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Manufacturing industry study of the Free State:

Current trends, spatial and sectoral considerations and future prospects

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Manufacturing industry study of the Free State:

Current trends, spatial and sectoral considerations and future prospects

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LIST OF ACRONYMS

AGOA	- Africa Growth and Opportunities Act
BMR	- Bureau for Market Research
DTI	- Department of Trade and Industry
FDC	- Free State Development Corporation
FGF	- Free State Goldfields Development Foundation
GGP	- Gross Geographic Product
ICT	- Information and Communication Technology
IDC	- Industrial Development Corporation
IDP	- Integrated Development Plan
IDZ	- Industrial Development Zones
PEAC	- Premier's Economic Advisory Council
RIDP	- Regional Industrial Development Programme
SDI	- Spatial Development Initiative
SADC	- Southern African Development Committee
SMME	- Small Medium and Micro-Enterprises

EXECUTIVE SUMMARY

1. Introduction

South Africa has a well established manufacturing base, which places it well ahead of many developing countries. However years of isolation, a heavy dependence on primary products and competition globally have been barriers to further growth. Exceptions to this are sub-sectors which have achieved competitiveness and an enhanced market share. In the South African context Bell and Madula (2002) conclude that given current trends in the various sectors which make up South Africa's economy, manufacturing has a vital role to play in terms of employment and economic growth for both economic and political reasons. However limited skills, technology and market access are barriers to further growth.

Change, both positive and negative, is clearly taking place within the South African and, more specifically, the Free State economies. Some of the most important changes are:

- the closure of industries related to the mining industry which is generally in a state of decline
- the weakening of the agro-industrial base following changes in the agricultural sector
- the closure of industries which are no longer competitive globally in the face of cheap imports,
- the expansion of industry in core clusters which are globally competitive e.g. chemical and vehicles manufacturing in South Africa
- the encouragement of sub-contracting relationships between large and small firms to the benefit of emerging firms, and
- the frequent closure of erstwhile state supported firms in or near the former Homelands

In the case of the Free State, key issues which will impact on the nature and future of the manufacturing industry and its ability to create jobs and associated economic spinoffs are:

- the rationalization of the industrial base in QwaQwa, Harrismith and Botshabelo following the termination of the Regional Industrial Development Programme in the early 1990s.
- the closure of mines in the Goldfields with consequent impacts on supplying and downstream industries.
- the weakening of the agricultural base and related agro-industries.
- the effects of cross-border industrial development in Lesotho.
- key links between the petro-chemical base in Sasolburg and the Gauteng complex.
- the effects of small business support programmes.
- the absence of national SDIs and IDZs in the province.

2. Objectives of the Study

In the light of the above considerations, the purpose of this project was to develop a profile of:

- how the industrial base has changed in the Free State over approximately the last 20 years.
- the current status quo in terms of the province's industrial make-up.

- key spatial and sectoral variations and trends.

and

- to synthesize the viewpoints and strategies of national, provincial and local government, relevant supporting agencies and key private sector and industrial role-players, regarding the opportunities and constraints which the sector faces and the nature and effectiveness of current policy.
- to speculate on the future of the industrial sector based on the preceding and to derive key guidelines regarding the future of industrial development for the province.

3. Key Findings

The literature survey, questionnaires, and discussions with key role players, culminated in a number of general conclusions:

1) The Free State in the National Context

In a national context, despite having key industries situated in the province such as NATREF and SASOL, the province plays a relatively minor role in the national manufacturing economy, contributing some 3,7% of national output. The dominance of the northern Free State, which generates 70% of the provincial manufacturing output (Sasolburg alone generates 45% of this), is an obvious feature - as is its integration in the Gauteng economy.

2) Key Trends in the Free State Economy

Various factors impinge upon the provincial manufacturing economy and its future sustainability. Key amongst these are:

- the downscaling of the gold mining industry which has negatively impacted on the Goldfields in particular either through direct job losses or indirectly through impacts on supplying and supporting firms,
- a general decline in the relative importance of the food and agricultural industries. This has less immediate, but more long-term, impact on the industries located in the rural towns and the bigger centres,
- the ending of support for Homeland industrial development points and the reuse of these spaces,
- the enhanced importance of the clothing and textiles industries, often in the former Homeland growth points. In employment terms this growth has been very important. There appears to be some uncertainty about its long-term future however, as it is dependent on foreign investors seeking to use favourable international trade opportunities,
- the jewellery industry shows potential in terms of local beneficiation,
- the proximity of Lesotho and its offering of more favourable trade access to international markets could impact on the provincial economy,
- in terms of size-based differences, it is apparent that there has been a significant expansion in the numbers of manufacturing SMMEs. Although this is a positive trend, it seems to have only just balanced out the job losses caused by the closure of a number of larger firms. Loss of firms in the Goldfields and Bloemfontein areas is cause for concern,

- growth appears to be focusing on the Bloemfontein-Botshabelo-Thaba Nchu and Harrismith-QwaQwa areas. The Sasolburg area is holding its own and the rest of the province is either not growing or is experiencing loss.

3) Existing Policy

Both national and provincial policy provide a basis for boosting the manufacturing economy. Key amongst these prescriptions are:

- national and provincial support for the SMME sector which, as this report suggests, appears to be generating positive returns in the province,
- the Microeconomic Reform Strategy and the Integrated Manufacturing Strategy, with their key focus on issues such as BEE, integration, ICT and competitiveness, which has particular resonance in areas such as Sasolburg,
- the Free State Poverty Relief Strategy which identified the need for job creation and the need to establish Business Advisory and Business Service Centres,
- the Free State Development Plan which has a strong focus on economic development and job creation and support for SMMEs and various spatial interventions,
- the Free State Growth and Development Agreement which clearly identified key growth options in: downstreaming from petro-chemicals, agro-industry and gold jewellery.

4) Key Trends in the Provincial Manufacturing Economy

The number of firms in the province increased significantly between 1994 and 2003 rising from 461 to 1 014. Of these the percentage share of manufacturing SMMEs has increased from 69 to 83%. However in terms of jobs the picture is effectively static, the number of jobs rising from 48 000 to only 48 500. What seems to have happened is that some large firms have been lost, and while there are a significant number of new SMMEs, they do not employ many people. As a result, positive SMME growth in numbers needs to be balanced against the worrying loss of jobs caused by the closure of large firms such as SAB and various branch plants. Key growth has occurred in the clothing and metal fabrication sub-sectors however. The two clusters experiencing real growth are the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas.

A survey of larger firms (i.e. those with over 200 staff) established that most were still relatively modest in size of operations. Clothing and textiles, followed by food are the dominant sub-sectors. Enterprise establishment was most often linked to availability of raw material and labour. The State or the FDC had assisted nearly 30% of them in some way. Concerns relate to the vulnerability of the textile sector and market access. There is only limited downstreaming taking place. Most firms are broadly positive about the future of the province and its economy.

Smaller firms (i.e. those with less than 200 staff) have increased in number. Whilst engagement in the food industry has declined, it has increased significantly in clothing and textiles. Small towns have experienced loss and growth has focussed on the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas. Small firms are worried about the perceived poor state of the provincial economy, declining market share, isolation, limited downstreaming and labour legislation. These very real concerns call for investigation and appropriate responses.

The clothing and textile sector has experienced significant growth gaining 8 500 new jobs and 100 new firms between 1994 and 2003. Many were assisted by the erstwhile Regional Industrial Development Programme (RIDP) and some more recently by the FDC. Many are foreign owned. There is the risk of future closure dependent on international market access, wage levels and the state of the Rand and global economy.

The petro-chemical industry is a key anchor in the province. SMME development / downstreaming has been retarded by the sophisticated technology and skills requirements of the sub-sector. Poor local infrastructure would appear to be retarding further growth.

The jewellery sector is an emergent one and has considerable potential. Only two firms are operating at present. They have concerns about their isolation and limited interactions with government.

5) The Role of Local Municipalities

Most Integrated Development Plans (IDPs) are patchy in terms of manufacturing, despite the role which municipalities recognize they need to play in economic development. Only a few municipalities provide incentives to firms, although most recognise the need to supply land and infrastructure. Only three of 20 municipalities interviewed had business expansion and retention strategies in place, only four had skills development programmes, and partnerships do not seem to be on the agenda of most authorities. Clearly municipalities can become more pro-active in terms of encouraging manufacturing development.

6) The Role of Lesotho

Lesotho has gained from economic change, past and present in South Africa. Its more favourable trade access, lower tax, cheaper labour and differing establishment requirements have drawn in firms. Growth in the clothing and textiles areas has been particularly pronounced. Collaboration with Lesotho for mutual economic benefit should be considered. As both South Africa and Lesotho are part of the same Customs and Monetary Union, collaboration and trade across the international border is potentially simplified. Collaboration could revolve around attempts to encourage firms which operate in both countries in the same sector, say textiles, to form joint forums to discuss issues of common concern such as trade and transport concerns and labour issues. Similarly, encouraging cross-border sub-contracting linkages which draw on unique skills and specialization, e.g. segments of the garment manufacturing process, could be an avenue to pursue in seeking to build a stronger, unified regional economy.

4. Key Discussion Points

1) The centrality of the Free State

The centrality of the Free State is often presented as a locational advantage, one which is endorsed by manufacturers, particularly in agro-industry and some of the Chambers of Commerce. For others, as Gauteng is the economic heartland, the Free State is seen as too peripheral and has too small a market. Poor infrastructure and the cost of relocation are cited as barriers to taking advantage of the Free State's centrality. These issues are difficult to address short of through major improvements in transport infrastructure.

2) The Former Homeland Growth Points

These areas represent considerable economic and social investment. Fortunately they did not collapse as many predicted would happen in the early 1990s when targeted state support ended. Though not operating at full capacity many still continue as viable industrial operations and hence do have a job creation impact. However there are certain concerns, namely that there are vacancies, many factory buildings are being used as warehouses and not as manufacturing plants, and areas such as Bloem-Industria are clearly not operating at optimal capacity. Further, there appears to be an over-reliance on the clothing and textile industries. These may disappoint in the long-run if the current favourable trade access to foreign markets is not maintained. Although these areas are currently holding their own, their long term future cannot be assured

3) Where is Growth Occurring ?

Both large and small firm growth is taking place mainly in the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas. Although this is to be welcomed and supported the reasons for closure of firms in these areas, and the limited or negative growth in other areas, needs to be responded to. Growth here would appear to be as a result of two primary factors: general economic growth in South Africa which impacts on all key economic nodes, and access to the AGOA provisions which have encouraged the clothing and textile industries.

4) The Role of the Free State Development Corporation (FDC)

The FDC is in charge of the former growth points and other aspects of economic development in the province. In this regard it appears to be having an impact, particularly in ensuring the sound management of the former growth points and the provision of low rentals which have clearly influenced many firms' locational choice. Ideally the FDC's role and support should be expanded. In these growth points, where textiles and clothing is often the key anchor, the overall support of the FDC has clearly been very important. However, given the vulnerability of this sector, in terms of its reliance on AGOA, the FDC should try and foment economic diversification in these points.

5) The North: South Divide

There are very real differences in the province between the 'North' and the 'South' in terms of the industrial foci, i.e. mining and petro-chemicals in the North and agro- and general industry in the South. Aside from the often referred to political differences between the two areas, greater integration is desirable to ensure balanced growth. Many role players allege that the North does not receive adequate support. This is difficult to gauge, especially relative to the real needs of the South. Nonetheless, striving for a unified manufacturing economy is desirable.

6) The Role of Sasolburg

Sasolburg is the key industrial node in the province, but its markets and links lie mainly in Gauteng. This reality should be accommodated because of the node's significant job creation potential and its ability to contribute to both national and provincial growth. Support for down-streaming and improvements in local infrastructure will yield very real benefits for the province. It would be of value to consider entrenching the role of Sasolburg and neighbouring areas as a satellite to Gauteng in order to generate real benefits for the Free State province.

