discourse is to examine whether or not the application of the free market policy as a regional planning tool has succeeded in South Africa.

The discourse consists of five chapters. **Chapter 1** introduces the topic and outlines the method of study. Aims and objectives are also presented. **Chapter 2** analyses the implementation of the traditional planning tools internationally and locally. The failure of these strategies and the subsequent rise of 'new' regional planning tools is considered in **Chapter 3**. **Chapter 4** presents the case study of the Ciskei, a region in South Africa which implemented the Free Enterprise Zone policy. A comparison of the Ciskei before and after the implementation of the policy and a comparison of the Ciskei with Kwazulu (following the old industrial decentralisation method) assisted in highlighting the positive contribution of planning within the free market system. **Chapter 5** concludes by offering some planning recommendations and policies which enable planners to work with the free market system.

The conclusions arising from the study are as follows:

- Regional development occurs best in areas that already possess some pre-existing economic base.
- Greater economic freedom and deregulation in an economy is beneficial and encourages investment in large industries and promotes growth of small businesses.
- Planning with the free market system in South Africa proved to be more successful than the old traditional regional planning methods (like the industrial decentralisation programme) in upgrading regions.
- For regional planners in South Africa, a relatively unexplored field of planning with the free market system awaits them to assist develop poor regions.
- Although a 'free' system is economically desirable, a planner's responsibility is to dissolve inequalities and help the less privileged, by expanding the industrial base of a nation thereby creating employment in both large industries and small businesses.

This discourse is dedicated to my Father, Mother, Brother,
and Grandfather without which any of this would be possible.

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CONTENTS

Page

Chapter Page

LIST OF ILLUSTRATIONS

Figure Page

CHAPTER ONE: INTRODUCTION

1. Statement of Aim and Purpose

The aim of the discourse is to examine whether or not the application of the free market policy as a regional tool has succeeded in South Africa. Before commencing on a more detailed description of the aims and methodology of the topic, certain general points have to be made by way of departure. Regional planning has two broad strands. Firstly, there are the more traditional regional planning theories which include strategies such as industrial decentralisation and growth points. Secondly, there is the 'new' approach which places emphasis on free enterprise zones and export processing zones as strategies which can improve underdeveloped inner-city areas, regions, or can be used as national policies.

In South Africa, there exists the spatial manifestation of these two theories. In most of South Africa, the traditional regional policies of industrial decentralisation and growth points have been implemented. While, the Ciskei region, since 1984, has adopted the policy of the free enterprise zone to attract industry and create employment. The purpose of the discourse is to analyse which strand of regional planning has been more successful in the South African context. What is meant by 'success' is the amount of investment and employment created (and cost thereof) by each of the regional planning strategies.

2. The Importance of Privatisation and Free Economies

Privatisation and the free market system is an important phenomenon in the 1980s both internationally and in South Africa. Privatisation has world-wide tentacles and "there is no revolution that seems to have been nearly as extensive and as potentially historically far-reaching and profound as what is becoming known as the Privatisation Revolution" (Louw, 1988, p.2). The freeing up of markets is occurring both in capitalist and socialist countries, as well as, in the underdeveloped Third World countries. The recency and importance of privatisation as a topic is emphasised by the synopsis of countries moving towards a free market policy

2.1 Internationally

2.1.1 First World Capitalist Countries

On a national scale, first world countries have experienced intense privatisation (Fixler, 1987; Fixler, 1988). For example, in Canada, the government has sold off two of its aircraft manufacturers, De Havilland King and Canadair to private firms. The Canadian government in 1987 also sold six state owned enterprises and Teleglobe to private entrepreneur. In the United

Kingdom, the telephone and telegraph systems have been privatised. Britain is also selling state-owned commercial enterprises to their workers. For example, British Cable and Wireless is owned by 99% of its workforce, and Associated British Ports is held by 90% of its workforce. The Thatcher administration has also privatised or is in the process of privatising several utilities, including British airports, British Airways, British Gas, British Telecom, British Petroleum, British Steel, Crown Suppliers, and British Broadcasting Corporation. The West German government ... s to sell some of its shares in Volkswagen and Vega. France has planned to sell 65 nationalised companies to the private sector by 1991. In 1987, the Dutch government sold 60% of its national airline KLM. Belgium is in the process of privatising Brussels International Airport, authorising the sale of shares to private investors. The Spanish government is selling Iberia Airlines to the private sector. In Portugal, the oil company Campsea has been sold, and it may sell minority shares in the post office, telephone and transport company, railroad system and national airline. Australia is planning to privatise Quantas airline, the Commonwealth Bank and parts of the telecommunication industry. Japan has privatised its national telephone and telegraph corporation, Japan Airlines, and the Japanese National Railway (Fiscal Watchdog, 1985).

On a local level, local governments have privatised many services. For example, in the United States of America, wastewater treatment, sewer maintenance, bus systems, and the collection of residential trash have all been privatised. In Britain, pest control and meals-on-wheels are been contracted out by British local governments. Recreation and parks services, including golf-course management, horticultural produce, and civic-hall management are in the process of been contracted to the private sector. In West Germany, refuse collection and street-cleaning services have been privatised.

2.1.2 Second World Socialist Countries

Privatisation and the reliance of governments on the market are not restricted to capitalist countries. Examples can be sighted from socialist countries. The Soviet Union's own leading economist and adviser to Soviet leader Mikhail Gorbachev, Abel Aganbegyan, is advocating the phasing out of some food subsidies and allowing some small private enterprises to compete with the state (Fixler, 1987). New laws in 1987, allows semi-private co-ops to provide some services and products. In addition, a Ukrainian factory, Lvov Conveyor Combine, which handles its own finances is allowed to offer shares to its workers (Fixler, 1988).

The Polish government is considering whether to permit the market forces to influence prices and profits. Also, in 1987, a plan was presented to establish a stock market for trading shares among enterprises and a bond market open to individuals (Scarlett, 1988). In October 1987, Hungary sold 25% of state-owned shares in a transport firm, Galakarbon. Hungary is also in the process of implementing a new law that will legalise share ownership and will relaunch the Budapest Stock Exchange 40 years after it was disbanded.

China has introduced privately owned and commercially operated roads, and its citizens are allowed to purchase their own apartments (Fixler, 1987; Louw, 1986a). The Chinese government is also allowing privately-owned trading centres to operate, has established foreign trade zones, and is experimenting with capital and bond markets. Furthermore it plans to turn the 3 000 mile long coastline into a 'special economic zone'. Vietnam, is reducing taxes on some private activities and is allowing new private ventures to emerge (Fixler, 1987). Cuba has begun to privatise land (Louw, 1986a).

2.1.3 Third World Underdeveloped Countries

The freeing of markets is not only present in the developed world , but is also experienced in less developed countries of the Third World (Letwin, 1988). For example, Turkey is implementing a strong privatisation program with plans to sell the national airline, government-owned hotel chain, and petrochemical and cement industries.

In South America, similar divestiture by the governments is evident. The Brazilian and Argentinian governments are in the process of selling off hundreds of state-owned businesses (Fixler, 1987). Mexico is planning to sell off its majority stake in Air Mexicana to private hotels. Jamaica has sold off or leased most of its sugar-refining and hotel interests. It is also planning to privatise state-owned radio and television stations, government land and hospital holdings and to expand private garbage-collection services (Fixler, 1988).

In the Far East, privatisation has also increased. Indonesia is considering the sale of its shares in Garuda, its national airline, and 200 other state-owned enterprises. Malaysia has sold off its state-owned airline and national electricity board and plans to sell its telecommunications and railroad holdings. Singapore is considering the denationalisation of some 450 government-operated businesses. Bangladesh has privatised its banking industry and sold off its textile holdings. It is also considering the privatisation of its railroads and electric-power facilities. The government in the Philippines is planning to privatise government-owned enterprises including the National airlines, National Steel Corporation, National Oil Company, and Metro Manila Trust.

Privatisation has also increased on the African continent. Tanzania has ended a 14-year ban on the private ownership of rental housing and is allowing an increase in private agricultural activities. Malawi, has sold off government-operated automobile-assembly, nut-processing, sugar, and textile operations. Tunisia is selling off its textile industry. The Togo government has awarded a 10 year lease to an American steel entrepreneur to take over state-owned steel mills. Ghana is in the process of selling state-owned cocoa plantations and will divest 30 state-owned enterprises. Nigeria plans to sell government-owned breweries, banks, and insurance companies. Zambia has sold 49% interest in state-owned vegetable oil plant to Heinz. Socialist Angola is discussing the sale of state mining, fishing, and construction firms. While Mozambique has allowed a multi-national firm, Lonnho, to take over state farmland to grow cotton and citrus for exportation purposes (Fixler, 1988).

This synopsis of world-wide privatisation serves to illustrate two points. Firstly, it shows that the free market as a global factor is a phenomenon in economics. Secondly, it illustrates that privatisation is a dominant and important issue in world economics. Therefore, the study of free market policies is a relevant and international topic. An even more recent phenomenon in economics is the introduction of Free Enterprise Zones into countries.

2.1.4 Free Enterprise Zones

Free Enterprise Zones have been applied in Western countries. Britain has passed legislation that has designated depressed urban areas as *Free Enterprise Zones* (Grubel, 1982). The aim of Free Enterprise Zones in the United Kingdom is to provide jobs (Hall, 1982; Harrison, 1982). This concept was imported into the United States by the Washington-based Heritage Foundation, in conjunction with the Reagan presidential campaign (Harrison, 1982). At the end of 1979 there existed 50 tax-free trade zones, free ports, and similar designated areas in the United States.

2.2 South Africa

Both privatisation and Free Enterprise Zones are present in South Africa. Firstly, the promotion of the free market system has increasingly been promoted by the South African government (McGregor, 1987). Nasser's (1985) study entitled: "Perceptions of free enterprise and business - an examination of the status quo in South Africa" shows that the 'free enterprise' has become an important and recent topic in South Africa. This study illustrates that academics and businessmen want employees to understand the operation of the 'free market' system. Following the Good Hope and Carlton Conferences of 1981 and 1982 respectively, the government and private sector have actively sought to promote the 'free market' in South Africa (Van der Roos and Thomas, 1985). The 'free market' has even been credited with the "creation of a stable community, free of violence" (de Wet, 1979, p.143). Whatever credits (exaggerated or not) have been attributed to the 'free market' in South Africa, as evident in the state's selling its shares in parastatals since the early 1980s, privatisation has grown in importance in South Africa. Secondly, since 1984, a small region in South Africa, the Ciskei, has adopted the status of a Free Enterprise Zone (Tomlinson and Addleson, 1985). Therefore, both privatisation and Free Enterprise Zone are relevant topics in a Southern African context.

The aim of the study, as stated above is to compare the regional policies under the traditional regional planning system with those of the 'new' policy highlighted by the Free Enterprise and Export Processing Zones. The study will assist with the formulation of possible solutions for other underdeveloped regions in South Africa. Therefore, the proposed study is both an academic and practical exercise in its own right, working towards possible solutions for depressed and poor regions of the country.

3. Method of Study

3.1 Theoretical review and definitions

The starting point of the discourse was to ground the discussion in some theoretical framework. An examination of the broad literature on regional planning was conducted. Thereafter, the new changes occurring in this field both internationally and locally were analysed. The examination of the 'new' approaches introduced the concept of Free Enterprise Zones and Export Processing Zones as tools for regional development. From the theoretical review, the discussion focused on a physical area where a Free Enterprise Zone had been created, namely, the Ciskei.

3.2 Case study: Ciskei

Since 1984, the Ciskei has introduced certain Acts which have made it a Free Enterprise Zone (Tomlinson and Addleson, 1985). The Acts have mainly affected large-scale industry and small businesses. The Ciskei was used as a case study to examine whether the Free Enterprise Zone policy had been more successful in attracting investment and creating employment than the traditional government policies of industrial decentralisation and growth points. With regards to the Ciskei, several issues were raised. The way the Ciskei differed from the rest of South Africa in terms of its industrial policy were demonstrated. A comparative study between Ciskei and Kwazulu was conducted to see if, in terms of large scale industry, the Ciskei had been more successful. In terms of small business, a similar study was attempted. Ciskei's small business policy was compared with that of a region in South Africa, namely Kwazulu. In addition, a fieldtrip was conducted to the Ciskei region. The aim of the trip was to speak to officials implementing the policy and to gauge what the current state of affairs is in the Ciskei.

3.3 Interpretation

The interpretation phase examined all the material presented in the case study. The important question examined was: what implications had the above analysis of Ciskei's policy had on employment, income i.e. on the success of development planning? In terms of the decentralisation programme certain questions were examined: Has active governmental involvement (as in the South African case) succeeded? Has the free market system (the Ciskei's case) worked? Have both of these failed? If so, then what other policies/options can be devised?

In terms of small businesses similar questions were examined: Has SBDC's policy succeeded? Has the Ciskeian method worked? Does one need deregulation?

The discourse was concluded by examining what implications the above analysis had on development planning. The lessons learnt from the case study could be used to formulate policies for other underdeveloped regions of South Africa.

4. Organisation of Discourse

The discourse has five chapters, including this introduction. The second chapter starts with a brief review of regional planning theory on an international level. The next section involves an examination of how and why South Africa used the traditional regional planning theories (industrial decentralisation and growth points) to solve underdevelopment in peripheral areas. The impacts, results, and effects of South Africa's regional policy from 1960 to the present will be reviewed and the critique and disillusionment levelled at South Africa's policy will be examined.

The 'new' initiatives emerging as a result of the disillusionment of the traditional regional planning theories is considered in chapter three. The emergence of Free Enterprise Zones and Export Processing Zones as regional planning tools will be analysed. Finally, a detailed examination of what constitutes a Free Enterprise Zone will be conducted because it will serve as a linking section to the next chapter which examines in more detail the Ciskei's policy (which is close in nature to a Free Enterprise Zone).

In chapter four, Ciskei's Free Enterprise policy is considered. The Ciskeian experience prior to 1984 will be examined and some explanation will be given as to why the Ciskei changed their policy. The next section will analyse what happened in the Ciskei after 1984. The analysis will be restricted to two main sectors, namely, large-scale industry and small business. The next major issue confronted in chapter four is to see whether or not Ciskei's policy was more successful in attracting investment and creating employment than other policies followed in the rest of South Africa. In order to do this, a comparative study will be conducted between Ciskei and Kwazulu.

Chapter five consists of a brief summary and conclusion, highlighting recommendations for planning. Some comments will be made about Free Enterprise Zone versus the industrial decentralisation policy in the South African context. Furthermore, for large scale industries, certain recommendations will be made. For small business a similar procedure will be adopted, recommending that the advantages of deregulations outweigh the disadvantages. Finally, some planning and policy recommendations for other underdeveloped regions in South Africa will be made.

CHAPTER 2: REGIONAL PLANNING IN SOUTH AFRICA: PAST EXPERIENCE

The focus of this chapter is the analysis of South Africa's past experience in regional planning. The theoretical issues of growth poles are identified and described, and are related to regional planning in South Africa. The purpose, in undertaking this broad analysis, is to provide a context for the analysis of South Africa's regional planning. The theory helps one to understand how South Africa implemented its regional policy, namely industrial decentralisation (ID).

