The Role of Place-Based Policies in Economic Development

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Abstract

There is an important international debate underway about how best to tackle spatial inequalities and uneven development within nations and regions. On the one hand, it has been argued that governments should avoid giving special treatment to particular places on the grounds that they cannot anticipate which places will prosper and which will lag behind (the 'place-blind' or space-neutral perspective). Economic activity naturally concentrates in particular places (cities), so policy should promote the integration of towns and rural areas with cities through trade, migration and information flows.

On the other hand, it has been argued that there is growth potential throughout the urban-rural hierarchy. Governments should promote unexploited opportunities wherever they occur (the 'spatially-targeted' or 'place-based' perspective) on the grounds that public policy can make a difference to the fortunes of lagging or marginal regions if it is sensitive to latent local assets, resources and development opportunities. The key requirement is for capable local institutions that can nurture indigenous enterprise; encourage local learning, novelty and innovation; and provide appropriate public infrastructure.

Both of these perspectives tend to be critical of 'traditional' regional policy, which sought to redirect growth from leading to lagging regions, on the grounds that this does not promote sustainable economic development. Redistributing investment and jobs may also undermine the prosperity of the growth areas, which is something to be avoided in a more competitive global economic environment.

This paper analyses South Africa's long historical experience of spatial policies in the light of these debates. It provides an assessment of these policies in a context where institutional capabilities are highly uneven, spatial inequalities are pronounced, and the political pressure for change is intense. The paper examines regional policies in the apartheid and post-apartheid eras, including industrial decentralisation, spatial development initiatives and industrial development zones.

One conclusion emerging is that South Africa's experience has been very mixed and the outcomes very uneven. Findings do not support the argument that 'traditional' regional

policies should be rejected as inefficient and unproductive. However, they are not a ringing endorsement of the value of such policies either. Place-based policies are not straightforward and are not automatically successful. Building capable local institutions and avoiding rent-seeking can be very difficult. With effective multi-level governance in place, they can be valuable instruments in the armoury of a developmental state if they are designed with a fuller understanding of real local economic constraints and opportunities.

Chapter 1: Introduction

A battle of ideas is underway about the best way to tackle uneven development and to promote shared and lasting prosperity within nations and regions (Barca, 2009; OECD, 2009; World Bank, 2009). The contest between different approaches to reducing spatial inequalities has been spurred by the emergence of new theories of economic growth, emphasising the importance of endogenous processes, agglomeration economies and institutions (Pike et al, 2010; Glaeser, 2011; Barca et al, 2012; Storper, 2013). These theories give more emphasis than before to the role of place and territory in economic success. The debate about spatial policy has been given added impetus by the increasingly complex challenges facing cities and regions, including the prolonged global recession; looming environmental hazards; rapid technological changes, and burgeoning urban populations in many countries of the global South. These developments threaten the capacity of cities and regions to cope with external shocks, to adapt to fast-changing conditions, and to meet escalating demands for investment in infrastructure, technology, housing and skills. The issues at stake are complex and inter-related, cutting across established academic disciplines and policy divisions, and posing many uncertainties for research and practice.

Some fairly simple contrasts and distinctions are already apparent. On the one hand, it has been argued that governments should generally avoid singling out particular localities and regions for special support ('spatial targeting') on the grounds that it is more efficient for market forces to determine which places prosper (World Bank, 2009; Glaeser, 2011; Cheshire et al, 2014). Successful towns and cities will emerge spontaneously and it is very difficult for governments to alter the trajectory of struggling areas. As growth proceeds, economic integration through trade and migration will spread resources and narrow the gap between leading and lagging regions. Governments do not have the knowledge and foresight to anticipate the myriad individual decisions that shape spatial outcomes. They risk wasting public funds by making inappropriate investments in locations with little prospect of sustained development. They should focus on 'space-neutral' policies which equip people with the capabilities to secure jobs wherever they become available. This is most likely to be in the biggest cities because of their substantial economic advantages. In other words, there is a kind of inevitability to spatial outcomes that is related to geography and that governments should try not to interfere with.

On the other hand, it has been argued that governments should support spatially-targeted or 'place-based' policies on the grounds that there is potential for economic growth in many regions besides mega-cities. Markets cannot be relied upon to realise this potential because of inadequate information, inertia, risk aversion or short-termism. Public policy can improve the fortunes of places if it is sensitive to their latent assets and capable of tackling the institutional shortcomings that hold them back (Barca, 2009; OECD, 2009; Storper, 2010; Barca et al, 2012; Dijkstra, 2013). A growing literature on the theory and practice of place-based development suggests that localities and regions make important contributions to the dynamism of the national economy by creating and strengthening comparative advantage through their distinctive capabilities. Yet this process is imperfect and far from inevitable or assured, so effective governance can make a big difference. Places function as resources that stimulate and sustain development, and not mere containers for economic activity or receptacles for the location decisions of firms and households (Pike et al, 2006; 2010; Barca, 2011; Storper, 2013). Furthermore, economic integration between regions does not necessarily reduce spatial inequalities, and migration is not a smooth or costless process. Hence spatial policies can have valuable national as well as local benefits, including tapping into the potential of under-performing areas and mitigating the costs of regional disparities.

There is a long history of spatial policies in European countries, which have evolved from traditional forms of regional policy based on trying to redistribute investment and jobs from prosperous to poorer regions through large financial incentives and modern infrastructure (Pike et al, 2006). Advocates of the space-neutral approach criticise these policies for going against the grain of markets, hindering natural agglomeration tendencies and thereby undermining productivity and aggregate growth (World Bank, 2009; Nathan and Overman, 2013; Cheshire et al, 2014). Proponents of place-based policies also criticise the old regional policies, but they focus instead on their top-down and standardised character, aiming to attract the same industries using similar policy instruments, and not doing enough to upgrade and diversify the outdated economic structures of lagging regions (Pike et al, 2006; Barca et al, 2012). Indeed, the European Union has steadily reduced the level of industrial subsidies that governments can offer firms in order to prevent beggar-my-neighbour behaviour between regions and hidden forms of protectionism (Turok, 2004).

In the new place-based policy there is more emphasis on boosting development from within by building on indigenous strengths and branching out into new and related activities (Barca, 2009; Barca et al, 2012; Hildreth and Bailey, 2014). Policies are not targeted crudely on the poorest areas, and not solely driven by the public sector, but are more nuanced and negotiated. Development strategies need to be distinctive, broad in scope and integrated to have effect. Policy processes need to be open to fresh thinking among diverse stakeholders to mobilise their expertise, energy and networks. A multi-level approach is important, involving national and international authorities to inject new knowledge and resources, and to provide useful disciplines to challenge entrenched interests and institutional deficiencies (Barca, 2011; Tomaney, 2013; Boschma, 2014). It is recognised that place-based policies may not narrow the gap between leading and lagging regions, although they should help to reduce unemployment and poverty, and strengthen the capacity of local producers to adapt to shifting conditions.

The purpose of this paper is to examine South Africa's experience of spatial policies in the light of these international debates. The idea is to contribute new insights into the theory and practice of place-based policies by exploring the evidence from a different territorial context beyond Europe. The paper analyses the considerable experience of spatial policies in a country undergoing a profound transition, where spatial disparities are more acute than in other cases discussed in the literature, and where institutional capabilities are far more uneven. These conditions reflect the deliberate under-development of particular parts of the country historically, resulting in intense political pressures for rebalancing. The paper examines the track record of regional policies in the apartheid and post-apartheid eras, including industrial decentralisation, spatial development initiatives and industrial development zones. It also analyses a series of contemporary area-based initiatives focused on poorer neighbourhoods and decaying districts within towns and cities (mainly former black townships and inner cities suffering from capital flight). It draws on a unique collection of original policy and project evaluations, together with a range of secondary material and insights from interviews with key actors.

A very mixed picture emerges from the analysis. South Africa has many examples of ill-conceived spatial policies driven by political imperatives that generated few lasting effects. They neglected economic principles and lacked detailed understanding of the underlying problems they were trying to address. There are also many examples of reasonably well-conceived initiatives that have been hampered by poor coordination across government and the absence of a national spatial framework, resulting in the duplication of effort, inconsistency with other key policies, and tendency to dissipate financial resources and technical capacity. However, a third group of initiatives have had surprisingly positive outcomes in inauspicious places. This is attributable more to effective implementation than to sound policy design. Capable organisations with energetic and well-connected leaders have been able to mobilise substantial public and private resources, often against the odds. This in turn has helped to generate further rounds of investment and employment, despite the unpromising circumstances.

These findings do not support the argument that place-based policies are inevitably inefficient and unproductive, and that the focus should be on reinforcing the growth of the biggest cities. However, they are not a ringing endorsement of the value of place-based policies either. Local context really matters, hence spatial policies are bound to be more effective in some conditions than in others. They need to be devised with a good understanding of local economic potential and social and institutional dynamics. One of the practical implications is that place-based policies need to be conceptualised somewhat differently, and carefully adapted to distinctive local and regional circumstances. The paper argues that they can be valuable instruments in the armoury of a developmental state if they are designed in the light of real world constraints and opportunities, rather than pre-conceived notions of what works.

The paper also contributes to the current literature on place-based policies by questioning the tendency to portray them as consensual initiatives that readily serve the general public interest, and that can realise the development potential of all regions and districts. The South African experience suggests that this literature needs to devote more attention to three particular features:

- The ownership structure and spatial organisation of the economy, and the established norms and predilections of private capital. It cannot be assumed that private investment is neutral about space and that it responds objectively to the economic potential of different places. Private capital remains highly concentrated in South Africa, and competition is muted in many sectors (references needed), so that major firms may not respond to the business opportunities and initiatives developed by place-based policies, particularly in locations experiencing historic under-development and stigma. Capital is often risk-averse and locked-in to established locations, routine practices and technologies that perpetuate the status quo. Lagging regions and townships may also be so denuded of natural resources and deprived of entrepreneurial skills and traditions that markets of all kinds are very 'thin' and generating growth from within is very difficult.

- The potential for consensual place-based policies. The literature tends to assume that local and regional institutions can develop a shared vision and common agenda for the future. Reaching agreement between stakeholders and putting in place integrated strategies or even new development initiatives is bound to be difficult in unequal and divided cities and regions. Again this is all too apparent in many parts of South Africa, given the extreme social inequalities, stark spatial segregation, fractured social networks and continuing fear and misunderstanding between different sections of society. Lack of popular trust and fragile confidence in local and regional government also create volatile conditions that contest and complicate the development process.
- The existence of capable local institutions. The literature on place-based policies tends to assume a reasonable level of government capacity and resources, even in the poorest regions and localities, and that external investment in capacity building can take root in transformed local conditions. South Africa's experience demonstrates the difficulties and delays involved in developing competent local institutions and stable leadership that operate with sound policies and practices. Local and regional development efforts are consistently undermined by persistent mismanagement in places like the former Bantustans, the continuing weakness of local government in many parts of the country, and questionable practices such as cadre deployment by political parties to official positions within local government.

One of the conclusions is that national government may need to play stronger oversight and support roles in certain situations to help shift the overall trajectory of development. This could take various forms, including additional public investment, enhanced technical assistance, and a more assertive role in tackling governance shortcomings and vested interests. Central government also has a vital role to play in creating a national spatial framework and institutional arrangements to align separate policies and funding programmes. Another conclusion is that clearer sequencing may be required in the poorest regions to build the capabilities for self-sustaining growth and transformation. This could involve selecting a limited number of places for special attention, at least to begin with, rather than ubiquitous coverage of the territory. Concentrating on fewer places with greater potential might help to build competence and credibility, especially where expertise and resources are generally in short supply. A sequential approach may also mean careful consideration of the phasing of development actions over time to ensure that progress is cumulative, confidence increases steadily, and indigenous skills and leadership capabilities are gradually built up.

The structure of the paper is as follows. Chapter two provides a review of the literature on place-based and space-neutral policy approaches, including a brief history of spatial policies at regional and local scales. The third chapter examines the context of South Africa, including the changing spatial economy, the process of urbanisation and the institutional transformation that has occurred over the last three decades. Chapter four analyses the experience of regional policies, from the active attempts to deconcentrate industrial activity from the main cities in the 1960s-1980s, to the current focus on special economic zones. The fifth chapter focuses on area-based policies, including government efforts to develop the economic base of dormitory townships. Chapter six concludes by drawing the evidence together and reflecting on its implications for wider theoretical debates about place-based policies.

Chapter 2

Review of the literature: Place-based and space-neutral policies

2.1 Introduction

Looking back over the long history of spatial policies, it is possible to identify three broadly distinctive approaches, each with a different rationale and character. Table 1 summarises their essential features. *Spatial rebalancing* is concerned with narrowing geographical inequalities and reducing unemployment and poverty in lagging regions. This is pursued by the government redistributing investment and jobs from prosperous to poorer regions, and attracting foreign direct investment. Policy inducements are standardised and predictable, with improvements in the physical infrastructure to support large mobile manufacturing projects. The putative economic benefits are essentially one-off or static, and derived from lower operating costs.

The *space-neutral* approach is concerned with maximising overall growth through increased efficiency. The emphasis is on facilitating economic concentration in a few big cities through labour migration and connecting infrastructure. Policy instruments are designed to respond to and reinforce market processes, rather than to steer them in different directions. The economic benefits are assumed to be more dynamic than from spatial rebalancing, and stem from the ongoing productivity gains associated with proximity and agglomeration. The outcome is expected to be a higher level of national growth and higher average incomes.

The *place-based* approach is concerned with improving economic conditions in a wider set of regions by helping to realise their potential through development rather than by redistribution. The focus is on strengthening the unique assets of each locality and supporting upgrading and diversification into new activities. Policy instruments are tailored to the local context and geared to promoting local enterprise, ingenuity and innovation. The economic benefits are dynamic and derived from the continuing emphasis on differentiation, i.e. the qualitative character of growth rather than more of the same. The outcome is intended to be the emergence of a distinctive growth path for each region.

These are obviously generalisations that obscure variations in the actual policy concepts and their application within each category. For example, within each approach there is often a distinction drawn between regional- and local-scale policies. The former tends to emphasize the economic dimensions of development, such as major infrastructure schemes with extensive spillover effects. The latter tends to stress human and social aspects, such as building cohesive communities and more liveable settlements. The logic of this distinction is that regional policies relate more closely to functional economic areas, such as labour markets and housing markets, and the catchments of airports, universities and other large public facilities. Local development relates more closely to the scale of everyday life for most people, including the territory covered by their immediate social networks and journeys to school, shopping, leisure and recreation. It is not always a helpful distinction in practice because it can create unnecessary divisions between regional and local policies, and relegate area-based initiatives to a subsidiary role.

2.2 Spatial rebalancing

The first generation of spatial policies was driven as much by social and political pressures as by economic considerations. The diversion of resources and investment from richer to poorer areas was intended to demonstrate solidarity as well as to improve material conditions in the target areas (Pike et al, 2006). In the UK, a regional policy was introduced when heavy industries in the north were devastated by the Great Depression in the 1930s, causing high levels of unemployment, poverty and social unrest. Special *Assisted Areas* were designated, within which companies could receive substantial financial support from central government in return for maintaining or creating jobs. New industrial estates and advance factories were also created to attract firms to these regions. In United States, a more comprehensive approach was followed in the Tennessee Valley, an agricultural region particularly affected by the Depression. A government agency was established that invested heavily in infrastructure (electricity generation and flood control), technical support (developing and manufacturing fertilizers) and attracting modern industries to the region, such as textiles and aluminium production, which required cheap electricity. Italy introduced a regional policy in the 1950s to address poverty and out-migration from the South. The policy included major subsidies for industrial relocation and investment in new roads, irrigation schemes and other infrastructure.

These policies sought to promote regional economic convergence (a narrower prosperity gap) by encouraging companies to relocate from leading to lagging areas. In later years there was increasing emphasis on attracting foreign direct investment to poorer regions, using similar policy instruments. In some countries such policies were also used to try and modify the national urban system by supporting the growth of secondary cities and towns to relieve pressure on the largest cities (Parr, 1999). In all cases they relied on substantial financial transfers via central government between regions. In many countries there were also controls placed on firms to restrict their expansion in wealthier regions, and pressures placed on them to shift some of their activities to lagging regions. The focus was mostly on large manufacturing operations because of their relative mobility compared with service industries, as well as the utility of manual employment to absorb high levels of unemployment among less-skilled workers. Investment in labour-intensive infrastructure also provided a direct stimulus to job creation and demand in these regions.

The main criticism of this approach to regional development is that it was formulaic and usually failed to promote self-sustaining growth (Pike et al, 2006; Barca et al, 2012). The new economic activity wasn't anchored in the region and didn't help it to break free of long-standing structural rigidities and obsolescent industries. It supported investment *in* the region, rather than the overall development and transformation *of* the region, i.e. a sectoral rather than a territorial emphasis. Imitation meant that similar policies were followed in different places, with an emphasis on standard incentives aimed at inward investment (Pike et al, 2006). They were typically designed and implemented by central government to ensure simplicity and consistency. In many cases the effect was to attract mature assembly plants or branch factories without product design, marketing, procurement and other high level functions. The new jobs were secure as long as the factories operated efficiently, product sales were healthy and the subsidies were sustained. But the capabilities to conduct their own marketing, research or development for the next generation of products were lacking because these strategic activities were retained in the core regions. Consequently, it was difficult for lagging regions to upgrade and diversify their economies without developing the entrepreneurial, technological, managerial and financial competences to grow independent companies with their own products and services.

There were various attempts to justify or at least explain this approach to regional policy in terms of an economic logic or rationale. Within a broad Keynesian tradition, one of the arguments for shifting investment and jobs from prosperous to depressed regions was to offset growing congestion and overheating in the labour and housing markets of the core region (Kaldor, 1970; Armstrong and Taylor, 2000). Regional deconcentration would help to reduce inflationary pressures in the economy and enable macro-economic management with lower interest rates. However, this argument was never widely accepted and in 1983 the UK government famously declared that there was no economic case for regional policy. The size of the incentives and eligible areas were promptly scaled down. There was a parallel concern emerging within Europe about ever-increasing state subsidies being extracted by multinationals paying regions off against each other or being used by governments to protect domestic industries from external competition (Turok, 2004).

Meanwhile, research within a political economy tradition suggested that regional policy was reinforcing emerging tendencies within multinational enterprises to disaggregate their different functions and separate them physically across space (Massey, 1995). It made good commercial sense to locate their routine production operations in lower cost, peripheral regions, especially where generous incentives were available. Of course, from the perspective of these regions themselves, the additional jobs often proved to be transient because these plants lacked the means to adapt to changing market conditions, or could be induced to move elsewhere by offering extra incentives.

A different case was made for the government to target particular industries and locations *within* the assisted regions. The notion of 'growth poles' was based on the idea of implanting propulsive industries within depressed regions that would then generate large multiplier effects because of their extensive backward and forward linkages. Having a clear focal point on which to concentrate investment and services would be more efficient and have a bigger catalytic effect than spreading the effort throughout the region. This was an influential idea in many parts of the world from around the 1960s, although it never lived up to its promise (Parr 1999). The problem was partly the difficulty of identifying such industries in advance, and the lack of a concerted strategy to build these constellations of interrelated firms in particular places. In several developing countries, the drive to launch new capital cities and to shift the locus of power from the coast to the interior was justified on the basis that this would stimulate the economy of neglected regions, in line with a simple version of growth pole theory. However, the new urban centres ended up mostly accommodating state administrative functions and had little or no economic impact on their surrounding regions (Cain, 2014). They generally turned out to be expensive mistakes that diverted substantial investment from more valuable economic and social projects (Parnell and Simon, 2014). Nevertheless, the principle of using the presence of government itself to stimulate regional growth by relocating key functions was an important idea with potential for further development.