7) Support for key sectors

Various provincial and national policy documents identify key, lead sectors and the issues which need to be considered are as follows:

- Downstreaming in the petro-chemical industry would seem to have potential. The Chem-City complex has now been established. There appear to be few occupants however and much of SASOL's out-sourcing is not in terms of manufacture but rather maintenance. Given the costly, high-tech and high-skills requirements of the petro-chemical industry SMME development related to it will not be easy to achieve. Thorough analysis with an eye to identifying possible niches needs to be undertaken.
- The jewellery sector: the establishment of a jewellery cluster and training facility is a logical path to pursue and endorses the principle of beneficiation. It is however worrying that neither of the two firms in Virginia claim to have any contact with the province or to be aware of the notion of the cluster. One firm did receive IDC support however. Clearly better working relations need to be established between this flagship project and government to ensure that the desired growth and benefits are realised.
- Clothing and Textiles: this sector has grown significantly but is vulnerable. Market shifts need to be anticipated and diversification encouraged. This has spatial implications in that many of these firms are in the FDC-supported former growth points and if loss is experienced, these areas will be hard hit. Efforts to ensure greater stability and encourage local market links for the sector should be undertaken.
- Food and Agro-Industries: as the traditional mainstay of the province this sector still has a key role to play. Whilst there may well be some contraction in the agricultural sector generally, efforts to encourage manufacturing SMMEs and to discourage larger firms from migrating to the main national markets should be embarked upon.

8) Municipalities and their Role

Most key municipalities clearly comprehend their role as agents of economic change. However, given the importance of the manufacturing industry, a case could be made for trying to enhance their role of providing support, and incentives.

9) The Provincial Government

The Province has acknowledged that its role is key and the Growth and Development Agreement gives greater support and endorsement to its actions. Officials do appear to be overstretched however and more dedicated support for industrial development is required, both in terms of acting as a 'one stop shop' for investors but also in terms of targeted support in key areas / clusters.

10) The Role of Lesotho

Lesotho is a potential competitor with industries in the Free State, especially in the light of its access to more favourable trade agreements and its input costs which are probably cheaper. This should not be seen as a threat. Instead cross-border economic and sub-contracting linkages should be forged to the mutual benefit of both areas. Enhanced collaboration with Lesotho authorities should be encouraged.

11) The Province and its Neighbours

The reality is that political borders seldom coincide with economic ones. While politicians and government plan within their spatial boundaries, economic agents think more broadly. Given the importance of Sasolburg to the Gauteng economy and potential competition from

Lesotho, pro-active action is needed to develop the province as a base to serve other areas. Even though not all the benefits will accrue to the Free State, this is a clear route by which to capitalise on the province's central location.

12) The IDZ and Cargo Airport Debates

The IDZ and cargo airport questions are topical in the province. However before major expense is incurred questions need to be asked about who would use them and to what purpose. Can a province develop an independent IDZ? A cargo airport presupposes fast, bulk transport to and from the facility to key national markets. Neither of these can be guaranteed at present. The economic realities of the country need to be examined and not the competing political goals in differing parts of the country or province to possess such facilities. While earlier studies have examined this issue both in the Goldfields and the Bloemfontein areas, it is unlikely that the more central towns in the province have the capacity to sustain a cargo airport or to reliably supply other markets. The reality is that Gauteng is the economic heartland and, building on that core, development in the Sasolburg area is far more likely to succeed and to generate real long-term benefits for the province.

5. Way Forward

What the study reveals is that the province plays a very defined and sector-specific role in the national economy. Whilst key sectors such as mining and sub-sectors of agriculture have experienced difficulties, other opportunities do present themselves. While there does not appear to be a single, lead or dominant sub-sector which has the capacity to fundamentally transform the province's manufacturing potential, as the following discussion reveals, focusing on niche markets, providing appropriate policy support and meeting local demands are options which merit serious consideration.

In terms of the way forward, the report proposes various considerations which the PEAC might consider in its planning for the future of manufacturing industry in the Free State. These are:

5.1 Policy Considerations

1) The development of a Manufacturing Industrial policy which recognises and supports both large and small firms and the links between them.
2) The need to recognise the limited and sector-specific role which the Free State plays in the South African manufacturing economy and the associated need to build on the strengths which exist.
3) The need to encourage Public-Private Partnerships.While the Growth and Development Agreement exists at the provincial level, and there is collaboration in cities such as Bloemfontein, the only really active growth coalition is that of the Free State Goldfields Development Centre. This could serve as a model for how to initiate and promote manufacturing growth.
4) To acknowledge that many firms are branch plants and to work within that context to encourage their permanence.
5) To monitor the former Homeland points and respond to possible changes in their industrial composition should such become imminent.
6) The need to investigate what support measures or incentives can be provided.

7) Parallel support for the informal sector and for Local Economic Development is required.
8) The need to acknowledge and respond to the long term structural decline in the mining industry and in sub-sectors of the agricultural industries and their related processing and servicing components. This requires both a search for alternatives and a need to work on business expansion and retention plans and support for existing firms. Loss has been experienced and government needs to liaise with exiting firms to identify the challenges which they face in order to prevent further closures. If such challenges can be addressed through government mandates e.g. infrastructure provision and training, such support could go a long way to both maintaining and hopefully expanding the current manufacturing base. The clothing industry in particular appears to be vulnerable to market changes and Business Expansion and Retention strategies may well be timely and appropriate. Current liaison between Mangaung municipality and business should be encouraged both in that city and elsewhere in the province.

5.2 Sectoral Support

9) In this study, small firms in particular expressed concerns regarding markets, their isolation, labour legislation and the lack of downstreaming. This needs further investigation to ensure that recent rapid growth in the SMME sector is not negated by future losses.
10) To support SMMEs and also large firms which often provide key downstreaming links to SMMEs.
11) The need to encourage growth industries which align with new opportunities and national policy e.g. jewellery and petro-chemicals. In the case of the jewellery industry establishing a close working relationship between local production plants and government is important in terms of the provision of advice and research, and in ensuring that there are links between training and production and that marketing is effective. In terms of petro-chemicals, the supply of physical infrastructure and appropriate skills training could go a long-way to helping with the distribution of products and the expansion of the industry.
12) Whilst acknowledging climatic and economic limitations to further expansion in the growing areas and the production potential of certain key crops, opportunities exist for the expanded production, and related industrial processing, of more specialized crops like paprika (currently being experimented with in Welkom) and horticultural products. An additional activity which may have potential is that of the processing of potatoes into chips. At present vast quantities of potatoes are road-hauled to a factory in distant Lambert's Bay and turned into chips for the fast-food industry. Given that potatoes are a key Free State product and the province's proximity to the country's main market, this option merits investigation.
13) Much of what the Free State produces is not sold in the province – mineral, agricultural and petro-chemical products are destined for sale in Gauteng or in markets further afield. Although this strengthens the role which the province plays in the national economy, it means that inter-firm linkages and local sales are not that well developed. Opportunities exist to meet the needs of local firms in areas such as timber processing, cotton and various fabrics and food products. Though demand would be relatively small, this would provide ideal opportunities for small / emerging manufacturing firms in these areas.

14) The centrality of the Free State should not be overlooked. While many firms' preferred location is Johannesburg, for those with a more regional or national focus, the Free State's centrality should make it a candidate for consideration. The province's centrality could recommend itself to firms in two possible ways:
    - companies using the province as a base from which to make and distribute products nationally. The aforementioned potato example is a case in point. At present Afrox uses Welkom as a regional base. Their reasons for doing so and their experiences to date merit investigation to guide policy and inform other role-players.
    - in an era when bulk transport by road is moving towards the 'hub and spoke' model, there should be scope for the Free State's being viewed as a base for road transport and distribution. This would stimulate vehicle maintenance and sales, as well as the possible use of old mine infrastructure in the Goldfields as warehousing or distribution centres.

5.3 Institutional Support

15) Province needs to work closely with local municipalities to ensure alignment of plans, to recognise growth sectors and to provide appropriate support.
16) There is a need for a provincial industrial support structure to collect data and conduct research. This structure should advise potential investors and existing firms and act as a 'one stop shop', in accord with the provincial Poverty Relief Strategy's objectives. Such an agency could also facilitate sub-contracting linkages.
17) The need to work with institutions of higher education to encourage research which can improve production and create jobs.
18) The need to work with educational authorities to provide skills appropriate to the demands of the manufacturing economy.
19) The FDC has clearly influenced industrial development in the province. This role and the support which the FDC can offer needs to be enhanced. A key support measure was the low rentals in the former Homeland growth points.
20) In a global era in which knowledge-based industry is regarded as the way of the future, a task team should establish the role which IT industry can play, either on its own or as a catalyst to help other industries in the province.

5.4 Lesotho

21) As South Africa and Lesotho are part of the same customs union, and given the physical proximity of Lesotho to many key centers in the Free State, high-level talks to encourage sub-contracting, inter-firm linkages, joint negotiations and marketing should be encouraged. At present the textile and clothing industry is the most obvious sub-sector within which to encourage such dialogue. Lesotho should not be seen as a rival but rather as a complement and partner to the Free State economy.

INTRODUCTION

1. Setting the Scene

The manufacturing industry is, historically, regarded as one of the key drivers in any regional or national economy. It was the development of the advanced manufacturing sector, beginning in the 18^{th} century, which propelled the world into the modern era and which provided a financial and technological basis for improved standards of living, modern capitalism and, ultimately, advanced international transactions. The experience of the United States and Western Europe which achieved high levels of socio-economic development, consequent upon their industrial revolutions in the 18^{th} and 19^{th} centuries, was for many years regarded as a 'model' for less developed countries. Emulation has however proven to be difficult owing to changing social and economic circumstances at the local, national and global levels and differing resource, financial and capacity endowments.

In the more recent era, and more specifically the post-1970 age of global instability and integration, key changes have taken place with respect to manufacturing industry – these include greater flexibility in its operation and locational choice, operation on a global level (often to the detriment of regional and local economies), mass-closure of old, labour-intensive industries in the older industrial cores, capital-intensification, industrial change – often negative - as a result of global trade agreements and the weakening of traditional spatial, industrial links to specific localities and resources. This has the significant implication for developing countries that they cannot simply emulate other, more successful countries, but must now attempt to find a unique niche for themselves in a continually altering global environment.

South Africa has a well established manufacturing base, which places it well ahead of many developing countries. However years of isolation, a heavy dependence on primary products and global competition have been barriers to further growth. Exceptions to this are sub-sectors which have achieved competitiveness and an enhanced market share. In the South African context Bell and Madula (2002) conclude that given current trends in the various sectors which make up South Africa's economy, manufacturing has a vital role to play in terms of employment and economic growth for both economic and political reasons. However shortage of skills, technology and market access are barriers to further growth.

Change, both positive and negative, is clearly taking place within the South African and, more specifically, the Free State economies. Some of the most important changes are:

- the closure of industries related to the mining industry which is generally in a state of decline
- the weakening of the agro-industrial base following changes in the agricultural sector
- the closure of industries which are no longer competitive globally in the face of cheap imports,
- the expansion of industry in core clusters which are globally competitive e.g. chemical and vehicles manufacturing in South Africa
- the encouragement of sub-contracting relationships between large and small firms to the benefit of emerging firms, and
- the frequent closure of erstwhile state supported firms in or near the former

Homelands

In the case of the Free State, key issues which will impact on the nature and future of the manufacturing industry and its ability to create jobs and associated economic spinoffs are:

- the rationalization of the industrial base in QwaQwa, Harrismith and Botshabelo following the termination of the Regional Industrial Development Programme in the early 1990s.
- the closure of mines in the Goldfields with consequent impacts on supplying and downstream industries.
- the weakening of the agricultural base and related agro-industries.
- the effects of cross-border industrial development in Lesotho.
- key links between the petro-chemical base in Sasolburg and the Gauteng complex.
- the effects of small business support programmes.
- the absence of national SDIs and IDZs in the province.