The chapter has three sections. First, the general theory relating to growth poles is briefly described. Second, the way South Africa implemented the ID strategy is presented. Third, the results and impacts of regional planning in South Africa are considered and the critique of the ID policy in South Africa is assessed in detail.

1. Theory of Growth Poles

1.1 Origins

In the 1950s and 1960s, policy-makers became concerned with the regional inequalities present in countries. It is in this context that the notion of growth poles gained importance. Growth poles as planning tools grew out of the cumulative causation model of development. This model stresses that the agglomeration economies available in the core will act as a magnet drawing investment and growth, thereby creating spatial inequalities. Policies are needed which create agglomeration economies in the periphery to reduce spatial inequality. Growth poles were seen as planning tools which had the potential of breaking down polarisation and dispersing growth.

Three chief contributors of growth poles were, Myrdal, Hirschman, and Perroux. Myrdal theorised that two forces would act upon economics, namely, 'backwash' effects (forces attracting resources to the core) and 'spread' effects (forces tending to disperse growth to the periphery). Myrdal claimed that in general, the 'backwash' effects would be stronger than the 'spread' effects (Stanwick, 1985). Myrdal stressed that the play of forces in markets tend to increase rather than decrease inequality between regions. Similarly, Hirschman had two sets of processes, polarisation and trickling-down. Hirschman claimed that economic growth did not occur at all points at the same time. Growth around focal points leads to spatial imbalances, yet spatial imbalances (polarisation) is needed for growth to occur. It is necessary to promote these imbalances, however this controlled disequilibrium can only occur until a certain point is reached. There is then a need to reverse imbalances and encourage trickling-down. Hirschman stressed that it is the role of the state to introduce policies to correct inequalities.

Francois Perroux was another of the proponents of the spatial imbalance approach. Perroux postulated the concept of growth poles in 1955 (Dewar *et al.* 1982). Perroux perceived development as essentially polarised and growth therefore "does not appear everywhere at once. It appears in points or development poles with varying intensity. It spreads along diverse channels with varying terminal effects to the whole economy" (Perroux, 1955, p.310). In its initial form, the growth pole concept related simply to economic, rather than geographic space. The theory sought to explore processes by which new economic activities appear, grow, and stagnate. Perroux expanded on Schumpter's notion of innovation, stressing that innovation leads to propulsive industries. Dominant and propulsive industries will have linkages with suppliers and consumers, thereby creating growth and development in their region (Hansen, 1981).

Boudeville and Pottier added a geographic dimension to Perroux's economic space. Boudeville stressed that industries were spatially clustered in urban areas (Dewar *et al*, 1986). Pottier focused on the spatial pattern of growth and concluded that growth generally followed a linear path, defined by major transportation routes (Dewar *et al*, 1986). These interpretations gave a spatial dimension to Perroux's theory.

1.2 Aim and goals of growth poles

Growth poles have been used to combat a large variety of problems. In developed countries, growth poles have been introduced to relieve excessive concentration in metropolitan regions, to develop old industrial regions, and to modernise regions dominated by pre-capitalist modes of production (Dewar *et al*, 1986). In less developed countries, growth poles are used to solve three problems. Growth poles are created to modernise regions which are perceived to be 'backward', urban centres are introduced to extract natural resources, and growth poles are needed to control the expansion of the larger urban areas (Rogerson, 1985).

Whichever problem the growth pole is meant to solve, the underlying aim is to reduce, and in the long run eliminate regional inequalities and to disperse development (Friedmann and Weaver, 1979; Fu-chen and Salik, 1981; Hansen, 1975). It was hoped that growth poles would reduce regional inequality by creating employment. Proponents of this strategy claimed that the industries created in the growth poles would spread multiplier effects throughout the region expanding the opportunity for local employment. In addition, it was hoped that growth poles would raise the living standards of people in the least-developed regions of countries. The idea behind growth poles was to achieve self-sustained growth for certain regions (Dewar *et al*, 1986).

1.3 Requirements of growth poles

In order for growth poles to work, they should conform to certain characteristics. A growth pole should be relatively large in size, be made up of a fast growing sector, and have a dynamic interrelationship with other sectors generating growth and employment for the region (Tomlinson, Francois Perroux was another of the proponents of the spatial imbalance approach. Perroux postulated the concept of growth poles in 1955 (Dewar *et al*, 1982). Perroux perceived development as essentially polarised and growth therefore "does not appear everywhere at once. It appears in points or development poles with varying intensity. It spreads along diverse channels with varying terminal effects to the whole economy" (Perroux, 1955, p 310). In its initial form, the growth pole concept related simply to economic, rather than geographic space. The theory sought to explore processes by which new economic activities appear, grow, and stagnate. Perroux expanded on Schumpter's notion of innovation, stressing that innovation leads to propulsive industries. Dominant and propulsive industries will have linkages with suppliers and consumers, thereby creating growth and development in their region (Hansen, 1981).

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In order for growth poles to be successful, they must be supported by government incentives for long periods of time (Maasdorp, 1985). These incentives must appeal to the growing industries and should not consist of subsidies whose principal attraction is to small firms in slow-growing, low-wage industries (Hansen, 1975). In addition growth poles are more successful where spatial inequalities are low, local governments are strong and relatively autonomous, and local resource endowments are high (El-Shakhs, 1982).

1.4 Application of the theory internationally

Growth pole strategies have been applied in a variety of countries. The range of nations employing this path is found in First, Second and Third World. In the First World, France and England adopted the growth pole policy. The major aim was to alleviate the pressure on Paris and London (Foley, 1972). In Britain, new towns were created in the 1950s and 1960s to try and activate growth in the old depressed industrial regions.

In Latin America, similar policies were applied in Brazil, Venezuela, Chile, and Mexico. In Brazil, growth was concentrated in the south-east in Sao Paulo and Rio de Janeiro. The Brazilian government, in order to balance spatial development, created a growth pole Brasilia, in the northern interior which would become the new capital (Friedmann and Weaver, 1979). In Venezuela, the creation of the city Ciudad Guayana was based on similar policies (Rogerson, 1985). In Mexico, in order to disperse growth away from Mexico City, thirteen growth centres were selected. The attempt to encourage regional equality via growth poles was also used in Eastern European countries such as Poland (Regulski, 1972; Wojtasiewicz, 1972). In Africa, growth poles were applied in Kenya (Tomlinson, 1983). Growth poles have been implemented throughout the world. Generally the application of growth pole theory has failed. This statement is also supported by the World Bank in their conclusion on research on decentralisation policies implemented around the world (Addleson, Pretorius, and Tomlinson, 1989). The subsequent failure of growth poles as regional developers lead to a large amount of criticism of this strategy (Friedmann and Weaver, 1979). What follows is a critique of the growth pole strategy.

1.5 Critique of growth pole strategy

Growth pole theory rests on unsound foundations and can be attacked ideologically (Friedmann and Weaver, 1979). The theory does not examine the true causes of regional inequality. Growth pole theory ignores the fact that the interrelationship between developed and less developed countries leads to a dependency situation. Even if growth poles are introduced in a country, inequality will not diminish because it is the inequality at an international level which must be overcome before one can have regional equality (Friedmann and Weaver, 1979). In addition, growth pole theory is in a conceptual muddle and planners applied the term indifferently to major urban-industrial complexes (core regions) and to small central places in rural areas (growth points) (Friedmann and Weaver, 1979). The aims of the strategy were unclear and there was no clear definition of what a growth pole was (Fu-chen and Salik, 1981).

The practical application of growth poles must also be criticised. One of the reasons why growth poles failed was because too many growth centres were designated. This problem was clearly evident in Spain and Mexico where too many centres had been selected for special treatment (Friedmann and Weaver, 1979). Growth pole strategy also failed because it was difficult to determine a threshold size for a pole (Maasdorp, 1985).

Another reason why growth poles failed in practice was that the incentive packages have not attracted propulsive industries of the modern sector to growth points (Dewar *et al*, 1986). In the less developed countries of the world two explanations can be offered to account for this failure. Firstly, propulsive industries with fast-growing forward and backward linkages are by definition the most difficult to attract, as they are the most entrenched in existing centres (Dewar *et al*, 1986). Secondly, most 'leading' firms are controlled by multinational corporations and are protected by anti-rural biases of the state (Fu-chen and Salik, 1981). This encourages the firms to locate in the already established metropoles of developing countries. In addition, growth poles have failed because the areas chosen to locate these points are poorly endowed with resources. The underdeveloped regions are at a far distance away from national markets, and they contain poor financial, educational, infrastructural, and health services (Dewar *et al*, 1986). Growth poles dominated by multinational corporations have great difficulty in generating local linkages between industries in the growth centres and the hinterland. Also, the multipliers which are created are more likely to be 'captured' by the larger cities (Friedmann and Weaver, 1979).

Growth centres have created or strengthened intraregional inequality and have exacerbated regional economic dualism (Rondinelli, 1983; Tomlinson, 1983). In the long run if successful, growth centres merely become alternative cores, repeating the exploitation and extraction of surplus from the rural hinterlands which they originally meant to decrease (Dewar *et al*, 1986). Owing to the lack of spread effects, growth poles have also failed in increasing income and employment opportunities in the area (Hansen, 1975).

Further criticisms of the application of growth poles to certain countries can be identified. The absence of intermediate-sized cities in countries where growth points have been introduced has severely constrained the decentralisation of growth (Fu-chen and Salik, 1981). Growth poles have also failed in developing countries because planners tend to overlook the fact that this theory requires a homogenous market economy of small producers relying on central markets to sell their goods in order to succeed (Friedmann and Weaver, 1979). Such homogenous markets are non-existent in most Third World countries. Growth pole policy is also a very expensive strategy to implement and the introduction of incentives to attract industries has placed a severe financial constraint on governments. In sum, most attempts at employing growth pole strategies have failed and this strategy "is quite useless as a tool for regional development" (Friedmann and Weaver, 1979, p.175). Growth pole theory (in the form of industrial decentralisation) and its application to South Africa will now be examined.

2. Application of Industrial Decentralisation Theory: The Case of South Africa

2.1 How the theory was applied

Industrial decentralisation was implemented in various phases in South Africa. These stages will be reviewed and then the trends of ID will be identified.

2.1.1 Industrial Decentralisation policy

The conscious attempt of applying spatial planning to South Africa can be dated to 1940 with the formation of the Industrial Development Corporation (Glaser, 1987). In 1948, the Fagan Commission proposed that industrial decentralisation be introduced to stop blacks migrating from rural to urban areas. However, it was only after the report of the Tomlinson Commission that a programme focusing on ID was introduced. The Tomlinson Commission argued against the promotion of border industries in favour of ID in the homelands, however the Viljoen Commission (1958) on industrial concentration recommended border area industrialisation and this was the policy the government applied (Dewar *et al*, 1986). By the early 1960s, industries were still not responding to the policy so the government introduced more attractive incentives such as tax concessions, financial assistance, labour concessions, transport subsidies, and tariff protection (Pretorius *et al*, 1986).

Border industrialisation had failed to achieve its goals and in order to restrict the employment of blacks in key metropolitan areas, the Physical (later Environment) Planning and Utilisation of Resources Act was past in 1967 (Wellings and Black, 1987). The Act prevented growth in metropolitan areas in two ways. Firstly, Section 2 restricted the supply of new industrial land in core areas. Secondly Section 3 limited firms in prescribed areas to the size of their black labour force (Rogerson an .obben, 1982). In addition, to make the policy more viable, 'white' capital was permitted into the Bantustans. Owing to confusion arising from the 1967 Act, the Riekert Commission was set up in 1970. This Commission confirmed that further industrial concentration was not acceptable and maintained that the majority of blacks could live in the Bantustans (Pretorius *et al*, 1986). The Commission wanted to protect permanent black workers in 'white' South Africa from competition by blacks coming from the Bantustans. As a result of this, it drew a sharp distinction between insiders (who had Section 10 rights) and outsiders (Africans domiciled in the Bantustans)(Cobbett, Glaser, Hindson, and Swilling, 1987).

2.1.2 The National Physical Development Plan (NPDP): 1975

In 1975, the NPDP shifted emphasis from industrial decentralisation simply into Bantustans and border areas to that of development regions (Pretorius *et al.* 1986). This plan was concerned over unequal regional development and it emerged as a result of South Africa's overriding problem which is "excessive population concentration" (Republic of South Africa, 1975, p.7). The NPDP differed from ID policy in that for the first time the government was concerned over economic space (Fair, 1975). The Plan divided South Africa into 38 development regions. In order to obtain a more balanced spatial growth, planned metropolitan centres and growth poles were introduced. The problem with some growth poles (Klerksdorp-Potchefstroom, Witbank-Middleburg, and Rustenburg) was that they were located within 150 kilometres of Johannesburg. Their proximity to the PWV area strengthened the economic environment of the nation's core instead of spreading development.

2.1.3 The Good Hope Conference: 1981

In 1981, during the Good Hope Conference, the previous 38 planning regions were replaced by 8 (later 9) integrated 'development regions'. The advantage of the new policy was that economic regions transcend 'political' boundaries and the promised emphasis on a small number of points gives the strategy a greater potential to succeed (Maasdorp, 1985). Within the development regions, 5 types of urban centres are identified; metropolitan areas, deconcentration points, industrial development points, other industrial points, and ad hoc cases (Tomlinson and Hyslop, 1986). Furthermore, in 1982 improved concessions were introduced to increase decentralisation (Addleson, Pretorius, and Tomlinson, 1989).

2.1.4 General trends of Industrial Decentralisation

The tendency for firms to locate to the peripheral areas dates back to 1956 (Bell, 1987a). In this early phase, ID was a slow and isolated trend. It was only in the mid-1960s that ID increased. Regions in the periphery experienced an expansion in their share of manufacturing employment, from 11.75% in 1967/1968 to 15.54% in 1979 (Bell, 1984). Bell shows that the growth rate of industrial employment in the peripheral areas (the rest of South Africa) overtook that of the core region (main industrial areas) during the period 1965/1966-1967/1968 (Tomlinson and Addleson, 1986). The increase which was experienced in the peripheral areas was not repeated in the main industrial areas of South Africa.

The movement of firms from metropolitan to peripheral regions was a transitional affair. Industry moved from the concentrated Pretoria-Witwatersrand-Vereeniging (PWV) area to the secondary urban settlements of South Africa like the Durban-Pinetown and Cape Peninsula region (Bell, 1987a). From these latter areas the industries would then relocate to the periphery of South Africa. This trend is particularly evident in the textile and clothing industries. In the 1960s, these activities moved away from the PWV area to secondary urban destinations. For example, the share of employment for the textile industry in the Durban-Pinetown area rose from 20.5% in 1960 to 26.9% in 1970 (Bell, 1987b). Similarly, in the Cape Peninsula, there was a marked increase from 12.9% in 1961 to 16.4% in 1970 (Bell, 1987b). It is only after 1970 that the main industrial areas of South Africa show a decrease in the textile and clothing industry, with the peripheral regions reflecting an increase (from 29.5% in 1970 to 39.2% in 1979)(Bell, 1987b). Owing to the improvements in ID concessions in April 1982, there has been a significant increase in the amount of decentralised activity. This increase can be demonstrated by the following : between April 1982 and December 1985 most of the Bantustans gained from 60% to 95% of their current levels of industrial employment (Tomlinson and Addleson, 1986). In addition, there was a significant increase in the number of jobs which were decentralised per annum, from 11 792 in 1981 to about 32 000 in 1982/1983 (Tomlinson and Addleson, 1986).