The long-standing concepts of the free trade zone, export processing zone and enterprise zone are almost the antithesis of growth poles in their indiscriminate approach to industrial selection. These special economic zones (SEZs) date back at least fifty years and have become increasingly popular over time. Rather than target specific sectors for priority attention, they embrace almost any kind of activity as long as it fulfils certain minimum requirements, such as high export content. Yet their selective focus on particular localities rather than whole regions is similar to growth poles. They enable investment in essential infrastructure to be concentrated in places with good growth prospects. A restricted geographical focus helps them to establish a 'special' status with all kinds of advantages over the rest of the regional or national territory, including streamlined regulatory procedures, extra financial benefits, enhanced logistics, a prominent public profile and dedicated attention from decision-makers.

China's experience of SEZs has probably been the most impressive in terms of stimulating large-scale development. Sleepy coastal towns and fishing villages such as Shenzhen enjoyed inherent geographical advantages when they were designated for the location of manufacturing goods for export around the 1980s. Simplified regulations, special tax breaks, exemptions from customs duties and large reserves of cheap migrant labour proved to be enormously successful at attracting foreign investment and launching the remarkable transformation of China from an agrarian to an industrial society (Miller, 2012; OECD, 2013; World Bank, 2014). The key features of SEZs were constantly reinvented over time as new areas were designated to retain the distinctive character and differential advantages of the target areas. China was also willing to engage in bold experimentation by piloting far-reaching reforms of national rules and procedures in order to maximise the benefits.

Spatial targeting took on a different, even more localised form in several advanced economies from around the 1960s with the discovery of areas of concentrated deprivation, particularly in the inner cities of large industrial conurbations. Many governments in Europe and the US became more interested in treating localised social and environmental problems than with steering growth (Oakley and Tsao, 2006; Cochrane, 2007; Musterd and Ostendorf, 2008). Intensified international competition and space constraints were causing many factory closures, leading to vacant and dereliction land and buildings. Working class communities were vulnerable to the job losses and experienced rising poverty, exclusion, disaffection and ill-health (Wilson, 1997; Jargowsky, 1997). There were outbreaks of protest activity and street riots in many European and US cities as governments scaled back their commitment to full employment and households slipped through the safety net of the welfare state. Immigration from the former colonies contributed to an atmosphere of racial tension and mistrust.

The threat to national cohesion forced a response from national government, especially as it was politically difficult for local governments to skew resources towards particular districts. In the UK the Urban Programme was launched and the US equivalent was called the War on Poverty. The focus was on marginalised neighbourhoods suffering from multiple sources of deprivation and stress: low income, poor education, sub-standard housing, ill-health, family breakdown, rising crime and low morale. A range of specific sectoral initiatives was aimed at improving local schools, health facilities, social services, housing and policing. It was assumed that these were residual problems unrelated to the general functioning of the economy or government. Urban policy was seen as a special instrument designed to address selected aspects of under-performance within these communities. It offered some compensation for the lack of jobs, and for the inability of mainstream policies to ensure decent living conditions. But it was ill-equipped to engage in a more fundamental way with urban realities.

This was a kind of welfare approach based on notions of universal entitlement and accorded to people living in areas of greatest need. Extra public funds were allocated according to the severity of local problems, with little or no consideration given to their economic potential. New initiatives were often announced following outbreaks of social disorder or political clashes. Consequently, observers were often critical of their ultimate effectiveness, suggesting that they were too fragmented, reactive and based on insufficient understanding of why the problems had arisen in the first place, or how they might be resolved in a way that could be sustained (Cochrane, 2007; Musterd and Ostendorf, 2008; Syrett and North, 2008; Turok, 2008; Lawless, 2012). At worst they were palliatives chasing the different symptoms of unemployment and poverty around the various organisations set up to respond, rather than tackling the root causes more directly. In other words, they were attempts to relieve and ameliorate poor living conditions, rather than catalysts for socio-economic transformation and development. There was little political appetite to use these initiatives to pilot wider policy reforms, unlike the SEZs in China and elsewhere.

Localised targeting also focused on physical structures, including the condition of the housing stock, derelict land, former industrial buildings and the surrounding environment. Run-down areas were perceived to encourage anti-social behaviour and to deter private investment. Damp, decaying and overcrowded housing was linked with ill-health, insecurity and other social problems. Improvements in physical structures were also very visible and relatively easy for governments to engineer. All these factors reinforced popular support for physical renewal and investment in 'bricks and mortar'. The assumption was that improved housing and a more liveable environment would stabilise communities, reduce poverty and enhance the quality of life. Yet independent research doubted the social and economic impacts of purely physical improvements in the absence of broader economic progress and social reforms (Lupton, 2003; van Gent et al, 2009; Lawless, 2011). Furthermore, well-located areas were vulnerable to the apparently counterproductive process of gentrification and the displacement of existing communities.

This reflected a broader problem that urban initiatives tended to treat places in isolation, neglecting the regional context and interactions with surrounding districts (Wilson, 1997; Jargowsky, 1997). They were excessively inward looking and did relatively little to connect these places and their residents with wider economic and social opportunities (Andersson and Musterd, 2005; Syrett and North, 2008; Turok and Robson; 2008). Similarly, there was insufficient attention paid to dynamic considerations of policy sequencing and area progression over time, including what to do about gentrification. The stance of governments rested on an implicit assumption that urban policy was zero-sum and mainly concerned with the distribution of resources and opportunities, with few if any implications for national prosperity (Turok, 2008). The lack of a clear economic rationale consistently undermined stronger government support. The outcome was many piecemeal projects and sectoral initiatives with limited timescales and led by separate agencies. This created tensions and inconsistencies, and precluded a more integrated and effective approach, particularly one that might have linked urban and regional development policies.

2.3 The space-neutral approach

A place-neutral perspective on spatial policy has emerged partly because of the growing difficulties facing redistributive regional and urban policies in a more competitive global environment. The enhanced mobility of capital and highly skilled labour makes it more difficult to anchor private investment within particular territories and threatens escalating public subsidies as governments become more desperate to lure jobs and investment. In the absence of a compelling economic logic there are risks that public expenditure will be wasted on unviable projects in unsuitable locations. The goal of balanced or equitable development is perceived by some economists to be particularly misguided on the grounds that growth is inevitably uneven and driven by powerful market forces which cannot be reversed in trying to “push water uphill” (Cheshire et al, 2014). The World Bank (2009) criticised the EU’s regional policy on the grounds that it promotes dispersed rather than concentrated development, thereby undermining productivity and innovation. It also criticised UN-Habitat’s support for upgrading informal settlements on the grounds of more pressing priorities.

The 2009 World Development Report (WDR) (World Bank, 2009) has provided the clearest alternative to spatial targeting to date. It advocated a ‘spatially-blind’ or ‘place-neutral’ approach, i.e. policies that apply to all locations. These focus above-all on the basic needs of households, such as municipal services, health and education, wherever they live. These ‘people-based’ policies will equip individuals with the skills and capabilities to seek jobs and livelihoods where they will be better-off, typically in big cities because of their economies of scale and scope. The outcome will be efficient and equitable because people will commute or migrate to the most productive places where the jobs are growing, thereby reducing unemployment and poverty in their original areas and satisfying the increasing demand for labour at their destinations. These and other spatial ‘adjustment’ mechanisms (such as business relocation) are alleged to operate relatively smoothly and freely. They reinforce the economies of agglomeration and thereby fuel productivity, knowledge creation, average incomes and aggregate growth in line with the New Economic Geography thinking (Glaeser, 2011; World Bank, 2013; Glaeser and Joshi-Ghani, 2013).

According to the space-neutral approach, there is a secondary role for public policy to facilitate the expansion of the most successful cities by removing barriers that constrain their economic growth. For example, planning controls that restrict the supply of housing should be deregulated (Cheshire et al, 2014). New investment may also be needed to increase capacity on the transport network. In due course these cities may grow to a point where the diseconomies of scale exceed the economies. This would lead naturally to deconcentration as core costs escalate and constraints on labour supply, property and other resources prompt firms to relocate to secondary cities and towns. Advocates of space-neutral policies also believe it is very costly and ultimately fruitless to try and revive declining industrial cities and regions or to tackle physical dereliction and decay in run-down areas. People matter much more than places, and people are mobile, so they should be the focus of policy attention. The appropriate way to do this is through universal welfare services. These are far less socially and politically divisive than spatial policies.

The central argument of the WDR was that economic growth is inevitably unbalanced, but development can still be inclusive (World Bank, 2009). The best way to ensure inclusive growth is by promoting economic efficiency and integration, while providing basic services to all. Economic efficiency and integration are achieved through international trade, economies of scale, and connecting leading and lagging regions. Governments should focus on enabling concentrated economic growth to occur in favourable locations and 'people-based' policies everywhere. They should especially avoid activist 'place-based' policies in declining regions. Similar points apply to inequalities within cities. The existence of run-down and deprived neighbourhoods is said to reflect the sorting effects of the housing market (Cheshire et al, 2014). People with low skills are prone to unemployment and end up living in the areas with the lowest quality, least desirable housing. The appropriate solution is to improve their skills, not spend large sums trying to regenerate their neighbourhoods.

Looking back over economic history, progress is said to be accompanied by big shifts in the distribution of population and economic activity. Spatial changes are also bound up with sectoral transformation from agriculture towards manufacturing and services. The main drivers of development are identified as three aspects of physical geography: *density*, *distance* and *division* (World Bank, 2009). These relate to three geographic scales – urban, national and international. *Density* refers to the concentration of people and firms in selected places. It relates to urbanisation and the links between cities and their hinterlands. *Distance* is mainly physical distance but it also covers other frictions that hinder economic interactions. This determines the size of the gap between lagging and leading regions. *Divisions* are international borders and other barriers to economic interaction between countries. The WDR uses historical evidence to argue that economic development has generally gone hand in hand with higher densities, shorter distances and fewer divisions. These features of physical geography are far more powerful determinants of long-run prosperity than issues such as the character of domestic politics or the quality of local government.

The WDR argues further that economic success depends on efficient, well-regulated markets for land, labour and goods. Each factor market is most important at a specific scale. Land markets are crucial in the urban context. Efficient land markets respond to changing demand (e.g. from industry to offices) and adapt to facilitate agglomeration economies through higher densities over time. Flexible labour markets are vital at the regional scale to ensure that people in lagging areas migrate towards more productive and dynamic areas. Efficient product markets are necessary at the international scale. Functional transport networks and rising trade in specialised goods and services between countries enable higher living standards.

The WDR also draws out policy implications to promote economic development through urbanisation, regional growth and international integration (see also, World Bank, 2013). The key at each level is to put in place *spatially-blind institutions*. This includes laws to ensure efficient markets, coupled with core public services. This will ensure that people's life chances do not depend on their place of birth and that they can take advantage of economic opportunities wherever they arise. Once such national institutions are established, the second priority is *transport and communications infrastructure* that connects places and facilitates agglomeration, mobility and economic specialisation (i.e. integration). Later on, a third policy may be appropriate - *spatial targeting*, i.e. programmes that benefit a specific area. This may be necessary as a last resort to tackle the most difficult development problems, but should be "used sparingly since this is where misallocation is most likely" (Deichmann et al, 2011, p.167). Spatial targeting is only recommended for countries with high levels of urbanisation, divided cities, large regional disparities *and* small economies that are isolated from world markets.

An important message for low and middle income countries is that they should not divert resources into informal settlements. Spatial problems of this intensity can only be properly addressed once countries attain higher incomes and have effective land institutions and transport infrastructure in place (World Bank, 2009). In the meantime, they need to accept concentrated poverty as a fact of life, because urbanisation will prove to be transformative in due course. Another message is that large regional inequalities are also inevitable in such countries since growth tends to focus on a few places with some natural advantage. But with access to decent schools, health facilities and sanitation, lagging regions will gradually catch up and poverty will fall. These market-driven transitions will take time and require patient and predictable people-based policies. There is no alternative since special economic zones, big infrastructure projects and other 'quick fixes' are likely to become white elephants. Furthermore, spatial policies that divert jobs from the most dynamic urban economies and siphon off their surplus resources will damage overall growth by restricting agglomeration forces, reducing productivity and depriving growth areas of the investment they need to fuel further expansion.

Although the space-neutral approach advocated by the World Bank is lucid and coherent, there are some obvious limitations arising from its underlying assumptions and narrow scope. First, environmental and social issues receive scant attention, hence the impact of urbanisation on pollution, congestion, food security, public health and social dislocation is neglected. These negative externalities of large-scale urban growth in poor nations at risk of resource scarcity and climate change cannot be ignored in advocating unqualified agglomeration. They could undermine the very growth objectives that are at the heart of the policy (Dijkstra, 2013). Similarly it is not credible to advocate postponing slum upgrading until economies are highly developed, given the vulnerability of these communities to serious hazards. The looming environmental and social challenges facing cities mean that the qualitative character or form of growth should be on the policy agenda, and not just its quantitative level. The notions of risk and resilience can also add important insights to orthodox notions of economic efficiency and growth. New concepts of the green economy, the climate economy and the social or solidarity economy suggest that there may be important development opportunities to be harnessed as these agendas unfold (OECD, 2011; UNEP, 2011; World Bank, 2012; GCEC, 2014).

A second weakness is the disregard for local and regional institutions because of the focus on market forces and national institutions. It is assumed that such institutions don't really matter because markets will produce effective outcomes. The role of urban planning and management in guiding urbanisation is ignored, along with the power of vested interests to resist change and suppress growth. Local elites have many opportunities to obstruct physical development in order to protect their own positions. Hence economic growth cannot be taken for granted once universal services and property rights are put in place. Indeed the provision of such services may be jeopardised by a failure to agree on where and how they should be established. Not-in-my-backyard (NIMBY) pressure groups aiming to conserve their amenity value and natural environment often oppose any physical development, using their property rights to exercise influence through the legal system. Other elites engage in opportunistic, 'rent-seeking' (and sometimes corrupt) behaviour that extracts value from others and enriches a narrow group without adding to productive activity. Successful growth processes actively engage local interests, as we argue in the next section, rather than assume that they are irrelevant. They do so for positive reasons associated with mobilising local knowledge, skills and energy, as well as to avoid obstruction.

Third, a space-neutral approach advocates economic integration between regions and nations without any qualifications. It assumes that trade and factor mobility are necessarily beneficial to both the origin and destination areas, i.e. that integration is an equalising force that brings benefits to all. Physical distance and national borders are considered the critical variables affecting the strength of economic interactions. This ignores historical evidence that if places have unequal assets and capabilities at the outset, the outcome of linking their economies may be wider rather than narrower spatial inequalities (Armstrong and Taylor, 2000; Pike et al, 2006). Places that are relatively well-endowed may well pull further ahead by sucking in talent, capital and other resources from poorer areas. Compensating income flows are likely to be outweighed by a widening division of labour and disparities in economic power between leading and lagging areas. Consequently, spatial disparities may be cumulative and divergence may be at least as likely as catch-up and convergence. This is supported by research on global value chains and production networks, reinforcing earlier work on regional divisions of labour (Gereffi et al, 2005; Coe et al, 2008). It confirms that trade and markets are not neutral and can obscure relationships of dominance, control and dependency. Local economies dominated by low value activities face structural constraints preventing upgrading to more valuable functions. Their integration into global networks may do more harm than benefit.

Fourth, the WDR is underpinned by a causal model which holds that urbanisation in low income countries accelerates industrialisation, which raises productivity, boosts growth, creates wealth and reduces poverty. The bigger the cities, the better for growth and prosperity, because mega-cities provide distinct advantages over smaller cities and towns. Over time the benefits extend outwards from the fast-growing cities to the steadily integrating periphery, thereby narrowing spatial inequalities. There is a kind of law-like physical determinism inherent in this that denies the complex realities of history and politics. It also assumes that countries follow the same development trajectory with no allowance for alternative paths in different contexts, or for cities to be stronger sources of growth in some situations than in others. This is despite considerable evidence from around the world that the relationship between urbanisation and economic development is highly variable and by no means assured (OECD, 2006; McCann and Acs, 2011; Turok and McGranahan, 2013). A growing concentration of population is neither a necessary nor a sufficient condition for accelerated economic growth, just as urbanisation is not an unqualified benefit. There is also good reason to doubt the confident proposition that the biggest cities provide unique and disproportionate advantages. In Europe, for example, many highly productive cities are small or medium-sized, and the biggest cities are not growing the fastest (Turok and Mykhnenko, 2008; Dijkstra et al, 2013)

To sum up, the recent discovery by mainstream economists of the role of physical geography in economic development is a major departure from a decade or two ago when territory and location tended to be ignored. However, the restricted scope of the analysis and its assumptions mean that there are significant omissions. The influence of institutions, the qualitative character of growth, and the impact of unequal economic relationships barely feature. These realities undermine the argument that economic concentration, specialisation and trade are the fundamental drivers of growth and that they generate an optimum outcome with prosperity all-round. Whilst geography is recognised to influence economic performance, the role assigned to spatial policy is highly circumscribed. There is undue faith in market forces to reduce spatial inequalities and excessive pessimism about the ability of governments to stimulate growth and development in lagging areas.

2.4 Place-based policies

Recognition of the limitations and pitfalls of relying on external investment, resource redistribution or market processes to revitalise regional economies has prompted a major policy rethink in several countries, as well as in international organisations such as the EU and OECD (Barca, 2009; OECD, 2006, 2009). The emerging policy ideas have also been influenced by new theories and concepts of endogenous economic growth, human capital, knowledge and institutions (Pike et al, 2006; Barca et al, 2012). The notion of place-based policy is a deliberate contrast to the non-interventionist stance of the space-neutral approach, and the excessive reliance on attracting inward investment by traditional spatial targeting initiatives. There is an assumption that governments can make a difference to the economic trajectory of all or most regions, but to do so requires carefully-considered policies that are also well-executed by resourceful, competent and accountable institutions.

One of the fundamental pillars of the place-based approach is that development strategies should be intimately connected to their local context and build mainly upon local knowledge, capabilities and resources (Barca, 2009; OECD, 2009). This is the foundation on which jobs, incomes and prosperity need to be sustained. Space and location really matter, both to the development possibilities of particular territories, and to the life chances of households. The spatial context matters in ways that go well beyond physical geography (density and distance) and the availability of natural resources. Social, cultural and institutional characteristics (such as the quality of the regulatory environment, local government capacity and leadership) also have a major bearing on the growth rate and character of local economic development (Barca et al, 2012).

This implies that development strategies need to be tailored to the particular context and sufficiently broad in scope to cover the essential features of the economic environment. They should utilise and enhance distinctive local attributes, wherever they are to be found. For example, they should seek to exploit untapped knowledge and ideas, employ unused land and other productive capacity, nurture youthful initiative, promote creative talent and harness all sorts of other potential resources. The location may have geographical advantages that could be exploited more effectively, such as a gateway location, a regional service centre, a tourist attraction, a centre for agro-processing, or a site for renewable energy generation. Astute development organisations may be able to improve or develop the market by creating financial instruments that provide patient risk capital, by supporting long-term business decisions and improved management, and by stimulating productive activity in forms that would not occur spontaneously. This requires that the components of the strategy should be integrated, not confined to particular sectors, incentives or forms of infrastructure. We discuss the issues of distinctiveness and coordination/integration below.

In addition, the place-based perspective requires the spatial policies and investment patterns of national government to be made explicit (Barca, 2009). A space-neutral approach is likely to be infeasible in practice because most government policies have uneven or skewed spatial effects. These may undermine the objective of neutrality and even-handedness if they are not made explicit and taken into account. For example, government departments and major public facilities are invariably located in large metropolitan centres rather than secondary cities and towns because of their 'lumpy' character and the large population thresholds required to sustain them. Decisions about where exactly to locate these entities when they are established typically reflect political factors more than market processes. Once these decisions are made, they are very difficult to alter, so there is considerable inertia in subsequent operating expenditure allocations, with continuing uneven economic consequences.