2. Objectives of the Study

In the light of the above considerations, the purpose of the project was to develop a profile of:

- how the industrial base has changed in the Free State over approximately the last 20 years in response to the above-mentioned considerations.
- the current status quo in terms of the province's industrial make-up.
- key spatial and sectoral variations and trends.

and

- to synthesize the viewpoints and strategies of national, provincial and local government, relevant supporting agencies and key private sector and industrial role-players, regarding the opportunities and constraints which the sector faces and the nature and effectiveness of current policy.
- to speculate on the future of the industrial sector based on the preceding and to derive key guidelines regarding the future of industrial development for the province.

Based on the issues specified in the preceding objectives, the research team sought to find answers to the following questions:

1) What is the current spatial and sectoral profile of manufacturing in the Free State, and how has it changed in the recent past and why ? Emphasis needs to be placed on the core sub-sectors and ones which enjoy particular state support e.g. jewelry.
2) What are the views of the manufacturing sector with respect to their commitment to the province and their future plans? What are the opportunities and constraints which they face ? Emphasis was placed on spatial variations and the perceptions of firms in the key sub-sectors.
3) Do the issues and concerns of the large and small firms in the province differ?
4) Does current policy and government support (at all levels) provide for the current needs of the manufacturing sector ? If not, what can be done to enhance the fortunes of the industrial sector?
5) Can the manufacturing sector meaningfully impact on the development of the SMME

sector?
6) What have been the effects of globalization, the development of the industrial sector in Lesotho, and national policy, on the provincial industrial base ?
7) What have been the effects of the rationalization of state support, the loss of mining, and changes in the agricultural economy, and are there any interventions which can be attempted in this regard ?
8) What is happening in the former RIDP Growth Points and what is their future?

3. Methodology

The primary technique employed was a series of core interviews undertaken with a representative sample, both spatially and sectorally, of key industries in the province. Purposive sampling of officials in key local municipalities, the government and support agencies, for example the FDC and FGF, was also undertaken. Detailed and comprehensive questionnaires were drawn up to fulfill the requirements of the investigation (a copy of the questionnaire administered to the manufacturing firms is attached as Appendix 1).

Secondary research included a desk-top based review of key national industrial data-bases, published documents, policy, previous research and academic articles. Key sources which were drawn on include:

- The Free State Poverty Strategy
- The Free State Rural Development Framework
- Centre for Development Support Reports.

4. Structure of the Report and its Key Components

The report is divided into three broad sections, namely: contextual considerations (policy and related considerations), data presentation (with a focus on size based differences, selected studies of the key sub-sectors in the province, and spatial considerations), and lastly details about the way forward and the conclusion. The differing layers of analysis were provided to interrogate the data from as many angles as possible. The size based distinction was regarded as a key focus for two reasons: firstly because of the importance attached to emerging entrepreneurs in the province and the need to evaluate how they are developing, and secondly, the fact that the large propulsive industries, as a result of their significant levels of employment, downstreaming capacity and ability to dominate local economies need to be understood as unique entities. A section on Lesotho was also incorporated because of the role which that country plays as a potential competitor to the Free State and as an alternative destination for investment.

This report is structured as follows:

- Introduction
- Industrial Overview – Global and in South Africa
- South African Policy
- Broad Trends in South Africa’s Manufacturing Economy
- Free State Context

- Free State Industrial Overview

-Data Presentation:

- Size Considerations:
    - Large Firms
    - Small Firms
- Sectoral Reports
    - Clothing
    - Petro-Chemical
    - Jewellery Industry
- Spatial Considerations - industry and municipalities and the influence of Lesotho
- Conclusion, Discussion and Way Forward.
- Appendix 1

INDUSTRIAL OVERVIEW – GLOBAL AND IN SOUTH AFRICA

Prior to the 1970s the world's economy was characterized by a sense of permanence and relatively fixed and predictable actions. Industrial power was concentrated in the developed western nation and countries in the developing world tended to play the role of being both markets and suppliers of raw materials. In the 1970s, as a result of a series of global crises, namely the devaluation of the dollar, a petrol price crisis and the collapse of much of the older, less efficient industries in the core economies, significant changes started taking place, namely:

- deindustrialization in the older industrial cores, particular those areas which relied on heavy industry, such as iron and steel and textiles,
- the partial relocation of the locus of activities for heavy and labour-intensive countries to countries in the developing world and the so called Newly Industrializing countries in particular,
- the continued exercise of control from the core cities / countries in which the global economic head-quarters are based,
- the movement of the world system to one marked by instability and unpredictability as investors ceaselessly invest and disinvest in their search for the most profitable locations,
- the focusing of the new 'high tech' industries on locations within the developed world,
- the increased importance of global trade and the 'weakening' of global borders as a result of actions of the World Trade Organization, cheaper bulk transport and world-wide subscription to the principle of globalization.

There is an associated belief that the geography of fixed places of production has been replaced with a geography of flow and interconnection in a fluid world environment in which little is fixed or permanent. Industrial activity is increasingly focused on defined industrial districts and clusters, characterized by concentrations of complementary, competing and supporting industries e.g. vehicle clusters and linked supply and support firms.

One of the hallmarks of the preceding has been its fluidity. Notions that manufacturing firms are locality-bound in terms of their raw materials, labour and markets have now been replaced by a situation in which markets are global, and locational decisions and actions are not bound to isolated spatial areas. While this does mean that consumers now have access to better quality and priced products, producers and workers now face increased competition from firms around the world and investors think beyond the limits of their home area. As a result, industrial economies are volatile and subject to rapid change.

The preceding global considerations have direct implications for South Africa, particularly after the re-absorption of the country into the global economy. This has meant that South Africa's manufacturers often face stiff competition from more efficient producers in other countries who can undercut their prices. Other global trends which impacty on South Africa's industrial potential are:

- South African investors can now invest globally,
- Foreign investors are often still reluctant to invest in South Africa because of political perceptions and the fact that for labour-intensive operations there are many cheaper labour destinations in the world,

- The lowering of trade duties in terms of WTO rulings has often impacted negatively on local areas which have become dependent on industries which have proved to be uncompetitive.

The situation is not however all negative. Positive outcomes include:

- manufacturing industries in which South Africa has become internationally competitive (sometimes because of the weakened Rand), such as the motor vehicle and component industries, mineral beneficiation and the wine industry, significant growth has been experienced.
- Increasingly the core manufacturing areas are defined clusters of economic activity, particularly in terms of sub-sectors such as vehicles, mineral benefication and petro-chemical clusters.

The manufacturing industry in the Free State needs to be analysed within these complex realities. Local firms face stiff competition and the locational attractiveness of the province is now judged relative to other areas, nationally and globally, which may have distinct locational, market, labour, raw material and clustering advantages. In addition the Free State manufacturing economy has been negatively affected by the perceived weakening of the agricultural (and by implication the agro-industrial) base and the down-scaling of the mining economy.

SOUTH AFRICAN POLICY CONTEXT

South Africa has undergone significant changes in terms of its manufacturing policies. The key shift has been from that of having been a state controlled, Keynesian-based and intervention driven economy to one in which the state, in alignment with monetarist / neo-liberal principles, is seeking to facilitate a market led growth path which allows for global integration and open trade. Whilst the latter is in line with international thinking and the views of the global economic institutions at present, it does place those sub-sectors and spatial areas which developed in an era of state support in a vulnerable position. In this section, pre-democracy and post-democracy manufacturing policy is outlined, with an emphasis on the more recent period, as this provides the essential context in which the Free State is now situated.

1. The Pre-Democracy Period

In this period, the South African government, in parallel with many countries in the world, subscribed to a policy grounded on state intervention in the economy. This was based on the principles of Keynesian thinking, which argued that state direction, particularly in periods of economic crisis, was a legitimate policy to pursue. This policy was later to be extended in an effort to further the country's apartheid spatial and industrial policies. Key features of this era were:

- the practice of import substitution, i.e. the drive to be self-sufficient through state support of industries. These were often large and capital intensive. This approach had been in evidence since the 1920s and found expression in support for the fledging ISCOR enterprise. In terms of the Free State, the most obvious example was the establishment of SASOL in the 1940s.
- the institution of a significant range of trade barriers which ensured that imported goods could not compete on price terms with local produce. This resulted in uncompetitive enterprises which would have struggled to survive in an open market economy.
- From the 1960s under the Decentralization Policy, (later called the Regional Industrial Development Programme), the state extended its intervention to the Homeland enclaves. In and around these areas, in designated industrial areas, firms, often from Asia, received generous subsidies to set up operations. Via this policy, state intervention predicated on racial ideology resulted in a concerted attempt to set up the Homelands as economic entities, allegedly 'independent' of South Africa. Massive state subsidies were required to maintain the policy and when these subsidies ceased in the early 1990s, many areas experienced significant disinvestment. In the Free State, areas such as Bloemfontein, ThabaNchu, Botshabelo, Harrismith and QwaQwa were directly affected.

2. The Period of Change

Manufacturing policy began a slow process of change from the 1970s through to the 1990s. Key aspects of this re-alignment were:

- the work of the Reynders Commission in 1972 which argued that in order to remain competitive South Africa should move from an Import Substituting industrial policy to an Export Orientated one. The subsequent provision of state subsidies to exporters assisted in this regard. International trade barriers against the apartheid state, and the seeming

reluctance of the state fully to abandon its self-sufficiency beliefs, meant that slow progress was made in this respect.
- The rationalization of the RIDP in 1991 and the effective abandonment of former designated growth points in favour of aspatial programmes.
- From the 1980s the gradual shift to support for SMMEs which were seen as building blocks for entrepreneurs and which could play a key role in terms of sub-contracting.
- Gradual modification of labour laws, mainly in the 1990s which ensured a more humane dispensation for workers.
- A key break was the 1996 GEAR or Macro-Economic Reform Programme which clearly delineated the shift from a state policy of intervention to one of facilitating the free market and aligning the country's economy with international thinking in terms of free trade, a drive for competitiveness and encouragement of market forces.

3. Post-Democracy Changes

Building on the above-mentioned policy shifts, a significant range of industrial policy prescriptions now exists for the Free State manufacturing economy. Key amongst these are:

- Support for SMMEs, since the mid-1990s, in recognition of their key role in employment generation, entrepreneurial development and for sub-contracting from larger enterprises. A range of DTI support policies and institutions are in place and are subject to review.
- Support for defined economic clusters of activity, e.g. the Vehicle and Petro-Chemical clusters.
- The establishment of Manufacturing Advisory Centres to encourage manufacturing development.
- The Export Credit and Foreign Investment Reinsurance Scheme which provides export marketing and investment assistance.
- Support for Industrial Development Zones (and SDIs previously) as areas of identified potential which justify the provision of infrastructure.
- The Microeconomic Reform Strategy, which seeks to address the inequalities in the country and to build on the RDP. It does this by focusing on issues of the geographical spread of activity; integration; black economic empowerment; knowledge-led growth; skills development; and state responsiveness. Focus is placed on competitiveness and sectors such as tourism, ICT, cultural industries, chemical, clothing and textiles.
- The Integrated Manufacturing Strategy which seeks to encourage integration in production chains, to tap into markets, to develop SADC links, to focus on beneficiation and value-adding, equity and participation and knowledge intensity. Key focal sub-sectors which have been identified for support include: clothing and textiles; agro-processing; metals and minerals; tourism; automation and transport; crafts; chemicals and biotechnology; and knowledge intensive services.
- DTI support for Strategic Industrial Projects, Skills Support and the Critical Infrastructure Programme.
- DTI's 2002 Accelerating Growth and Development policy which seeks to make the economy more competitive and to encourage the use of ICT and knowledge-based development. The policy is informed by the belief that reliance cannot be placed on raw material and 'cheap labour' based manufacturing development or privileged access to markets. Future competitiveness is seen as being in the areas of ICT, technology, and operations based on efficiency, responsiveness and tapping into value chains.
- DTI's 2014 Vision, as spelt out in the Medium Term Strategy Framework, states that

government is “working towards an adaptive economy characterized by growth, employment and equity, and built on the full potential of all persons, communities and geographic areas”. Strategic goals in this regard are to accelerate economic growth, to encourage job creation and to increase economic output.