The ID trends which are identified by Bell may be summarised in the following way. Industries began to move to decentralised areas in the 1950s. This process multiplied in the mid-1960s. ID in the mid-1960s was not a direct movement from core to periphery areas, but rather a transitional procedure, from the metropolitan to secondary urban regions and then finally to the border and decentralised zones. The early 1980s saw an increase in ID owing to changes in the concessions. Bell gives an explanation of these trends and this will be examined.

Decentralisation of firms in South Africa must be seen in the larger context of the world economy. The shift away from the PWV area to the periphery areas coincides with a shift at the global level from the advanced industrial countries of North America and Western Europe, to Japan and the less developed countries (Bell, 1987b). Furthermore, the mid-1960s witnessed a change in the structure of international competition owing to the rise of Japan and the 'newly industrialised countries' (Bell, 1984). This factor reduced the rate of growth in the advanced industrial countries and the rest of the world (including South Africa). Thus, according to Bell (1984), industries relocated owing to the local recession in 1976 and this, in turn, was as a result of the changes in "international economic conditions and a restructuring of the 'international division of labour'" (Tomlinson and Addleson, 1986, p.387). South Africa responded to the international competition by relocating firms to the periphery where cheap labour resources exist; thus, in South Africa

> "there had always been large inter-regional wage differentials, (due, among other things, to influx control and the consequent rigid, regional segmentation of the labour market), but the immediate cause of the intensified effort to take advantage of these, was the structural change in the world system of industrial production and trade, which occurred in the sixties" (Bell, 1984, p.9-10).

In summary, the changing inter-regional division of labour may be seen as a microcosm of the new international division of labour (Tomlinson and Addleson, 1986).

The industries which decentralised were either labour-intensive, low skill-intensity sectors, or resource-based sectors (Bell, 1987b). The "main thrust of the tendency towards industrial deconcentration from the PWV region therefore, came from the six very unskilled, labour-intensive industries (textile, clothing, footwear, leather, wood and wood products, and furniture), and from iron and steel" (Bell, 1987a, p 209). A similar trend is discovered in international economics, where the labour-intensive and resource-based sectors moved to the less developed countries.

Bell plays down the contribution of ID policy and the role of the Physical Planning Act (Bell, 1984). Firstly, the main industrial areas experienced a decline in their share of total manufacturing employment in 1965-1966 a period before direct control via the Physical Planning Act was introduced. Secondly, with the textile and clothing industries, the PWV area experienced a decline before 1968, and subsequent decline was simply a continuation of the earlier trend. Thirdly, the tendency of the industry to move from the PWV region to the Durban-Pinetown and Cape Peninsula area, occurred before 1968 and thus, once again, this cannot be attributed to the impact of the Physical Planning Act. The enforcement of the Act merely reinforced the trends which were occurring before it was implemented (Tomlinson and Addleson, 1986). Bell argues that the 1967 Act merely served to discipline industry and labour (Bell, 1984). ID has been a spontaneous response to market forces, related to the changing international structure of competitiveness (Bell, 1987b). For Bell, ID was mainly an economic process. ID was "primarily due to the influence of 'market forces' rather than government intervention" (Bell, 1987a, p.208). This conclusion is a bit dubious and the process of ID cannot solely be attributed to economics, but political motives must also be sighted to explain the motives behind ID. These will be examined in the next section.

2.2 Why the theory was applied

Industrial decentralisation was introduced mainly for political motives. The strategy of decentralisation is "intended to provide the necessary infrastructure to retain ethnic political partition in either a federation or confederation" (Zille, 1983, p.67). ID is essentially an artificial process, created by government incentives and "any analysis of decentralisation in South Africa, that might seek to emphasis the forces impelling a regional division of production cannot underestimate the interests of apartheid ideology" (Wellings and Black, 1987, p.202).

The policy of ID historically served a number of political objectives. Firstly, it attempted to limit the number of blacks entering 'white' urban areas thereby controlling African urbanisation (Glaser, 1987, Hindson, 1987). Secondly, it is trying to defuse popular protest and labour organisation from the urban areas to the Bantustans (Wellings and Black, 1986). Thirdly, ID is a way of fostering classes in the Bantustans complementary to the interests of 'white' capital (the policy recently appears to be aimed at *developing bureaucratic and technocratic class fractions* complementary to the interests of 'white' capital) (Wellings and Black, 1986). Fourthly, via the policy it is hoped that the Bantustans will be legitimised, both on a local and international scale (Anderson, 1988; Tomlinson and Hyslop, 1986; Wellings and Black, 1987). The ID policy therefore, was directed at securing the separate development strategy of the Nationalist Party which, however, is now changing more to one of a regional development strategy based on the 9 regions.

The restrictions placed on industrialists in metropolitan areas as a result of the Physical Planning Act goes against the interests of capital and growth (Tomlinson and Addleson, 1987). The ID strategy is not promoting economic growth in South Africa, but is rather a political tool of apartheid. This argument can be strengthened by examining why industrialists move to decentralised areas. Data for Isithebe, Umtata, and Butterworth show that the provision of incentives is the most important force influencing the industrialists' decision to decentralise (Wellings and Black, 1987). Addleson *et al*, (1985) found that 75% of respondents to their survey, said that their present growth point location would not have been considered in the absence of incentives, while 49% said that incentives were necessary to operate at a profit. A survey done in 1986 in Kwazulu confirms the importance of incentive among industrialists. Out of the 102 factories surveyed, 36 (35.29%) claimed that incentive were the most important reason why they decentralised to Kwazulu (Smith and Coetzee, 1987). The importance played by government incentives could be seen when there was improvement in concessions in 1982. With the introduction of beneficial incentives there was a marked increase of local and foreign investment in decentralised areas (Tomlinson and Addleson, 1986). Therefore, ID was introduced for political purposes and "decentralisation is essentially an artificial process and will remain a function of state subsidisation" (Wellings and Black, 1987, p.202).

That ID was introduced by the government for political and not economic motives can further be illustrated by examining the economic constraints present in the Bantustans and decentralised areas. The scarcity of skilled labour and the low productivity of unskilled labour, are disadvantages present in the Bantustans (Tomlinson and Addleson, 1986). This point can be supported by the responses of a survey conducted. A large proportion of respondents (48%) in the survey considered labour costs in the periphery to be equal to, or higher than, core industrial areas (Wellings and Black, 1987). The physical distance of decentralised zones from suppliers and markets, pushes up the transport cost of firms located in the periphery. This expenditure makes peripheral areas economically less competitive than metropolitan areas. Bantustans have also got poor communication and infrastructure systems making them less competitive (Wellings and Black, 1987). ID areas are not favourable economic environments and "on balance, the return on investment in decentralisation is not 'positive', being substantially lower than would have accrued if the capital had been applied in another direction and/or location" (Wellings and Black, 1986, p.10). Thus, the ID strategy was dominated by political motives.

3. Results, Impacts, and Critique of ID in South Africa

3.1 Poor employment creation

The ID strategy can be criticised on several scores. ID policy has not created sufficient employment nor relieved unemployment in the Bantustans (Bell, 1987b; Pretorius, Addleson, and Tomlinson, 1986). In the 1960s, only 11 600 out of 87 000 jobs located at growth points (about

13%) were as a result of the government's ID policy (Wellings and Black, 1986). These figures are based on the assumption that official figures tend to overstate the 'positive' impact of the ID policy, however, a considerable proportion of jobs would have emerged independently of state intervention. In the first five years of the policy from 1968, an average of 9.2 jobs were lost in the metropolitan centres for every one created in the growth points (Wellings and Black, 1986). Between 1960 and 1981, 192 990 jobs were decentralised, but only 50 000 were creations of the policy itself (Wellings and Black, 1986). Other sources state that 7 000 to 8 000 jobs are created annually via the ID policy, but 100 000 new jobs seekers are entering the market in the Bantustans between 1973 and 1975 (Dewar *et al*, 1982). These figures serve to indicate that the ID policy has not created sufficient employment to date. Thus, a critique of ID should be seen as a form of exploitation whereby very cheap peripheral labour is brought into production for the benefit of capital (Wellings and Black, 1987).

Another problem with the jobs created by the ID strategy in the Bantustans relates to the type of work. Most of the new employment introduced is of a deskilled nature (Wellings and Black, 1986). This is because peripheral locations most often do not attract capital-intensive operations, instead they attracted highly mechanised industries which have deskilled their production processes. The ID policy has partially relocated jobs from metropolitan to peripheral areas (Pretorius, Addleson, and Tomlinson, 1986). Furthermore, Acts such as the Physical Planning Act of 1967 prevented a large number of blacks from being employed in the core areas. For example, it was claimed by the Minister of Labour that between January 1968 to December 1971 only 29 500 jobs were created in the Bantustans, while 220 000 jobs were prevented in the metropolitan areas (Gottschalk, 1977). Although the source of the above statistics is unreliable the ID policy via the Physical Planning Act vetoes, did prevented the creation of a large number of jobs in metropolitan areas. Wages were also extremely low in ID areas (Black, 1986). For example, in 1970 one job in border industries was paid only 29% of the then current Johannesburg wage for the same job (Gottschalk, 1977). In 1974, East London (a 'border industry' area) had minimum wages gazetted on average one-third lower than wages for the same job in Port Elizabeth, though the cost-of-living is virtually the same in both areas (Gottschalk, 1977).

Another problem with firms decentralising is that it is difficult to attract skilled labour to these areas (Black, 1986). This is due to housing shortages and inadequate services (shopping and entertainment facilities) in the Bantustans (Wellings and Black, 1986). Companies in order to attract skilled personnel have to offer extra fringe benefits which automatically increase expenditure costs (Dewar *et al*, 1982).

3.2 No multiplier effects

Growth points have also been designated in areas with poor resources and with few locational, infrastructural, and agglomeration advantages (Addleson, Pretorius, and Tomlinson, 1989; Dewar, 19?7). The physical distance of decentralised zones from suppliers and markets increases the transport costs of firms located in the periphery. Thus, the selected points lack the ability to generate agglomeration economies and attract propulsive industries (Anderson, 1988). The propulsive industries which have been located in decentralised areas, are dominated by the presence of branches of multinational firms which benefit from the concessions (Dewar *et al.* 1982). This characteristic means that profits tend to flow back to the parent firm, therefore the 'backwash' effects are greater than the 'spread' effects. The failure to attract propulsive industries means that inter-industry linkages in the Bantustans cannot be formed (Dewar, 1987).

Industries which have decentralised use few local inputs of materials. Few 'backward' and 'forward' linkages drawn from the local economy are used by decentralised industries (Wellings and Black, 1987). Little or no 'trickle-down' effects have occurred in Bantustan areas because of the leakages of purchasing power outside the region and the low wages paid to workers. Also, the ownership of industries by locals has been limited as a result of the scarcity of managerial talents and capital present in the Bantustans (Wellings and Black, 1987).

The high level of incentives has attracted in general inefficient firms and has detracted from national productivity (Dewar *et al*, 1982). The ID concessions have also attracted mainly branch plants and not the parent company. Also, concessions have been applied in a blanket fashion disregarding the formation of linkages. The net result of this is that 'backward' effects are greater than 'spread' effects (Dewar *et al*, 1982).

Although ID did not generate agglomeration industries in the designated areas, this policy also had a negative impact on towns and cities which did not qualify for incentives. Decentralisation concessions have introduced artificial competition in the location market placing areas which do not receive incentives at a disadvantage. For example, the motor vehicle industry moved away from Port Elizabeth which does not qualify for incentives leading to the collapse of the economy of that area (Bell, 1987b).

3.3 Fiscal constraints

ID is also an expensive policy to maintain and places a fiscal burden on the 'independent Bantustans' (Wellings and Black, 1987). Finance of implementing the ID policy was spent on organisational structures, infrastructure, and incentives (Anderson, 1988). The financial burden of ID concessions can be illustrated. For example, in 1982 some R729 million was spent on incentives (Addleson, Pretorius, and Tomlinson, 1989). In the first five years of the ID policy, R1 581 million was spent on incentives (Anderson, 1988). Another fiscal constraint of the ID policy is the cost of creating jobs in the periphery. Each job created in the periphery represents an investment of between R60 000-100 000, 4 times its metropolitan equivalent (Wellings and Black, 1986). Thus, as long as the "central objective of the policy remains ideological and not developmental, as long as the policy remains nationally standardised and centrally controlled and as long as the tool of ID is applied to problems which it cannot help resolve, it will remain little more than a massive waste of resources" (Dewar, 1987, p.177).

3.4 ID policy was a failure

ID failed because it was based on political (the enforcing of separate development) rather than economic considerations (Wellings and Black, 1987). The ID programme offers no solutions to the problems of underdevelopment in South Africa's peripheral areas. Thus, while the ID policy is likely to increase decentralisation, "there is no way that this could provide a means for converting the impoverished reserves into viable economies, disaggregated from the 'white' South African core" (Wellings and Black, 1987, p.182). The failure of growth poles internationally and ID locally meant that 'new' regional planning tools had to be attempted to stimulate growth in regions (Sternlieb and Listokin, 1981).

4. Conclusion

Growth poles emerged in the 1950s as regional planning tools to redress spatial inequality. Growth pole strategy was applied in various countries of the First, Second, and Third World. Application of the theory was met with little success and critique against the growth pole theory began to mount. South Africa also adopted a growth pole strategy since the 1940s in the form of an ID programme. South Africa's motive for implementing the ID strategy was more politically than economically grounded. The result of South Africa's ID policy was that it failed in both political and economic aims. *The net result of the failure of growth pole and ID strategies* both internationally and in South Africa meant that regional planners began to seek out new tools to develop 'backward' regions. It is in this context that the concept of Free Enterprise Zones (FEZ) and Export Processing Zones (EPZ) gained momentum and popularity as regional planning tools. It is to the examination of FEZ and EPZ that the next chapter turns to.

CHAPTER 3: NEW REGIONAL PLANNING POLICIES

1. Introduction

Regional planning policies based on growth poles and industrial decentralisation failed, both internationally and in South Africa, to relieve poverty and unemployment (Rogerson, 1975). The old approach was based on two elements, subsidy and central planning (Lloyd, 1983). This involved the taxing away of part of the profits earned by producers. It also involved central planning (growth poles) aimed at redirecting growth and economic activities to underdeveloped regions. The failure of regional economic development policies meant that new alternative policies were sought which were based on market processes (Lloyd, 1983). It focuses on the removal of governmental barriers which are preventing or interfering with economic growth. Instead of central planning, the new approach is seeking to open (free) up markets and increase privatisation, allowing market forces to determine the course of growth in areas (Lloyd, 1983). In the regional planning context, new planning tools were introduced to develop the new approach. These included export processing zones (EPZ), free enterprise zones (FEZ), free trade zones, free banking zones, and free insurance zones (Grubel, 1982). The discussion will only consider EPZ and FEZ, focusing mainly on the FEZ.