A second principle of the place-based approach is that decisions about what policies are pursued should not be left to vested interests with narrow agendas. If policies are determined at national level they are unlikely to be sufficiently relevant or responsive to local conditions, since central government is too distant and distracted by other matters. Yet local decision-making is no panacea because it is vulnerable to parochialism, capture by entrenched elites, or being wedded to the past. Selected local interests may engage in rent-seeking behaviour to the exclusion of the population majority, as mentioned above. Established property owners may resist physical development out of self-interest. Elected leaders may be preoccupied with short-term, partisan agendas and factional conflicts.

In contrast, successful development policies need decision processes that are open to fresh ideas and insights, and allow for deep dialogue and democratic debate (Barca et al, 2012). Openness to external inputs can help to prevent insularity and a cosy consensus. Diverse stakeholders across all parts of the business sector, civil society and government need to be engaged to resolve conflict, to engage in joint problem-solving, to build trust and confidence, and to mobilise their expertise, energy, assets and wider networks in the design and implementation of development policies. Different constellations of commercial, technical and political interests need to generate a shared understanding and build the social contracts as a foundation for their willingness to invest their resources and knowledge in local development. This requires various forms of cooperation and horizontal coordination of different policies, organisations and actors in the formulation and implementation of a common strategic agenda. Promoting shared values, building partnerships and encouraging a sense of community can also help to reduce opportunism, rent-seeking and speculative behaviour.

In addition, a multi-level decision process is important to enable local, regional and national perspectives to be factored into the final policy choices. National and regional authorities can provide resources and technical support for capacity building in local government. They may set the basic parameters or conditions governing how public funds are spent, in order to prevent wasteful competition and duplication of effort, and to challenge malpractice (Barca, 2011; Tomaney, 2013; Boschma, 2014). They may be able to inject new knowledge about development policy into the local process, derived from insights and experience elsewhere. External authorities may also provide checks and balances to improve accountability and to strengthen the quality of civic leadership. Lastly, there is a role for multi-level arrangements to improve the level of awareness and understanding that decision-makers at the centre have of local needs and conditions in order to sensitise national policies to the situation on the ground in different places.

Of course multi-level governance and cross-sector coordination are difficult to establish because policy fragmentation and compartmentalised working are deep-seated in all spheres of government in most countries. Different kinds of experimental arrangements may help to incrementally overcome these divisions. Place-based policies should seek to provide some kind of strategic framework that gradually brings greater coherence to a range of sectoral policies, instruments and initiatives so that they are increasingly consistent and reinforce each other. Priorities are bound to vary in different localities depending on the existing level of cooperation, the quality of local institutions and the outstanding challenges faced.

Recognition that institutions matter for development means that physical geography cannot be a mechanical determinant of economic performance. Smaller cities are not necessarily less productive than big cities, and mega-cities can be particularly difficult to govern (OECD, 2006; Dijkstra, 2013). Large and small cities may both underperform because of institutional inertia, vested interests or other obstacles holding them back. Government policies should not therefore neglect places down the urban hierarchy, but rather engage with local institutions to improve their contributions to development. One way is to help tackle physical bottlenecks or bureaucratic constraints that hinder investment and growth. Another is to develop the activities in which localities are best suited, i.e. their comparative and competitive advantages. This requires building on local capabilities and supporting innovative ideas by combining different sources of knowledge from internal and external actors. There is much to be gained for national as well as local economic growth by tapping into the unrealised potential of all cities and regions, rather than focusing on the biggest cities (Farole et al, 2011).

2.5 Conclusion

Tackling uneven development has become more challenging in an increasingly open and volatile global environment subject to uncontrollable financial flows, rapid technological and demographic changes, and burgeoning demands for public investment in physical infrastructure and human capabilities. There are difficult balances to be struck between focusing on areas of socio-economic need or development potential; building on existing economic structures or branching out in new directions; promoting change from the centre or assisting initiatives to bubble-up from the grassroots; and trying to plan and manage the process of change or facilitate and respond to it. The dominant approach to spatial policy has gradually shifted over time from the traditional emphasis on redistributing jobs and investment through fixed incentives and hard infrastructure. There is an ongoing debate underway between advocates of a space-neutral approach, in which the government's priority is to equip people with the skills and capabilities to secure jobs wherever they become available (essentially big cities), and a place-based approach, in which all regions and localities are encouraged to maximise their development potential by investing in untapped knowledge and creativity, unemployed land and labour, under-used productive capacity and other resources. The space-neutral approach assumes that governments lack the knowledge and capabilities to anticipate and steer development patterns. The place-based approach assumes that governments can acquire the know-how and build the capabilities to shape economic outcomes. It is less easy to define than a space-neutral approach because it seeks to combine internal and external investment, local and national institutions, areas of need as well as potential, and building on existing strengths and diversifying into new trajectories. The balance between each of these elements is bound to vary in different territorial circumstances, so it is difficult to generalise.

Table 1: Different Approaches to Spatial Policy

	Spatial rebalancing	Space-neutral	Place-based
Goals and objectives	Narrow the prosperity gap between regions. Reduce unemployment and poverty within lagging regions.	Overall economic growth via agglomeration economies and economic integration.	Each region developing to its potential by building a more durable and dynamic local economy.
Mechanisms	Redistributing investment and jobs from leading to lagging regions, including foreign direct investment.	Facilitating economic density and size. Enabling proximity and connectivity. Removing barriers to migration.	Stronger local institutions, more productive enterprises, improved human capabilities and more creativity.
Policy instruments	Standard financial incentives. Up-to-date 'hard' infrastructure. Streamlined business regulations.	Universal basic services. Connecting infrastructure. Deregulation to increase the housing supply in areas of rapid urban growth.	Integrated regional strategies based on developing unique local assets, human capabilities and new activities.
Style of government	Centralised and predictable. Special purpose agencies to expedite implementation.	National institutions and programmes to meet the essential needs of the population and firms.	Responsive city or regional government in the context of co-ordinated, multi-level governance.
Economic rationale	Static benefits of business relocation to lower cost regions. Possible reduction in overheating and congestion in core regions.	Ongoing benefits to economic growth via the efficiency and productivity derived from agglomeration.	Dynamic benefits derived from local learning, ingenuity and differentiation.
Social and political rationale	Social solidarity and political stability.	Popular acceptance of urbanisation and uneven development.	Build strong and resilient foundations for shared and lasting prosperity.
Where is the policy focus?	Poorest regions and localities.	Fast-growing cities.	Every region and locality maximising its development potential.

Source: Authors' creation

Chapter 3

The South African Spatial Context and Spatial Policies

3.1. Introduction

South Africa has a profound history of spatial inequalities linked to the way in which colonisation and the later policies of apartheid, overlaid and intersected with an uneven physical geography and resources, shaping spatial patterns of economic growth and human settlement. Colonisation led to a divided and unequal territory across national space, focusing development initially around ports, agriculture and mining, and violently displacing the indigenous black African[1] population into rural reserves (which later became bantustans or homelands), and controlling their access to cities and other places of economic opportunity. Segregationist policies led to racially divided towns and cities, with highly unequal access to social and physical infrastructure and economic opportunity. These forms of spatial inequality were built on and extended massively by the apartheid government from 1948, which established bantustans as self-governing or independent states, and put in place laws enforcing urban apartheid. Traditional regional policies in the form of industrial decentralisation, cast within a logic of 'spatial rebalancing', were used in this context as a way of supporting forms of development outside of the cities, particularly in and around bantustans, and containing migration. These policies were made possible initially by a buoyant economy, although they were intensified as it contracted from the 1970s.

The new post-apartheid democratic government in 1994 was faced with a declining economy, a substantial fiscal deficit and high levels of spatial inequality. Economic activity was highly concentrated in Gauteng, a major city-region and province, and some of the other metropolitan areas, but nearly 50% of the black African population lived in and around the former bantustans, where economic opportunities were limited, notwithstanding apartheid regional policies. These conditions have presented difficult policy choices for government: whether to enable growth where it was already occurring, following arguments consistent with a 'space-neutral' approach, or to encourage spatial redress through promoting economic development in previously marginalised areas. In practice, the state has not made clear choices: national spatial policy has been contested and ambiguous. Hence policies have been contradictory in spatial terms, there has been poor coordination, and a variety of spatial targeting initiatives have been tried. These conditions also reflect the broad church nature of the ruling ANC, with many different factions, interests, values and priorities.

Spatial policies have attempted to address these issues. In particular, the need to improve coordination across government has been an important rationale for the national spatial policies, and there have been a number of initiatives to put in place such policies. The debate over a space-neutral policy versus some form of spatial targeting has been taken up in this context. Because these debates reflect conflicting perspectives and interests, spatial policy de facto has been weak. Hence particular spatial targeting initiatives have emerged through the efforts of a variety of interests and actors within government. These initiatives

[1] The use of racial categories in this paper reflects prevalent realities in South Africa, and is not meant to condone them. Categories used follow Statistics South Africa census definitions. The term black refers to people of mixed race, while black African refers to indigenous African people.

have been influenced by international thinking, and by debates over South African experiences. Spatial targeting policies in the post-apartheid era have been influenced by place-based approaches, but take on hybrid forms, and include some approaches associated with spatial rebalancing. There has been considerable experimentation, and there is much to learn from the experience of these initiatives, both positive and negative.

This chapter provides an overview of the South African context, examining the history and evolution of uneven development, and contemporary trends and dynamics. It also considers the debate over spatial policy, and how it has evolved in the apartheid and post-apartheid eras. The following two chapters examine in more detail several specific policies to target development spatially.

3.2. From Colonialism to Apartheid

Prior to the discovery of diamonds and gold in South Africa's interior in the late nineteenth century, the space economy developed around Dutch and British colonialism centred on ports, agriculture, trade, administration and the military in a few large towns and a network of smaller centres. The development of mining rapidly shifted the focus to Johannesburg and its broader region (now the Gauteng province), which soon became the most significant economy in the country. In contrast to many mining towns internationally, reinvestment and diversification occurred locally, as a few powerful companies backed by international investment became dominant and established manufacturing and tertiary activities (particularly finance) initially linked to mining (Harrison and Zack, 2012). This spatial and economic dominance has consolidated since then, with the national economy developing around a 'minerals-energy complex' (Fine and Rustomjee, 1996), later supported by state investment in these and related sectors. Although economic diversification occurred through the twentieth century, the pattern of wealth and ownership remained highly concentrated, with four conglomerates controlling most economic activity by 1994 (Philip et al, 2014).

The growth of mining also provided a powerful impulse for processes that undermined a black African peasantry, contributing to spatially uneven development. While black African people had been pressed into wage labour on farms prior to this period (Mabin, 1992), the growing demand for labour from politically powerful mining and white agricultural interests led to more extensive measures to induce a labour force. The 1913 Land Act in particular laid the basis for territorial segregation by reserving some 13% of the land for black African occupation, and preventing their ownership of land outside of these areas. Bundy (1990) argues that this measure marginalised black African peasant agriculture, and removed competition by successful black African peasants with white farmers, forcing them into wage labour. However movement to farms and mines was on a temporary basis, largely by male migrant workers, while households were reproduced in the reserves. This system served to keep wages very low, effectively subsidising profits, but the ability of the reserves to do so rapidly collapsed as constrained access to land led to a productivity crisis as early as the 1930s (Simkins, 1981). Control over movement by black African people to cities was also used to channel black African workers to undesirable and poorly paid jobs in mining and agriculture, through limiting their access to alternative forms of employment (Hindson, 1987). The 1923 Native Urban Areas Act cast black Africans as temporary sojourners in town, and strengthened influx control. However for many decades the mines were forced to bring in migrants from other countries to fulfil their labour needs, and it was only from the 1970s that the industry had a surplus of labour as the economies of rural homelands collapsed and manufacturing stagnated (Wilson, 2001; Harrison and Zack, 2012).

From the mid-1920s, a new government, representing white working class and agricultural interests, instituted a series of measures to promote industrialisation, but also to elevate the position of poor whites and Afrikaners. It put in place import substitution policies and established a set of state owned enterprises (particularly in sectors linked to the mineral-energy complex, such as iron and steel and energy). Subsequent governments until the early 1940s took these policies further, also establishing an Industrial Development Corporation (IDC) to facilitate industrialisation. The focus at this stage was on national economic development - regional policy was not raised until the 1940s, despite the deterioration in conditions in the reserves.

In the 1940s, controls on the movement of black Africans to cities began to break down, and the coalition Smuts government began to explore alternative policy directions. Rapid industrialisation and urbanisation in the war years, and rising wages in cities led to arguments for decentralisation by a diverse range of bodies. Some post-war government councils investigated the desirability of more systematic regional policies, in part as a way to manage black African urbanisation to cities. However, the reports were equivocal and there were demands by industrialists for freer population movement to cities. While the IDC did establish some projects in rural areas, close to resources or sources of labour, most of its projects were in metropolitan areas (Glaser, 1987). Hence prior to 1948, regional policy remained limited and piecemeal.

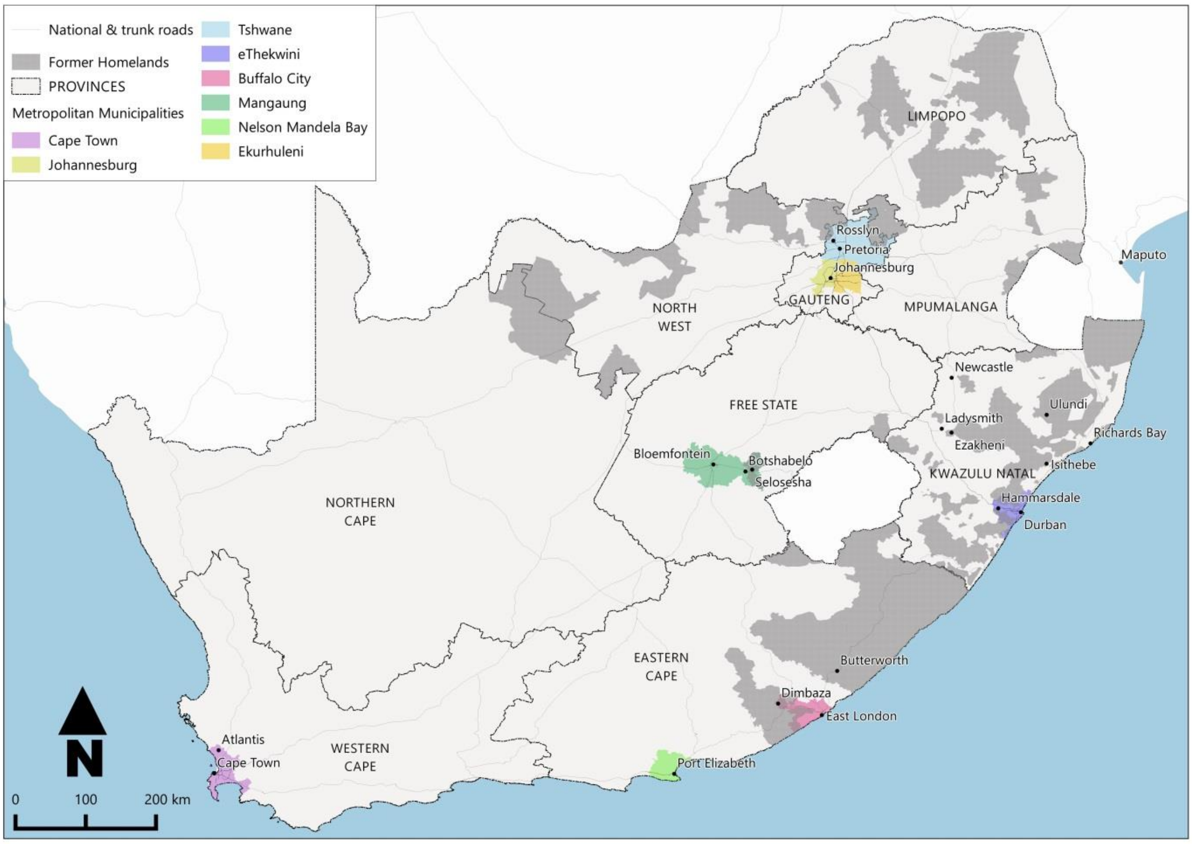

Figure 1: Former Homelands, Current Provinces and Metropolitan Municipalities

From 1948, a new Nationalist government, representing the interests of the white working class, white agriculture and Afrikaner business, introduced a draconian and oppressive system of apartheid, extending racialized spatial policies. It put in place an elaborate system of homelands, extended influx controls to cities, and segregated living spaces. From the late 1950s to the 1980s, the reserves were consolidated to create what later became self-governing or independent homelands for black Africans, many of whom were forcibly removed into them from 'white' farms and towns. Most homeland areas were distant from the main centres of economic activity (Figure 1), but some bordered on towns and cities (such as Durban, Pretoria and East London), creating complex, fragmented settlement patterns, usually with long distances between places of home and work. Within cities and towns, older segregationist practices and local policies became full scale nationally driven urban apartheid through the 1950 Group Areas Act, creating separate 'townships' for black Africans, coloureds and Indians, generally on the edges of cities (Lemon, 1991), and removing communities that did not fit the mould. Overall, some 3,5million people were affected by forced removals through homeland and Group Areas policies (Platzky and Walker, 1985). Townships were developed through large scale public housing projects as dormitory spaces, with limited low-order retail and social facilities and poor service levels. Black African entrepreneurship was controlled and contained by the state, at least until the 1980s, even in these areas. Through the apartheid period, influx controls were intensified, limiting access by black Africans to towns and cities to those with urban rights.

In this context, regional development policy in the form of industrial decentralisation, was used to support apartheid from the 1960s, although it did have more complex and shifting objectives, as the following chapter shows. The 1975 National Physical Development Plan motivated in terms of 'spatial rebalancing' provided the first national spatial plan, cast within an international technocratic language of growth poles and growth centres. Although these policies did have important effects, as the following chapter shows, they cannot be overstated. Not only were departments dealing with regional policy relatively weak within government (Oranje and Merrifield, 2010), but their efforts were overshadowed by the more powerful impacts of other aspects of spatial apartheid, and by national economic policy focused on import substitution, which continued to concentrate economic activity in major centres where the main markets were located.

From the late 1960s, economic growth slowed, reflecting conditions in the international economy and the contradictions associated with apartheid, in particular the limits of local markets and skilled labour (Gelb, 1991). As material conditions in the homelands worsened, black African people moved to cities, despite controls, and new waves of political organisation emerged to counter apartheid. In response, the state introduced reforms, including attempts promote economic activity in areas reserved for black Africans. However by the late 1980s, popular resistance to apartheid policies and economic decline led to the collapse of apartheid policies, and eventually to negotiations towards democratic rule in 1994. After two decades of economic contraction (Philip et al, 2014), sanctions, and well-organised opposition at home and abroad, both business and the ruling National Party were forced to agree to a negotiated settlement. Several authors have argued that this settlement gave too many concessions to big business and existing property interests (Hart, 2013; Philip et al, 2014; Habib, 2013; Bundy, 2014), limiting the extent to which necessary social, economic and spatial transformations could subsequently occur. The counter-argument in this debate about SA's political transition is that the economy was anaemic and the liberation movements were worried about the risk of capital flight and lacked economic expertise. These conditions shaped the subsequent development of the space economy and spatial policies, as the following sections show.

3.3. The Space Economy and Settlement Patterns in 1994

The new government of national unity inherited a stagnant and unequal economy, with high levels of poverty and unemployment. Concentrated ownership of capital was associated with low productivity growth and flat-lining employment levels. With a Gini Coefficient of 0.64, South Africa was one of the most unequal countries in the world. Wealth was particularly concentrated in the hands of top 10% of the population and highly racialized (Philip et al, 2014). These patterns also had corresponding spatial dimensions.