4. Conclusion

It is important to note that even though new policies are in place, earlier policy has left a legacy in the Free State which cannot be ignored. The two most obvious hangovers from the past were state support for the SASOL complex and the establishment of Homeland Growth Points. Both of these created key infrastructural and manufacturing bases which are still critical to the Free State’s economy. Planning thus needs to take cognizance of both past and current policies, their effects and legacies.

BROAD TRENDS IN SOUTH AFRICA'S MANUFACTURING ECONOMY

Since 1994 the manufacturing economy has grown at the fairly subdued rate of 1,8% p.a. Sectors which have performed below average include: clothing, food, footwear and metal products. Higher performing sectors include: cars, chemicals and ICT. While a decline in mineral exports has been noted, all other sectors are increasingly more export orientated, with the vehicle industry being a key leader in this regard. Whilst sound policies are encouraging manufacturing expansion, issues of crime, AIDS, competition from imports, skills losses, and a poor skills base, are cause for concern.

1. Labour and Employment

Labour productivity has risen 26% since 1994, but job loss has accelerated. A study by TIPS in 2001, entitled, 'Snapshot of Industry-Wide Trends in Employment, 1991-2001', established that at a national level, labour shedding has been most pronounced in the goldmining and agriculture sectors, ie. the two cornerstones of the Free State economy. Labour gains have been in sub-sectors such as leather, plastics, printing, chemicals and ICT. TIPS concludes that job loss has been pronounced because of poor performance in certain sub-sectors and reduced labour intensity in other areas. Between 1997 and 2001 approximately 2,4% of manufacturing jobs were lost.

2. Manufacturing and the Economy

Since 1971 manufacturing's contribution to the economy has remained relatively constant at between 27,1 and 29,5% of GDP. Manufacturing has however increased in importance in terms of exports and now constitutes 53,3% of total exports. This is partially as a result of the declining role played by mineral exports (TIPS, 2002, A Review of the Changing Composition of the South African Economy). The share of national manufacturing output which is now exported has risen from 13% to 21%, indicating that the economy is gradually becoming more export orientated.

In terms of improved value-adding, the best performing sub-sectors since 1997 have been plastics, communication and leather goods. Some of the worst performing are those which are important to the Free State, namely, food processing, clothing and textiles (TIPS, 2002: Snapshot of Industry-Wide Trends in Value-Added, 1991-2001).

A worrying trend noted in 2003 was that manufacturing output declined by 2,3% compared with 2002, chemicals declined by 5,7% and metal products by 12,6%. (StatsSA, 2003, P3041.2).

3. The Free State Within the National Context

In terms of the country's manufacturing economy, certain key themes can be identified:

- key sub-sectors in the Free State are those related to the agro- and mineral industries, which are experiencing retarded growth or even decline at the national level.
- Many of the Free State's largest industries are branch plants of firms head-quartered

elsewhere. This reduces the long-term commitment of the companies to the province along with their ability and willingness to involve themselves in local development issues.

- The Free State as a whole contributed R 33,5 billion in 2001 to the national economy which represents a modest 5,8% of the national GDP.
- The last Census of Manufacturing (StatsSA, 1996) established that 3,8% of the nation's manufacturing establishments and 3,7% of its output is generated in the Free State
- Key growth areas identified by the DTI in the Free State are: machinery and equipment, floriculture, fruit and vegetables, leather tanning and finishing, jewelry manufacture and downstreaming from petrochemicals.

THE FREE STATE CONTEXT: A STUDY OF THE MANUFACTURING INDUSTRY IN THE FREE STATE AND AN OVERVIEW OF AVAILABLE LITERATURE

1. Introduction

The aim of this section is to provide a literature overview of the key arguments for, and approaches to, the manufacturing industry in the Free State. The review integrates the documentation listed in the reference list. The following key themes are dealt with:

- a brief historical perspective on industrial development in the Free State;
- an overview of the manufacturing industry in the Free State;
- an overview of the main documents on economic development and planning in the Free State;
- the LED fund and manufacturing; and
- an assessment of core themes in the available literature.

2. Historical perspective on manufacturing in the Free State

Manufacturing emerged in the Free State in the late 19^{th} century in response to the need to process agricultural products and to meet the demands of the growing urban centres. In the following century the growth of mining led to the diversification and growth of the manufacturing and servicing sectors in those towns. The history of the manufacturing industry in the Free State, however, cannot be detached from apartheid planning and homeland development. Furthermore, the decision to establish SASOL and Sasolburg changed the industrial landscape of the northern Free State. Although some industries developed elsewhere, the provincial manufacturing landscape still mirrors the results of industrial development in former homeland areas and the development of SASOL. Strategies to ensure that black people remained in the homeland areas were to develop border industries, on the one hand, and industries (usually white- or Taiwanese-owned) inside the homelands, on the other. This went hand in hand with huge subsidies for decentralisation. Initially the focus was on creating border industries, but after 1968 it shifted to the promotion of industries within the homelands, and also to ensuring a larger degree of white capital. Later on, these subsidies became available in various forms under the auspices of the 1981 RIDP and included capital and wage subsidies.

In the Free State three areas were declared industrial development points, namely Qwaqwa (including Tshiami), Botshabelo and Thaba Nchu. In Botshabelo 57 factories, employing 10 000 people, were erected by 1990. In Qwaqwa approximately 360 factories (180 big and 180 small) were developed, employing approximately 30 000 people by 1990. No comparable figures are available for Thaba Nchu. Krige (1991:113) summarised the industrial development in Botshabelo as follows: "As one of the many designated growth points Botshabelo receives state incentives in an attempt to attract local and international investment in the area. The level of these incentives is such that Botshabelo and other growth points can claim to be amongst the cheapest places from which companies can produce. Its financial cost to the state is indeed high, but it is the exploited workers of Botshabelo who bear the real burdens."

Bloemfontein was proclaimed an industrial de-concentration point in 1988 and for this purpose a bundled development was proposed with the establishment of Bloemdustria, 20 km east of Bloemfontein. Krige records that by 1990, eight factories were operating in Bloemdustria. Since 1990 this figure has not increased. In fact, there is now evidence of empty buildings and buildings being used for warehousing purposes.

The policy of industrial decentralisation was criticized on the grounds that locating industries in the homeland areas did not make economic sense. The large-scale subsidies that accompanied the process were also a major point of contention. The fact that these incentives were specifically designed to keep black people in rural areas was also a contentious issue. To a large extent political sentiment and policy determined the spatial outline of economic policy in South Africa. The long-term commitment of industrialists, after the period of subsidization had expired, was always in doubt. The fact that trade unions were not allowed and that cheap labour was available led to numerous reports of workers, usually women, being underpaid in these industries. It must be acknowledged however that these policies did ensure some form of income for those living in the homeland areas.

With the demise of apartheid in the early 1990s, the subsidies were discontinued, bringing new challenges for the former homeland areas. Apart from the major efforts at industrialisation, the economy of these areas was built on high levels of investment, and a high degree of employment, in the public sector. In addition to the normal government machinery, various development corporations were established, which had a significant impact.

3. A broad overview of the manufacturing industry in the Free State

The aim of this section is to provide an assessment of the issues hampering the manufacturing industry in the Free State. The following issues were frequently mentioned in the literature:

- Compared to other provinces, the manufacturing base is extremely small and under-developed (16% of the total provincial GGP) (Urban-econ, 2003). However, the Department of Economic Affairs and Tourism (DEAT) was of the opinion that it had improved since the early 1990s.
- No significant trade links exist with neighbouring and foreign countries.
- There is an extremely high level of dependence on the primary sector – mining and agriculture (DEAT, 1998).
- Unbalanced economic growth occurs in the space economy.

Although another section of this study looks at changing trends in the manufacturing industry, a brief overview of the statistics in the literature is be provided here (see Figure 1, Figure 2 and Table 1).

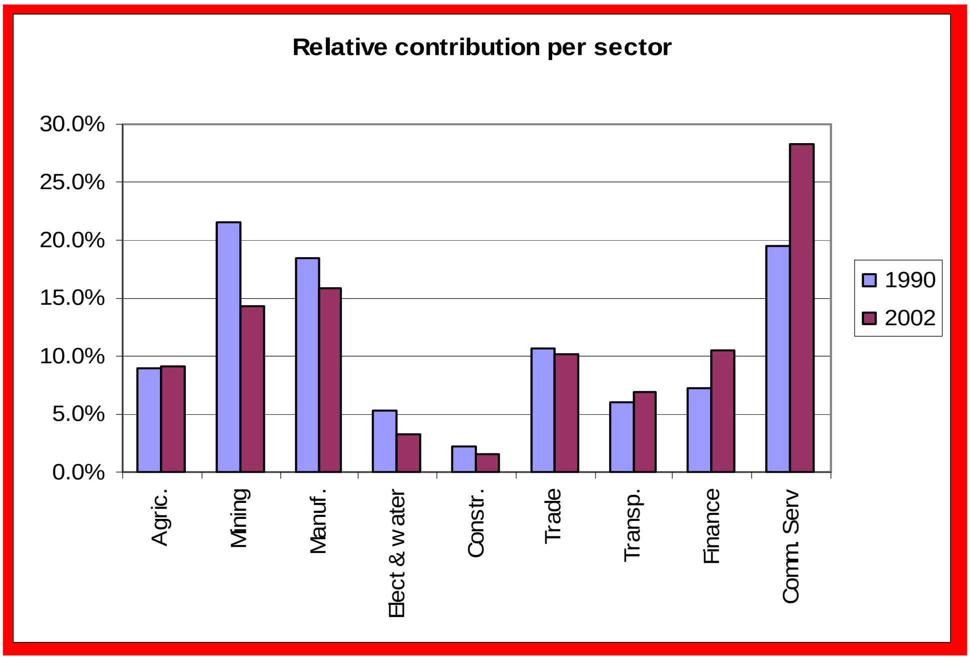


Figure 1: Relative contribution per sector in the Free State, 1990 and 2002 (Source: Urban-econ, 2003)

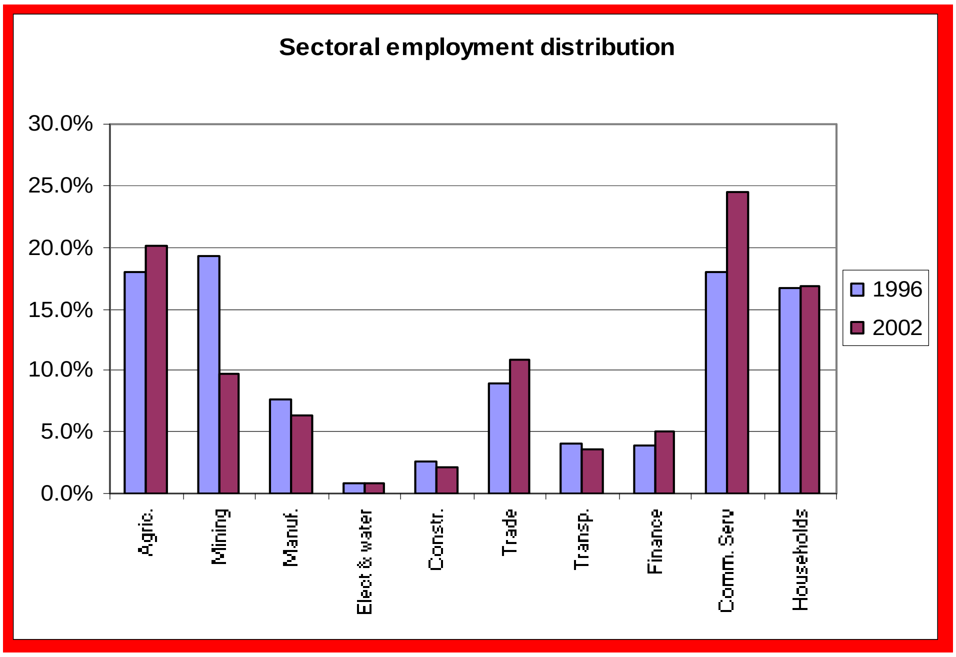


Figure 2: Sectoral employment contribution in the Free State, 1996 and 2002(Source: Urban-econ, 2003)

Table 1: Growth trends in the manufacturing industry of the Free State, 1970 – 2002

Period	Manufacturing growth for period
1970-1975	5%
1975-1980	3.9%
1980-1985	0.6%
1985-1990	2.6%
1996-2002	-1.2%

Free State manufacturing contributes nearly 16% of its GGP in the Free State and 3.6% of the national manufacturing GGP (DEAT, 1998; Urban-econ, 2000). Compared to the national population share of the Free State of approximately 6%, these figures appear to indicate the underdevelopment of the manufacturing industry in the Free State.