This chapter contains an examination of these new regional planning tools. The chapter firstly describes what is involved with privatisation and the freeing up of markets. Secondly, a brief historical background, definition, and characteristics of these new zones (particularly FEZ) is presented. Thirdly, an overview of the implementation of FEZ internationally and locally is offered. Fourthly, the regional planning policy adopted by the Ciskei is examined in the light of the foregoing discussion.

2. 'Free' Markets and Privatisation

A 'free' market is a difficult economic concept to define. However, three characteristics of 'free' markets can be identified, namely, limited or no government intervention, free competition, and low or no taxation. These characteristics will each be described in turn.

Most proponents of a 'free' market perceive government intervention in the economy as a problem. Therefore, "it was not 'capitalism' but government intervention which has been responsible for the recurrent crisis of the past" (Hayek, 1974, p.100). Ludwig von Mises was also against state intervention in the economy, and his definition of a market economy was one with the absence of state intervention (Rappard, 1956). Most definitions of a 'free' market economy stress that a market economy must have little or no government involvement (Hayek, 1973; Hayek, 1974;

Peacock, 1987; Sennholz, 1956). For example, a market economy, free economy, or free enterprise is defined as

> "an economy in which the greater part of the activities of production, distribution, and exchange are conducted by private individuals or companies rather than by the government, and in which intervention by the government is kept to a minimum" (Bullock and Stallybrass, 1977, p.370).

In a 'free' market economy, decision making should also be decentralised to the individual and non-human resources privatised (Pearce, 1981).

A market economy must have the facility of 'free' competition which means "not the state of affairs consistent with the conditions for so-called perfect competition, but rather the rough-and-tumble process of market agitation kept in motion by *complete freedom for competitive entrepreneurial entry*" (Garrison and Kirzner, 1987, p.611). Free enterprise and competition must replace governmental monopoly of the economy (Hayek, 1974). It is hoped that the free competition will lead to the discovery of new possibilities and methods for the individual to make more profits (Garrison and Kirzner, 1987).

Taxes hinder, restrict, and discourage capital formation and accumulation (Hayek, 1956). Thus, an economy or market which is truly 'free' will have a minimum or at best no taxation system.

3. Free Enterprise Zones: Definition and Characteristics

Free enterprise zones were conceived by Peter Hall in 1977 (Weiner, 1984). Hall proposed establishing 'freeports' in severely depressed areas of Britain in order to encourage entrepreneurial activity. These 'freeports' would be zones of "fairly shameless free enterprise: the areas would be outside the scope of United Kingdom taxes social services, industrial and other regulations" (Hall, 1982, p.417). Although all controls and regulations over business and land development would be suspended in these 'feeports', they represented an "extremely drastic last-ditch solution to urban problems" (Hall, 1982, p.417). Hall's 'freeport' proposal was taken up by the incoming Conservative government in 1979. Sir Geoffrey Howe, the Chancellor of the Exchequer announced plans for an enterprise zone programme in 1980, and by late 1981, 11 zones were in operation. By 1982, 14 additional zones were authorised (Beauregard and Holcomb, 1983).

The enterprise zone concept was introduced into the United States by Stuart Butler, a Heritage Foundation policy analyst. Legislation was first introduced into Congress by Jack Kemp and subsequently by Kemp and Robert Garcia in 1980 (Beauregard and Holcomb, 1983). Since then, 8 other versions of an enterprise zone bill have emerged. Eventually, the 1982 Kemp-Garcia Bill was approved in modified form by the Senate Finance Committee in September of 1982.

3.1 Definition and characteristics of FEZ

A FEZ is a difficult concept to define (ILO, 1988). A FEZ is an 'enclave' in a country enjoying a status that does not extend to the whole territory at large (Sklair, 1986). Harrison (1982) defines a FEZ as a "selected area in which business would be encouraged to invest, under conditions of reduced income and property taxes, lower direct and indirect labour costs and extensive relaxation of environmental, health, safety, and other regulations" (Harrison, 1982, p.422). FEZ are made up of certain features which when outlined, assist in making up a comprehensive picture of what is a FEZ. These characteristics will be briefly described.

Firms operating in FEZ would be exempt from certain taxes. For example, in the U.K., firms located in FEZ are exempt from development land taxes (Weiner, 1984). Newly approved industrial projects in Northern Ireland were granted up to 80% corporation tax relief if they located in FEZ (O'Dowd and Rolston, 1985). In China, businesses locating in the Special Economic Zones are exempt from import taxes for equipment and raw materials for production and given a 'tax holiday' of one or two years (Phillips, 1986). In Liberia, firms in the Industrial Free Zones are offered tax-free and duty-free importation of machinery, equipment, raw materials and supplies and indefinite exemption from import and export duties (Hancock and Lloyd, 1980). In the FEZ there would also be minimum or no government involvement and a removal of administration constraints (Hadley, 1984; Lloyd, 1983). Wage and price controls (including minimum wage laws) and trade unions would be eliminated (Tomlinson and Addleson, 1988).

An important characteristic of FEZ is that they offer incentives to industrialists to attract investment. For example, in the U.K., 100% deductibility of capital expenditures on the construction, extension, or improvement of industrial and commercial buildings is offered (Weiner, 1984). In China, improved roads and infrastructure is made available within the Special Economic Zones (Phillips, 1986). In Southeast Asia, land, factory buildings, electric power, industrial water, and other infrastructure elements are made available by the host governments to manufacturing firms operating in the Free Trade Zones (Takeo, 1978).

3.2 Aims of FEZ

The main aim of FEZ is to reduce the host country's unemployment problem (Tomlinson and Addleson, 1988). Ideally, FEZ should create new job opportunities for the local labour force (Salita and Juanico, 1983; Takeo, 1978). Several other goals of FEZ can be identified for example, it was hoped that FEZ would attract investment (foreign or otherwise) to the area (Fitting, 1982). This was one of the main aims behind the American enterprise zones set up in the inner-city areas (Beauregard and Holcomb, 1983). Linked to this is the goal of FEZ to rehabilitate derelict urban areas (Norcliffe and Hoare, 1982). Furthermore, FEZ should aim at increasing foreign exchange inflows and reduce the balance of payment, upgrade managerial skills, increase utilisation of domestic raw materials, and encourage the transfer of modern technology to the host country

(Fitting, 1982; Salita and Juanico, 1983; Takeo, 1978; Tomlinson and Addleson, 1988). In addition, FEZ should also try and attract innovative small firms and businesses to the area (Hall, 1982). This goal was one of the motives for setting up Enterprise Zones in Belfast (O'Dowd and Rolston, 1985).

4. Application of FEZ and EPZ Internationally

FEZ and EPZ have been implemented throughout the world. At the end of 1979 there existed 344 tax-free trade zones, free ports and similar designated areas in 72 countries of the world (Grubel, 1982). By 1980, more than 55 countries had EPZ or were planning to set up EPZ (UNIDO, 1980). Although generalised, EPZ have been mainly applied to Third World countries, while FEZ were primarily designed to relieve unemployment in inner-city neighbourhoods of First World cities (Tomlinson and Addleson, 1988). What follows is an overview of the application of the new regional planning tools (particularly EPZ and FEZ) throughout the world. The aim of the review is to stress the popularity of the new policies in a global context.

4.1 Europe

FEZ were introduced in the U.K. in order to upgrade and rehabilitate 'old urban areas' of economic and physical decay (Norcliffe and Hoare, 1982). The initial zones ranged in size from 140 to 1 100 acres (Beauregard and Holcomb, 1983). The sites consisted mainly of industrial or vacant land, with low population densities, close to depressed residential areas with high rates of unemployment. The FEZ strategy in the U.K. was implemented in two phases. The first wave in 1981, introduced 11 FEZ. The 11 zones designated were as follows: Newcastle/Gateshead, Speke (Merseyside), Salford Dock/Trafford Park, Isle ' Dogs (London Dockland), Belfast, Clydeside, Lower Swansea Valley, Dudley, Corby, Wakefield (South Kirby), and Hartlepool (Norcliffe and Hoare, 1982). The second wave was declared during 1983 and 1984, and introduced 14 additional FEZ. The 14 new FEZ were: Glanford, Middlesbrough, North-West Kent, North-East Lancs, Rotherham, Scunthorpe, Telford, Wellingborough, Workington, Invergordon, Tayside, Delyn, Milford Haven Waterways, and Londonderry (Hadley, 1984)

Switzerland has also introduced tax havens. For example, Zurich is a high tax canton and Berne has high tax rates, marginal and upper tax rates of 38%, while Zug is a tax haven. In Ireland, in 1959, Shannon International Airport was transformed into a free trade zone to try and attract foreign manufacturing firms to save the area from economic decline (Sklair, 1986). Similarly, Luxembourg also introduced tax havens for companies (Johns, 1988).

4.2 North America

FEZ were introduced in the USA in 1981. The FEZ in the USA differed slightly from those of the U.K. in two respects. Firstly, FEZ in the USA are larger in size and small cities of less than 50 000 population and Indian reservations are eligible for FEZ status (Beauregard and Holcomb, 1983; Butler, 1981). Secondly, FEZ in the USA are not solely reserved for urban areas and out of the 25 designated areas in 1982, 8 were rural areas (Beauregard and Holcomb, 1983). FEZ in the USA were firstly introduced by state governments. By 1982, the following states had introduced FEZ: Arkansas, Connecticut, Florida (setting up 116 zones), Illinois, Indiana, Kansas, Kentucky, Louisiana (473 zones), Maryland, Minnesota, Mississippi, Missouri, Nevada, Ohio, Oklahoma, Pennysylvania, Rhode Island, Texas, and Virginia (Lloyd, 1983).

4.3 Latin America and Carribean

Mexico introduced EPZ on its northern border area in 1965 to try and create alternative employment opportunities in this region as a result of the American government's curtailment of the inflow of Mexican immigrants into the USA (Rogerson, 1975). Foreign firms are permitted to establish industries within a 20 km wide strip along the U.S border where all duties and regulations on the import of machinery, equipment and raw materials are suspended provided that the final manufactured product is exported. By 1986, 250 000 Mexicans were employed in the EPZ (ILO, 1988). Brazil, Dominican Republic, Chile, Colombia, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, and Puerto Rico had all introduced EPZ by the early 1980s.

4.4. Pacific Islands

Fiji called for the establishment of an Industrial Free Zone between 1982 and 1984 (Howard, 1985). By 1988, Fiji had established a tax free system (Chandra, 1988). In 1974, the government of Western Samoa passed an Industrial Free Zone Act, this gave firms locating in the Industrial Free Zone a five-year tax holiday and exemptions from duties on a range of items (Howard, 1985).

4.5 Asia

In China, Special Economic Zones have been established since 1979 to encourage international investment and trade. These zones are located at Shenzhen, Zhubai, and Shantou in Guangdong province, and Xiamen in Fujian (Phillips, 1986). These zones were all located in the Southern area and other 'open areas' have been introduced in 1984 in the North to respond to anticipated spatial imbalance. Taiwan set up the Kaohsiung Export Processing Zone in 1965. By 1970, Taiwan set up two other EPZ, Taichung Export Processing Zone and Nantze Export Processing Zone (Takeo, 1978). These EPZ combined the advantages of an industrial estate and a free trade zone, allowing firms to enjoy incentives and tax benefits accorded to export producers but without the accompanying 'red tape' and bureaucracy (Rogerson, 1975). In 1971, South Korea set up the

Masan Free Export Zone. The Philippines set up the Bataan Export Processing Zone in 1972, in the same year Malaysia established the Bayan Lepas Free Trade Zone, and Thailand are planning similar zones (Wong and Chu, 1984).

4.6 Africa

Several African countries also introduced EPZ. For example, Tunisia and Ghana introduced EPZ (ILO, 1988). In 1971, Mauritius established an EPZ to combat unemployment in the country (Rogerson, 1975). Each factory which is granted entry into Mauritius becomes an export-processing zone. In 1975 Togo formed the Lome Export Processing Zone and in 1976 Senegal established the Dakar Export Processing Zone (Hancock and Lloyd, 1980). Similarly, in 1976, Liberia declared the Bushrod Island complex as a free zone (Botchie, 1984). In 1980, Egypt opened up four industrial free zones in Alexandria, El Nasr, Port Said, and Suez (Hancock and Lloyd, 1980). In South Africa, the Ciskei has become a FEZ since 1984 and the Transkei is also making plans of converting Umngazana near Port St Johns into a free trade zone.

The above review serves to illustrate that the new urban and regional planning tools (EPZ and FEZ) have become popular and have been implemented in a variety of countries with different governments throughout the world. The discussion will now focus on the Ciskei region and its implementation of the new regional planning policies. In particular, the discussion will analyse the regional planning policy adopted by the Ciskei to examine whether the policy resembles a FEZ or an EPZ. This debate will serve as a prelude to the more detailed examination of the Ciskei which is conducted in chapter four.

5. Ciskei: Export Processing Zone or Free Enterprise Zone

From an examination of the Ciskei, it seems best to interpret the Ciskei as a FEZ instead of an EPZ (Tomlinson and Addleson, 1985). The use of a FEZ rather than an EPZ interpretation seems to be more appropriate because the constraints imposed by the Ciskei being a part of the Southern Africa Customs Union and the Rand Monetary Area prevent the Ciskei from implementing an EPZ strategy (Tomlinson and Addleson, 1988). The points raised in the following paragraph stress that a FEZ interpretation for the Ciskei is preferred over that of an EPZ.

The view that the Ciskei is following a FEZ policy can be ascertained by an examination of various Acts passed in Ciskei in 1984. Two Acts, the Company Tax Amendment Act and the Small Business Deregulation Act are important in stressing that the Ciskei is following a FEZ policy. The Company Tax Amendment Act abolishes all company tax as an alternative to all but four concessions. The concessions are those of transportation, electricity and water, housing for key managerial personnel, and the price preference on government tenders. In addition, there is no personal tax on the first R8 000 and a flat rate of 15% thereafter. There is also a 15% withholding tax imposed on profits, dividends, and royalties remitted out of the Ciskei. This is to try to retain and reinvest profits back into the Ciskei (Tomlinson and Addleson, 1985). The Small Business Deregulation Act enables the Ciskei government to do away with restrictions, regulations and the enforcement of building standards as they apply to small business. The Act does away with minimum wages and even permits the employment of child labour. The Ciskei resembles a FEZ if one examines the purchasing of land. For proclaimed land (townships, developed areas, and developing areas) as opposed to tribal land, one can get freehold title to the land. There are no group areas or restrictions on foreigners when it comes to the issue of land. Thus, "the Ciskeian legislation approximates a FEZ considerably more closely than it does an EPZ." (Tomlinson and Addleson, 1988, p.280) and it will be evaluated in FEZ terms in the rest of the discussion.