In particular, there was a disjuncture between where large numbers of black African people lived, with some 43% in former homeland areas (Harrison, 2013), and places where economic activity was concentrated. By 1996, some 57% of Gross Value Added (GVA) and 51.8% of employment was generated in the major metropolitan areas, where only 34.2% of the population lived (Turok and Borel-Saladin, 2013). However some 75% of rural households lived in poverty within the former homelands, dependent largely on remittances and state grants for survival. Infrastructure and service levels were particularly poor in many parts of the former homeland areas, which had also suffered from the weak and corrupt governance associated with homeland rule (Chipkin and Meny-Gibert, 2011).

Looking in more detail, some homeland areas were closely connected with cities and towns, and rising urbanisation levels meant that poverty was increasingly concentrated in urban areas as well (Turok and Borel -Saladin, 2014). Harrison's (2013) description of the space economy in terms of inner and outer core areas and peripheries is quite traditional, but he demonstrates the variety of some of these spaces. An 'inner core' of agglomerations around metropolitan areas and major secondary cities, and including some of the mining and tourism belts, and parts of the former homelands, accounted for some 79.4% of GVA and 54% of the population in 1996. An 'outer core' comprised large towns with strong service functions; medium sized mining economies; settlements linked by commuting to 'inner core' areas; and large dense population clusters around former homeland capital cities with limited economies. In 1996, these areas accounted for 12.4% of GVA and 21.7% of the population. 'Peripheral' areas included medium-sized towns, dense settlements with limited economies within homelands, smaller mining and other resource-focused centres, small service centres and their hinterlands, and sparsely populated areas and their scattered centres (Harrison, 2013).

Disjunctures between where people lived and worked were also evident within towns and cities. The effect of apartheid policies and modernist planning was to create sprawling fragmented settlements, often with highest densities in black townships on the edge (SACN, 2011). Despite state initiatives to promote activities such as shopping centres in these areas in the 1980s, township economies remained thin, forcing workers to commute long distances at high cost (Philip et al, 2014). By 1994, decentralisation of retailing and offices from CBDs to historically white suburban areas was already well underway, exacerbating these patterns. Levels of service and infrastructure in townships were also poor, the consequence of underinvestment under apartheid, and of a history of fragmented racially-divided local governance. Hence urban restructuring and the transformation of townships has been a focus for the new government from 1994 (Harrison and Todes, 2015).

3.4. Economic Dynamics, the Space Economy and Settlement Patterns since 1994

The political accommodation during the transition enabled a restoration of economic growth after 1994, but growth rates were low, and state policies did little to address the structural deficiencies of the economy. Policies to maintain macro-economic stability in the face of an inherited fiscal deficit, and the liberalisation of financial and product markets enabled average growth rates of 2.9% per annum between 1994 and 2004, rising to 5% in the boom years before the global crisis in 2008. South Africa went into recession in 2009, and thereafter experienced lacklustre and fragile growth, accompanied by a growing energy crisis. Employment growth between 1994 and 2015 has been insufficient to absorb the number of people coming onto the labour market, resulting in rising unemployment (Turok, 2014). Although the very high level of state expenditure on social infrastructure and grants (roughly 60% of the national budget) has mitigated poverty, the Gini Coefficient nevertheless increased to 0.69 in 2011 (Philip et al, 2014).

Several authors argue that a cautious economic policy arising from the class compromise of the transition accounts for this disappointing trajectory (Bundy, 2014; Habib, 2013; Hart, 2013). Policies to liberalise the economy have enabled capital flight (Mohamed, 2013), while the reduction in tariff protections and state support has exposed large sectors of the economy – particularly labour-intensive manufacturing and agriculture – to global competition (Philip et al, 2014). Levels of investment in the productive economy have been low, and mainly focused on capital-intensive sectors (Bond, 2013). Policy emphasis on changing the demographic profile of big business also did little to reduce the concentration of ownership. Philip et al (2014) argue that strong links within the corporate sector and their dominance in the supply of goods for low-income consumers has constrained opportunities for small business, which remains very limited. Investment has focused on the tertiary sector – particularly retail, telecommunications and finance, creating relatively highly skilled employment. The once important mining sector has dropped to 5.5% of GVA, and agriculture to 2.4% of GVA (Ibid.). Employment in these sectors has declined dramatically. Post-apartheid land reform has provided little alternative - inadequately supported by agricultural policies, and with little impact on access to land and productive capacity (Cousins, 2014; Philip et al, 2014).

The financialisation of the economy, the shift to consumption, and the decline in labour-intensive manufacturing, agriculture and mining, have all contributed to further spatial concentration in the 'inner core' areas, and particularly the metropolitan areas and Gauteng. While a level of dispersal had occurred in the 1980s as labour intensive industries such as clothing shifted to the periphery in search of incentives and lower wages (see Chapter 4), these industries, and particularly clothing, contracted sharply in the post-apartheid period. Harrison (2013) indicates that the 'inner core' rose to 81.4% of GVA in 2011, while Turok and Borel-Saladin (2013) show that metropolitan areas increased their share of both GVA (62.2%) and employment (57.6%) by 2012. Metropolitan areas grew far more rapidly than secondary cities, which had narrower economies focused on mining, regional service roles or specific manufacturing sectors. While the metropolitan areas with the exception of Johannesburg also experienced substantial decline in employment in manufacturing, their trade, finance and community services (especially government services) grew rapidly in this period. The smaller metropolitan areas, including those in the Eastern Cape, experienced slower growth than the Gauteng metros, where the growth of financial and government services was concentrated (Turok and Borel-Saladin, 2013). Put simply, the sectoral composition and spatial distribution of the economy has narrowed over the last two decades.

Urbanisation and population movements have tended to follow economic activity, leading to greater concentrations in the cities. Movement between provinces also reflect these patterns, with highest movements into Gauteng, and to a lesser extent the Western Cape, and out-migration from most other provinces, particularly the Eastern Cape, Limpopo, KwaZulu-Natal and the Free State, which include large areas of former homelands (Harrison, 2013). Levels of urbanisation rose from 53% in 1994 to 63% in 2011 (Turok and Borel-Saladin, 2014), while metropolitan areas grew at average growth rates of 2.4% p.a. from 2001 to 2011, compared to national growth rates of 1.5% p.a. The growth of Johannesburg at 3.2% p.a. and Tshwane at 3.9% p.a. was particularly rapid (Todes, 2014). The Gauteng metros also attracted population from other African countries, some of which were experiencing economic and political turmoil. As a consequence of these movements, Turok and Borel-Saladin (2014) point to the 'urbanisation of poverty' as income poverty has increased in big cities, while it has declined elsewhere. This movement was expected given the controls on urbanisation under apartheid (Turok, 2012), but it also responds to the stark economic differences between urban and rural areas (Ibid.). It reflects the decline of employment in mining and agriculture, and the eviction of workers from commercial farms (Wegerif et al, 2005). With the restructuring of mining, old style male migrant labour has been replaced somewhat by more fragmented movements by both men and women to cities and towns. Such migrants are engaged in marginal economic activities in the informal economy, domestic service, construction and security, inter alia (Cox et al, 2004). Patterns of movement are complex, and there is some debate over whether urban-rural links have been maintained in this context (Posel and Marx, 2011). Although there has been considerable movement out of the former homelands, they continue to operate as areas of social reproduction with disproportionate numbers of children and senior citizens. These areas remain generally impoverished, dependent on remittances, social grants and other government expenditure, and with the highest levels of unemployment and other indicators of social deprivation (Philip et al, 2014; Leibbrandt, 2013).

Some degree of racial desegregation has occurred within towns and cities, as black people have moved into inner cities and suburbs previously reserved for other races. However the large townships have grown, and major new state-led housing schemes have been developed on the urban outskirts. Physical infrastructure and services in these places have generally improved post-apartheid since these places are now run by large metro governments, with an emphasis on redress and redistribution. Townships such as Soweto now include a range of income groups, alongside concentrated poverty and unemployment. The post-apartheid period has seen some increase in economic activity in the townships (particularly shopping centres, spaza shops and informal trade), but it remains consumption-oriented, and is dwarfed by the growth of new office complexes, business parks and shopping malls in middle and upper-income areas often distant from these places (Harrison and Todes, 2015).

3.5. Post-Apartheid Governance and Spatial Policies

Conservative post-apartheid economic policies have been accompanied by strongly redistributive social policies, including basic services, housing, social grants and health (Habib, 2013; Bundy, 2014). These policies have included elements of spatial equity, although not always explicitly, based on a commitment to universal entitlements and citizenship. The 1996 Constitution entitled all households to basic services, whatever their location, although what 'basic' constituted might vary between urban and rural areas depending on the feasibility of provision. A new system of provinces was created, incorporating the former homeland areas. These were funded through central taxes based on a redistributive formula (Treasury, 2014). Previously fragmented and racialized local governments were consolidated to create large authorities and enable redistribution between rich and poor, and often urban and rural areas. The powers and mandate of local government were extended to include social and economic development, and local sources of finance were supplemented by grants from national government, including a redistributive 'equitable share'. Policies to upgrade marginal areas within municipalities included the use of forms of place-based development, such as local economic development[2], and integrated development planning (intended to provide a coordinated municipal vision and programme, supported by other spheres of government). These were seen as universal policies to be implemented by all municipalities.

Although public services and infrastructure have improved throughout the country, spatial inequalities remain a persistent problem both within and between municipalities. These reflect uneven economic performance along with variable institutional capabilities and political conditions. While integrated development across government has been a consistent goal of policy, implementation has been seriously lacking (Harrison et al, 2008; National Planning Commission, 2012; Presidency, 2014). Achieving coordinated development has been notoriously difficult at all levels, since the ruling African National Congress is a broad movement comprising an alliance of different interests and ideologies. It has lacked a strong political centre, at least in relation to economic development, resulting in contradictory policies and practices between individual ministries and spheres of government. The first attempt to create an overarching Reconstruction and Development Programme (RDP) failed because of these tensions. It has become increasingly apparent that the ruling party is beset by factionalism variously centred on particular policies, personalities or power, as well as by corruption (Habib, 2013; Bundy, 2014). Of course, some differences are not surprising because the post-apartheid government has a far wider constituency and remit than was the case under apartheid, including powerful demands for redress. It also had to incorporate existing unsympathetic and inappropriately skilled officials, including former homeland bureaucrats. Pressures for cadre deployment and affirmative action appointments have also hampered the creation of efficient administration capable of supporting complex development agendas (Chipkin and Meny-Gibert, 2011; Turok, 2012).

The ambitious aims of developmental local government have been particularly difficult to realise (Turok, 2012). Hart (2013) argues that municipalities face impossible structural conditions, with high levels of poverty and limited resources, notwithstanding transfers

[2] This paper does not discuss local economic development since it is not spatially targeted, but see reviews by Nel and Rogerson (2005).

from central government. Leadership, political interference, mismanagement, inexperience, a culture of patronage and nepotism, and tensions in the political-administrative interface are additional concerns (COGTA 2009a; SACN 2011; FFC 2011; Pieterse and Van Donk 2013). Spatially uneven development also has an institutional dimension as the metros have more robust tax bases and greater technical capacity than rural municipalities (FFC, 2011), with greater scope for experimentation and innovation. Yet the performance of the metros has also waxed and waned in line with shifting institutional dynamics.

These institutional conditions have affected spatial policies and spatial targeting profoundly. On the whole, post-apartheid spatial policies have shifted away from the 'spatial rebalancing' associated with apartheid to a combination of space-neutral and place-based policies. Some forms of spatial targeting have also been influenced by more traditional approaches associated with spatial rebalancing. Explicit national spatial policies have been developed to improve coordination in government, and to provide a coherent government perspective on future spatial development. In this context, there has been considerable debate over whether a space-neutral approach versus some form of spatial targeting should be supported.

The National Spatial Development Perspective (NSDP) 2003 was the first explicit national spatial policy[3]. In the mid-1990s, several government departments called for intervention by the Office of the Deputy President, since

> "there was a lack of coordination in State expenditure and investment in the different sectors and spheres of government, which was not ameliorating the spatial diseconomies, but in some cases exacerbating them" (Oranje and Merrifield, 2010, p.34).

It was argued that investments in major economic infrastructure such as roads and ports reflected disjointed spatial visions, hence wasting scarce, costly resources. In addition there were concerns that government expenditures were reinforcing apartheid spatial patterns.

The NSDP was developed in a highly constrained economic environment and policy context, where concerns to re-establish economic growth were paramount (Platzky, 1998; Oranje, 2010). The formulation of the NSDP followed a Public Sector Commission which noted the very limited resources available for capital expenditure and the need for judicious expenditure. Consultants and officials developing the policy were influenced by arguments for a 'space-neutral' position advocated by the Urban Foundation (1990) in its earlier critique of apartheid industrial decentralisation. The business-linked UF claimed that these policies flew in the face of economic forces, undermining the performance of cities, and leading to unsustainable growth on the periphery. In a position remarkably similar to the later World Bank (2009) report, it argued for embracing the growth of big cities, and against spatial targeting to support economically marginal areas, although provinces and municipalities might promote their comparative advantages.

[3] An earlier initiative to develop a National Spatial Framework to improve spatial synergies in government by consolidating provincial plans failed since these plans were weakly developed and there was resistance by government departments to centrally directed spatial development (Harrison et al, 2008; Oranje, 2010).

Officials and consultants developing the NSDP were also concerned that the policy should not reinforce apartheid geographies, including large populations in places with no economic base. Rather, it was argued that policy should make hard choices in order to move away from apartheid spatial patterns. Similar to the 'space neutral' position, it suggested that "efforts to address past and current inequalities should focus on people not place" (Presidency, 2006, iii). Social expenditure might focus on areas of need, but expenditure on economic infrastructure should emphasise areas of development potential, with the expectation that people could migrate to these areas:

> "Beyond the constitutional obligation…, government spending on fixed investment should be focused on localities of economic growth and/or economic potential in order to gear up private-sector investment, to stimulate sustainable economic activities and to create long-term employment opportunities" (Ibid.)

Its research stressed the importance of agglomeration economies, noting the long-term dominance of the Gauteng metropolitan areas. Although the sub-text of the policy was to support growth in these and other metropolitan areas, its authors avoided framing it in these terms because of political sensitivities. Nevertheless, the policy still had a rough passage in government. Oranje and Merrifield (2010, p.37), who were key consultants on the policy, argue that

> "resistance to the NSDP arose because it challenged the basic assumption of the ANC and government at the time that poverty alleviation should be focused mainly in rural areas, where it was believed that 'the poorest of the poor' were located, while economic growth would be supported mainly in urban areas".

There were also concerns that migration to cities was socially damaging, and that cities could look after themselves financially. It took several years for the policy to be accepted by government, but even then, it had little practical impact, and other policies went in different directions (Harrison et al, 2008).

A 2006 revision of the policy toned down the space-neutral approach, and focused more on some 26 centres and their hinterlands, which it argued accommodated the large majority of the population. Nevertheless, the policy still had little impact. By 2007, these policies, which had been formulated through the offices of the Presidency, were seen as supporting "those who already have", and part of the "neo-liberal … class project" associated with President Mbeki (Oranje and Merrifield, 2010, p. 38), who was pushed out of his position as ANC president in that year. Initiatives to create a national urban policy around the same time were also marginalised (Turok and Parnell, 2009), as the popular political priority began to shift towards rural development, particularly following the appointment of a president with strong rural affiliations and affinities.

The question of whether to accept and support growth where it is occurring, or to attempt to rebalance development spatially, has been an ongoing debate in post-apartheid South Africa, particularly as spatial inequalities were so strongly associated with and produced by apartheid. The conflation of poverty with rural areas, and of economic conservatism with an acceptance of spatial concentration, has made this question particularly difficult. This perspective comes across most clearly in the New Growth Path, a policy produced by the newly appointed economic development minister in 2009.

In the absence of strong effective national spatial policy, a variety of conflicting policies and divergent spatial targeting initiatives have co-existed. The initiatives discussed in the following two chapters emerged through the influence of a variety of different actors and institutions within government, responding to varying concerns and drawing selectively on international experience from diverse sources. Place-based development ideas have been influential in this context, but approaches adopted also have roots in earlier policies and practices internationally and in South Africa.

Spatial targeting initiatives have included a number of place-based local area initiatives focused mainly on developing former townships or other marginalised areas in cities and rural areas (Chapter 5). Redress through improved coordination, innovative governance, and infrastructure investment have been key elements, although strategies also attempt to develop their economic potentials. Regional initiatives (Chapter 4) have centred on economic development, and include Spatial Development Initiatives (SDIs), Industrial Development Zones (IDZs) and the recently proposed Special Economic Zones (SEZ). These initiatives have been influenced by national spatial policies promoting areas with economic potentials, but implementation has been much looser as Chapter 4 shows.

Initiatives to establish a National Development Plan (NDP) from 2010 freed up space in which spatial policies could be seen in a broader planning context, and in which a more balanced approach could be formulated. The NDP moved beyond both a spatial rebalancing and a spatial-neutral approach, and instead argued that spatial policies needed to address a range of issues (National Planning Commission, 2012). Consistent with a place-based approach, it argued for a differentiated policy where spatial targeting has multiple focal points, including major cities, corridors and smaller centres where growth potentials and competitiveness might be enhanced; rural restructuring zones where different types of support are needed; and special intervention areas where either decline or growth needs careful management. An underlying theme was that urban and rural areas are interdependent and should not be treated in isolation. The NDP also advocated the formulation of a National Spatial Framework, which is currently in the process of development. Since 2012, there has been greater recognition of the importance of coherent urban development, and a series of policies, including an Integrated Urban Development Framework, are gradually being put in place.

The NDP also prompted a review of spatial targeting policies[4], which has pointed to the need for changing practices, and particularly for strategies to improve spatial coordination. The idea of spatial targeting has been accepted in this context, but as part of a more coordinated approach to governance, with much greater attention to the spatial impacts of policies and economic dynamics. It therefore moves beyond a space-neutral approach and spatial rebalancing, to favour place-based approaches in various contexts. In the same period, policies to support Industrial Development Zones have been replaced by a broader concept of Special Economic Zones (SEZs), legislated in 2014, which attempts to strengthen the model and extend its use to support regional development in other areas (Nel and Rogerson, 2014; DTI, 2015).

[4] Parts of this paper were initially written for this review.

3.6. Conclusion

The post-apartheid government in South Africa inherited deeply rooted spatial inequalities, underpinned by the structure of the economy, as well as by state policies. These patterns are now entrenched and have been difficult to undo. The political accommodation associated with the transition, the constraints it placed on economic policy, and the trajectory of economic development since then, have produced new forms of uneven development. Economic growth for much of the period since 1994 has been slow, and concentrated largely on the big cities, especially Gauteng. Some mining regions and secondary cities and towns have also grown. On the whole, the former bantustans have declined further, and are dependent on social grants for survival. People have moved towards jobs, although many remain behind.

The South African experience suggests that the claims of space-neutral approaches reliant on the market cannot be divorced from the structure of the economy and patterns of economic development. Low levels of employment and poverty, even in cities, have limited the extent to which moving to cities is a ubiquitous solution for people in marginal areas. There simply aren't enough jobs to go round. Although migration clearly happens, many people remain behind, or are locked into unsatisfactory patterns of temporary movement and survival stretched over space. While policies to promote spatial equity in access to basic services have had some successes, institutional unevenness affects how supposedly space-neutral social service delivery operates in practice. In other words, spatial inequalities are deep-seated and not easily addressed by a single sectoral policy.