Although considerable growth took place between 1970 and 1980, growth declined between 1980 and 1990. A negative growth rate is also reported for the period 1996-2002. This translated into negative growth in employment. Urban-econ in a study for the Premier's Economic Advisory Council claim that, between 1996 and 2002, the percentage of employment opportunities in manufacturing dropped from 7.5% of the total employment figures to 6.5%. The northern Free State contributes 70% of the manufacturing output in the Free State. This underscores the dominance of the chemical and petroleum industry in Sasolburg (Urban-econ, 2003). The comparative figures for the remaining districts are: Motheo 13%, Lejweleputswa 6%, Thabo Mafutsanyana 8% and Xhariep 2%. This dominance of the northern Free State is further reflected in Urban-econ's (2000) contention to the effect that 45% of the gross output in manufacturing originates from Sasolburg. As only 4% of the Free State manufacturing establishments are located there, and Sasolburg provides only 17% of manufacturing employment it appears that manufacturing in Sasolburg is capital-intensive.

Other key attributes of the manufacturing industry in the Free State according to Urban-econ (2003) are:

- The GDP contribution to manufacturing has always been proportionally higher than its contribution to employment in the Free State. The 2002 contribution of manufacturing to the Free State economy was 16% as against just over 6% of the employment opportunities.
- The decline in employment has been proportionally higher than the decline in the contribution of manufacturing to the Free State economy.
- The growth of manufacturing in the Free State has underperformed in relation to the domestic economy.
- Considering the location quotients, manufacturing is not regarded as a sector with a competitive advantage in the Free State.

Urban-econ (2000) provides the following statistical overview of the Free State manufacturing sector for 1993:

- 851 establishments existed;
- approximately 46 500 people were employed; and
- the gross output was R 8 170 million.

Interestingly, Urban-econ concluded from the above data that the manufacturing sector although small was relatively strong and showing healthy growth. However, to draw such a conclusion in 2000, based on 1993 data and in the light of the major decentralisation subsidies that were available between 1985 and 1990, was perhaps rather optimistic. The DEAT (1998) was of the opinion that one of the biggest challenges in the Free State was to ensure sustainable economic growth within a competitive environment through the expansion of the manufacturing sector.

4. The Planning Overview

Although the intention of this overview is to provide a review of the key arguments and approaches pertaining to the manufacturing industry, some background regarding the Free State Development Plan and the Free State Poverty Relief Strategy is necessary.

4.1 The Free State Poverty Relief Strategy

The goal of the Free State Poverty Relief Strategy is to reduce poverty amongst the Free State population from the current 63% to 45% by 2010, and 30% by 2020. The strategy further states that, internationally, a target (the Millennium Development Goals) has been set to reduce the proportion of the population living in extreme poverty by half, by the year 2015. The Department of Social Welfare has been given the lead role in eradicating poverty in the province. The two main mechanisms for achieving this are the provision of social grants and the establishment of projects to generate income (with specific implications for LED). The strategy also points out that the provincial allocation of resources is directed away from job creation and economic development (only 2.4% of the 1998/9 budget was allocated to this end). The Strategy identifies the following means of promoting job creation and of sustaining households: the agricultural sector; SMMEs; public work programmes; projects generating income and social grants. In many small urban areas, social grants are one of the main contributors to the local economy.

The Free State Poverty Relief Strategy has the following key proposals with regard to promoting jobs and income:

- A much larger network of business advisors should be established throughout the Free State. People who are capable of working with micro-enterprises are needed, backed up by a team of high-quality advisors. This team should also be capable of analysing a business employing 20 to 50 persons and helping them to improve productivity. It is felt that this approach is likely to make the biggest impact on jobs. These advisors could be located within a network of Business Service Centres.
- A proactive process is needed to identify businesses with a potential for growth[1]. Many of these businesses are likely to be owned by white people. To ensure that the support of the Business Service Centres filters through to previously disadvantaged people, such support should be subject to the condition that businesses adopt affirmative action policies and engage in the training and development of staff.
- No single department should provide all these specialist services. A range of specialist services should be set up, to which any local extension/business advisor can refer people, or which can be accessed, for example, through the Internet. The following services, in particular, should be included:
-
  - A marketing advisory service, providing advice on market research, promotion and export enquiries. This service should also co-ordinate a Free State Directory of Suppliers, so that people can source locally where possible.
  - The development of more local brands.
  - An advisory service for agri-processing and farm industrialisation. This service should provide specialist help in respect of business plans, health and hygiene, equipment issues, etc.

[1] The Department of Economic Affairs has recently undertaken such a study.

- Specialist tourism advisors.
- Small-scale mining advisors. (It should be noted that it will not help to have advisors in this sector without taking due cognisance of the limited number of potential small-scale mining operations).
- Retail advisors for small shopkeepers, to help shops in small towns to remain viable.

- Many services could be outsourced, but should be delivered through a Free State branded provider. Donor funding might facilitate the setting up of such a service.
- There needs to be an extended "development team" operating at the level of each council. It should provide a range of skills required for developing businesses, income-generating projects, as well as other functions. This will require a further study of the core processes of departments, as well as possible restructuring. Administrative boundaries should also be linked to District Council boundaries, so that development can be co-ordinated at that level.
- Great care must be taken with the current funding programmes (for example, the Community Poverty Fund, Land Reform Grant and Poverty Alleviation Fund) to ensure that they really help to create viable enterprises. In view of the difficulties that they have experienced, they should be thoroughly re-evaluated.
- Government needs to review its approval processes for these funds. It needs to simplify and standardise these processes and reduce centralised control. It can only do this by ensuring that there is greater capacity in the groups and by providing much more training to project participants to ensure viability. It should also help with aftercare. To facilitate sustainability, participants should also be required to save in a disciplined manner before receiving support. Discipline in financial management should also be required.
- The support for labour-based construction methods should continue. Even if such expedients are temporary, they do provide a source of income that is significant for the households involved.
- The Free State Government should approach the President's Office to enquire about the potential for using a subsidy, similar to the Housing and Land Grant, as a Sustainable Livelihood Grant. This grant should be subject to the submission and approval of a business plan, as in the case of the Land Grant.
- All of these recommendations will come to nothing unless there is a major review of the allocations in respect of economic development. The biggest problem facing the Free State is poverty and lack of income. The budget allocation for economic development must be increased to much more than the current 2% if there is to be a serious attempt by the province to help people to increase their income. Failing that, the province will simply have to wait and see what the impact of the macro-economic policy of the State will be. The province will continue to be a provider of welfare, but not a serious stakeholder in the battle for local economic development.

Many of the points mentioned above will be touched on again in the remainder of this document. It must be acknowledged that many of these initiatives will need to take place in the context of a changing global economy. Although not impossible, it might be difficult to implement them. However, a more worrisome aspect is the fact that, since the acceptance of the Free State Poverty Relief Strategy, little progress has been made with the proposed initiatives which also require extensive funding. The suggestion concerning a reallocation of the budget is valid, but is unlikely to be sufficient.

4.2 The Free State Development Plan

The Free State Development Plan has five key priority areas, namely: -

- enhancing economic development and job creation;
- providing and facilitating sustainable development of infrastructure;
- investing in the development of the people of the province;
- ensuring a safe and secure environment; and
- good co-operative governance with sustainable use of resources and the environment.

In terms of economic development and job creation, a number of strategies are proposed. These strategies are:

- strengthening the competitive advantage of the Free State;
- promoting the creation and expansion of SMMEs;
- enhancing security of livelihoods and self-reliance;
- obtaining an increased share in the tourism market and investment in the economy;
- expanding and diversifying the agricultural sector (agri-processing);
- adding value to mining products and petro-chemicals;
- sustaining a viable mining industry; and
- developing and expanding the transport and distribution industry (expansion of warehousing).

In order to strengthen the competitive advantage of the Free State, the strategy states that "we will develop a comprehensive economic strategy for the Province, establish and support a system to promote private inward investment in key economic sectors, finalise and implement sectoral development zones and economic corridors for the Free State (including SDIs and IDZs) and promote the export of Free State products".

In order to achieve the creation and expansion of SMMEs, the following actions are suggested:

- Work in partnership with business and local government, establish a public-private partnership to support economic development and assist municipalities in planning and supporting programmes for local economic development.
- Establish a variety of support bases for SMMEs, including a support infrastructure for local businesses, with 100 micro-business advisors and 60 small business advisors across the province. Establish a central infrastructure to support businesses, including eight specialist business advisors. Establish a market information system and an industrial database for the Free State.
- Establish a project to support local procurement by large public- and private-sector organisations.
- Provide assistance in the training of SMMEs in business skills and in the establishment of an award for entrepreneurs throughout the province.

In terms of diversifying production and adding value to agricultural products before they leave the province, the following action will be taken: "We will research and implement new agricultural product ranges, establish the capacity to support agri-processing (research, technical aspects, business, marketing) and establish new black farmers. Research that supports value-adding, as well as the development of new products in mining and petro-chemicals, will be considered. A strategy that can be developed and implemented in the jewellery manufacturing industry will be promoted, while a strategy for the establishment of small-scale mining will be advocated specifically for the mining industry, if such a step appears to be viable. The mining industry will be consulted on measures to improve the sustainability of existing mines, as well as with regard to the opening of new mines". In terms of developing the transport industry, the plan argues that the Free State occupies a central position in the country, with many main roads and rail routes passing through it. In order to improve these facilities, the province will seek to develop a strategy for transport and distribution, including warehousing. The development of a dry port, including a cargo airport, is also being planned.

Although the Free State Development Plan is laudable for its comprehensive approach, the following critical questions are relevant:

- Has enough research been carried out in order to understand the global economy and the links with the Free State and other local economies in the Free State? What are the current trends and how do they impact on local economies?
- Would it not be wiser to give priority to one or two approaches rather than the current eight approaches?
- The time has probably also come for an assessment of progress made thus far in the implementation of the strategy.

4.3 The Free State Growth and Development Agreement

The Free State Growth and Development Agreement was the result of a summit conducted in October 2003. It was co-signed by the provincial government, organised business, organised labour, certain youth sectors and other spheres of government. In essence, the agreement aims to re-focus various processes that have commenced since 1994, including the Free State Development Plan. In terms of the manufacturing industry, the following relevant goals were laid out in this document:

- Petrol-chemical down-streaming, agro-industry and gold jewellery manufacturing are seen as the most important areas for sector focus.
- The importance of industry clustering and forward and backward links between industries is highlighted.
- The plan is based on local action and implementation in which infrastructure development and access to basic services feature prominently.
- There is an emphasis on skills development.
- A list of immediate interventions to create jobs includes: public investment initiatives; community–based public works programmes; sector partnerships and strategies; local procurement; small enterprise promotion; and support of co-operative initiatives.

4. The LED Fund and manufacturing

In an evaluation of LED projects in the Free State by Marais et al. (2002), and also in the light of the extensive support of the so-called income-generating projects of the Department of Social Development, it was found that most projects that aimed to enter the manufacturing business had failed. The following main reasons were identified:

- An appropriate market study had not been completed.
- Appropriate business plans with assessments of possible competitors were not formulated.
- Long-term capital backing was not always available.
- Product quality was inconsistent.
- Competitiveness and marketing proved problematic.