6. Conclusion

As a result of the failure of the old regional planning policies (growth poles and industrial decentralisation), new policies based on the 'free' market were attempted. Export Processing Zones and Free Enterprise Zones emerged as new tools to be used to develop poor inner-cities and regions of countries. EPZ and FEZ are special 'enclaves' in a country, enjoying a status which differs from the rest of the economy. The idea behind the special concessions and incentives offered by EPZ and FEZ is to try and attract investment to the zones which will upgrade them. EPZ and FEZ as regional planning tools have been implemented throughout the world. The new regional planning policies were also implemented in South Africa, by the Ciskei. As a result of the contents of various Acts passed by the Ciskei in 1984 (particularly the Company Tax Amendment Act and the Small Business Deregulation Act), a FEZ interpretation is preferred over an EPZ interpretation for the Ciskei. The main thrust of the next chapter is to analyse Ciskei's FEZ strategy.

CHAPTER 4: CISKEIAN POLICY

1. Introduction

In this chapter, Ciskei's regional planning policy will be analysed and this chapter has three sections. The first section will examine the experience of the Ciskei prior to 1984 and some explanation will be given as to why the Ciskei changed its policy. The second section will analyse what happened in the Ciskei after 1984. The analysis will focus on two main sectors, large-scale industry and small informal business. Finally, a comparative study will be conducted between Ciskei and Kwazulu to determine whether or not Ciskei's policy was more successful in attracting investment and creating employment than the other policy of industrial decentralisation concessions. The idea behind the comparison is that it is difficult to determine the success of the FEZ policy solely by looking at the Ciskei, therefore it seems more appropriate to compare Ciskei with another bantustan, Kwazulu. It must be noted from the outset that the comparison attempted is very difficult and the criteria used for comparison (cost to the public sector, number of jobs, number of industries, amount invested, and the number of small business loans) are very complicated. Consequently, the material that has been employed is at best suggestive. For example, this difficulty can be illustrated when one compares the number of small business loans granted. It can be seen that Ciskei has more loans granted than Kwazulu. In this study, this phenomenon has been attributed to the Ciskeian FEZ policy. However, this is only preliminary and other variables need to be explored (like the existence in the Ciskei of a better institutional capacity to deliver loans). To overcome these difficulties a more detailed follow-up study would be needed. However, for the present, the suggestive comparison between Ciskei and Kwazulu will be attempted.

2. Experience Prior to 1984

2.1 Industrial decentralisation concessions

Since the inception of South Africa's ID programme and the 'independence' of Ciskei, this bantustan participated in the programme. By the 1 April 1982, Ciskei formed part of Region D, one of the development regions identified by the Good Hope Conference. Ciskei's concessions after 1982 were as follows (Indwe, 1982; Indwe, 1983):

- Industrialists were offered subsidies of 80% of interest and rentals for a 10 year period.
- Electricity was subsidised to the same tariff as for the Eastern Transvaal area.

- A non-taxable cash allowance (for 7 years) of 95% of wage bills to a maximum of R110 per worker per month was granted.

- Cash grants of up to R500 000 was paid to reimburse industrialists moving their factories to the Ciskei.

- A 60% rebate on the cost of transporting manufactured goods anywhere in Southern Africa was offered.

- Deduction of 60% on building society interest rates for housing loans for key managerial staff.

- A non-taxable cash grant of 125% was payable in respect of approved training schemes.

- Price preferences of up to 10% on government tenders.

In addition to these concessions, the Republic of Ciskei was trying to attract industrialists to the Ciskei based on several perceived locational advantage (Indwe, 1983). Industrial growth points such as Dimbaza, Fort Jackson, and Sada, had infrastructure which included tarred roads, private rail sidings, electricity and water and modern telecommunication facilities. The Ciskei also used its large stable labour force (stability which was largely enforced via governmental powers e.g. police action) and industrial peace between workers and industrialists as marketing tools to promote the Ciskei as a possible investment area. Furthermore, its close proximity to a harbour and airport was anothe advantage for industrialists to move to the Ciskei. The experience and results arising from the Ciskei following the industrial decentralisation path of development will be examined and outlined in the next section.

2.2 The ID policy pre 1984: Experience of large industries

The experience of the Ciskei in terms of large industries in the pre 1984 period is summarised (Table 1). Several trends can be identified. The number of new jobs created per annum increased from 842 in 1975 to 8 000 in 1984. This represents an 850% rate of change for the period. The rate of increase slowed thereafter, even declining in 1987 probably due to the general economic downturn experienced in South Africa. A notable increase in the amount of employment generated is in the 1984 period. The 1984 figure represents a 72.7% increase of the previous year. This rapid escalation of jobs can be attributed to the improved concessions introduced in the 1982 period via the Good Hope Conference. Although there was a marked increase in the number of jobs created, this was accompanied by an increase in the cost of creating employment (cost of creating jobs is calculated by dividing the amount invested by the number of jobs created). In 1975, the cost of creating a single job was R1 600 and this increased to R3 678 in 1984. This represents a 130% increase.

Year	Number of Industries (cumul.)	Amount of Investment	Actual number of Jobs (cumul.)	% of GDP
1970	-	-	-	10.3%
1975	-	R 1 606 870	1 000	18.2%
1976	10	R 3 190 177	1 100	-
1977	12	R 4 261 673	1 3[illegible]0	-
1978	19	R 3 059 301	1 600	-
1979	24	R 5 146 485	1 750	-
1980	31	R 6 869 273	4 000	16.9%
1981	35	R 8 298 118	6 000	13.1%
1982	53	R 31 001 941	8 500	15.4%
1983	75	R 31.1 mil.	11 000	18.1%
1984	121	R 69.9 mil.	19 000	21.1%
1985	157	R 138.7 mil.	22 500	20.6%
1986	190	R 54 mil.	25 500	-
1987	215	R 42 mil.	23 000	-
1988	239	R 38.7 mil.	26 500	-
1989	281	R 46.1 mil.	30 000	-

Table 1: Large Industries in Ciskei, 1970-1988, (Business Day Survey, 1989; Ciskeian National Development Corporation, 1979; 1981; 1982; 1983; Ciskei Peoples Development Bank, 1984; 1985, 1986; 1987; 1988; 1989; Development Bank of Southern Africa, 1986).

In addition, two further patterns can be identified. Firstly, the number of industries established with this high investment was relatively low, (10 in the pre 1977 period increasing to a cumulative total of 121 in 1984). Secondly, within the manufacturing sector it was the textile and clothing industry which dominated. In the pre 1977 period, 4 (40%) out of the 10 established firms were involved in the clothing and textile industry. By 1978, 7 (36.8%) out of the 19 existing firms were producing textiles, carpets, and footwear. Only 3 (15.8%) firms were involved in the manufacturing of furniture and 3 (15.8%) were producing metal products. No firms were producing electrical and electronic products. In 1982, 19 (37.2%) of the existing firms were involved in the textile and clothing sector. Only 9 factories (17.6%) were involved in metal products, 5 firms (9.8%) were producing furniture, and 2 industries (3.9%) were producing electronic goods. By 1984, 47 (38.8%) of the 121 industries were textile and clothing. While 5 (4.1%) were producing furniture, 17 (14%) were manufacturing metal products and 12 (9.9%) were making electronic components. Clearly, until 1984, the clothing and textile production dominated the industrial sector.

2.3 Small businesses: Pre 1984

In the pre 1984 period, Ciskei's small business sector was not growing rapidly (Table 2). This can be identified by the number of loans issued out to Ciskeian businessmen involved in a variety of activities including metal work, woodwork, knitting and sewing, shoe repairs, glazing and glass-cutting, electrical contracting, and sheet metal work.

Year	Business Loans	Investment
1978	250 (cumul.)	R 3.25 mil. (cumul.)
1979	50	R 750 000
1980	50	R 1.5 mil.
1981	50	R 2 mil.
1982	50	R 1.25 mil.
1983	50	R 2.25 mil.
1984	200	R 5 mil.
1985	237	R 5.3 mil.
1986	300	R 2.2 mil.
1987	77	R 2 428 496
1988	680	-

Table 2: Small Businesses in Ciskei, 1978-1988, (Ciskei Peoples Development Bank, 1987; Financial Mail, 1985).

In terms of rate of change, a 300% increase in the number of loans issued to Ciskeians was recorded between 1979 and 1984. However, the amount invested in the small business sector increased rapidly from R750 000 in 1979 to R5 million in 1984, a 567% increase. Low employment was the dominant trend in the small business sector despite attempts in 1981 to open up factory flats for small industries in Zwelitsha (Informa, 1984).

From the data of both large industries and small businesses, it can be concluded that in the pre 1984 period, Ciskei's economy was suffering from high expenditure and low employment creation. As a result of this, and also due to the concessions mentioned below, the Swart Commission of inquiry into the economic development of Ciskei was formed on 4 December 1983 to recommend an alternative strategy to achieve development. The Commission made an appraisal of the various economic sectors of the region (encouragement of entrepreneurial activities, deregulation, land tenure reform, and organisation for planning, development and implementation) identified as vital areas for the economic development of the region. The Swart Commission concluded that in order to mop up the present formal unemployment, between 45 000 and 90 000 industrial jobs have to be created. These figures are based on the Swart Commission's assumptions that each industrial job creates one and a ha.. jobs in trade and services (Lotter, 1984). The Swart Commission recommended a deregulation of the economy in areas such as commercial agriculture, industrial activities, and small businesses (Jones, 1984, Swart, 1983). The Commission recommended that the only way both to create internal wealth and to attract expatriate wealth is to establish a truly free, low tax economy (Members of the Commission, 1984). In accordance with the Swart Commission's recommendations, the Republic of Ciskei passed 4 Acts to 'free' the economy. The Small Business Deregulation Act exempts businesses employing less than 20 people from virtually every restrictive law, other than those that are subject to an international treaty. The Company Tax Amendment Act abolishes all company income tax and undistributed profits tax (tax free companies still received some incentives: benefits relating to transport, housing, and electricity), except for companies receiving decentralisation incentives. The Removal of Certain Restrictions Act, permits all people, including whites and foreigners to acquire land in any township. The Licenses Amendment Act removes virtually all restrictive licensing.

2.4 Why the Ciskei changed its policy

The Industrial Decentralisation concessions were creating budgeting problems for the Ciskei Government. The cost of subsidising industrial jobs would exceed the total present annual budget of the region. In 1982/83 , the expenditure by the Ciskeian Government on concessions amounted to R6 292 000. This figure increased to R38 939 000 for the 1984/85 period (Development Bank of Southern Africa, 1987). This represented a 510% increase between the two periods. On a possible cost projection based on pre 1984 growth, Ciskei would be bearing an annual cost by 1990 of between 75 and 80 million rand on concessions. The Ciskei shifted development from decentralised incentives to a tax [illegible]en in order to make it cheaper to attract investments (Bridgman, 1985). In addition, the simplici[illegible] the new system would save administration costs.

The industrial concessions were mainly assistance based on subsidies and cash inputs and hence tended to attract a large proportion of 'lame duck' enterprises. These are factories which experienced viability problems elsewhere and survive only on the basis of receiving incentives. In other words, the Ciskei Government via the tax haven and deregulation package wanted to attract viable and profitable investors who would benefit from the output orientated incentives. Another reason why the Ciskei introduced the new policy was that the decentralisation package was only orientated towards middle and large-scale manufacturing industry that were not locality-bound by nature thereby *ignoring small industries and businesses*. The new policy was geared towards the development of these small-scale enterprises. The concessions were also only applicable to the manufacturing industrial sector, whereas the new system would also include the commercial and agricultural sectors. A final reason why the Ciskei abandoned its ID policy was that via the ID route it was unable to address the unemployment problem (Tomlinson and Addleson, 1985).

3. Experience Post 1984

The passing of the 1984 Acts created a new tax system in the Ciskei, however, this new system did not completely abolish decentralisation benefits. From March 1, 1985, all companies that received no decentralisation benefits, other than those relating to transportation, electricity, and housing, were exempt from tax. Companies receiving decentralisation benefits had six months in which to decide whether to apply for tax-exempt status in terms of the Company Tax Amendment Act of 1984. For companies converting to the tax-exempt status within the prescribed period would not pay any income tax. Late applications for conversion to tax-free status would be considered by the Minister and decided by this person Companies that decided not to convert to tax-free status but continued to receive decentralisation benefits continued to pay income tax at a rate which increased on March 1, 1985, to 50c on each rand of chargeable income. Their future taxes were limited to an amount equal to all accountable decentralisation benefits received by them plus compound interest at prime bank overdraft rate. When a company had paid an amount of income tax equivalent to the aggregate of accountable decentralisation benefits received by it, plus interest, it could become tax-free.

The alternative choices which existed in the Ciskei post 1984 was different to the ID concessions available pre 1984. In this section, three major issues will be examined Firstly, the investment in large industry will be analysed, comparing the pre 1984 with post 1984 figures. Secondly, the experience of the small business sector will be described. Thirdly, the speculation of academics and writers prior to the implementation of the Acts, the problems encountered in implementing the reforms, and the results of the experiences of large industries and small businesses will be commented on.

3.1 The experience of large industries

In the post 1984 period, the number of industries attracted to the Ciskei increased rapidly. For a 3 year period (1985 to 1987) the number of industries attracted to the Ciskei (101 in all) was almost equivalent to the number of large industries attracted to the Ciskei for the period 1970 to 1984 (121 industries attracted for this 14 year period). In addition, another positive feature was that the amount spent on establishing large industries decreased from R138.7 million in 1985 to R46.1 million in 1989 (Table 1). Although these positive features can be identified, a negative trend can also be sighted. By 1987, 23 000 (cumulative figure) out of a 360 000 labour force were employed in industry. This figure of industrial employment is a decrease of the 1986 figure of 25 500. This decrease has been attributed to three factors. Firstly, the decline has been attributed to the uncertainties arising from the implementation of the Ciskeian legislations. Secondly, the decrease has been explained by been the result of the general downturn in South Africa's economy experienced in the 1987 period. Thirdly, the quota placed on goods from the Far East in the USA meant that because South Africa had no quota, South Africa experienced an influx of cheap manufactured goods from the Far East. The net result was that factories based in South Africa could no longer compete with these goods and therefore some industrial jobs were lost (for the financial year 1986/1987 Ciskei suffered a job loss of 2 500) (Baker, 1989; Ciskei Peoples Development Bank, 1988). This 1986/1987 slow down is parallelled elsewhere in South Africa's economy as was the case for Kwazulu. Kwazulu's expected number of jobs decreased from 13 620 in 1986 to 11 471 in 1987.

It was speculated that most firms in the Ciskei in 1984 would prefer the subsidy package rather than the tax exemption. A survey was done of 53 firms in the Ciskei, 15 (28.3%) favoured exemption from company taxation, 24 firms (45.3%) preferred the incentives, and the remaining 14 manufacturers (26.4%) were indifferent (Black, Dollery, O'Neill, and Roux, 1985). From this survey, it was concluded that most firms in the Ciskei preferred the old concessions over the tax exemptions. It was estimated that subsidiary firms would prefer the tax holiday because they can artificially boost their profits, thereby reduce the burden of tax borne by other members of the group located elsewhere. It was also predicted by several authors that the new tax haven would attract genuinely more profitable companies (Bridgman, 1985; Tomlinson and Addleson, 1985). In other words, 'cash cows' instead of 'lame duck' (firms relying on industrial incentives to survive) companies will be attracted to the tax haven of Ciskei. It was also predicted that foreign firms will not be attracted to the tax haven because taxes do not represent a problem for foreign firms. Multi-national corporations are equipped for extracting profits untaxed via, for example, over-invoicing for imported inputs and by claiming excessive management, royalty and patent payments. It was hoped that the tax free option would introduce diversified industry and increase development in Region D (Boffard, 1988; Growth, 1985).