South African spatial policies have shifted from the fairly clear spatial visions of the apartheid government, complemented by spatial rebalancing, to a more diffuse and diverse set of policies in the post-apartheid period, reflecting both the divergent demands on spatial policy and the political complexity of the ruling African National Congress. In consequence quite different spatial policies and priorities have co-existed. The need to improve coordination within government has been a strong motivation for national spatial policies. Policy in the early 2000s drew from a space-neutral perspective, but was not widely accepted in government since it was seen as neo-liberal, pro-city and as neglecting poverty associated with rural areas. Some government departments, provinces and municipalities also resisted the policy which they saw as contrary to their interests. Politics has tended to trump technocratic and economic arguments. In the absence of strong national spatial policies, sometimes spatially contradictory policies have continued to co-exist, and variety of spatial targeting initiatives have been attempted, promoted by different agencies and interests in government. The lack of a strong centre in government, the variety of interests at stake, and institutional weaknesses have also affected spatially targeted policies, as the following two chapters demonstrate, and they raise questions about the prospects for place-based development.

More recent policy developed by the National Planning Commission (2012) adopted a more balanced approach, accepting the need for a variety of forms of place-based spatial targeting and reinforcing messages to improve coordination. This perspective has been taken up further by National Treasury, a powerful player in government, but there are still competing and contradictory policies and perspectives in government. Within the last two or three years there are signs of more sophisticated ideas emerging, with the debate moving beyond urban-rural dichotomies and recognising more diverse geographical patterns. Concrete policies are still some way off, which is why it is critical to learn from past experience.

Chapter 4

The Experience of Regional Development Policies

4.1. Introduction

Chapter 3 has pointed to some of the policy dilemmas and tensions underpinning spatial policies and spatial targeting in SA, and how objectives have shifted over time. Chapters 4 and 5 explore the experience of spatial targeting policies in South Africa in some detail, using the three-fold classification of spatial policies indicated in Chapters 1 and 2. In broad terms, spatial targeting in SA has shifted from spatial rebalancing under apartheid towards forms of place-based development. Nevertheless, policy approaches discussed under the heading of spatial rebalancing in Chapter 2 have also been used. In the assessment of particular spatial targeting policies, and in debates over their future directions, space-neutral perspectives have also been influential. In practice, many of the actual approaches used have been hybrid forms, influenced by international thinking, sometimes combinations of approaches, rooted in particular understandings of SA contexts, or adapted to them.

In reality, spatial targeting policies are more complex: they have had varying objectives and points of focus. Some promote economic development, others are more socially focused. The nature of intervention involved varies, as does the level of resources devoted to them, the spatial focus and their duration. In addition, the institutions used to implement policies vary: in some cases special agencies have been used as a way to support rapid effective implementation. In other cases, improvement and support of existing institutions such as local government is a central part of the policy objective.

Chapter 4 focuses on the ‘regional development policies’, which have generally attempted to address the national spatial distribution of development through the use of controls on metropolitan location, the application of incentives to attract economic activity to particular regions and towns within them, or through enhancing and supporting economies in these places. Regional development policies usually address functional economic areas at large scale, and in consequence tend to have a stronger economic emphasis. Chapter 5 considers local area policies which are generally targeted to particular economically marginal or declining areas within a town or city, most often the former townships or inner city areas. Since these policies are often focused at the scale of everyday life for people, they tend to be broader in scope, and concerned with the physical environment and social needs. Public service delivery is thus an important focus. Nevertheless these policies can include important economic objectives and interventions. In practice, the distinction between the two has been more blurred, so Chapter 5 considers some rural policies covering several large municipalities (i.e. huge regions), which focused primarily on institutional integration and public service delivery.

Each chapter outlines the objectives and intentions of particular forms of spatial targeting, their content and discusses what is known about their economic and social impacts. It must be recognised however that baseline studies and comprehensive quantitative assessments have generally been lacking, limiting the extent to which systematic economic and social analysis can be made. The two chapters are structured slightly differently. While Chapter 4 considers three main policies in turn, Chapter 5 brings together a discussion of four policies, some of which have overlapped with each other.

The rest of this chapter focuses first on industrial decentralisation, South Africa's longest running form of spatial targeting, which was in place from the 1960s to 1996, and then on the post-apartheid Spatial Development Initiatives (SDIs) which ran from around 1996 to 2001, and the Industrial Development Zones (IDZs) which followed. The picture that emerges from this chapter is that stimulating regional development is difficult and far from a mechanical process that can follow a simple formula or plan. It depends on many factors and forces coming together in a particular place and time, any one of which can jeopardise success.

4.2. Industrial Decentralisation

For much of its history, industrial decentralisation policy attempted to promote industrial development outside of the major cities, and particularly in or near homeland areas. It supported apartheid policies of homeland development by providing jobs in these areas, with the intention of constraining the growth of the black African population in cities. However, the orientation of policy shifted over time, as did its rationale.

Industrial decentralisation policy proper began in the 1960s as the apartheid state began to put in place its policies for homeland development, resettlement and for extending control over the movement of black African people to cities. The 1960s was a period of rapid economic growth, seemingly offering opportunities for decentralisation, and one in which political opposition to apartheid was violently repressed, giving the state space to implement its policies. Policies attempted to limit the growth of cities, or at least of the growth of the black African population there, by encouraging industries which employed them to move towards homeland areas. However policies shifted during the 1960s, as perspectives within the state on homelands and cities changed.

Industrial decentralisation initially focused on the development of areas bordering homelands ('border areas'), but particularly those with the greatest chance of growth, close to existing metropolitan areas. It was rationalized in terms of creating jobs for the black African population close to the homelands, as 'alleviating over-congestion' in cities (Dewar et al, 1984, p.4). In 1965, decentralisation policy was broadened to include areas of high unemployment for whites, coloureds and Indians. In 1967, policy shifted to attempting to control metropolitan growth and particularly the increase of the black African workforce in cities, since the impact of previous policies had been limited. From 1968, industrial decentralisation policy was used directly in support of homeland development, and to provide an economic base for areas created through relocation, as industries were now encouraged to invest within them. However state attempts to control metropolitan growth were resisted by business. Folllowing a near investment strike, a 1971 Commission modified the policy, reducing metropolitan controls, and increasing incentives for decentralisation, on the argument that the policy should not negatively affect economic growth (Dewar et al, 1984). Industrial decentralisation as spatial rebalancing therefore came into conflict with state objectives for economic growth. The tension between political ideology and economic realities remained in policy, forcing the state to move more towards facilitative rather than controlling approaches.

Although apartheid and homeland development were paramount in the policy, it did include technocratic elements, such as the development of large 'growth poles' through locating heavy industry outside of the Pretoria-Witwatersrand-Vereening Area (PWV) (now Gauteng), and through industrial development in new planned ports. The Industrial Development Corporation and state-owned enterprises such as the iron and steel company, Iscor, played key roles in this context. The 1975 National Physical Development Plan (NPDP) took this further by setting out development axes, growth poles, growth points, deconcentration points and planned metropolitan areas as a counter balance to 'over-concentration' in metropolitan areas, and to respond to the out-migration of whites from rural areas (Dewar et al, 1984). Many of the places designated in this way had already been supported under earlier policies, but some new places such as Atlantis, were established, and incentive levels were increased. A number of regional development associations were also set up (Ibid.). Although elements of the plan remained in later policies, other aspects disappeared as state policy was reformulated to respond to popular political protest.

From 1982, the industrial decentralisation programme was revised and expanded as part of the state reform initiatives of the time. Industrial decentralisation would serve to support homeland development, and job creation there was emphasized in the context of an 'urban insider/rural outsider'[5] strategy. However the policy was constructed as 'regional development', spanning both homelands and adjacent 'white' areas. This new approach replaced the hard homeland boundaries presented in the NPDP, conceptualizing these areas as outside of South Africa (Oranje and Merrifield, 2010). Some saw the policy as laying the basis for 'regional federalism' (Cobbet et al, 1987), although the homeland theme remained dominant.

In the context of rising resistance to apartheid and as state reform faltered, state policy shifted towards more of a market-led agenda. Business critiques of industrial decentralisation were embraced to a greater extent than before, and the policy was reviewed by the Development Bank of Southern Africa (DBSA) in 1989 (Platzky, 1995). The tension between space neutral policies and a weak form of spatial targeting is apparent in the debate that took place about reforming the strong spatial targeting approach of industrial decentralisation. Although the state did not accept the review committee's preferred recommendation to drop industrial decentralisation in favour of regional development on the basis of comparative advantage – a position influenced by the Urban Foundation's space-neutral arguments - it modified the policy in significant ways. Based on the argument that 'market failure' (that businesses overestimated the advantages of the PWV) and distorting macro-economic policies had strengthened the PWV at the expense of the coastal metropoles[6] (DBSA, 1989), it reworked incentives to support all areas outside of core metropoles. This policy was put in place in 1991 and continued until it was dismantled

[5] Dividing the African population into those with rights to the city, versus those confined to areas in and around homelands.

[6] This debate still has relevance today, as macro-economic policies have in effect continued to concentrate development in Gauteng. This growing spatial concentration is closely linked to the financialisation of the economy and the decline of industry, and particularly labour-intensive industry.

after an assessment in 1996. While the DBSA's comment on the impact of macro-economic policies was important, a changing policy would not automatically reorient spatial patterns, as experience in the post-apartheid period shows (chapter 3). Nor would incentives be likely to change patterns on their own, as the discussion of impact will demonstrate.

4.2.1. The Content of Policy

Industrial decentralisation policy included a combination of financial incentives to industrialists, and the development of industrial parks and related infrastructure, particularly in the homelands[7]. The nature and form of financial incentives shifted with policy changes, but in general they increased over time. From the 1970s, incentive packages were differentiated to reflect the relative attractiveness of the area in terms of distance, environment and other locational factors. Until the 1980s, however, they were not very significant in financial terms. The new Regional Industrial Decentralisation Programme in 1982 included quite substantial incentives, favouring labour-intensive industries. Incentives on offer were differentiated, with the highest incentives in peripheral homeland areas, and lower incentives in deconcentration points (within 100km of the metropolitan areas) and outside of homeland areas. The different regions of the country were also weighted with some receiving higher levels of incentives than others (Dewar et al, 1984). The new incentive package from 1991-1996 reduced incentives and reoriented them to encourage profitability and competitiveness by supporting greater capital intensity and technology upgrading. A package oriented to small firms was also introduced. A new form of spatially differentiated incentive was put in place, with the highest incentive available outside of the PWV, Cape Town and Durban, and 60% of the incentive available on the periphery of Cape Town and Durban.

In addition to these incentives, at the height of apartheid and until the late 1980s, labour legislation and conditions were differentiated between metropolitan, border and homeland areas. Job reservation[8] did not apply in border areas and homelands; wages in border areas were lower, supposedly as a result of lower productivity there; and from 1970, minimum wages in homelands were abolished. Unions were also outlawed in several homelands. [9] This demonstrated a fairly concerted approach to spatial targeting going beyond financial incentives.

For some years, incentives on the periphery were coupled with measures to control growth in metropolitan areas. The expansion of industrial land in the cities was restricted and labour-intensive industries employing large numbers of black African workers were not allowed to expand their factories or employ more workers without permission. This was softened by reforms in 1971 following business protest, but 'non-locality bound' (i.e. 'mobile') industries with a high proportion of black African workers were forced to move to decentralized areas. These 'direct controls' were dropped in 1982 as the state moved towards a more market supportive approach, encouraging decentralisation through

[7] See Dewar et al(1984) for a compilation of the detail of incentives on offer from 1960 to 1982.
[8] Reserving certain categories of work for whites
[9] There has been significant debate over whether labour regulations should be relaxed in Special Economic Zones. Some critics argue that the failure of Industrial Development Zones is partly the result of the lack of such differentiation (CDE, 2012).

incentives (Dewar et al, 1984). This shift demonstrates the tension between concerns about growth and strong spatial rebalancing policies.

Many different places were favoured to varying degrees over time. Each round of policy brought a new set of places which were supported, and in most rounds, large numbers of points were designated as some kind of special place, eligible for incentives. This tendency was exacerbated by the ability of local politicians and interests to influence the designation of towns – notwithstanding the otherwise quite top-down nature of the policy. However the PWV and the major metropoles of Cape Town, Durban and Port Elizabeth were generally excluded. Some places were specifically created as decentralisation points or massively developed from very small towns, including Atlantis near Cape Town, Richards Bay and Isithebe in KwaZulu-Natal, and Rosslyn near Tshwane. Although some of these places were established as decentralisation points early on, the emphasis on deconcentration in the 1975 NPDP and the 1982 plan reflected both an intention to alleviate congestion in cities, and the difficulty of attracting firms further into homelands (Dewar et al, 1984). Richards Bay and Saldhana were created as new ports and growth poles in terms of the 1975 NPDP classification, potential future metropolitan areas, and considerable resources went into their development. In some cases, small towns such as Newcastle and Ladysmith were designated as decentralisation points, while industrial estates offering higher incentives were established in adjacent homelands. Industrial estates were set up in homeland towns such as Butterworth in the Transkei, sometimes in or close to resettlement areas, such as Dimbaza in the Eastern Cape and Botshabelo in the Free State.

4.2.2. The Impacts of Policy

As was the case in many developing countries (Storper, 1991), until the 1980s, the policy was not very effective in terms of creating jobs in the periphery, or diverting economic activity from metropolitan areas. McCarthy (1983) found that a maximum of 150,000 jobs were generated between 1960 and 1980, compared to 115 000 annual entrants onto the homeland labour market. Bell's (1973) seminal study of decentralisation in the 1960s showed that government figures were overstated: the policy created at most 11 600 jobs – compared to official figures of 87 000 for that decade. Critics argued that there was little indirect job creation, and that considerable numbers of jobs were lost due to metropolitan controls. For instance, refusals of applications for expansion of factories or employment in metropolitan areas affected 320 000 workers between 1968 and 1978 (Rogerson, 1982). Factories which relocated primarily moved to Cape Town or Durban, not to peripherally located designated decentralisation points, and where they did, they most often went to deconcentration points close to metropolitan areas, such as Hammersdale near Durban (MCarthy, 1983).

The new round of incentives in the 1980s had far greater impacts. In the context of recession in the 1980s, some 147 000 jobs were created in decentralisation points between 1982 and 1987, compared to figures in previous years (DBSA, 1989; Platzky, 1995). Employment growth in these peripheral areas was much faster than in the cities (some of which saw employment decline in manufacturing[10]), as labour-intensive jobs, particularly in the clothing industry moved out. A major debate in the 1980s concerned whether decentralisation was driven by (now much increased) incentives (e.g. Tomlinson and

[10] E.g. see Harrison (1994) on KwaZulu-Natal

Addleson, 1987) or by market forces (Bell, 1986). Bell (1983, 1986) showed that competitive pressures in the clothing industry were significant reasons for the growth of employment in decentralisation points. Parts of the clothing industry are highly labour-intensive and have tended to move internationally and within countries to access lower waged labour. In the 1980s, firms in South Africa faced increased competition from low-waged industries in the East, in part due to the growth of illegal imports. As was the case internationally (e.g. Massey, 1995, Ch.2), firms relocated to or established their less skilled activities in decentralisation points where lower wages could be paid and where union activity was weaker or banned. While the more generous incentives may have played a role, they worked in concert with market pressures. Some international firms in these sectors also moved into decentralisation points. Taiwanese firms in particular moved in as economic change in Taiwan drove up wages, making labour intensive production unviable there (Hart, 2002, Pickles, 1989). Thus sectoral dynamics and the nature of business within particular sectors were key enablers to the policy.

Although the structure of incentives was very different in the revised RIDP of the 1990s, this pattern continued as increased import penetration in the clothing industry put pressure on firms to move to peripheral locations where wages were lower. In addition, studies showed patterns of peripheral growth in the clothing industry even without incentives (Hart and Todes, 1997). Harrison and Todes' (1996) study of the impact of the 1991 RIDP in KwaZulu-Natal showed that only 39% of projects and 37.5% of employment in firms was concentrated in Durban. Within KwaZulu-Natal, the largest beneficiary was Isithebe, which had been the most successful decentralisation point in the previous era. Overall in the province, it promoted the growth of metropolitan Durban and old industrial decentralisation points. The study also suggested that incentives were not critical to the survival of most firms, nor had they played a role in the location of these industries. This point was corroborated by other case studies on the effects of the RIDP in the rest of the country (BDA, 1996; Sharp and Speigel, 1996; Luiz and van der Waal, 1997). The National Productivity Institute's (1996) financial studies however disagreed with these assessments and argued that most firms would not have survived without incentives.

While the policy did have a significant impact, at least from the 1980s, outcomes were uneven spatially. KwaZulu-Natal for instance was a significant beneficiary of the 1982 scheme, accounting for 28% of new employment. On the whole, small peripheral places, such as Ulundi, did not attract many firms. Rather, places which benefited were reasonably close to the cities (such as Isithebe or Rosslyn) or on major routes (such as Newcastle and Ladysmith/Ezakheni). Simple location factors are only part of the story, and not all deconcentration points managed to attract many industries. Clearly wages and labour related issues appear to have been crucial.

While the policy is often presented as classic 'top-down' and run by central government, the role of local institutions in actively recruiting firms and in shaping development was also important (Platzky, 1995; Hart and Todes, 1997). Homeland development corporations were responsible for managing the policy in their areas and developing industrial sites and buildings[11]. Platzky's (1995) study of Isithebe shows the importance of the KwaZulu-Finance Corporation (KFC) in recruiting firms and shaping local development. It worked to ensure

[11] Industrialists could not own these sites, but rather leased the buildings.

some diversity of economic activity (at least in the 1980s) to avoid excessive dominance of clothing firms and low waged activities, as well as to deepen local linkages. The same did not happen in Botshabelo and Selosesha, which were run by different agencies. Hart (2002) shows the role played by the Newcastle municipality in bringing in Asian firms, and the way the establishment of a Taiwanese community laid the basis for further growth of this sort, and served to shape the trajectory of local development. Conversely, the role of poorly performing local institutions also needs recognition. For instance, studies of Butterworth (Hoskings and Haines, 1997; Hofmeyer and Maasdorp, 1993) show that while the withdrawal of incentives over a short period was the catalyst for industrial decline, it was exacerbated and accelerated by ongoing political conflict and poor management in local government. This was associated with the collapse of infrastructure, crime, rapidly rising wages and labour conflict.

A common critique of industrial decentralisation policies, domestically and internationally (see chapter 2), is that they led to narrow local economies with weak local linkages and poor quality jobs (Dewar et al, 1984; Tomlinson and Addleson, 1987). Platzky's (1995) study showed significant differences between the three industrial decentralisation points she examined. While Isithebe had diversified beyond the clothing industry, and was beginning to show evidence of local embedding, this was not the case in the other places. Similarly, unions were well established in Isithebe and wages had risen. A pattern of 'cumulative advantage' was beginning to emerge.

Growth pole policies have also been critiqued for the weak local economies they generate (see chapter 2, Dewar et al, 1984, Parr, 1999). Incentives in Richard's Bay resulted in the establishment of a small number of large capital-intensive, but poorly-linked industries. While these accounted for quite rapid economic growth in the area for many years, employment generation was limited, and each wave of major new investment resulted in land and other price spikes in the local economy (Todes and Vaughan, 1999). Some firms were dependent on cheap electricity, which has held back development in the post-apartheid era. Hence the extent to which decentralisation resulted in broad-based development has been very uneven.