Projects/businesses that did, in fact, exhibit some hope of success had the following characteristics:

- good mentoring;
- excellent product development; and
- the production of unique products rather than fast-moving goods.

Table 2 provides an assessment of the different sectors in which LED programmes have focused.

Table 2: An overview of projects and investment in Free State LED projects, 1999 – 2001

Sector	Number of projects	%	Investment in 2000	%
Agriculture	7	43.75	7 861	51.62
Mining	1	6.25	870	5.71
Infrastructure	3	18.75	3 037	19.94
Tourism	0	0.00	0	0.00
Environment	0	0.00	0	0.00
Manufacturing	5	31.25	3 460	22.72
Total	16	100.00	15 228	100.00

Source: Marais et al., 2002

The assessment revealed that none of the projects was financially sustainable. However, there was a small number of projects with some potential to become viable. Five of the projects were manufacturing-related, with an investment value totalling R3.5-million. There is thus no clear indication that pro-poor LED will create sustainable employment beyond the period of funding.

6. Key themes from the literature

6.1 Sectoral issues

It is noteworthy that virtually no specific sectoral status quo reports in the Free State exist. As a result, although a number of documents are available nationally, planning for the manufacturing industry in the Free State is based on limited information. Hopefully, this report will contribute to a better understanding in this regard.

Most documents mention the following sectors towards which the manufacturing investment drive should be geared:

- jewellery;
- petro-chemicals;
- farm machinery and equipment;
- leather tanning and finishing;
- agro–processing; and
- pharmaceuticals (R&D).

It seems that most of these envisaged sectoral plans are based on the following assumptions:

- that the raw products are available in the Free State;
- that the Free State market will absorb the bulk of these products;
- that an international market exists for the specific products;
- that government can manipulate manufacturing decisions directly and that enough resources exist to do so; and
- that there is currently no competition.

The above assumptions do not take the following aspects into consideration:

- The Free State comprises an extremely small part of the market in South Africa. Marais and Botes (2002) have shown that the Free State, Lesotho and the Northern Cape combined hardly make up more than 7% of the South African market.
- The procurement procedures of big business have changed considerably during the last 10 years. In essence manufactured goods are sourced from procurement centres in Gauteng. From there, they are distributed throughout the country.
- Most of these assumptions have been made without a thorough understanding of the current needs of existing manufacturing enterprises.
- A limited understanding of the different roles of the private and public sector is displayed in most of these plans.

Despite these comments, it should be pointed out that some documents do mention the fact that government should facilitate an environment that is favourable to trade and private investment. What is probably a greater cause for concern is the fact that such ideas are seldom operationalised in terms of practical arrangements.

6.2 Spatial aspects

The largest concentration of manufacturing concerns is in the Bloemfontein magisterial district, which contains approximately 27% of the concerns in the Free State (DEAT 1998; Urban-econ, 2000). However, the economic dominance of Sasolburg is reflected in the fact that, as already pointed out, Urban-econ (2003) states that 71% of the contribution to the manufacturing industry in the Free State originates from the northern Free State.

The DEAT (1998) identified the spatial transformation of the Free State economy as one of its major challenges. A number of spatial considerations are mentioned, such as the type and location of industry. The following serve as examples:

Botshabelo as IDZ

A report by Urban-econ (2000) motivates the view that Botshabelo should be designated as a preferred IDZ location in the Free State and that it should be accorded a provisional IDZ operator permit. (A more detailed assessment of this process, along with the results of the report, is provided later in this document.) Although the focus should be on Botshabelo, Urban-econ suggests that the IDZ should include the geographical areas of Bloemfontein, Botshabelo and Thaba Nchu. It should be noted that Welkom (Matjhabeng), Sasolburg (Metsimaholo) and the Eastern Free State have all planned for the IDZ linked to a cargo airport. So, even within the Free State, conflict exists in this regard. The proposed delineated IDZ should further form part of a Spatial Development Initiative stretching from Welkom to Bloemfontein, Botshabelo and Thaba Nchu, to link up with Phuthaditjhaba and eventually with Harrismith. No funding will be made available to the Free State for the development of such an initiative as a national cabinet decision has been taken not to have any additional inland port, other than Johannesburg.

Chemcity in Sasolburg (Petro-chemicals)

The DEAT (1998) adsvocated the concept of a Chemcity for Sasolburg. The emphasis was laid on downstream chemicals worth billions of rands and it was foreseen that 500 factories would be in operation, should the project materialise. The sectoral report on Petro-chemicals will reflect on this.

Jewellery in the Free State Goldfields

The DEAT (1998) was of the opinion that the Free State Goldfields had the potential for the development of value-added ventures related to jewellery. A spokesperson for the Department mentioned that Harmony Gold Refinery in Virginia, one of two gold refineries in South Africa, had obtained permission from the South African Reserve Bank to sell approximately a third of its gold production, amounting to eight tons per annum, directly to private individuals and jewellery manufacturers. Accordingly, the manufacturing of up-market rings, earrings, bracelets, anklets and brooches made of gold, silver and precious and semiprecious stones, mined in South Africa, should be promoted. Virginia is seen as the prime location for such a project, and such an industry has been located there.

Leather tanning and finishing near Sasolburg

In this regard the DEAT advocated the establishment of tanneries for the processing of cattle, sheep and ostrich hides into “wet blues”, and the finishing of leather products for domestic and foreign markets.

Pharmaceuticals (R & D)

This is based on the successful university initiative, FARMOVS (which in the meantime has merged with Paraxell), as well as Quintiles, a private company that was established by dissatisfied employees of FARMOVS. It should be noted that these two companies are based much more on research than on manufacturing. Quintiles, for example, is to a large extent a bio-statistical company that interprets the results of pharmaceutical experiments.

The DEAT (1998) also proposed four development corridors or clusters, namely:

- a jewellery corridor in Welkom;
- a Bloemfontein/Botshabelo/Thaba Nchu corridor;
- an Eastern Free State / Lesotho tourism corridor; and
- a Free State / North West farming machinery cluster.

Although this report will evaluate some of these aspects later, certain important observations need to be made at this stage:

- The relationship between the private and public sectors in the financing of such initiatives is not always specified. What is typically absent from these assessments is a thorough analysis of the necessary public sector investment and the activities required in order to ensure private-sector investment.
- As also noted earlier, the relationship between the place of production, the market size in the Free State and the national and international market is needed in order to draw spatial and sectoral conclusions about potential.

6.3 Infrastructure

The following infrastructure needs were identified:

- the upgrading of the secondary road links in the Eastern Free State; and
- the upgrading of the Bloemfontein airport and the establishment of the airport as an international airport. Some documents also mention the potential of the airport at Thaba Nchu, which is currently not being utilised.

The DEAT felt that one of its biggest challenges was industrial and infrastructural development. Although the need for infrastructure development has been identified, it is seldom quantified and prioritised. Furthermore, it is also unlikely that extensive funding within the provincial government budgets is available, which means that, for many of these large-scale infrastructure projects, the provincial government should obtain national funding.

6.4 Institutional aspects

The institutional environment has a bearing on local investment in terms of manufacturing. For example, what is the relationship between the Provincial Government and the various local and district municipalities? The following broad comments apply:

- The Free State Development Corporation (FDC) is commonly viewed as a role-player in financing the manufacturing industry.
- The DEAT argued that local governments were not competent to deal with investors. Provincial and local government should work out a common vision in this regard.
- The DEAT was also of the opinion that more co-ordination between provincial government and local government would enhance industrial development. A uniform approach and understanding in respect of facilitating investments should be applied.
- An area that also seems to be vague is the relationship between provincial and national government. It seems highly unlikely that there are enough resources in the

budget of the Free State to provide for the economically related infrastructure. The implication is that some special funding mechanism should be developed.

6.5 The role of business

The DEAT claimed that their proposals provided the Provincial Government, business and labour with a common vision in order to move towards an ideal. The Growth and Development Agreement also emphasises the role of business. Although the emphasis on the role of business is important, and should probably be taken forward in terms of operational structures, it assumes that business in the Free State is a unified entity with enough capital to change the landscape of the Free State. In reality, the necessary capital to invest in such initiatives would probably have to come from outside the Free State.

6.6 Costs and funding

The DEAT provided a detailed assessment of the finances required to create employment:

Table 3: The cost of generating employment opportunities in manufacturing in the Free State, 1998

Type of manufacturing industry	**Initial investment (ZAR)**	**Direct jobs**	**Indirect jobs**	**Cost per direct job (ZAR)**	**Cost per indirect job (ZAR)**
Farming machinery and equipment	70 000 000	255	1 500	274 510	46 667
Leather training and finishing	56 000 000	200	1 600	280 000	35 000
Gold jewellery	28 000 000	80	225	350 000	124 444
Petro-chemicals	315 000 000	450	2 500	700 000	126 000
Pharmaceuticals	70 000 000	120	210	583 333	333 333
Total/average	539 000 000	1 105	6 035	487 783	89 312

Source: Department of Economic Affairs and Tourism, 1998

As indicated in Table 3, it would have cost R487 783, on average, to create each of the direct jobs envisaged at a total of R539-million. In comparison estimates in the Coega IDZ suggest that the one long term employment opportunity will require infrastructure investments of between between R800 000 and R1-million per worker (estimates made from Coega Annual Report in Coega Development Corporation, 2003).. This figure seems to reflect the business investment only, and does not take other necessary public-sector investments into account.

6.7 Centrality as a competitive advantage for manufacturing?

Many documents (the Free State Development Plan, for example) dealing with economic development in the Free State mention centrality as one of its competitive advantages. Although such an advantage is probably valid for the transport sector and, perhaps, certain other industries, the following more critical comments need to be made:

- Although the province's geographical centrality cannot be disputed, it should at the same time be acknowledged that the Free State is actually located on the periphery of the main market in South Africa.
- A quantifying example of this peripheral nature of the Free State's economy, is the fact that an air ticket for a flight between Cape Town and Johannesburg is cheaper than a ticket for a flight between Bloemfontein and Johannesburg. The main reason for this is the competition between airlines, and larger markets.
- Centrality should therefore also be investigated against the background of the location of the market.

6.8 The issue of an IDZ

The establishment of an IDZ is mooted in various documents (DEAT, 1998; Free State Development Plan, 2000). In fact, two preliminary investigations concerning where such an IDZ should be located have been conducted (Botes et al., 1998; Urban-econ, 2000). A number of comprehensive studies have also been conducted in the Free State Goldfields in this regard. The study by Urban-econ used the following to motivate for the establishment of an IDZ in Botshabelo:

- the existence of sufficient fully serviced stands in the Bloemfontein-Botshabelo-Thaba Nchu region;
- the availability of sufficient land for future expansion and development in the Bloemfontein-Botshabelo-Thaba Nchu area;
- the existence of a national airport (Bloemfontein Airport) that can serve as an inland port;
- the accessibility of Bloemfontein to the main national north–south railway route, as well as the accessibility of Botshabelo and Thaba Nchu from Bloemfontein by rail;
- the situation of Bloemfontein along major national and provincial roads and its link with Botshabelo and Thaba Nchu by means of a provincial road;
- the comparative national advantages of the Bloemfontein-Botshabelo-Thaba Nchu sub-region in agriculture, trade, transport, finance and community services sectors;
- the large concentration of manufacturing activities located in Bloemfontein. Although this is true, no mention is made of the monetary dominance of the manufacturing industry in the Northern Free State; and
- the availability of sufficient labour, skilled and unskilled, in the Bloemfontein-Botshabelo-Thaba Nchu sub-region, as well as the fact that the establishment of an IDZ in the region will assist in alleviating unemployment.

The envisaged niche market of the proposed IDZ should, according to Urban-econ (2000), be that of agriculturally related products, in the light of the fact that the Free State has a comparative national advantage in this sector. This study provides detailed descriptions of the agricultural products of the Free State. The following main indicators should be mentioned:

- The Free State produces approximately 12% of all agricultural products in South Africa. The majority of these products are manufactured north of Winburg.
- The Free State produces approximately 22% of the field crops of the country, 5% of the horticultural products and 48% of the animal products.
- The top seven products in the Free State are maize, wheat, fresh milk and dairy products, cattle and calves for slaughter, sunflower seed, wool.