Although the Government of Ciskei hoped that the new reforms would attract more profitable firms than previously, several problems were encountered when implementing the deregulation policy (Saunders, 1989). The new policy of deregulation was difficult to introduce into a well established administrative atmosphere. It was difficult to abandon pre-existing structures. Furthermore, the supporting facilities like available water, electricity, and infrastructure were minimal in the industrial sites when one compares them to the more developed urban centres of South Africa. A further problem encountered when trying to expand the industrial sector of Ciskei was the availability of land. Land which was in the hands of the tribal authorities would take lengthy and complicated processes to acquire.

Despite the problems encountered with implementing the new reforms, these new deregulations have been fairly successful (Oakley, 1984). Several issues can be raised which illustrate this success. By 1989, 46.9% of industries established in the Ciskei enjoyed the country's tax haven, a marked increase on the 1985 survey figure of 28.3% (Black *et al*, 1985; Ciskei Peoples Development Bank, 1989). A greater variety of industries with more multiplier effects and linkages have been attracted to the Ciskei as a result of the new tax legislations (Baker, 1989; Louw, 1989). By 1984, Ciskei's manufacturing sector was dominated by the textile and clothing sector, but by 1989, the situation had changed and a broader cross-section of industries had been attracted to the Ciskei (Table 3).

	Textile/ Clothing	Furniture	Metal Products	Electrical/ Electronic Products	Food	Chemical Rubber Products
Pre 1977	40%	10%	10%	0%	10%	10%
1977	33.3%	8.3%	25%	0%	8.3%	8.3%
1978	36.8%	15.7%	15.7%	0%	5.2%	5.2%
1979	33.3%	20.8%	12.5%	0%	8.3%	4.1%
1980	25.8%	16.1%	12.9%	3.2%	6.4%	3.2%
1981	22.8%	14.2%	14.2%	2.8%	5.7%	2.8%
1982	35.8%	9.4%	16.9%	3.7%	5.6%	1.8%
1983	34.6%	8%	17.3%	6.6%	5.3%	4%
1984	38.8%	4.9%	14%	9.9%	3.3%	4.1%
1989	23.5%	3.4%	10.7%	10.7%	6.3%	12.2%

Table 3: Type of Industries, Ciskei, 1977-1989, (Development Bank of Southern Africa, 1986).

By 1989, a more balanced situation existed, 48 (23.5%) out of 204 industries were involved in the textile and clothing sector, 22 (10.7%) were producing electronic and scientific goods, 22 (10.7%) were manufacturing metal products, and only 7 (3.4%) were making furniture. Other notable sectors were the food sector which had 13 (6.3%) industries, the motor vehicle sector (13 or 6.3%), and the chemical and rubber sector (25 or 12.2%). The greater diversity of industries means that the Ciskeian economy is less vulnerable and does not rely solely on a single 'type' of industry.

Another advantage of the new tax system is that it has also diversified investment. The old incentives only covered industrial development, while the new tax-free system encouraged more investment in the commercial services, transport, agricultural and professional sectors of the economy (Financial Mail, 1985). Another factor which illustrates that the tax-free system was more successful was the increase in the number of jobs created by the new system as compared to the pre 1984 industrial decentralisation system. This statement can be supported with an examination of figures. Between 1975-1984 (10 years), otal of 19 000 new jobs were created in large industry. This works out to an average of 1 900 jobs per year. If one compares this figure to the average between 1985 to 1989 (5 year period), the average works out to 2 200 jobs per year. These calculations clearly illustrate the increase in the number of jobs created (a 16% increase) in the post 1984 period. A similar pattern is repeated if the same exercise is done for the number of industries established. Between 1977 and 1984 (an 8 year period), a total of 111 industries were established, an average of 13.8 factories a year. Whereas between 1984 and 1989 (6 year period), an average of 26.6 firms were established per year. This represents a 93% increase between the pre and post 1984 period. Since the inception of the new tax initiative the Ciskei has experienced growth. In 1985, the current growth rate was recorded at between 6 and 8% (Financial Mail, 1985).

Since the introduction of the Acts, foreign investment in the Ciskei had reached R90 million (Business Day Survey, 1989). Of the 204 industries established in the Ciskei, 45 (22% of the total) are funded by investors from abroad. The actual employment in these foreign ventures represents 42% of the total employment opportunities in the Ciskei. Out of the 45 enterprises, 20 are Taiwanese, 6 are from Israel, 3 from other African countries, 2 each from Belguim, the U.K, Spain, U.S.A and italy, and one each from France, Germany, Austria, Holland, Luxembourg and Switzerland. This interpretation of the data serves to illustrate that the 1984 Acts increased growth and development in the Ciskei as opposed to the period before the introduction of the Acts. Thus, the FFZ strategy appears to be better as a regional planning tool than the industrial decentralisation concessions when one compares the data for large industries within the Ciskei. What follows is an examination of the impact of the FFZ policy on small businesses.

3.2 The experience of small businesses

The legislation which 'frees' small businesses from regulations is the Small Business Deregulation Act which exempts businesses employing less than 20 people from certain regulations including the factory act, labour laws, standards, health, zoning, and licensing. The problem when dealing with an analysis of small businesses is that a large proportion is informal and therefore has not been quantified (Baker, 1989; Saunders, 1989). The net result is that there is only visual proof of this sector's growth and an analysis based on the sparse amount of information (such as the number of loans given to Ciskeian businessmen) will be attempted. The analysis will be broken down into three parts. The first gives a brief historical review of the small business sector in South Africa, summarising the aims and goals of this sector. The second part will examine the trends in small businesses for the post 1984 period comparing this to the previous experiences. The last section examines the advantages and disadvantages of the small business sector in a broad framework and finally narrowing it down to the problems and advantages of this sector in the Ciskei.

The informal sector was firstly praised as a solution to South Africa's unemployment problems in 1979 at the Carlton Conference (Tomlinson and Addleson, 1985). Dr Anton Rupert urged the Government to promote the informal sector. It was hoped that the informal sector would help alleviate unemployment and develop a Black capitalist entrepreneurial class to counterbalance socialist political views among Blacks (Southall, 1980). For the Ciskei, it was ideally hoped that the informal sector would transform and uplift society. At best, it is hoped that the informal sector will increase employment opportunities and improve income levels. The review of the Ciskeian informal sector will examine in broad terms whether these goals have been partially achieved or not.

In terms of the small business sector, several comments can be made. Since 1984, the number of loans granted to small businesses in the Ciskei increased (Table 2). A rate of change of 240% (increase) was recorded in the number of loans issued to small businesses between 1984 and 1988. Furthermore, another advantage of deregulation was that it saved the Ciskeian government money. Less was spent in the small business sector for 1987 and 1988, yet the number of loans (for 1988) had rapidly increased. Even Ciskeian hawkers benefited from the deregulations of the small business sector, receiving 42 loans worth R112 700 in 1984. Ciskei's new tax legislation also brought a flood of professional people and commercial operations into Bisho (Indwe, 1985). All of the 115 offices and office suites and the 52 shopping premises were occupied. Included among the tenants are engineers, land surveyors, doctors, attorneys and advocates.

By 1986, the Ciskei Small Business Corporation had established 212 workshops giving guidance and direction to 1 484 businesses (*Supplement to the Daily Dispatch*, 1986). At the end of 1988, 1 880 small business and 4 146 jobs had been created by the Ciskei Small Business Development Corporation (Moonleya, 1989). Of these businesses, 233 were accommodated in workshops. A wide variety of activities are incorporated in these activities including dressmaking, leatherwork, panelbeating, sheet metal work, the manufacturing of furniture, copperware, knitting, sewing, beadwork, and hawking. At 28 February 1989, the Ciskei Small Business Corporation was servicing 1 892 small businesses creating 4 177 jobs for Ciskeians thereby feeding approximately 50 000 men, women, and children (Sebe, 1989). At the end of May 1989, 8 555 loans were granted increasing the number of small industries to 1 941 and bringing up the cumulative total of jobs created to 4 177.

In terms of the number of loans granted, the post 1984 period had more loans. Between 1979 to 1984 (6 year period), 450 loans were issued. This gives an average of 75 loans per year. However, between 1985 and 1988 (a 4 year period), a total of 1 294 loans were granted. The average for this 4 year period was 323 loans per year. Clearly for small businesses, the post 1984 period (when deregulation was introduced) was more beneficial than the pre 1984 phase.

The development of the small business sector as a potential solution to unemployment has several advantages and disadvantages in a general context. These will be discussed in the following section. The advantage of expanding the small business sector is that it is cheaper to create jobs in this sector than either the industrial or construction sector (Growth, 1983). The expansion of small scale enterprises may provide an outlet for personal savings at relatively low income levels which would otherwise go unrealised (Page and Steel, 1984). Furthermore, small businesses offer the possibility of providing income to the lower-income population. The small business sector has also been attributed with the development of indigenous entrepreneurs. The advantages of small scale enterprises are summed up by Page and Steel (1984, p.37) :

> "They make a significant contribution to income and especially employment. They have potential for self-sustaining growth in that they are an important source of income for workers outside the formal sector and also are orientated toward supplying the demand generated by rising incomes of these workers. They are relatively intensive in low-skilled and semi-skilled labour, and they serve to economize on scarce capital and managerial and technical skills. They are capable of utilizing capital productively in terms of output generated, though this depends on the degree of managerial and technical efficiency and is more evident for very small than for medium-scale firms. They provide an avenue for investment of personal savings and for the testing and development of entrepreneurial ability".

The development of the small business sector also has disadvantages. Intervention by the state and government regulations have tended to discriminate against small firms (Page and Steel, 1984). Also, most informal sector activity occurs in the tertiary sector. The potential for expansion is limited in this sector because when sizeable markets exist, the informal sector competes with formal sector traders (Tomlinson and Addleson, 1985). This competition forces the informal traders into market niches that are too small and unprofitable for formal commercial operations. It is also important to note that the informal sector depends on the growth of the formal sector labour force which it serves.

In terms of the Ciskei, several advantages and disadvantages can be identified in relation to the small business sector. The informal sector can create cheap jobs, and spontaneous employment (Jacobs, 1982). Pre-1984, a major obstacle in the expansion of the small business sector was government regulations. Excessive and unrealistic building by-laws were obstructing the operation of self-help housing and small building contractors. In general, the negative attitude of the authorities was inhibiting the growth of the informal sector. With the passing of the Small Business

Deregulation Act in 1984, a major problem with the expansion of the small business sector was that the government was distributing licences for commercial and other use based on patronage or favouritism (Tomlinson and Addleson, 1985). Despite these problems, the simplicity of the deregulation has enabled the small business sector to dramatically increase in the Ciskei (Louw, 1989; Rowles, 1989)

By examining large industries and small businesses within the Ciskei, it appears that the FEZ strategy has succeeded. What is needed is a comparison of the Ciskei following the FEZ strategy with another homeland pursuing the industrial decentralisation path of development. This will serve as an ultimate proof to the success of the FEZ strategy over that of the industrial decentralisation path. The homeland chosen for comparison is Kwazulu and the following section contains the details of the comparison.

4. Comparison Between Ciskei and Kwazulu

In this section, a comparison between Ciskei following the Free Enterprise Zone regional planning route and Kwazulu following the industrial decentralisation path is conducted. Kwazulu was chosen for comparison because in using this bantustan, the Ciskei (hence the FEZ policy) would already start off with a disadvantage. Kwazulu has a particularly good industrial record, therefore a strong 'opposition' has been chosen for comparison. In addition, Kwazulu is near the growing urban metropoles of Pietermaritzburg and Durban and is nearer the core market (Pretoria - Witwatersrand - Vereeniging area), while Ciskei is near a declining port (East London) and is further away from the PWV area. Similarly, Kwazulu is in development Region E, while Ciskei is in development Region D which has a higher priority for development indicating that Ciskei is economically worse off than Kwazulu. This shows that even before commencing on the comparison, the Ciskei (FEZ policy) suffers a negative bias. The idea behind this negative situation is simple. If Ciskei can stand up comparatively to Kwazulu (even with the negative conditions outlined above), then it can be concluded that the Ciskei will be able to stand up positively to poorer regions (than Kwazulu) in the rest of South Africa. If this is the case, then it raises the issue of the validity of a FEZ policy as a regional planning tool for poorer regions in South Africa.

4.1 General points

In 1986, the Ciskei's area of land was 7 760 km^2 and its population density was 96.6 persons/km^2 (Development Bank of Southern Africa, 1987). By 1986, Kwazulu had an area of land of 36 074 km^2 and its population density was 124 persons/km^2. In 1985, Ciskei had a *de facto* population 750 000, out of which 588 416 (78.4%) were non-economically active, 4[illegible] 000 (6%) were unemployed, and 116 584 (15.5%) were employed (Supplement to the Daily Dispatch, 1986). Kwazulu in 1985 had a *de facto* population of 4 462 498, of which 3 504 213 (78.5%) were non-economically active, 137 400 (3.1%) were unemployed, and 820 885 (18.4%) were en ed.

Before commencing on the detailed comparison between Ciskei and Kwazulu, some comments have to be made in terms of the incentives offered by both bantustans. The Ciskei's tax free incentives and other concessions have already been outlined previously in this chapter. The incentives granted by Kwazulu will be e amined. In respect of long term incentives, the following concessions are granted (Kwazulu Finance and Investment Corporation, 1984; 1987).

- A 50% rebate in respect of outgoing traffic.

- The cost of electricity is subsidised to ensure an effective end tariff equal to the Escom tariff applicable in the Eastern Transvaal area.

- Up to 50% of the interest rate will be subsidised in terms of loans for housing key personnel.

- An allowance based on 125% of training expenses is applicable to training schemes approved by the Department of Manpower. Furthermore, the effective tax-saving in respect of 125% training allowance will be paid as a non-taxable cash grant against proof of an external audit certificate.

- Price preferences of up to 10% on government tenders.

Short Term incentives are as follows:

- Wage incentives are paid as non-taxable cash grants for seven financial years and is applicable to all personnel employed. The incentive is calculated on the basis of 95% of the average salary wage per employee per month subject to a maximum of R105 per employee per month.

- A subsidy amounting to a maximum of 70% of the market related interest rate is payable on a quarterly basis as a taxable cash grant for a period of ten years on 100% of the investment in land and buildings and 50% of the investment in other assets.

- A subsidy amounting to a maximum of 70% of the market related rental interest rate is applicable for a period of ten years on 100% of the investment in land and buildings. This subsidy will be limited to a maximum total investment of R7 million.

- A maximum of R500 000 can be claimed for approved relocation costs. In instances where unquantifiable costs are incurred, an additional 20% of the approved relocation costs will be granted.