Critics of industrial decentralisation argued the policy resulted in unsustainable growth on the periphery, and that the removal of incentives would lead to the collapse of decentralisation points (Tomlinson and Addleson, 1987; Urban Foundation, 1990). Unfortunately, there are few studies of the fate of industrial decentralisation points in the post-apartheid era (but see Phalatse, 2000; Hawkins, 2010, Hoskings and Haines, 1997). It is nevertheless apparent that several of these places have collapsed or declined, although some continue, such as Rosslyn and Richards Bay, albeit in a different guise (see below). Phalatse (2000) argues that the withdrawal of incentives is the most important reason for the decline of Mogwase in the North-West. However she acknowledges the role of other factors – global competition, trade liberalization, poor market conditions, and unionization. In Butterworth, as discussed, institutional and local political dynamics were also important. Black and Roux (1991) argued that the very generous incentives of the 1980s attracted firms which were unprofitable, and removed the pressure for efficiency. When these were withdrawn, the industries collapsed.

Yet the decline of many decentralisation points also needs to be seen within the context of the broader reconcentration of development in metropolitan areas, and the shift increasingly to a finance and consumption economy. Macro-economic conditions and policies have played a key role in shaping the space economy, as Chapter 3 showed. In the post-apartheid period, trade liberalization, import penetration and rising minimum wages have all served to constrain the scope for local development paths based on low wage industries, which were the main mobile activities. Employment in the clothing industry has declined very sharply across the country (Nattrass and Seekings, 2013), and this has affected all cities and towns with a strong clothing base. The performance of particular decentralisation points is therefore strongly linked to broader dynamics in their main economic sectors (see e.g. Hawkins, 2010 on Newcastle). The withdrawal of incentives – particularly of the 1980s inducements – may have played a role in several places, but it was not the only factor.

4.2.3. Conclusions

The experience of industrial decentralisation in South Africa bears similarities to the international experience (see Chapter 2), with some important differences. Firms attracted to the periphery tended to be in low-waged, less-skilled activities, and it was difficult to attract a wider range of industries out of the cities. In most cases, mobile industries did not become locally embedded, and growth proved to be short-lived. Yet the picture is more complex. The impacts of industrial decentralisation were also shaped by a range of factors and forces beyond the policy design: global economic processes, macro-economic policies, sectoral trends, and locality dynamics.

One of the ironies of industrial decentralisation is that it was contradicted by policies of import substitution industrialization, which tended to concentrate growth in the cities with their large markets. Even under a centralised government, with a strong spatial vision, regional policy was trumped by policies to promote national economic growth. Hence industrial decentralisation remained a marginal policy with limited impact, and could perhaps be interpreted as compensation for aggressive influx control measures. Industrial decentralisation was most effective in creating jobs in low-wage, labour-intensive industries, whose fortunes were shaped by competitive pressures within the clothing industry in the 1980s and early 1990s. The changing economic and political context of the post-apartheid era were critical in constraining growth conditions in this industry, and hence in the places dependent on it.

While the way these broader forces shape development in particular places is well established in the critical literature on regional and local economic development (e.g. see Massey, 1995; Pike et al, 1996), they have not been absorbed sufficiently in either the space-neutral or the place-based approaches to policy. The discussion of decentralisation in South Africa has shown that they are key to both the distribution of development across space, and the development trajectories within particular places.

There is also insufficient attention paid to how the structure and organization of business in a country shapes space, and the way it responds to spatial policies. The space-neutral approach portrays a bland and undifferentiated market that adjusts smoothly to locational variations. Place-based approaches require direct engagement with businesses, but give insufficient consideration to how the structure and organization of business affects local development prospects. The SA literature on industrial decentralisation has also neglected this dimension, although some studies are suggestive. Decentralisation attracted a limited range of industries – foreign and South African firms in low-wage sectors; some small industries for which incentives were an important support (Platzky, 1995); a few state owned enterprises; and some larger resource based industries. For the most part, large South African corporates saw little benefit in the policy, except in particular sectors such as clothing. Addleson and Tomlinson (1987) argued that manufacturing growth was slow over the period of the policy, and in this context,

> "The common strategy of conglomerates has been to grow by acquisitions and merger rather than by diversification into wholly new fields. Takeovers are more likely to be accompanied by a rationalization of production among existing plants within an extended group than by relocation of the plants themselves…and the geographic concentration of manufacturing means that few takeovers occur outside the core region" (p.238).

DBSA's (1989, p.39) study of firms benefiting from the policy in the 1980s showed that some 62% of applications were for new ventures, 22% for expansions, and only 14% were due to relocations. The report noted that "decentralised firms are not typically part of the modern, advanced capital-intensive sectors of manufacturing" (Ibid., p.44), they were more labour-intensive, required lower skills, and were smaller on average than metropolitan firms. Some 57% of firms indicated that their plant was the only one in the business, while 34% indicated that theirs was the major plant in the enterprise. Only 9% were small branch plants. Their study of metropolitan businesses which had not decentralized pointed to skilled, stable labour and proximity to markets as key to their lack of interest in decentralisation. Only 18% of firms had made a serious evaluation of the possibility of decentralisation.

Policy-makers have not paid enough attention to local institutional dynamics either. The previous sections have shown how some local politicians were able to influence which places received incentives; some local municipalities were highly proactive; and poor municipal capacity and infrastructural decline contributed to industrial collapse in some places. In several cases, decentralised industries became more embedded and diverse, depending on active intervention (Platzky, 1995). This evidence supports the case for a place-based perspective.

The discussion of policy impacts has demonstrated considerable variation across places. Places that attracted firms were generally well located (on reasonably good routes, with access to appropriate infrastructure, close to cities etc); were run by competent institutions; tended to be larger; and offered locational attributes consistent with sectoral demands. There is also evidence of 'path dependency' in local economies, which means that policies need to be sensitive to local conditions and are unlikely to have dramatic short-term effects.

The limited success of industrial decentralisation can be attributed to weaknesses in both the policy design and concept, and to the way it was implemented. Several of the criticisms which have been made in relation to the international experience of growth poles and industrial decentralisation were evident in the South African experience. The links to apartheid policies and the apparent lack of understanding of economic and sectoral dynamics were also factors. Some policies had more impact, but often in ways and due to forces which had not been expected. Implementation was also uneven, with effective institutions enabling longer term growth in only a few cases. .

4.3. Spatial Development Initiatives

SDIs were conceived in 1996 as a way of generating growth and investment in regions with significant, but unrealised potential. SDIs attempted to 'unlock' this potential through targeted interventions in improving infrastructure and facilitating new investment, which was expected to lead to the generation of wealth and job creation (Jourdan, 1998). The concept was linked to the GEAR macro-economic strategy and emphasized export oriented and private sector led growth (Taylor, 2001; Crush and Rogerson, 2001; Bek et al, 2004). Hence the policy attempted to address apartheid spatial distortions, but in ways which would enable these areas to become competitive internationally. In addition, they would assist in economic empowerment through fostering small, medium and micro-enterprises (Crush and Rogerson, 2001; Jourdan et al, 1996), thus broadening the ownership base of the economy (Platzky, 2000).

In these respects, the policy bore similarities to European place-based approaches to development, and was influenced by that thinking (Ibid.). Like some of the area-based initiatives discussed in Chapter 5, a subsidiary objective was to encourage integration and coordination between government departments and spheres (Platzky, 2000). In contrast to European place-based policies, the focus was still often on bringing in external investment and parachuting in external expertise as was common in traditional spatial rebalancing policies. Some SDIs could be seen as variants of growth poles, focused on large infrastructural projects (such as the COEGA port in Port Elizabeth) or resource-based capital-intensive projects (such as the Mozal aluminium plant near Maputo), with weak links to local economies. In addition, informal economies and bottom-up grassroots development was often neglected (Bek et al, 2004). Hence the model was quite mixed in practice.

The policy built on the experience of the Maputo Development Corridor (MDC), which since 1995 had attempted to generate development through a new toll road (N4) built through a public-private partnership, the redevelopment of the Maputo port, and linked initiatives to stimulate growth along the route from Mpumulanga to Maputo. The programme ended in 2000/1, but some SDIs continued in other forms.

4.3.1. The Content of Policy

The programme was set up under the Department of Trade and Industry (DTI), with the assistance of the DBSA, and was funded with R400m from the Reconstruction and Development Programme. The SDI was seen as a short, sharp intervention by central government, lasting 12 to 18 months[12], after which it would be handed on the provincial or local investment promotion agencies. In the first phase, investment opportunities and bottlenecks (generally infrastructure) were identified, and small project teams were set up in each SDI to work with government departments to address bottlenecks and to 'fast-track' development. Public-private partnerships were used to enhance delivery of infrastructure, such as toll roads. 'Anchor projects' - strategic investment opportunities seen as potential

[12] In practice, most SDIs lasted for much longer - around three years.

magnets for investment, capable of generating local linkages and multipliers, were identified and marketed, as were ancilliary 'bankable' projects (Jourdan, 1998).

In many cases, projects attempted to promote linkages to existing local enterprises, where these existed. Investors were encouraged to enter into joint ventures with local small, medium and micro-enterprises (SMMEs) in order to ensure black empowerment. The project team would also be involved in a host of supportive activities to improve the environment for private sector investment: building the capacity of small entrepreneurs, skills development, environmental assessment, ensuring appropriate regulatory frameworks were in place, and encouraging economic actors to work together (Platzky, 2000; Crush and Rogerson, 2001). In order to address poverty and unemployment, most SDIs initiated programmes to develop local linkages, promote downstream activities, and to encourage more labour-intensive and higher value added activities linked to anchor projects (Altman, 2001, Walker, 2001). Strategies also included a focus on training and skills upgrading, and small-scale projects (particularly in agriculture, tourism, and related activities). Hence some SDIs were broadly based, well-conceived initiatives, but others were much narrower, poorly linked to local economies (Bek et al, 2004).

Initially the focus was on manufacturing (Crush and Rogerson, 2001)[13], but later the concept was broadened to include other economic activities, particularly agriculture and tourism, in response to concerns that SDIs were doing too little to address poverty and unemployment (Crush and Rogerson, 2001). Some 11 SDIs were identified throughout South Africa: the Maputo Corridor, the Phalaborwa SDI, the Platinum SDI, the West Coast Investment Initiative, the Fish River SDI, the Wild Coast SDI, the Richards Bay SDI, Durban and Pietermaritzburg, the Lubombo SDI and the Gauteng Special Zones. Both the Maputo Corridor and Lubombo SDI were conceived as cross-border initiatives, linking to neighbouring countries. Most SDIs were in rural areas or smaller towns, but SDIs were also used in cities. For instance the Gauteng SDI emerged out of provincial initiatives to promote economic development, and was later included as an SDI although it did not really fit the intentions of the programme (Rogerson, 2004). The focus of SDIs varied, depending on their perceived regional strengths and potentials. Not all SDIs fitted the model described above. For instance, Richards Bay already had major infrastructure and anchor projects, and the programme worked to address bottlenecks, and to extend linkages around the existing economic base (Interview with Jourdan, 2003).

Several structures were set up to support the programme, including a special unit in the DBSA, a Public Private Partnership unit, and a Community-Public-Private-Partnership Development Programme. An Overall SDI Coordinating Committee (OSDICC) was also set up, bringing together SDI project managers and senior government and parastatal officials to develop ways to fast-track projects. OSDICC also fed into the Cabinet Investment Cluster (CIC), which brought together Ministers whose work impacted directly on the investment environment, and dealt with decisions on large new investments (Jourdan, 1998). Political champions - high level elected representatives at provincial and national levels – were appointed to ensure support for the SDI process within government, and to raise its public profile. At least in the beginning, it was a serious programme with considerable political backing.

[13] Export-oriented Industrial Development Zones (IDZs) were to be established in several SDIs, but in practice were only developed later

4.3.2. The Impacts of the Policy

SDIs were generally successful in developing infrastructure, although in some cases, blockages remained. The public-private partnership approach allowed investment to be levered in, and the development of infrastructure which would not otherwise be possible. Facilities such as roads in rural areas, and programmes such as malaria control (in the Lubombo SDI) improved the quality of life. In some SDIs, the complexity of issues around land, and contestation around projects (e.g. see Kepe, 2002 on the Wild Coast SDI) considerably slowed or prevented planned development. Some SDIs also struggled to get government departments and agencies to promote development. For instance, the idea that Richards Bay port should be further developed to allow containers was never accepted by Portnet.

Evaluations conducted around 2000/2001 suggested that growth and private sector investment had been disappointing (eg. Platzky, 2000) – apart from in the MDC. This finding underpinned a downgrading of the programme. Crush and Rogerson (2001) cite an evaluation in 2000, which recorded some 688 active SDI projects, at an investment of R164 777m and an estimated employment creation of 100 000 – primarily in the MDC. Growing global economic uncertainty at the time (such as the Asian financial crisis) and poor macro-economic conditions in South Africa seemed to hamper investment prospects (Platzky, 2000; Rogerson and Crush, 2001).

Growth was spatially very uneven. While some SDIs managed to attract private sector investment, such as the Maputo Corridor, others did not. Some SDIs were chosen for essentially political reasons (Jourdan, 2003) and were not attractive to the private sector. In some cases, projects put to investors were not realistic (Taylor, 2000). Case studies of SDIs show that they were affected by highly variable institutional and political conditions in different places (see Budlender and Shapiro, 2001; Rogerson, 2001). The Durban SDI never got off the ground because of differences of view between local, provincial and national government.

The Maputo Corridor was highly successful in terms of delivering projects and their impact on investment and employment. Over the 1996-2001 period, growth rates of the order of 7% p.a, some USD6100m in private sector investment, and around 65,000 temporary and permanent jobs were realized (De Beer, 2001). Movement of people and goods between South Africa and Mozambique increased by 27% p.a., while the extent of imports rose by 58% and exports by 55% over the 1995/2001 period (De Beer, 2001). The MDC included a range of innovative projects including SMME enterprise development linked to the toll road, linkage and cluster studies, LED programmes, and capacity building. De Beer (2001) argues that these were successful in deepening the impact and creating linkages. The MDC could perhaps have gone further in supporting small business development. Critics argued that small traders were not sufficiently considered in the planning of a new border facility (Peberdy and Crush, 2001).

Several SDIs focused on resource based industrialisation, and most private sector investment was minerals-based (Altman, 2001). Key concerns raised include the high cost of investment relative to the number of jobs; the poor linkages from these plants into the local economy; the high levels of skills required relative to local skills available; and the limited jobs created (Bond, 2002; Taylor, 2001; Pretorius, 2001; Walker, 2001; Driver, 1998;

Fitschen, 1998; Lewis and Bloch, 1998). In contrast, Taylor (2001) argues that most jobs in SDIs were low-waged, low-skilled, casual and temporary. Typically, massive numbers of temporary jobs were created in the construction phase, encouraging in-migration, followed by a small number of much more skilled jobs later on (for instance in the Saldahna steel plant), offering little to migrants or for sustainable local development.

Some rural SDIs never really got off the ground because of the many obstacles faced. The Lebombo SDI which was focused on conservation and tourism, was much more successful at adding institutional capacity to an area where this was limited. It implemented several innovative developmental projects, including extensive support for SMMEs, and created around 4500 jobs (albeit mainly temporary) (Adebayo and Todes, 2003).

4.3.3. Conclusions

SDIs might be seen as a South African form of place-based policy because of the way it was adapted to local contexts and potentials. As noted, the model itself included elements of more traditional top-down, spatial rebalancing approaches, and it did not always link well to local economies and communities. It was thus a mixed approach, with considerable variation in the way implementation occurred. All things considered, the SDI programme might be seen as innovative for its time – it included programmes that were relatively new in South Africa (such as linkage programmes), it experimented with new institutional forms, and had positive effects in some places in terms of training and capacity building.

The policy worked well in some areas, and less so in others, yet political pressure led to the inclusion of a range of areas where potentials were not so strong, or where the model was not appropriate. For instance, it was not well-suited to development in cities (the Gauteng SDI soon morphed into something else), nor was it able to deal with complex social dynamics, as in the Wild Coast, where contesting interests around land and development stymied the project .

In areas where the programme worked well, it was run by special agency institutions which attracted a dedicated and committed staff, and created capacity in places where this would otherwise have been limited. These agencies had the flexibility to operate in a non-bureaucratic manner, and could link to a range of stakeholders, to different levels of government, and to communities. They were also able to push through a range of development projects, and to move with changing conditions. They could operate beyond existing local government, and even provincial and national boundaries. However there were also limitations. Insufficient support was given to SDIs at national level, and weak integration between government departments, and the absence of clear national strategy in certain areas, impeded development. For instance, national decisions on what kinds of ports would be supported where have undermined the Richards Bay SDI. Special arrangements to provide high level political support soon fell away in practice. Nor did SDIs seem to have a special status in government spending. The special agencies set up for SDIs were dependent on personalities with drive and energy (Taylor, 2001) and they were vulnerable to politics. The MDC received considerable support from its provincial premier, but when he was replaced with another premier this declined.

The very short-time frame of the SDIs was clearly problematic. Some authors argued that the emphasis on speed meant that participatory processes were too limited where they were really needed, such as in rural areas. This undermined support and ultimately jeopardized the projects. In some cases, such as the MDC, the SDI was wound up before it could fully realize its potential and several innovative projects were cut off. Arkwright (2003) argued that only 25% of possible investment had been realized at the time. Although some of the projects continued in a different form, many of the more developmental programmes were curtailed.

4.4. Industrial Development Zones (IDZs)

IDZs were initially mooted as part of the SDI programme, but were only implemented from 2000. IDZs were specially built industrial zones linked to a port or airport, designed for export-related industries. They were intended to promote growth and employment creation through encouraging foreign direct investment and the exporting of value-added commodities (DTI, 2012). They were variants of special economic zones, a form of spatial rebalancing, although not all IDZs were in economically marginal areas.

4.4.1. The Content of the Policy

Four IDZs were designated and licensed: Coega, OR Tambo International Airport, East London and Richards Bay. All were publicly owned and run, in some cases with the involvement of provincial or municipal government. By 2012/13, the DTI had spent some R6b on the programme (DTI, 2013a). In terms of the legislation, IDZs offered the development of industrial areas with world class-infrastructure and utilities linked to an international port of entry; streamlined administration; a custom controlled area allowing duty and VAT free import of raw materials; service areas for service and supply industries; tax holidays and export incentives and access to government supply-side programmes. However, extra-territorial customs secured areas were not implemented, and many of the incentives were the same as those available outside of the zone (Chinguno, 2009). A big difference was the very considerable investment in physical infrastructure within the IDZs.

4.4.2. The Impacts of the Policy

It is widely agreed that the policy was unsuccessful (DTI, 2012; CDE, 2012; Nel et al, 2013; Chinguno, 2009, McCullum, 2011). Only three IDZs became operational , although a further two were established in 2013/4. From 2002 to 2012/3, some 42 investors were attracted into the three zones, R2,8b was invested and 48 758 jobs were created, mainly short-term construction jobs. Only 5169 direct jobs were created in firms in the zones (DTI, 2013a). Firms attracted were mainly in capital-intensive industries. Backward linkages into the local economy were weak, limiting local economic impacts. The integration of these zones into the international economy have made them vulnerable to global economic crises and pressures, such as rising import prices (McCullum, 2011).

The development of the Richards Bay IDZ has been constrained by land and environmental issues (Interview with Coetzee, 2013), and has only attracted one investor, brought in by the availability of cheap electricity. Since the 2007 power crises, it has struggled to attract investors, and has even lost one of its main industries (Financial Mail, 22/1/2015). Further, there is a lack of complementarity between the intentions of the IDZ and the port, which only deals with bulk cargo, reducing its attractiveness (Chinguno, 2012; Coetzee, 2013). As the previous section showed, initiatives to change this policy have not been successful. On the face of it, the Eastern Cape IDZs have been more successful. By 2012, Coega had attracted 21 investments valued at R9,2b, generating 2837 jobs, although most were relocations from other industrial areas (Chinguno, 2012). However conditions have improved since then, with a total of 4409 jobs other than in construction in 2013/4, and 10 new investors and R1.84b investment in that year (CDC, 2015).Progress in implementing several other projects has been slow (Financial Mail, 22/1/2015) . The East London IDZ has mainly attracted original equipment manufacturers supplying Mercedes Benz, which asked them to move into the zone. These are highly capital intensive firms (Chinguno, 2012), but like Coega, levels of investment have been growing, with a total of R4,4b invested by the end of the 2013/4 financial year, and 2992 direct manufacturing and related service jobs (Financial Mail, 22/1/2015).