Urban-econ estimates that such an IDZ would create approximately 6 300 employment opportunities, which in turn would lead to 5 000 indirect jobs. The cost of the direct infrastructure to be provided for the industrial stands was estimated at R76-million in 2000.

The following three comments need to be made in this regard:

- The FGF in Welkom has also conducted extensive research on the topic of an inland port, and has concluded that a locality north of Welkom would be an ideal location.

- There seems to be major conflict in the Free State between different localities that would like the IDZ / inland port in their area.
- As already noted, it seems unlikely that such an initiative will come to fruition in the Free State, as the national government has decided to focus the IDZs on sea ports.

6.9 Incentive packages

The DEAT mentioned that national incentive packages could be used to good effect in the Free State. But there is no indication of the degree to which these are being used, if at all. This study will attempt to provide more information in this regard.

6.10 The emphasis on exports

The DEAT emphasised the importance of exports. Marais and Botes (2002), in their study for the Local Chamber of Commerce, also suggested that Bloemfontein-based businesses should be supported in this regard. The Department of Trade and Industry does have support programmes to meet this need although it is not so clear exactly what type of assistance businesses need.

6.11 The Free State manufacturing industry and technology

A number of documents mention that 14% of manufacturing concerns in the Free State can be classified as high-technology industries, and then point out that this is the highest percentage of high-technology industries in the country (Botes et al., 1998; DEAT, 1998; Urban-econ, 2000). This information is seldom placed in context. The relatively high percentage seems to be far more a reflection of the dominance of the petro-chemical industry in Sasolburg than a positive reflection of the high-technology industry available in the Free State.

6.12 The dominance of the textile industry

In his assessment of LED in the former Qwaqwa area, Marais (2003) noted the dominance of the textile sector in the area. He pointed out that approximately 70% of the enterprises were linked in some way to the textile sector. Although the results of the questionnaire with regard to enterprises, dealt with later in this report, will analyse this in more detail, the fragile nature of industry in the Free State and, especially, the former homeland areas, should be noted.

7. Conclusion

In conclusion a number of comments can be made with regard to the potential and growth of the manufacturing industry in the Free State. In the first place, there seems to be no shortage of plans. However, very little progress has been made in terms of more investment in manufacturing. The question is: why? Although this report will attempt to answer this question in more detail later, the literature suggests that the scale of agglomeration economies and markets in the Free State is overshadowed by the scale of those in Gauteng. This makes it difficult to produce in the Free State and remain competitive (especially where fast-moving goods are concerned). Secondly in many of these documents, the 'magical' idea of an IDZ, which will solve everyone's problems, consistently crops up (although this does not apply to the Free State Provincial Growth and Development Agreement, at least). To some extent, this creates undue dependence on the national government. Thirdly, the available reports and literature seldom distinguish between the roles of the private and public sectors, and therefore do not stipulate the financing entailed by these plans. Finally, no joint operational partnerships between government and business in the Free State have been established to implement the ideas in the Growth and Development Agreement.

FREE STATE INDUSTRIAL OVERVIEW: A MACRO-ANALYSIS OF THE PROVINCIAL MANUFACTURING ECONOMY

In this section, an initial review of data sources and methodology for the macro-analysis is undertaken. This is followed by a discussion of key findings for, respectively, the profile of manufacturing enterprises and employment, sectoral change and spatial change.

1. Data and Methodology

For South Africa as a whole, published data from the official census of manufacturing provides only a limited base from which to examine the restructuring of provincial manufacturing economies and, in particular, to undertake a fine-grained analysis of their changing spatial and sectoral composition. The official data provides, at best, information regarding the total number of manufacturing establishments at a magisterial district level. Indeed, the industrial census material does not allow for any disaggregated analysis of the sectoral or size profile of manufacturing activity at a provincial level.

As a result of deficiencies in official data, the analysis below draws from the unpublished data of industrial establishments which is provided by the University of South Africa (UNISA) Bureau of Market Research (BMR) Industrial Register. This data base provides information for each listed registered establishment by Standard Industrial Classification and by magisterial district. It also gives an indication of employment at each establishment in terms of a size code. In addition, the UNISA BMR Registers provide the status of an establishment in terms of whether it is a branch plant, independent enterprise and so on. In this report, data for 1994 and 2003 were analysed in order to provide a picture of the changing profile of manufacturing in Free State province. It should be cautioned that whilst the data provide a firm indication of longitudinal trends, the actual statistics should *not* be compared with those drawn from other sources because of the different procedures for data collection.

Overall, therefore, analysis was undertaken of the University of South Africa Bureau of Market Research Industrial Registers for 1994 and 2003. Given the inadequacies of the manufacturing census, currently the BMR data base is the best available source for examining detailed change in the formal manufacturing economy of the province.

2. Key Findings – Establishments and Employment

The macro-profile of the manufacturing economy of Free State province can be investigated in terms of both numbers of enterprises and contribution to estimated total provincial manufacturing employment.

The analysis discloses that between 1994 and 2003 there is recorded a considerable net increase by way of a doubling in the total number of manufacturing establishments in Free State Province. Between 1994 and 2003 the number of manufacturing establishments increased from 461 to 1 014 enterprises while the proportion of SMMEs, I terms of the total number of manufacturing establishments, rose from 69 percent in 1994 to 83 percent in 2003. This indicates the growing significance of SMMEs in terms of the overall manufacturing base. Correspondingly, it is evident that the relative share of large enterprises and of branch plants in the total population of industrial enterprises has declined (see Figure 3).

Despite the increases in numbers of manufacturing establishments, the picture in terms of overall total manufacturing employment is of only a marginal increase of jobs between 1994-2003. Indeed, between 1994-2003 the BMR Register data discloses a net increase of only 500 jobs in the formal economy. This relatively stagnant picture of provincial manufacturing employment as a whole should be set against the parallel rise in significance of SMME manufacturing in terms of share of total employment (Figure 3). In the manufacturing SMME economy, the numbers of jobs nearly doubled from 10 200 in 1994 to 18 100 by 2003. Once again, the conclusion is that in a stagnant provincial manufacturing economy, there is a growing significance of manufacturing SMMEs in terms of their contribution to the overall picture. Between 1994 and 2003 the share of SMMEs in estimated total manufacturing employment in Free State rose from 20.1 percent to 38.9 percent. An important factor in this relative rise is the decline and closure of many large manufacturing enterprises (such as South African Breweries). Large enterprise restructuring strategies also resulted in the closure of many branch plant establishments in the Free State. Whilst this may well leave firms behind which are more committed to the province, significant economic loss has been experienced to date.

Overall, therefore, between 1994 and 2003 despite a marked increase in the number of manufacturing establishments, the analysis discloses that only marginal net employment growth occurred in the formal Free State manufacturing economy. Another key finding is that between 1994 and 2003 large manufacturing plants and branch plants controlled by multi-plant enterprises with headquarters outside of Free State declined in significance. Correspondingly, the importance of SMME manufacturing in the overall provincial manufacturing economy is enhanced. Whilst the growth of SMMEs is to be welcomed, and they are likely to be more permanent than branch plants, they have not, unfortunately, made significant inroads into unemployment

3. Key Sectoral Findings

It is evident from Figure 4 that significant changes occurred in the sectoral composition or structure of the manufacturing economy of Free State. Between 1994 and 2003 there was a considerable shift in the provincial manufacturing economy, both as indexed by numbers of enterprises and total employment.

In 1994 the leading sectors ranked in terms of numbers of manufacturing establishments were food, fabricated metals, non-metallic minerals and machinery. The dominance of the food sector was particularly striking in 1994 with nearly one-third of all formal manufacturing establishments recorded as falling in the food sector. The leading four sectors in total account for nearly two-thirds of all manufacturing establishments in 1994. Between 1994 and 2003 the largest growth in numbers of new manufacturing establishments occurred in the sector of fabricated metals followed by clothing, ‘other’ (mainly jewellery) and food. Of note is the remarkable burst of growth in new establishments in the clothing and textiles sectors between 1994 and 2003 and the considerable growth of SMME fabricated metal establishments.

By 2003 the picture had changed. In 2003 the food sector was still the most common form of manufacturing establishment, albeit that its share of total establishments had declined from nearly one-third in 1994 to 18 percent by 2003. In ranked order of the numbers of establishments by sector, fabricated metals remained second in importance followed by the surge of clothing into third place. The machinery sector found itself displaced by ‘other’, a category of manufacturing which in Free State is mainly led by small jewellery producers.

The profile of the Free State manufacturing economy differs when the analysis focuses on total employment data. It is evident that in 1994 the food and petro-chemicals sectors were the most important in terms of total employment; indeed, in 1994 it is estimated that these two segments accounted for nearly 50 percent of all Free State manufacturing employment. Significantly, the fabricated metals, machinery and other non-metallic minerals sectors (which are prominent in terms of numbers of establishments) are of relatively smaller importance as measured by total employment. Of note also is that in 1994 the clothing and textiles sectors together represented only 6.5 percent of total manufacturing employment.

By 2003 the profile of provincial manufacturing employment had changed markedly in terms of sectoral composition rankings. The most dramatic shift was the growth of clothing and textiles which, taken together, are now more important than the food sector in terms of total manufacturing employment. The food sector actually experienced a downturn of nearly 1 000 jobs. In addition to clothing and textiles, several other sectors recorded healthy increases in employment numbers between 1994 and 2003, including furniture, jewellery and fabricated metals. Overall however, the food sector retains a narrow lead followed closely by clothing, oil/petrochemicals, fabricated metals, furniture and textiles.