What follows is detailed comparison between Ciskei and Kwazulu.

4.2 Large industries and small businesses

Owing to a shortage of information present in the Kwazulu Finance and Investment Corporation reports on employment created, the figures of the Board for the Decentralisation of Industry will be used. Between 1 April 1985 and 31 March 1986, some R244 595 000 was invested and this created 19 993 employment opportunities (Board for the Decentralisation of Industry, 1986). When compared to the Ciskei, in 1986 it cost the Ciskei government R18 000 to create a new job a year, while for Kwazulu the cost was R12 234 per job per year (the cost of creating a job was calculated by dividing the amount invested by the number of jobs created). Between 1 April 1986 and 31 March 1987, R205 533 000 was invested in industry creating employment for 13 620 people (Table 4).

Year	Number of Industries	Amount of investment	Expected Number of Jobs	% of GDP
1970	1	-	-	11.1%
1975	-	-	-	10%
1980	11	-	-	12.9%
1981	8	-	-	13.3%
1982	4 (118)	R 207 385 000	20 302	14.3%
1983	45 (99)	R 221 145 000	19 790	15.4%
1984	23 (82)	R 129 723 000	14 284	15.4%
1985	36 (111)	R 244 595 000	19 993	15.5%
1986	(88)	R 205 533 000	13 620	-
1987	(87)	R 328 450 000	11 471	-

Table 4: Large Industries in Kwazulu, 1970-1987, (Board for the Decentralisation of Industry, 1983; 1984; 1985; 1986; 1987; 1988; Development Bank of Southern Africa, 1987; Smith and Coetzee, 1987), figure in brackets represents number of applicants according to the Board for the Decentralisation of Industry.

The cost of creating one industrial job for one year in Kwazulu cost R15 090. Between April 1987 to March 1988, R328 450 000 was invested in industrial development in Kwazulu, introducing 11 471 new jobs (Board for the Decentralisation of Industry, 1988). For each job created, R28 633 had to be invested. Instead for the Ciskei, in 1989 the cost of creating an industrial job was R13 171. This comparison serves to illustrate that at first, the industrial decentralisation path seems to be creating more jobs at cheaper costs. But with time, it seems to be the FEZ (tax haven) of the Ciskei which appears to be creating more jobs at cheaper rates. A possible explanation for this is that the industrial decentralisation concessions is input orientated and perhaps is wasting valuable resources, whereas the tax free option is an output orientated incentive and therefore will take a while before its fruits will show.

In 1980 in the Ciskei, out of 106 592 people employed, some 4 000 (3.7%) were employed in manufacturing. In Kwazulu for 1980, 126 595 (25.1%) out of 504 224 were employed in industry. In 1985, for Ciskei 22 500 (19.2%) out of 116 584 were involved in manufacturing, while for Kwazulu, 180 451 (22%) out of 820 885 were employed in industry. From these figures it shows that although Kwazulu has a larger industrial labour force than Ciskei, Ciskei's industrial workforce as a percentage of the total number of people employed seems to be increasing more rapidly than that of Kwazulu. The percentage of people involved in manufacturing decreased for Kwazulu between 1980 and 1985 from 25.1% to 22.0%. Instead, Ciskei's percentage increased between 1980 and 1985. Employing this evidence it perhaps indicates that the FEZ policy is more productive when it comes to creating industrial jobs than the industrial decentralisation path.

Although in terms of actual amounts, the Kwazulu industrial sector is providing more income than that of Ciskei, an important aspect to consider is the percentage increase of the contribution of industry towards the total GDP (Figure 1). For Ciskei, industry's contribution to the total GDP increased from 10% to 20% representing a 100% increase. Kwazulu's industrial sector on the other hand only increased by 39% from 11% to 15%. This also serves to illustrate that the FEZ policy is better than the industrial decentralisation concessions when it comes to large scale industry. If one compares Ciskei and Kwazulu in terms of employment created, a similar conclusion is reached. For Ciskei the rate of change for jobs actually created is as follows: from 1975 to 1989 there has been a 315% increase (jobs increased from 842 in 1975 to 3 500 in 1989). For Kwazulu, (using figures of expected not actual jobs created - typically only about half of the expected figure becomes actual employment), the number of jobs expected in large industry between 1982 and 1987 decreased by 43.5%.

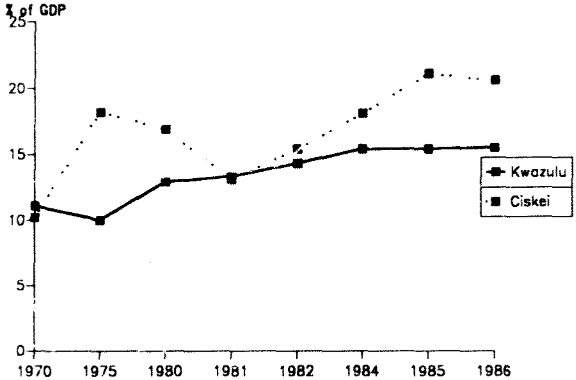

Figure1: The total contribution of large industries towards the GDP, a comparison between Ciskei and Kwazulu, 1970 - 1988

By comparing Ciskei with Kwazulu in terms of capital investment in small businesses, certain points can be raised. In terms of total investment, Kwazulu had invested a cumulative total of R31 million in small businesses and industry (Table 5), whereas Ciskei had only invested a cumulative total of R11 million. By 1987, Kwazulu's cumulative total had reached R58 million, but for the same year Ciskei's cumulative total was R24.5 million, less than half of Kwazulu's investment. When one consider the number of loans made available, a different picture emerges. In 1981, Kwazulu had a cumulative total of 125 loans, whereas Ciskei had a cumulative total of 400 loans. By 1984, Kwazulu had approved a cumulative total of 204 loans, while Ciskei already had 700 loans. By the end of 1986, Kwazulu had granted a cumulative total of 378 loans, whereas Ciskei's figures was 1 100. If one calculates the rate of change for the number of loans for Kwazulu and Ciskei, clearly Ciskei is far ahead (Figure 2). This statement applies more strongly to the post 1984 period, indicating that the deregulation Acts were more successful in promoting small businesses than the industrial decentralisation incentives.

Year	Business Loans	Investment	
1979	-	R 14 mil. (cumul.)	
1980	-	R 14.5 mil. (cumul.)	
1981	125	R 20 mil. (cumul.)	R 1 021 060
1982	16	R 26 mil. (cumul.)	R 313 138
1983	-	R 31 mil. (cumul.)	
1983-1984	33		R 268 471
1984	-	R 34 mil. (cumul.)	
1985	43	R 37 mil. (cumul.)	R 2.5 mil.
1986	131	R 44.8 mil. (cumul.)	R 5.8 mil.
1987	-	R 58 mil. (cumul.)	

Table 5: Small Businesses in Kwazulu, 1979-1987. (Kwazulu Finance and Development Corporation, 1984; 1987).

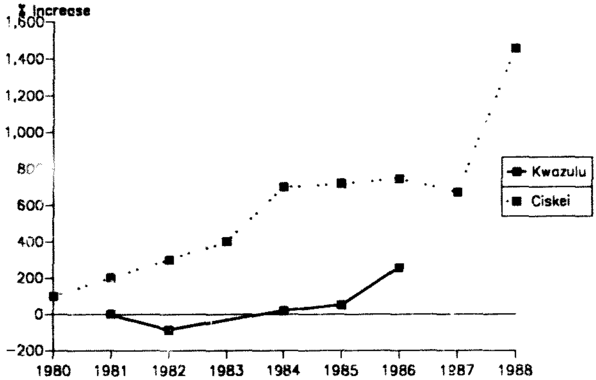

Figure2: Rate of change of numbers of small business loans granted, Ciskei and Kwazulu, 1980 - 1988

5. Conclusion

In 1984 the Ciskei introduced several Acts to 'free' the economy. The main reason why Ciskei introduced these Acts was that its financial budget could not cope financially with the industrial decentralisation concessions. It was hoped that the new incentives would attract more profitable industries, would also appeal to small-scale businesses, and would also help develop the commercial and agricultural sectors.

By comparing large industries in Ciskei pre and post 1984 several points can be raised. As a result of the Acts, a greater variety of industries with multiplier effects and linkages have been attracted to the Ciskei. The new Acts also diversified investment, not only focusing on industrial development, but also covering commercial, agricultural, professional, and transportational sectors. The post 1984 period also saw [illegible] rease in the number of industrial jobs and industries as opposed to the pre 1984 period. In addition, some foreign firms have also been attracted to the Ciskei to take advantage of the new tax haven. In terms of the small business sector, the Deregulation Acts have enabled it to grow rapidly in the post 1984 period as opposed to the pre

1984 phase. The simplicity of the deregulations has enticed small enterprises to open up in the Ciskei.

When one compares Ciskei with Kwazulu, it can be concluded that the tax free option takes time to create development. In the early post 1984 phase, Kwazulu (following the industrial decentralisation policy) was creating more industrial jobs at cheaper rates, while with time, it appears that the FEZ policy is more resourceful as a development strategy. Furthermore, from the evidence used, it seems that the tax haven of Ciskei developed large industries more rapidly than Kwazulu's industrial sector. With small businesses, it appears from the comparison that the FEZ policy or deregulation has created more small businesses in the Ciskei as opposed to the industrial decentralisation incentives in Kwazulu. Ciskei had granted more loans to small businessmen than Kwazulu and this factor has been attributed to the 'free' enterprise of Ciskei. However, a more detailed examination of the institutional capacity of the two bantustans to deliver loans would be needed to support the statement. From the above data it seems that the FEZ policy is more effective as a development tool because it costs less than the ID strategy to implement.

The tax reforms of the Ciskei has attracted viable investment. The tax free option will ensure the investment of genuinely profitable firms (Louw, 1986b). Another advantage of Ciskei's new tax system is that the poor are not taxed because the first R8 000 of income is exempt from tax. Furthermore, the abolishment of company tax did not represent a loss in revenue because by the time the Swart Commission was formed, no company tax had been collected. In fact, the new system would save the Ciskei Government R30 million per annum on industrial decentralisation incentives no longer granted. Therefore, the new tax system introduced in the Ciskei in 1984 has succeeded in creating growth and is more successful in generating investment than the counter-productive industrial decentralisation concessions (Business Day Survey, 1989; Supplement to the Daily Dispatch, 1986; Sebe, 1989). The following chapter will consider some regional planning policies in the light of what was discovered in this section, namely, that the FEZ policy is more successful than the industrial decentralisation policy as a regional planning tool. The emphasis of the last chapter is on the planning aspect and will raise certain alternative strategies for the regional planner.

CHAPTER 5: CONCLUSION AND PLANNING RECOMMENDATIONS

The main aim of the discourse was to examine whether or not the application of a free enterprise zone strategy as a regional planning tool has succeeded in South Africa. The analysis lead to an examination of the FEZ policy as a possible alternative to the industrial decentralisation approach. In conducting this exercise, an overview of the strategies used by regional planners in South Africa was attempted. In addition, some thought was also given to other alternatives for regional planning in South Africa.

The purpose of this chapter is to serve as a summary and conclusion to the discourse. The chapter has four sections. The first offers a brief summary of all the material covered in preceding chapters. The second part outlines the main points arising from the discussion in relation to regional planning. The third section reviews what I see as being my role as a development planner grounding this discussion in selected theoretical foundation. Finally, some regional planning recommendations and policies to help promote large and small businesses in other less developed regions of South Africa will be offered.

1. Summary of Chapters

The first chapter served as an introduction outlining the aim and purpose of the discourse. An important component of the chapter was to illustrate the recency and relevance of the free market policy as a topic in a world context. Furthermore, the chapter gave an outline of the method of study. The second chapter couched the discourse in a theoretical framework. The origins, aims, goals, requirements, application and critique of growth pole theory was examined. In addition, a review of the implementation of the industrial decentralisation policy in South Africa was conducted. This chapter ended with an analysis of the results of the industrial decentralisation strategy, concluding that both the growth pole and industrial decentralisation policies failed as regional planning tools. The failure of these strategies meant that new tools had to be attempted. The result was the emergence of Free Enterprise Zones and Export Processing Zones as 'new' planning tools.

The third chapter, examined these 'new' regional planning tools. The origins, definition, and aims of a Free Enterprise Zone was analysed. In addition, the application of Free Enterprise Zones in a world wide context was conducted and the chapter concluded with an examination of the Ciskei's strategy stressing that it resembled a Free Enterprise Zone considerably more than an Export Processing Zone. Chapter four gave a detailed examination of the Ciskeian strategy. The experience of the Ciskei with regards to large and small businesses for the pre and post 1984 period was reviewed. It was found that as a result of the 1984 Acts, the Ciskeian market was less restricted and as a result attracted more investment and created more jobs than under the old industrial decentralisation policy. Finally, a comparison between Ciskei's and Kwazulu's large and small business sectors was conducted, concluding that the Free Enterprise Zone policy of the Ciskei was a better strategy for attracting investment than the industrial decentralisation policy of Kwazulu. What follows is an outline of the main points arising from the discourse which relate to regional planning.

2. Pointers for Regional Planning

Several points arising from the discourse and relevant to regional planning can be outlined. The introduction of artificial centres (growth poles) to attract *development to underdeveloped regions* of countries has failed. Incentives attached to growth poles have not attracted propulsive industries. Growth poles have also failed because of the poor choice of their locations. Usually these centres were set up in the poorest areas of countries with little or no social and economic infrastructural services. The net result of implementing growth poles as regional planning tools was a failure.

Similarly, the industrial decentralisation policy implemented in South Africa as a regional planning strategy failed on several scores. Industrial decentralisation is a poor creator of employment and must rather be seen as a relocator of employment. This policy often introduced low paid, deskilled jobs in the Bantustans. Furthermore, areas where industrial decentralisation incentives applied are remote and lack adequate infrastructure. The inferior locations chosen meant that few agglomeration and propulsive industries were attracted to the Bantustans. The high level of incentives have generally attracted inefficient firms ('lame duck' companies) which rely on the *concessions* for economic survival. The industrial decentralisation strategy is also expensive to maintain and places high demand on the financial budgets of the 'independent' bantustans.

As a result of the failure of growth pole and industrial decentralisation policies, new regional planning tools based on the 'free market' *concepts were introduced*. *Export Processing Zones* and Free Enterprise Zones were tools introduced by this 'new' school of thought. Free Enterprise Zones are special 'enclaves' in a country or city enjoying a status which differs *from the rest of the* economy. The idea behind the freedom and lack of regulations experienced in these zones is to try and attract investment and industries to the area. These in turn will create employment and will upgrade the region where they are located.