4.4.3 Conclusion

Considering the amount of public investment that has taken place, evaluations of the IDZs by both government and private agencies have been damning. The annexure to the 2013 Special Economic Zones Bill summarises these problems as:

> ”a weak policy and legislative framework; poor institutional and governance arrangements; *ad hoc* funding arrangements that render long term planning in the IDZ impossible, lack of IDZ specific incentives; lack of targeted investment promotion, lack of programme definition and strategic direction and poor coordination and integration” (DTI, 2013b, p.17).

IDZs resemble the special zone form of development, and while they grew out of the SDIs, regional development has not been a strong focus. In contrast to international models, critics argue that little was special about these zones, so the basis for attraction into them was limited. Government investment has been enormous relative to private investment and job creation, and local linkages have been poor. Institutional issues have been key to the failure of IDZs as is acknowledged by government’s own assessment quoted above.

The 2014 Special Economic Zones Act attempts to respond to these issues by putting in place better incentives; allowing private participation and public-private partnerships in the establishment of the zones; and improving governance and institutional arrangements. It remains to be seen to what extent the implementation of these policies addresses past problems, but business response remains lukewarm, albeit stronger than before (see Financial Mail, 22/1/2015). The policy has also moved towards broader regional development by including a number of peripheral areas where zones might focus on local advantages and promote clustering, such as agro-processing, solar power or mining (Nel and Rogerson, 2014; DTI, 2015), in addition to ports and harbours. However Nel and Rogerson (2014) argue that SEZ policy does not sufficiently address conditions in peripheral areas (e.g. low levels of resources, infrastructure and skills), and falls short of the multi-faceted spatial policy that is needed.

4.5. Conclusion

This chapter has shown that regional policies have not proved very attractive to business. Quite limited types of business have responded to decentralisation incentives, SDIs and IDZs. This may support arguments that it is not possibly to fly in the face of economic forces, as claimed by space-neutral advocates. However it also suggests that large corporations have been unwilling to explore alternate locales outside the cities, except in relation to particular locational advantages (such as clothing in the 1980s, potentials for renewable energy, resource based industries, ports, game farms, tourism and retail). Local business outside the metropolitan areas has also been quite limited, although there are places where new forms of growth have occurred. Yet these policies have not been as unsuccessful as one might expect from space-neutral thinking. Some places did develop certain economic activities, although they could have become more diverse and sustainable with more substantial support, as suggested by place-based approaches. Approaches in the MDC were closest to this idea, and did have some success, but was cut-off too early. In many places, the local economic foundations required by place-based policy did not exist, making it difficult to pursue these approaches in this form.

The chapter also demonstrates the importance of institutions to regional development – in stimulating and supporting investment and job creation, and in diversifying local economies. Capable institutions have helped to promote development in places where it might not otherwise have occurred. Some local authorities, development agencies, and special agencies created for SDIs were highly effective, even in difficult circumstances. In other cases, local contestation and ineffectual local governments have undermined the basis for development. Differences between spheres and agents of government have also constrained local development, despite special interventions to enable it, suggesting deeper and more intractable contradictions within the operation of the state.

Finally this chapter highlights difficulties associated with the special status of spatially targeted policies. In both the apartheid and post-apartheid eras, their visibility has resulted in political pressures for too many areas being designated, including ones where this approach is not the most appropriate. They have also resulted in initiatives being too short-lived to make an enduring impact. This has been a particular problem in the post-apartheid era. In some cases, policy-makers do not appear to have appreciated the timescales required for implementation. It is also difficult to sustain special arrangements politically, and fend off the pressure to incorporate and control them in local or provincial government. Where they are sustained, they require ongoing political support which is vulnerable to shifting leadership and competing interests. As Chapter 3 showed, the lack of a strong political centre and clear vision in South Africa has exacerbated these problems, resulting in widespread short-termism and contradictory policies.

Chapter 5

The Experience of Area-Based Initiatives

5.1. Introduction

A variety of area-based initiatives have been introduced by government in the post-apartheid period primarily to promote the all-round development of the townships and to regenerate declining inner cities. An area-based approach has also been used in rural areas, albeit to a lesser extent. This form of spatial targeting is discussed briefly here since it illustrates some of the difficulties in sparsely populated contexts[14].

Like area-based programmes in Europe and the USA, SA initiatives have sought to be broad in scope, including social concerns. In practice, the emphasis has been on enhancing the physical environment, infrastructure and housing, often because physical improvements are the simplest to execute. Economic development has generally not featured very strongly. Nevertheless, some of these initiatives have incorporated aspects of a place-based approach, in the sense of broadly-based strategies with economic elements, incorporating different stakeholders, and involving multi-level governance and cross-sector coordination. Compared to most of the regional development policies discussed in chapter 4, the objectives here have been wider-ranging, including an emphasis on decision-making processes as well as substantive outcomes. For example, they have sought to introduce new approaches to governance, innovation and experimentation, to expand training and capacity building in government, and to pursue objectives such as social redress, transformation, and urban renewal.

The definition of what constitutes a 'local area' for these initiatives has varied considerably. In many cases they are very large in terms of demographics or physical extent, particularly when compared with their international equivalents focused on a particular neighbourhood or business district. Local areas in the SA context have ranged from central business districts and single (but extensive) neighbourhoods, such as Cato Manor in Durban, to very large townships with several hundred thousand people. In some rural contexts, whole district council areas ranging over hundreds of square kilometers and up to a million population have been the target area. They might be more accurately described as regions than localities.

The following programmes have been introduced:

Special Integrated Presidential Projects (SIPPS) were launched in 1994 as part of a broader set of lead programmes to initiate the RDP. The aim was to "kickstart development in major urban areas, focusing on violence torn communities and communities in crisis" (RDP White Paper, 1995). SIPPs were to be fast-track pilot projects aimed at immediate delivery of basic services (infrastructure, housing, community facilities) and job creation within an overall framework of transformation. The need for urgency was palpable because these areas had

[14] South Africa has also had several area-based initiatives organised by municipal governments, most importantly the eThekwini Area-Based Management Programme, but this is not discussed here since the focus is on spatial targeting initiated by national government. See Cameron et al (2004) for a discussion of some of the early initiatives.

been wracked by conflict and instability. They were also intended to introduce more participatory modes of planning and development (to give people more of a say in development), more integrated forms of governance and finance, and to identify blockages to integrated governance. While SIPPs were seen as short-term, 5 year projects, several continued beyond this period (Rust and Napier, 2002). The Cato Manor Development Project (CMDP) was one of these, and it continued until 2002 because it secured supplementary funding from the European Union. It aimed to redevelop a large tract of well-located land[15] for a mixed income population, including the very poor, using new planning principles to promote integrated development.

The **Urban Renewal and Integrated Sustainable Rural Development Programmes** were introduced in 2001 as 10 year nodal schemes intended to address poverty and underdevelopment in a selection of rural areas and townships through coordinated action by various spheres of government to accelerate the provision of infrastructure, basic services and social services (COGTA, 2010). The establishment of rural nodes was partly rooted in concerns about the failure of rural development, linked to poor coordination of activities. Hence the nodes were also seen as spaces to experiment with new styles of governance, with improved intergovernmental coordination, and more participation (COGTA, 2009b).

The **Neighbourhood Development Partnership Grant (NDPG)**was introduced in 2006 as a 10 year programme to provide technical assistance and a capital grant to improve the "quality of life for township residents through the creation of economically viable and sustainable township neighbourhoods" (National Treasury, 2007, p. vii). Support was provided for "neighbourhood development projects that provide community infrastructure and create the platform for private sector development and that improve the quality of life of residents in targeted areas." (Ibid.) Like several previous programmes, the intention was also to promote knowledge, best practice and innovation in township development. Since 2012, however, the NDPG has taken new directions, with a focus on promoting economic growth and investment in selected townships and along public transport corridors linking them to core urban areas.

The **Urban Development Zones (UDZs)** were more narrowly focused on economic development, and specifically on private sector property development. Their spatial focus was on promoting the renewal of run-down inner city areas. A secondary objective was to encourage economic development and job creation. The programme was originally planned to run from 2004 to 2009, but was then extended to 2014 because of its apparent success in several major cities.

This chapter draws on a limited academic literature and a range of government reports. Since the literature is not very substantial, several interviews were conducted with officials who had played key roles in these programmes, or had observed them closely from other parts of government. In most cases, these officials had either moved out of government or the particular programme, and were willing to reflect critically on its performance. In all cases, respondents were remarkably open and willing to discuss the limitations and lessons,

[15] The land was partially vacant as a consequence of removals in the 1960s

as well as the strengths. Several of the government reports are also quite frank in their assessments, making them very useful as a basis for analysis.

5.2. The Content of Policy

Seven **SIPP**s were initially defined, increasing later to 13 projects in all provinces. Projects varied from large-scale multi-dimensional initiatives to more narrowly-defined schemes. They were located in urban and rural areas, major cities and smaller towns. Some R1,88 billion was budgeted from RDP funds and R1,87 bn was spent. Funds were granted on condition that matching funds were available from provincial and local government and that they carried the recurrent costs of the projects. Hence at least another R3,62 bn of public, private and donor funds were brought in, which varied significantly across projects. The SIPPs were chosen on the basis of their visibility, relevance and potential for impact, their capacity to be implemented, their contribution to the creation of viable communities, and their alignment with housing policy objectives. The largest and most visible projects were Katorus in East Rand, Cato Manor, the Integrated Serviced Land Project in Cape Town, and Duncan Village in East London. A dedicated project team was set up in each area, although the structures and lines of responsibility varied. Since local government was in a transitional phase, SIPPs often had considerable autonomy in their operation. The SIPPs programme initially fell under the RDP ministry, and then moved to the Department of Housing (Rust and Napier, 2002).

Economic development was not a strong focus of the SIPPs. Infrastructure and service delivery were much more important. In Cato Manor, economic development only emerged as a thrust halfway through the programme. The main concerns were integrated planning and the development of infrastructure, housing, services and public facilities, as well as innovative initiatives around safety, public health, sustainable livelihoods and community education. Local economic development initiatives ranged from the development of sites and some buildings for offices, retail and industry to support cooperatives and small businesses, vocational training initiatives and tourism promotion (Nel et al, 2004).

While the SIPPs received dedicated funding, the **URP** and **ISRDP** were expected to attract funding from all spheres of government due to their high profile and status as Presidential Projects. A key intention was to encourage integration and coordinated action between government departments. Some of the URPs did manage to attract their own funds. In addition, the Department of Provincial and Local Government (DPLG) provided additional financial allocations to physical nodes on condition that they were used in the node, and to compensate them for the increased costs of operating and maintaining infrastructure (COGTA, 2009b).

Seven urban renewal nodes were defined in most of the large cities, mainly covering black townships which showed high levels of poverty and unemployment. These nodes were often larger than the previous SIPPs – compare for example Cato Manor (planned to house around 180,000 people) to the Inanda KwaMashu Ntuzuma (INK) area (around 500,000 population). The urban nodes were relatively contained compared to the rural nodes, which covered whole districts or in a few cases, local municipalities. Initially ten rural nodes were defined on the basis of poverty, infrastructure backlogs, and population density, but another three were added to ensure a national spread (COGTA, 2010). While the urban nodes generally had dedicated project teams, rural nodes were often run by officials (some relatively junior) in district or local government, sometimes along with responsibilities for other programmes such as the Integrated Development Plan (IDP) or Local Economic Development (LED). Anchor projects – generally large multi-tiered schemes – were defined in each node to focus development, and to enable integration and coordination between departments. In urban areas these tended to be infrastructure-led projects such as the Bridge City development in Durban, and the Khayelitsha CBD programme in Cape Town. In rural areas they focused on water infrastructure, agriculture, tourism and enterprise development (Ibid.). While the main focus was at local level, national support and coordination occurred through an Interdepartmental Task Team of the Social Sector Cluster, chaired by DPLG/COGTA. Projects were also supported through complex systems of local, provincial and national champions.

By contrast, the **NDPG** was set up as a unit in National Treasury to provide municipalities with technical support and capital grants to plan and undertake township development delivering a "social, economic and financial 'return'" (National Treasury, 2007, p. vii). By 2011, some R8.8bn had been spent on 90 townships in 57 municipalities (National Treasury, 2011). In addition, considerable effort went into the training of officials and the production of booklets on good practice and guidelines. Municipalities could apply for funds from the NDPG, and were required to produce township renewal strategies in which their projects were located. The NDPG overlapped with the URP, and many of these projects benefited from its grants. However, a much wider range of townships were supported, including in small towns and dense rural areas such as Bushbuckridge. Some R5.18bn was allocated to metros and secondary cities, and the remainder to small towns and dense rural settlements (Ibid.). In 2012, the programme shifted to focus more strongly on projects constructed within an urban network approach, focusing on developing fewer strong integrated nodes at a city-regional scale, and linking routes and corridors to strengthen linkages and spillovers. The 8 metros and 10 secondary cities were targeted. Programmes previously focused on small towns and rural areas were handed over to the Department of Rural Development and Land Reform (Interview with Van Niekerk, 2013).

Finally, **UDZs** provide for an accelerated depreciation allowance to reduce tax on investment in new buildings and improvements to existing buildings. Some 15 municipalities were invited to demarcate UDZs in urban cores that once made a major contribution to municipal rates, and had then experienced decline. These areas also had to be prioritized in the municipality's IDP and fiscal measures had to be in place to support local regeneration.

5.3. The Impacts of Policies

Assessing the impact of these initiatives is not straightforward. The following sections outline the overall performance of each programme, and then discuss the economic aspects of all the programmes together because of they share many features in common. Discussion of the UDZs is confined to the latter section.

5.3.1. Special Integrated Presidential Projects

Evaluations of the larger SIPPs were generally very positive (Rust and Napier, 2002). They were effective at delivering housing, infrastructure and services, and included elements of innovation in their approach. This experience is noteworthy considering the frequent criticisms of area initiatives in other countries noted in Chapter 2. Some received UN-Habitat Best Practice awards. Cato Manor, for example, managed to deliver in a highly conflictual local political context, although it took several years before it was able to do so. It pioneered participatory processes that were unusual in the country at the time. Successful SIPPs programmes were often judged to be islands of excellence within their municipalities (Rust and Napier, 2002).

5.3.2. Urban Renewal Programme and Integrated Strategic Rural Development Programme

The URP nodes have also been seen as quite successful in terms of delivering infrastructure and services, although in practice these were often implemented by and through line departments). They also established innovative schemes, such as the INK social programmes and the Mitchell's Plain violence prevention programme. Like the SIPPs, some of these projects managed to operate reasonably well in challenging environments. Some of the URP nodes were unsuccessful, including some of those in the Eastern Cape, apparently because of institutional, political and staffing problems. The ISRDP nodes were less successful on the whole than the URPs. Problems included the huge areas covered, the frequent lack of dedicated units, the weak institutional position of those responsible for the programme, the lack of budgets and the difficulty of attracting and retaining skilled staff. There were several good projects in rural nodes, but also many small failing projects. Projects to support the growth of small enterprises in rural areas were often challenging. The stronger urban nodes were better able to leverage national and provincial resources and attract investment from donors and the private sector. When national and provincial departments did spend in the rural nodes, it was not necessarily on nodal projects (COGTA, 2010).

Anchor projects in nodes often worked well in crowding in public and private investment, but mainly in the URPs rather than in the rural nodes. There was simply less private sector interest in rural areas. Rural anchor projects focused on water, agriculture and tourism. In some cases they were overambitious. For instance, the Ugu Fresh Produce Market costing R20m failed to generate the necessary volumes to be viable (COGTA, 2010).

The thrust of URPs was towards infrastructure and housing, where they were relatively successful. Social and economic objectives such as the development of human skills and competencies received less attention, partly because the emphasis was on speed and scale of delivery. In 2006 the programmes were criticized for being insufficiently innovative or people-centred. Interestingly crime fell in the urban nodes over the 2001-08 period due to improved roads and CCTV cameras. Visible policing and joint crime prevention initiatives also helped to improve safety (COGTA, 2009b).

The nodal programme did not always improve coordination, especially in rural areas. Difficulties in cooperation between line departments and nodal units are noted in a number of contexts, although there were also successes. For instance, the Alexandra Renewal Project used Service Level Agreements to ensure institutional support. In some municipalities, URP units were not well anchored in municipal administrations, so struggled to lever support. Nodal plans were not always well aligned with municipal plans such as IDPs and SDFs. There was effective coordination with some national and provincial departments, but not with others, especially in the social sector (COGTA, 2010).

Assessment reports also point to the limitations of the way many programmes were set up, from an institutional, technical and political perspective. Standard recommendations such as the need for clear focus, strong vision, integrated planning and budgeting, good management, avoidance of political preferences were not always followed (e.g. see COGTA, 2009b, 2010). The use of political champions to enable political support sometimes worked well, but in several cases, political champions lost interest, were unresponsive, did not have time or had little impact. Sometimes there were just too many layers of champions (Ibid.).

5.3.3. Neighbourhood Development Partnership Grant

The NDPG was conceived of differently from the nodal programmes, but because the URP nodes were already operational they were well-placed to draw on these funds. The NDPG had a far wider reach to a large number of places. Some 59% of funding went to metros and secondary cities, and the rest to smaller towns. A 2010 assessment found that the programme performed well across its objectives, but faced challenges linked to problems in local government (National Treasury, 2010). Evaluations in 2009 noted that a third of projects needed urgent support, and this rose to 40% by the 2010 evaluation. The 2009 assessment found that more than half of the municipalities involved were rated as medium/low capacity (National Treasury, 2009). A 3 year assessment in 2010 identified the following challenges facing NDPG projects – lack of municipal capacity, political interference, corruption, high staff turnover, technical obstacles and land issues (National Treasury, 2010). The breadth of the programme and the large number of municipalities to be supported put strain on the unit, leading to the current focus on secondary cities and metros. Unfortunately no assessment has been done on the impact of the programme on small towns and rural municipalities.

The NDPG helped to focus attention on townships, which were often somewhat neglected within municipal plans (Interview with Pernegger, 2013). Through its training programmes and development of resource books, it sought to build skills and capacity in the field. On the whole it was effective in delivering projects, although they were mainly infrastructural and paid insufficient attention to human, social and economic development (Interview with Karuri-Sebina, 2013). Observers have raised question marks about the ultimate impact of the programme (Interview with van Niekerk, 2013), which contributed to the shift in focus in 2012. Concerns have also been raised about whether the NDPG funds might have displaced spending that would have happened through other programmes (Interview with Karuri-Sebina, 2013).

5.3.4. Common Economic Pitfalls

Most area-based programmes incorporated modest economic initiatives. These included (i) planning and development of land for industry, office and retailing, including new business precincts; (ii) making township environments more investment friendly through crime management, business improvement districts and design; (iii) training and skills development; (iv) business advice, support and networking, sometimes in incubators offering access to shared equipment and subsidized facilities; (v) preferential procurement for local small business; (vi) space for informal traders to operate with more sensitive regulations;(vii) cultural and heritage tourism; (viii) craft production; (ix) food production and urban agriculture; (x) cooperatives and marketing; and (xi) links with external business (DPLG, 2006).

Physical infrastructure was generally a much larger component. Indeed, many of the area-based programmes were based on an implicit assumption that infrastructure investment would lead to economic development. This was a general weakness, reflecting poor understanding of the multiple factors underpinning local economic growth and prosperity. In all nodal and township programmes, there were instances of poor planning and a lack of understanding of market dynamics. It was often assumed that nodes and corridors would attract more private investment than they did, resulting in an oversupply of land for industry and retail. This occurred even in some of the most lauded programmes such as Cato Manor, where land for commercial and industrial purposes was vastly overestimated. A common complaint about most programmes was that they were unable to anticipate the level of take-up of land and premises because of their poor grasp of local economic dynamics.

Karuri-Sebina (2014) demonstrates the narrow understanding of township economies in many of the plans submitted to the NDPG programme. Her study of two township economies using a systems of innovation approach identified all sorts of unrecognized economic activities which could be built upon, including important variations between the townships. Hence there are potential opportunities that might be uncovered using a more nuanced and versatile approach rather than standard analyses and assumptions about such economies. Strengthening human capital is bound to be a crucial ingredient of any township revitalization strategy.

It is often argued that LED initiatives are too insular, unambitious and insufficiently linked to overall planning and development efforts within municipalities. For instance, no attempts were made to encourage private firms, public sector organizations or even municipal offices to locate within or close to townships rather than in established nodes (interview with Karuri-Sebina, 2013). No efforts have been made to develop some part of value chains for particular products in these areas (Robbins, 2012). Ngixa (2012) criticises the Khayelitsha node for its lack of an industrial focus, although he recognises that firms prefer to locate in Airport Industria nearby.

COGTA (2010) notes the general tension facing municipalities between creating a positive enabling business environment for continuing economic development and implementing short-term job creation projects. While there are many effective LED projects in the nodes, there are at least as many examples of failure. It seems that initiatives to create jobs directly or to fund SMMEs have not delivered a good return on investment and the jobs have often not been sustained. Tourism projects have had mixed success. The Cato Manor LED assessment of its various strategies, which ranged from the development of land for industry, commerce and offices to SMME support, training, skills development and urban agriculture (Nel et al, 2004) was generally positive, but noted the difficulty of attracting private investment to the area. A frequent criticism of local initiatives is that they have done little to transform the economically marginal status of townships, acknowledging that this is a long haul requiring sustained investment in the people as well as the place.

It is apparent that big business has generally avoided the townships, while major developments of industrial property and offices have occurred in other parts of the city. The growth of shopping centres is an exception, focusing on the local consumption economy. These were also the target of several township development programmes and their anchor projects. Shopping centres could be seen as the 'low hanging fruit' (Interview with Pernegger, 2013), reflecting broader trends towards retail malls in the townships to capture the growth in consumer spending. Demacon's (2010) study shows that some 76 township shopping centres have been built since 1995, accounting for 65% of all township shopping centres and 75% of floor space. Almost half (32) of these have been built since 2005. Their average size also grew from 6500m^2 to nearly 20,000m^2, and some 54 300 jobs have been created altogether. The impact of township malls on local businesses has been hotly debated. Local business benefits from the improved range of facilities and services, but competition remains a serious concern. Studies show that local business performance depends on distance from the centre (e.g. businesses may well suffer within a range of 2-5km from the centre) and the type of activity, but there are variable outcomes, depending on the context (TTRI, 2012; Donaldson and Du Plessis, 2012). Ligthelm (2010) shows that 48% of firms within 5km of the Jabulani Mall in Soweto closed down within 2 years.

The spatial selectivity of formal market activity is clearly evident in the Demacon (2013) study of UDZs which found that the four largest metros accounted for 90.7% of new private investment. These municipalities also did more marketing of the scheme. The UDZ incentives were most effective where they were actively supported by municipal initiatives Johannesburg was most successful because of the Johannesburg Development Agency, the use of City Improvement Districts, the broader budgetary prioritisation of the inner city, and its unambiguous position in the City Strategy. Demacon (2013) estimates that some 65,000 construction jobs and over R11.8bn investment was attracted to the Johannesburg inner city, including the development of affordable housing. Overall, while some R917m of tax revenue was forgone nationally, investment was leveraged at an estimated ratio of 1:27 within the main municipalities. This generated a ripple effect of some 78,165 temporary jobs in construction. Demacon argues that there was no displacement effect, although 80% of investors would probably have gone ahead without the incentive. The success in attracting investment seems to have coincided with broader changes occurring in the CBD and was accelerated by municipal initiatives. A criticism in at least one of the other metros has been that UDZ incentives have boosted an already strong property market, thereby excluding the poor from the inner city. For instance, inner city revitalization and long-term processes of gentrification may have improved the economy of Cape Town's CBD (Sinclair-Smith and Turok, 2012), but the area is increasingly inaccessible to poor households (Pirie, 2007). It appears that spatial initiatives have limited influence on their own over the operation of the land market and the general escalation in property prices that accompany economic improvement.

5.4. Conclusion

The performance of area-based initiatives has clearly been uneven. Programmes in rural areas seem to have been the most problematic, partly because they were set up in ways that made it difficult to succeed. Staffing, capacity and local governance have also been concerns. Other initiatives were better conceived and attracted stronger capacity, but were hampered by poor coordination across government or by inappropriate policies, bearing in mind the needs of the area. Another group of projects were reasonably successful, despite difficult circumstances. They were run by strong agencies with committed and energetic staff, who were able to operate in complex conditions, and managed to cope despite poor coordination between spheres of government.

Institutional issues have been critical to the success or failure of particular schemes. Special units created for projects were sometimes very effective in dealing with complex problems in an integrated and innovative way. Having multi-disciplinary teams who could work in a flexible way, and engage across the different spheres of government, seemed to help a great deal. This only applied where there were highly skilled, experienced and dedicated staff, with excellent leadership. The impact of dynamic officials was most evident in the SIPPs and Cato Manor, and to a lesser extent in the URPs, where assessment reports in some cases pointed to the lack of competent staff. It was difficult to attract or retain such staff in the ISRDP nodes, and high turnover was damaging.

More successful projects had strong political acceptance and support, flexible structures to negotiate obstacles, clear structures of accountability, and good links to community and stakeholder organizations. The buy-in of the municipality, politicians and local communities was critical, especially when initiatives ran in existing communities. This tended to take time to achieve, and required intense engagement on the part of project staff. For instance, the SIPPs and some of the URPs had to deal with complex local politics and difficult land issues, so they took years before they could deliver (Interview with Leon, 2013). Projects were often contested, with intense conflicts over who would benefit from and control projects. The more successful SIPPs were already operational before they became SIPPs. The Cato Manor project took 2-3 years before any delivery could occur. The need for this extended kind of engagement to allay suspicions and build trust is often not factored into project planning and financing frameworks. It is part of a broader problem of poorly-sequenced action within area-based programmes. Insufficient consideration has generally been given to the phasing of different activities over time to ensure that progress is visible and cumulative, confidence increases steadily, capabilities build up, and outcomes gradually improve.

The experience of local area initiatives reinforces the point made in previous chapters about the importance of integration across and within spheres of government. Clearly this problem is not unique to South Africa, as the discussion in Chapter 2 showed, but it raises doubts questions about the prospects for place-based development based on multi-level decision-making in contexts where poor coordination has deep political and institutional roots.

Area based initiatives can be useful vehicles for addressing complex local problems and contexts. Delivery in some projects has been impressive, although limitations are also apparent. For instance, the Alexandra urban renewal project had many successes, but was still unable to deal with the core land and housing issues in the main part of the area. These continue to bedevil the revitalization of the township. And for all its innovation, much of Cato Manor's urban development pattern still resembles standard housing projects. The initiative was unable to affect the dominant model of housing finance and delivery. There are clearly limitations in the extent to which area-based initiatives can solve deep-seated social and economic issues or alter mainstream government policies. The trajectory of places is profoundly shaped by political and economic forces that can readily undermine and disable new initiatives, however well-intentioned and well-resourced.

This review of area initiatives in SA shows other common features with the international experience discussed in chapter 2: the heavy reliance on an infrastructure-led and physical approach; a limited understanding of local economic dynamics; programmes struggling to function as catalysts for social-economic transformation, and marginalised areas being treated in an insular way. Yet SA townships are not exceptional places housing a minority – they are where the majority of the urban population lives. It is vital for the sustainability of the country that these areas are visibly and progressively transformed over time. Improvements in basic infrastructure are essential given the way apartheid marginalised these areas, and there is some evidence that focused investment has contributed to poverty alleviation (Everatt, 2014). Given the population size and density of these areas, there may also be latent possibilities that have not been recognized in projecting these areas as standard deprived spaces (Karuri-Sabina, 2014). A careful experimental approach engaging with local contexts, consistent with a place-based philosophy, might help to uncover these potentials. Improvements in the education, skills and all-round capabilities of the local population should feature prominently.

There has been some response by the corporate sector to the townships in the form of large retail investments, but their function is more extractive than developmental in the sense of value added processes. Given the demographics of these areas, they should offer plentiful opportunities for enterprise growth and development. Yet, the growth of small businesses has generally been highly constrained in South Africa by the predatory practices of larger enterprises (Philip et al, 2014). The broader point is that the fundamental structure and organization of the economy also needs to be considered in relation to the potential for local area development, and spatial targeting more generally.

These insights do not favour space-neutral arguments against spatial targeting. On the contrary, there is sufficient evidence of successful area initiatives in unpromising locations to suggest that government can make a difference to conditions on the ground. Of course this is not simple or straightforward, and it requires concerted and sustained action. There has been considerable experimentation and diversity of experience in SA over the last two decades, but a general failure to learn the lessons and consolidate them into a body of knowledge of good principles and practice. Place-based approaches are no panacea for the problems of uneven development and the deep-seated political-economy forces that cause and sustain spatial inequalities. However, they have the potential to influence patterns of development in progressive ways provided they are fully-informed of, and responsive to, local conditions, and they are tailored to the needs and opportunities of each particular territory.

Chapter 6

Conclusion

The territory of SA is very unevenly developed with sizeable gaps in living standards between and within regions. Deep-seated poverty in some parts of the country reflects the long history of concentrated industrialisation based on mineral extraction and the apartheid legacy of separate development which forced society apart and entrenched ethnic and racial divisions. Spatial inequalities in income and wealth have historically been reinforced by big differences in the quality of governing institutions and public services. This widened socio-economic disparities and enlarged the geographical divides. Until the 1990s, black people were generally prevented from migrating from the poorest regions to the more prosperous cities and towns by stringent population controls. The only exception was when labour was needed to work in the mines or urban industries.

Another important legacy of apartheid has been a widespread belief that rural areas deserve redress and respect for cultural traditions, and that special emphasis should be given to rural development. There is a strong tendency to interpret spatial inequalities as a simple dualism between prosperous urban areas and deprived rural areas, with little appreciation of their interdependence and of the variable conditions within both types of area. Spatial disparities are framed mainly as issues of equity, justice and distribution, with little regard for efficiency and growth. There is little appreciation of how much place and space matter for economic performance and national prosperity, and of the costs of redirecting resources away from the most productive places towards areas with less economic potential.

In any case, contemporary economic and demographic trends have tended to perpetuate the polarised spatial forms inherited from apartheid. These inequalities have been compensated first and foremost by large financial transfers in the form of universal social grants and improvements in basic services. This has undoubtedly helped to alleviate suffering and moderate political pressures for change. Nevertheless, persistent spatial economic divides mean long and costly migration and commuting patterns for poor communities. Fragmented urban settlement structures also require inefficient public transport subsidies, costly bulk infrastructure provision and pose problems for businesses whose workers have to endure complicated journeys to work.

In the interests of nation-building, spatial differences have typically been played down since 1994 because of their sensitivity and potential for sowing division. There has been no explicit national framework to address spatial gaps and distortions, and no deliberate policy towards migration and the management of urbanisation. Broadly speaking, the government has been more inclined to react to private investment decisions rather than to be pro-active in trying to steer and spur development. This mirrors the government's reluctance to challenge the inherited economic structure and ownership pattern of capital in any substantial way (Philip et al, 2014). There have been some efforts to spread public resources in pursuit of spatial justice and redress, for example through the equitable share formula for distributing public spending between provinces and municipalities. There have also been some attempts to focus public investment in the interests of efficiency and growth, for example through major infrastructure projects such as the Gauteng Freeway Improvement Programme and the COEGA industrial development zone.

Broadening the perspective beyond SA, recent theoretical developments in spatial economics and practical developments in international spatial policy have tended to favour a place-based approach. The traditional emphasis on spatial rebalancing has fallen out of favour for failing to stimulate self-sustaining growth in lagging regions. Its focus on business relocation and mobile capital came at the expense of enhancing local human capital, building knowledge resources and strengthening local institutions. Spatial rebalancing also tended towards a standardised 'one-size-fits-all' approach rather than a policy package tailored towards the distinctive economic attributes and assets of each region.

International experience of place-based policy suggests that it is possible to combine the developmental benefits of spatially coordinated investments with a commitment to ensure that all citizens have access to decent services and opportunities to improve their lives. Governments can recognise and respect geographical diversity without undermining constitutional rights or alienating particular constituencies. The key to promoting economic prosperity, social inclusion and political stability is to treat places differently, while supporting them all. Places need varied policy mixes to harness their development potential and to tackle their specific bottlenecks and constraints. National well-being should benefit through stronger growth, more jobs and improved living conditions if government spending is aligned more closely to the development problems and possibilities of individual places. By building on local human capabilities and strengthening institutional capacities there will be more opportunity to learn from experience, make incremental progress and achieve sustained positive outcomes.

Spatial policy in SA has shifted over the last two or three decades from a rather crude attempt driven by national government to steer investment and jobs away from the cities and towards the former homelands (spatial rebalancing), to a wider array of programmes and initiatives with diverse social as well as economic objectives. These can be loosely described as place-based approaches, although some of them share features in common with spatial rebalancing, such as the IDZs and SEZs. In retrospect, this can be seen as a period of enormous experimentation in urban, rural and regional development, driven by different departments and spheres of government. Energetic individuals and institutions have been able to exploit the ambiguities in political leadership and the uncertain strategic direction at the heart of government to apply policy ideas drawn from international experience and to pioneer new thinking based on domestic realities. Some of these initiatives appear to have been reasonably successful considering the scale and nature of the challenges faced.

An alternative interpretation is less sanguine. The diversity of recent experience could also be seen as demonstrating a lack of systematic analysis and understanding of the problems, limited technical preparation and public consultation about the best way to proceed, and an absence of strategic thinking at the heart of government about what it is really trying to achieve. Considerable effort has been expended on piecemeal, short-term initiatives with little continuity and no attempt to consolidate the rich learning from experience that has been gained. Ill-considered projects have been fast-tracked in different places with little public debate and little reflection on the underlying principles, so efforts have been duplicated and mistakes have often been repeated. The government could by now have been much better-placed to establish an overarching spatial policy framework and to execute more effective strategies for reducing spatial inequalities and improving living standards in lagging areas.

What broader lessons for spatial policy can be learnt from SA's experience?

The first clear message is that wider economic conditions and structures really matter. Spatial rebalancing policies under apartheid were able to disperse a reasonable number of mobile manufacturing plants to unpromising peripheral locations because they were expanding and seeking to recruit low-skilled, low-cost manual labour. This was readily available in the homelands, and supported by substantial financial incentives and infrastructure investment. The state could afford generous inducements because the economy was growing and tax revenues were buoyant. The state had a very clear ideology of racial and spatial separation, which it imposed through forceful practices as well as sizeable public spending. When economic conditions deteriorated during the 1980s, the whole policy was called in question and gradually scaled back. Many of the jobs disappeared because they were dependent on the subsidies and vulnerable to increasing international competition. External ownership undermined any possibility of collective organisation to defend local interests and rebuild local economies.

Sluggish economic circumstances in recent years have made it more difficult to steer private investment towards lagging regions or deprived urban townships. SA is trapped on a low growth, high unemployment path which hinders progress across the board. Concentrated economic ownership gives big business considerable power to determine whether and where to invest. Many companies appear to be hoarding cash and investing abroad rather than reinvesting their profits in local production. Economic sectors that have been growing, such as business and financial services, knowledge-intensive industries and telecommunications, are less mobile than routine manufacturing operations and light industry. They require proximity to their consumers and highly skilled employees, which tend to favour big cities. Industries with more potential for rural development, such as agriculture and agro-processing, have struggled from the withdrawal of tariff protections and subsidies, and poor quality agricultural support programmes. Renewable energy and tourism industries have generated some recent investment and jobs in rural areas, although not as part of any explicit spatial policy.

The point is that spatial policies in lagging regions are likely to find it very difficult either to attract productive investment from better-off regions, or to strengthen and develop local enterprises. Place-based policies tend to assume that every region has some economic advantage or productive potential. It is just a matter of identifying what it is good at and building on that capability. However, it is bound to take a sustained effort to support the start-up and growth of viable businesses on any scale in localities where there is little experience of commercial enterprise. Apart from the lack of entrepreneurial traditions and role models, the wider infrastructure and support services are also undeveloped. The public sector will need therefore to invest in substantial technical assistance programmes, business premises or incubators, skills training and long-term financial support.

The second lesson is that building a shared agenda for the future of local and regional economies is extremely difficult in highly unequal cities and regions. Place-based policies implicitly assume that agreement can be reached between stakeholders on the strategic priorities of the locality or region. The experience in many parts of SA is that there is insufficient understanding and trust between different groups and interests to forge common policies and to support particular development programmes. The coincidence of extensive poverty alongside affluence, coupled with fractured social networks and weak cohesion, tend to result in mutual suspicion, turbulent conditions and periodic conflict. There is an ever-present threat that higher income groups will withhold their support, retreat into their own enclaves or relocate elsewhere. Lack of confidence in local and regional government from marginalised communities also encourages short-term decision-making and undermines support for long-term developmental agendas. Yet patient support and sustained commitment are essential ingredients to transform the development trajectory of localities and regions for the better. Careful attention to the sequencing of actions is bound to be important to build confidence and trust and enable incremental progress to be made.

Third, there is an assumption in place-based policies that governing institutions are reasonably capable and well-resourced, even in the poorest localities and regions. In practice, of course, the quality of governance is often worst and most unstable in lagging regions. Local and regional governments lack the tax base of their more prosperous counterparts and often struggle to attract and retain professional talent. Special purpose agencies may be able to recruit highly competent people for a few years, but this does not provide the same continuity and shared expertise that comes from developing successive cohorts of professionals and managers from within. Widespread poverty and hardship within the locality also arouses suspicions of political leaders, fosters factionalism and can result in regular demands for their replacement. The pressurised environment of such places is not congruent with the steady effort required to build capable institutions with robust leaders that can make complex judgements about spending priorities, accept a calculated level of risk in experimenting with different projects and innovative approaches, learn from their experience and establish alliances with other organisations and interests. Volatile conditions also complicate the building of trust and understanding between spheres of government because the temptation is always to shift the blame for when things go wrong or take longer than they should.

An important implication is that national governments may need to play stronger oversight and support roles in pursuing place-based polices in lagging regions where spatial inequalities are very stark and encompass wide-ranging institutional, social and economic disparities. They may need to invest in building human and organisational capabilities as well as physical infrastructure and support for enterprise development. They may also have to incentivise stakeholder cooperation and the building of partnerships, and threaten to withhold support if vested interests obstruct progress. Getting the balance right between avoiding excessive interference and stopping short of unwarranted support is bound to be extremely difficult and require subtle judgements to be made. Decisions are likely to be more effective if backed up by a national spatial framework that helps to contextualise and clarify certain choices and perhaps to identify key opportunities for strategic investment. Recognising the distinctive economic potential of major cities is an absolute priority. Mechanisms for institutional coordination are also important to ensure that different spheres and agencies of government complement and reinforce rather than undermine each other.

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