From the case study of the Ciskei, several points can be made in relation to regional planning. By comparing the Ciskei pre 1984 (pursuing the industrial decentralisation route) with the Ciskei post 1984 (following the FEZ strategy), it can be concluded that the FEZ policy of deregulation was more successful. The industrial decentralisation policy was expensive to maintain and was not attracting enough investment and creating sufficient jobs. Instead, the 1984 Acts 'freed' the Ciskeian economy having a positive impact for large and small businesses. The deregulations *attracted investment in the form of* large industries and assisted in expanding the local small businesses. The 1984 Acts created an advantage for the Ciskei, thereby attracting profitable industries to the area. By comparing Ciskei with Kwazulu, it appears that the FEZ policy is more successful than the old industrial decentralisation strategy as a regional planning tool. Therefore, the FEZ policy is a more viable regional developer than the industrial decentralisation strategy. It is important to examine what implications this conclusion has on planning. Before commencing on this examination, an analysis of what I consider as being my roles as a development planner will be considered. This analysis will assist in formulating planning recommendations for large and small businesses which is the last section of this chapter.

3. My Role as a Development Planner

The traditional values of planners and development planners was to be concerned with the plight of the poor. Ideally, planners should plan for the underprivileged people of society and ensure that their interests are met. It is this challenge in the planning field which attracted me to this profession. In studying planning, I have been greatly influenced by Rawls' theory of justice and it is this broad theory which forms the basis of the recommendations which follow. Before discussing these recommendations, a brief summary of the theory is needed.

Rawls' main thrust is to plan for equality. This is clearly stated by Rawls:

> " undeserved inequalities call for redress; and since inequalities of birth and natural endowment are undeserved, these inequalities are to be somehow compensated for. Thus, the principle holds that in order to treat all persons equally, to provide genuine equality of opportunity, society must give more attention to those with fewer native assets and to those born into the less favourable social position. The idea is to redress the bias of contingencies in the direction of equality..." (Rawls, 1971, p 100-101).

Rawls also suggested that the priorities in implementing plans is important and that projects for the most disadvantaged are to be completed first (McConnell, 1981). By adopting Rawls' theory and principles as a theoretical framework, this will provide politicians and planners with ethical guidance. Thus, Rawls' theory of justice provides practical guidelines and offers planners an ethical stance. Rawls' theory of justice when applied to South Africa will mean that the planners' target group is the disadvantaged people. The aim will be to reduce the inequalities present by using sensitive planning.

Rawls' theory has been criticised from the left and the right. The right stress that too much interference by government powers to achieve distributive justice will lead to the destruction of individual freedom. Rawls is also criticised from the left. It is claimed that Rawls has not adequately considered the materialist facts as to who owns the systems of production and distribution. This is a legitimate criticism, but in terms of using Rawls' theory of justice as a theoretical framework, certain points have to be considered. Rawls' theory could form a broad base theory helping planners identify their target group (the disadvantaged). However, it will still be encased in a real-life situation. Thus, what is being proposed is the improvement of the businesses. The 1984 Acts created an advantage for the Ciskei, thereby attracting profitable industries to the area. By comparing Ciskei with Kwazulu, it appears that the FEZ policy is more successful than the old industrial decentralisation strategy as a regional planning tool. Therefore, the FEZ policy is a more viable regional developer than the industrial decentralisation strategy. It is important to examine what implications this conclusion has on planning. Before commencing on this examination, an analysis of what I consider as being my roles as a development planner will be considered. This analysis will assist in formulating planning recommendations for large and small businesses which is the last section of this chapter.

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In terms of promotive planning, the aim is to help the disadvantaged groups to progressively *attain self-reliance*. Under this approach, the planner remains at a distance from the decision-making and allows the community to decide. The aim is to assist deprived communities to attain *self-esteem and dignity* (Muller, 1982).

Thus, Rawls' theory of justice can form a *base-theory for planning*. This theory will assist planners to identify the 'target group', namely, the disadvantaged. Promotive planning will assist the planner in identifying the aim and method of planning, which is to attain *self-sufficiency among* deprived communities. What follows is some planning recommendations arising from the lessons learnt from the discourse.

4. Planning Recommendations

It was concluded from the discourse that the industrial decentralisation route failed in South Africa because it was too politically motivated. Instead the FEZ policy implemented in the Ciskei was more successful as a regional developer. Conventionally controlled planning has being abandoned in the Ciskei leaving the 'invisible hand' of the market to function unhindered. *Therefore, it is deregulation and the promotion of the 'free market'* which must take place in order to upgrade regions. Does this mean then that one should adopt an 'anti-planning' stance? No, rather a planner *should learn to be promotive*, and work with the 'free market' and private sector in achieving greater regional equality. What follows is five ways in which planners can work with the 'free market' in order to develop regions. *Considerable overlap* does exist between the approaches and more than one approach could be implemented in an area at a time. These recommendations should be seen as new directions towards which planners in South Africa should be thinking. The recommendations which follow are largely based on policies imple[illegible]d in the USA. Consequently, American references and examples will be used to illustrate the recommendations.

4.1 The role of the state

The state and the planner play an important role in economic development. There are several ways in which this can be achieved. The government could try and build a better business climate in the underdeveloped region, one that would be competitive with other regions and which would encourage private sector developers to invest in the region. This climate could be introduced by: *reducing corporate tax rates and personal income taxes in the region*, formulating regulatory reform programmes designed to cut red tape and reduce bureaucratic delay, *increasing the amount and* variety of low-interest loan programmes made available to small businesses (via new capital loan funds or using public employee pension fund reserves for venture capital investment), and or *expanding trade efforts* through the opening of overseas offices to promote South African exports and to attract foreign investment. Large tax cuts were instituted in the USA after 1981 which helped to stimulate consumer spending (Bluestone, 1987). The tax cuts *in the region could lead* to savings, investment, and greater innovative activities in the region. This would presumably lead to higher productivity and greater competitiveness for the region on a national and international scale. *In short, governments* should retreat from the economic arena handing it over to the play of market forces. The government, however, should work in the background with capital and labour, to identify 'new' markets, individual opportunities and set social wages. *In addition, the state should* analyse markets to determine which goods are in demand and which could form the basis of future growth.

In analysing markets the government should set up an industrial strategy. The idea behind this strategy is that the government can determine which industries *should flourish (Bluestone, 1987)*. A comprehensive plan would be drawn up for South Africa stressing the type of industrial development that should occur in each region (regions would have to be defined). The first step would be to do research to determine what types of industries have the best growth opportunities. The research would have to identify the potential resources for each region and formulate a strategy which uses these (Nathanson, 1987). In addition, *the government must assure* that the plan is utilising all the potential manpower skills of the country. To do this the government must also introduce technical training programmes which coincides with the 'labour demand' side of industry (Bluestone, 1987). Thus, the strategy would act as a two-way process. The state would encourage industries to conform with the present skills of the country but would also introduce new industrial skills (in both white *and blue collar jobs) to coincide* with the *future* industrial demands. This would make South Africa more competitive both in the present as well as in the future. An important target with the industrial strategy would be to encourage diversification in the industrial sector (Thornburgh, 1988). The idea behind this is to insulate the country's economy against depressions in various industrial sectors.

Two important branches of this industrial strategy would be the development of education for advanced technology and university-related industrial research (for white collar personnel) and the promotion and retaining of blue collar workers. With regards to the former, the state should try and foster closer bonds between universities and industry (Ahlbrandt and Weaver, 1987; Beyers, Johnsen, and Stranahan, 1987; Nathanson, 1987). This can be done in two ways. Firstly, the state should develop its industrial strategy around the country's potential resources of which the university and technical college graduates form an important part. Industries should be developed which can absorb this tide of skills. Similarly, the industrial sector should determine what skills are needed for the future and the academic institutions should respond and produce these type of graduates. Governmental funds could be directed at *expanding university programmes* which will teach these advanced technical skills. For example, programmes in science, engineering, and computers could be updated to cater for future needs. This system will ensure that as the nature of the economy undergoes transformation so too will individual careers change. The American state of Pennsylvania successfully introduced programmes to bridge the gap between industry and academia and it is similar programmes that governments should implement (Thornburgh 1988). Secondly, University research could also help industries to grow. Research could identify and help introduce new production processes which could cut operational costs.

For blue collar workers, venture capital programmes using public employee pension funds could be introduced. Similar types of programmes were successfully implemented in Michigan (Bartsch, 1986). The capital would be invested in projects with high growth potential and the aim in the investment would be to preserve or create jobs for blue collar workers by assisting small business to develop within the poor region. The programmes would try and convert the 'garage industries' (e.g panelbeaters, mechanics, welders) into viable small business industries. In addition, the state would retrain unemployed workers and labourers who are employed in declining industries (Leigh, 1988). The Government could train workers in skills which are in demand by employers and these skills could be identified by the research units of the Universities.

The Government and the planner must be ready to serve as a catalyst for change and provide a receptive business and entrepreneurial climate (Bartsch, 1986). The Government must cooperate with the private sector. Its industrial strategy must be orientated towards growth, profit, and employment creation. Furthermore, education programmes for future white collar professionals and training programmes for blue collar workers must coincide with the type of industry developed. This development strategy will not generate development in regions where there is nothing, but like all other regional planning strategies it needs some pre-existing economic base.

4.2 Private sector development organisations

Non-profit orientated organisations could be created with governmental funds and or private contributions. Non-profit local industrial development groups have been set up in about 20 states in the USA (Erickson, Humphrey, and Ottensmeyer, 1988). The aim of these organisations would be to create employment and increase the competitive efficiency of poorer regions. These organisation could assist finding jobs for university students, use graduates to promote growth, and provide certain services for small businesses. They could liaise with governmental departments to secure licenses, provide low-interest financing, and provide technical training for small businessmen (e.g in bookkeeping). Furthermore, these organisations would serve as easily accessible centres providing information on available buildings and sites, vacant industrial parks, and available employment. Their main objective would be to reduce the 'start up' period for small businesses.

4.3 Privatisation as a new tool for economic development

Privatisation can play an important role in promoting economic development in regions or nations. Privatisation is merely increasing the role of the private sector in financing and or supplying many public services. In order that privatisation stimulates economic growth there has to be a 'free' policy environment that does not impose complex and time-consuming regulatory procedures on the general business community. Privatisation can directly contribute to providing four ingredients of development. These include providing information and promotional efforts regarding resource availability and business opportunities in regions, training workers, providing funds to finance new or expanding businesses, and expanding infrastructural services (Fixler and Scarlett, 1988).

Private organisations could be set up which makes available information which in turn will assist existing businesses to expand and will attract new investment into a region. The Government could contract out some of its economic development programmes to private firms. The advantage of this is twofold. Firstly, the private sector is more profit conscious than the public sector and will ensure that the investments in programmes will yield returns. Secondly, the private sector is less constrained by time-consuming bureaucratic procedures than the public sector, thereby cutting down on costs. The private sector organisations can also train entrepreneurs to set up small businesses. The advantage of having the private sector providing this assistance is that they have hands-on experience in running and financing businesses and they have direct knowledge about which products and services are over- and undersupplied in regions. These organisations could also provide low-interest loans to entrepreneurs to help them set up small businesses and could also supply infrastructure to ensure that products reach their markets.

Privatisation will lead to cost savings if it is accompanied by real competition. Furthermore, privatisation savings can be translated into reduced taxes. This will enhance economic growth as was shown by a 1982 study in America. It was found that an inverse relationship existed between taxes and economic growth (Fixler and Scarlett, 1988). Privatisation opens up new opportunities for entrepreneurs and employment and it can significantly reduce government costs, easing public-sector revenue constraints and alleviating the necessity for tax increases. The private sector can also supply certain public services more efficiently than the governmental sector. Privatisation can also perform development-orientated tasks, such as job training, information networking, community marketing and promotions, and financial services for entrepreneurs.

4.4 Regional development: Building local markets

Regional development can also be enhanced by targeting key industries and building local markets. The Oregon Marketplace programme is a good example of this type of policy (Probst and Gibbons, 1987). This programme tries to build local markets by locating competitive, local sources for goods and services purchased previously from distant producers. For South Africa both the targeting of key industries and the building of local markets could be used to encourage regional development. The first strategy involves the strengthening of specific industries critical to a region's economic performance. This type of sectoral targeting aims at promoting industries with the largest multiplier effects and tries to make industries flexible in order to adjust to rapidly changing economic conditions. Sectorally targeted economic development policies can also assist underdeveloped regions to diversify their industries, thereby making them less vulnerable to economic depressions. The design of sectorally targeted strategies must be guided by a very clear set of principles (Siegel, Reamer, and Hochberg, 1987). Firstly, the choice of which industries to target must follow from a clear understanding of a region's economic structure - which are the existing key industries, which industries are stagnating in a region, and which new industries have a potential for growth. Secondly, developing effective mechanisms to improve an industry's competitive position must be based upon an indepth understanding of the market dynamics affecting a particular industry at a particular location. Thirdly, the private and public sector must work together in supporting actions that strengthen regional industries. Fourthly, regional actors providing key economic resources also should be involved in designing and implementing a sectorial strategy; this means that institutions of higher education should be involved in any efforts to assist a particular industry. Fifthly, because regions are unique, each programme should be flexible in order to produce the best design for the local circumstances.

Another approach to develop a region is to build its local markets. The idea behind this approach is to encourage companies to use local suppliers instead of importing goods into the region. Both the purchasers and suppliers will benefit. Buying from local suppliers can reduce order delivery lag time, communication cost, inventory requirements and warehousing need. Supplying firms will also benefit because they gain new customers. In order to set up such a programme an organisation (either public, private, or a public-private partnership) would have to be formed. The first step would be to do research in a region to determine which items are imported in substantial quantities. The second step would be to find potential local sellers who could supply companies with the goods. The third step would be to 'match up' the suppliers with the buyers. This would entail persuading company officials to consider competitive bids from local suppliers on subsequent purchases. The main aim is to make a region fairly independent economical from other areas.

4.5 Encouraging entrepreneurs in the international marketplace

A final way to develop regions is to initiate programmes which will assist regions in identifying and developing overseas markets. An example of this policy is the Massport Trade Development Programme (Hagan, 1987). In the past 8 years, this programme has played an active role in helping New England businesses to identify and develop overseas markets. However, for this type of strategy to succeed, the region's products must enjoy a competitive advantage internationally. This means that research is required to determine what type of goods could be produced for overseas markets. A trade Development Programme could be set up which would simplify the mechanics of exporting such as financing, documenting, and transporting goods for sale abroad. Simplifications would allow small businesses to enter the exporting markets. The programme will be selective in choosing companies. Choices will be based on an analysis of a firms leadership skills, its ability to respond quickly to foreign customers tastes and needs, its internal organisational structure, resources, and efforts, and the corporate willingness of firms to assume risks. It is important to note that this approach can only be implemented in South Africa once small businesses are more entrenched in the economy.

5. Conclusion

In order to upgrade regions, planners must work with the 'free market' system and liberate the economy from regulations. One possible way to do this is to introduce a Free Enterprise Zone in a region. In addition, five other ways to achieve this were outlined above. It is important to note that three main conclusions arise from the discourse. Firstly, regional growth develops at a faster pace in areas that already possess some pre-existing economic base than in regions where no development is present. Secondly, greater freedom and deregulation in an economy is beneficial and encourages greater investment in large industries and promotes growth of small businesses. Thirdly, although a 'free system' is economically desirable, it is important to note that a planners responsibility is to dissolve inequalities and assist the less privileged. This can only be done by expanding the industrial base of a nation, thereby creating employment in both large industries and small businesses.

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