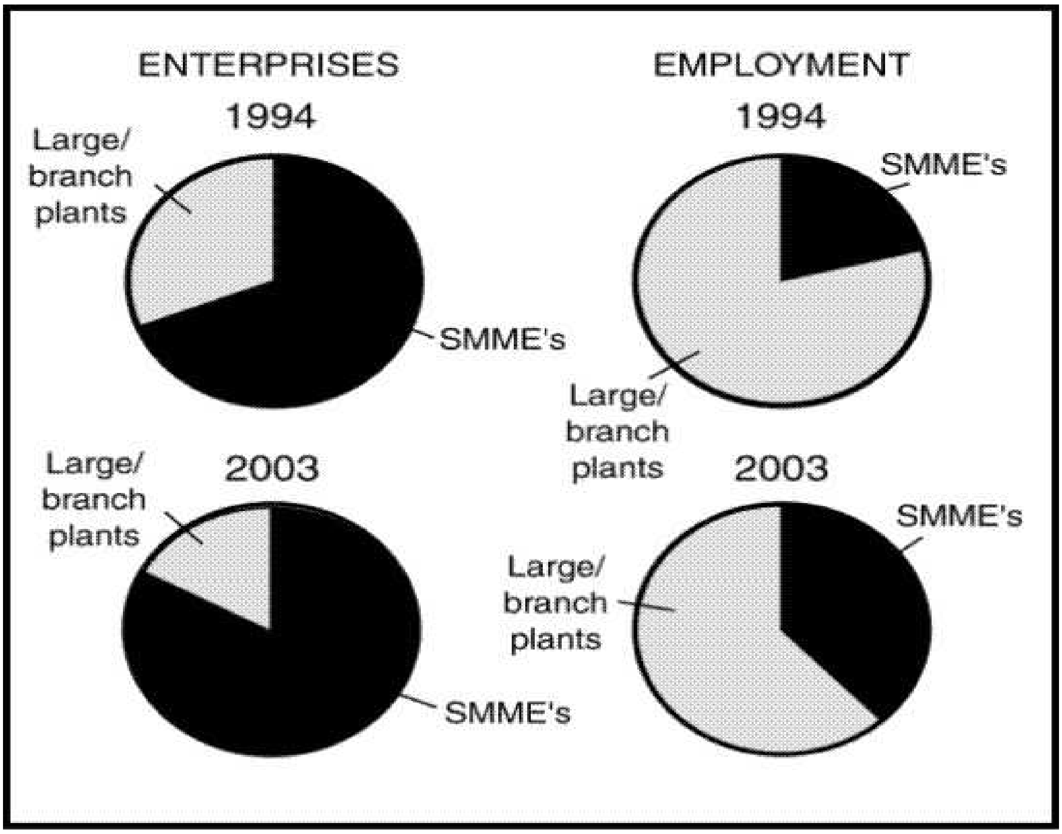


Figure 3

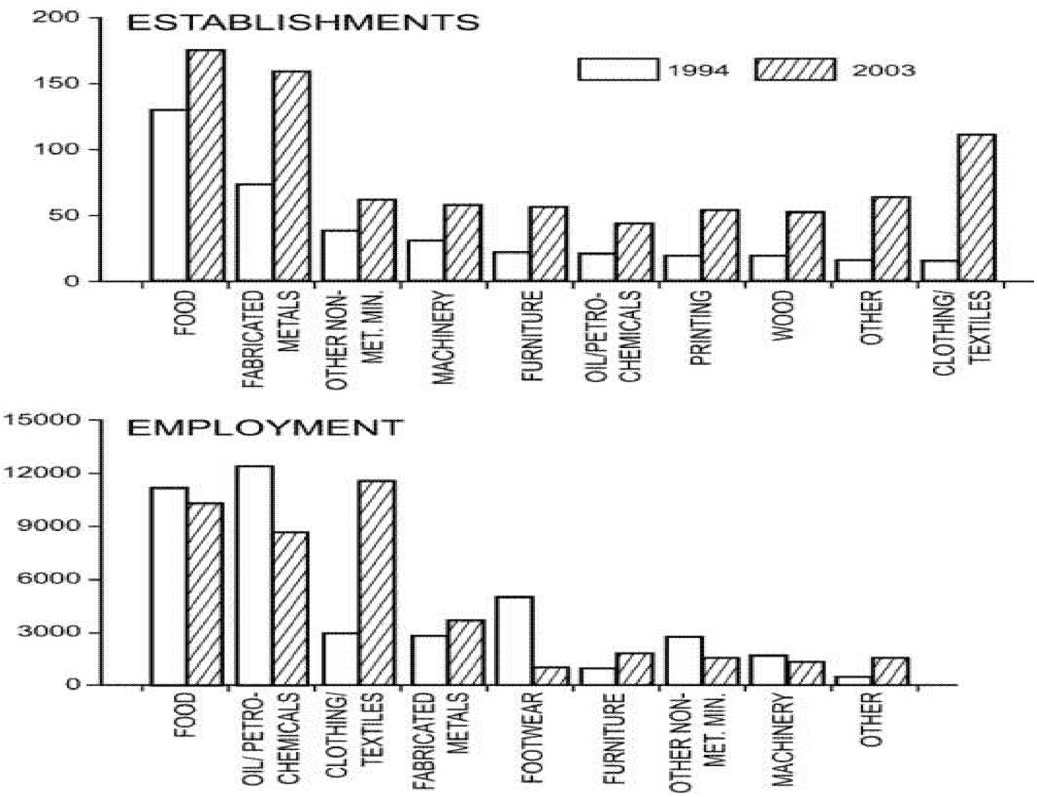


Figure 4

4. Key Spatial Findings

Between 1994 and 2003 considerable changes occurred in the geographical structure of the Free State manufacturing economy. Figures 5 and 6 show the spatial distribution of total manufacturing enterprise and employment across the province on the basis of data calculated on a magisterial district basis. Figure 7 shows net change for the period 1994-2003 for numbers of enterprises and total employment.

Several key points emerge concerning spatial patterns and restructuring of manufacturing in Free State between 1994-2003. Firstly, there was a net growth in numbers of establishments, almost wholly accounted for by SMMEs rather than large firms, across many parts of the province. It is evident from Figure 5 that the greatest gains have been recorded in the Bloemfontein area with other notable expansion in enterprise numbers in Harrismith-Phuthaditjhaba and the Goldfields. Secondly, and importantly, this growth in enterprise numbers is not accompanied by a commensurate expansion in manufacturing employment. Indeed, Figure 6 shows that whilst the numbers of establishments expanded across many parts of the province, net growth in employment occurred in only the Bloemfontein-Botshabelo-Thaba Nchu and Harrismith-Phuthaditjhaba clusters. Thirdly, it is a striking finding that outside of these two clusters, with the exception of a few small towns, employment declines in manufacturing are recorded throughout the province with the largest declines taking places across the Northern Free State, including the Goldfields and Sasolburg (Figure 7). Fourthly, the growing spatial concentration of manufacturing in Free State is shown by the finding that together the two key clusters around Harrismith and Bloemfontein in 1994 accounted for 38 percent of provincial manufacturing employment whereas in 2003 their share of total manufacturing employment in the province had escalated to 56.1 percent. Marked declines are recorded in the relative contribution of other centers to total employment in the province; most notable are for small towns as a whole from 15.2 to 11.1 percent; for Sasolburg from 24.6 to 18.3 percent; for the Goldfields from 11.5 to 9.4 percent; for Kroonstad from 5.6 to 2.6 percent; and, Bethlehem from 4.4 to 2.6 percent (see Figure 7).


FREE STATE 1994
Total Manufacturing
Enterprises
461
Number of
Manufacturing
Enterprises

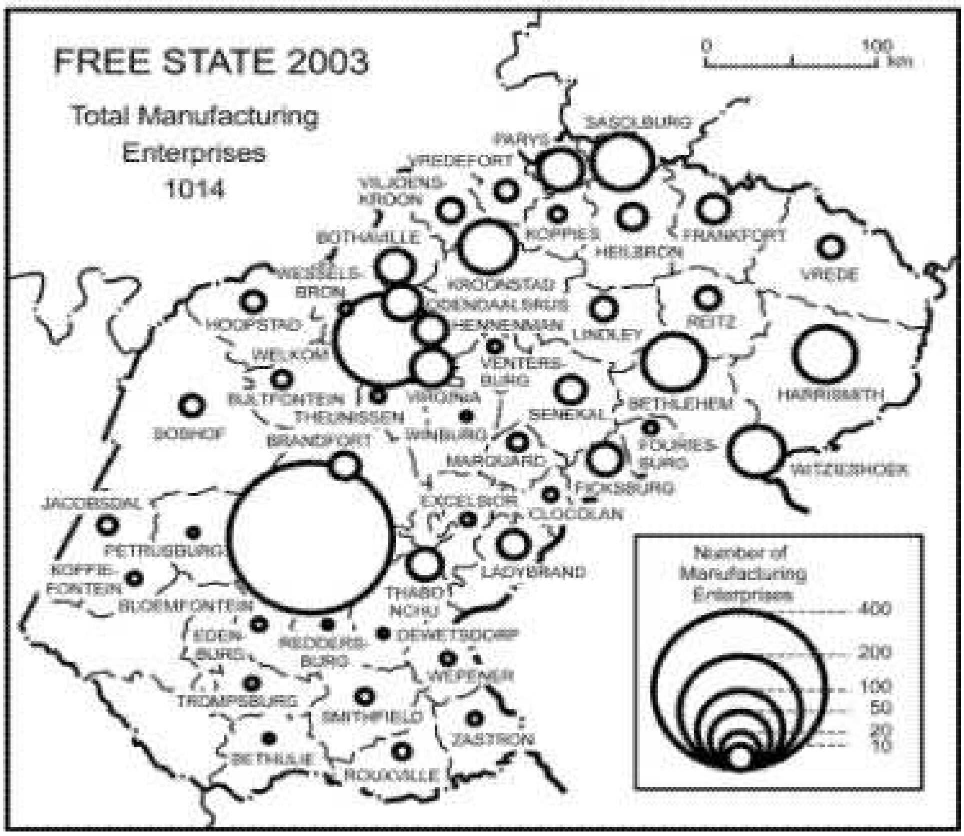

FREE STATE 2003
Total Manufacturing
Enterprises
1014
Number of
Manufacturing
Enterprises

Figure 5

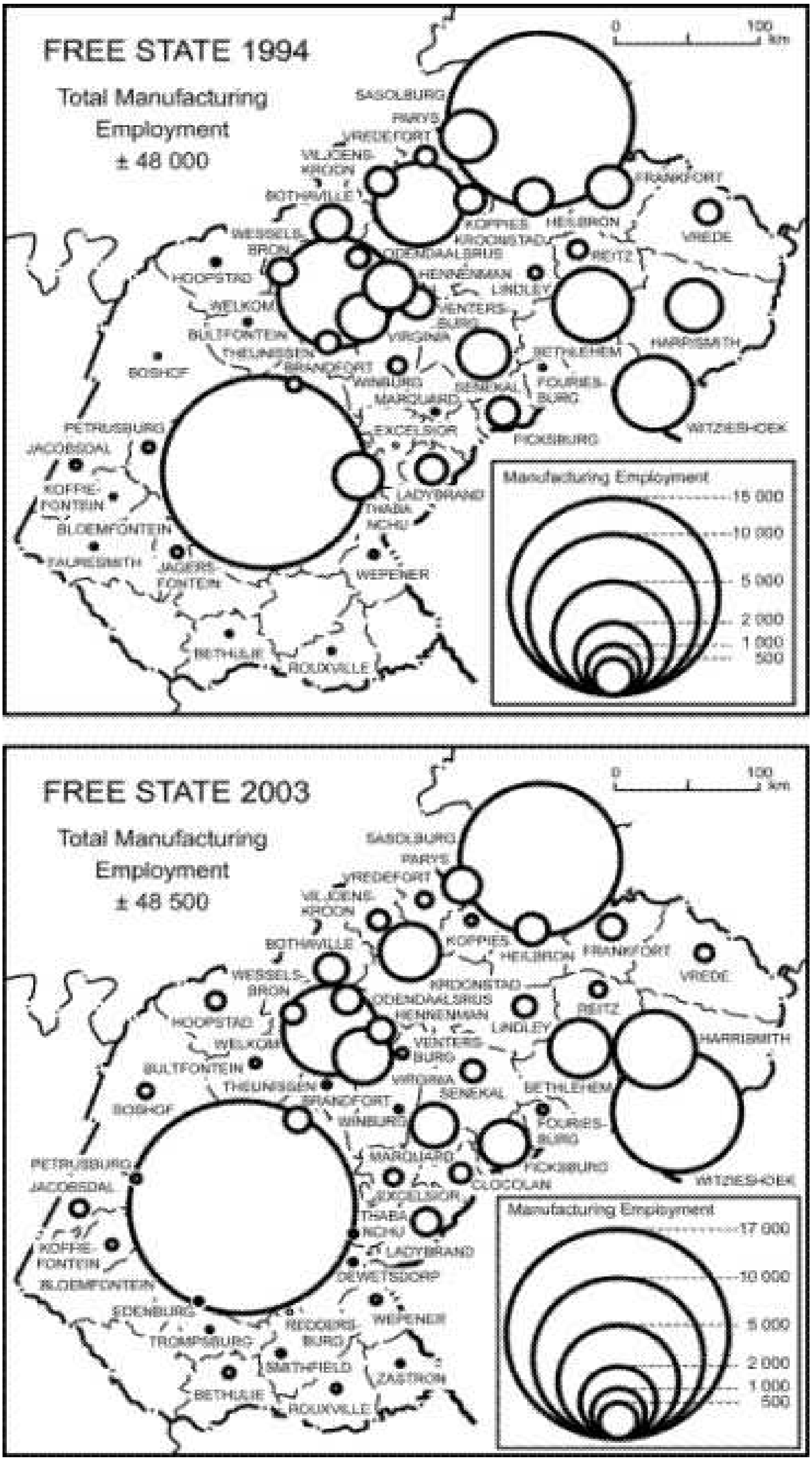
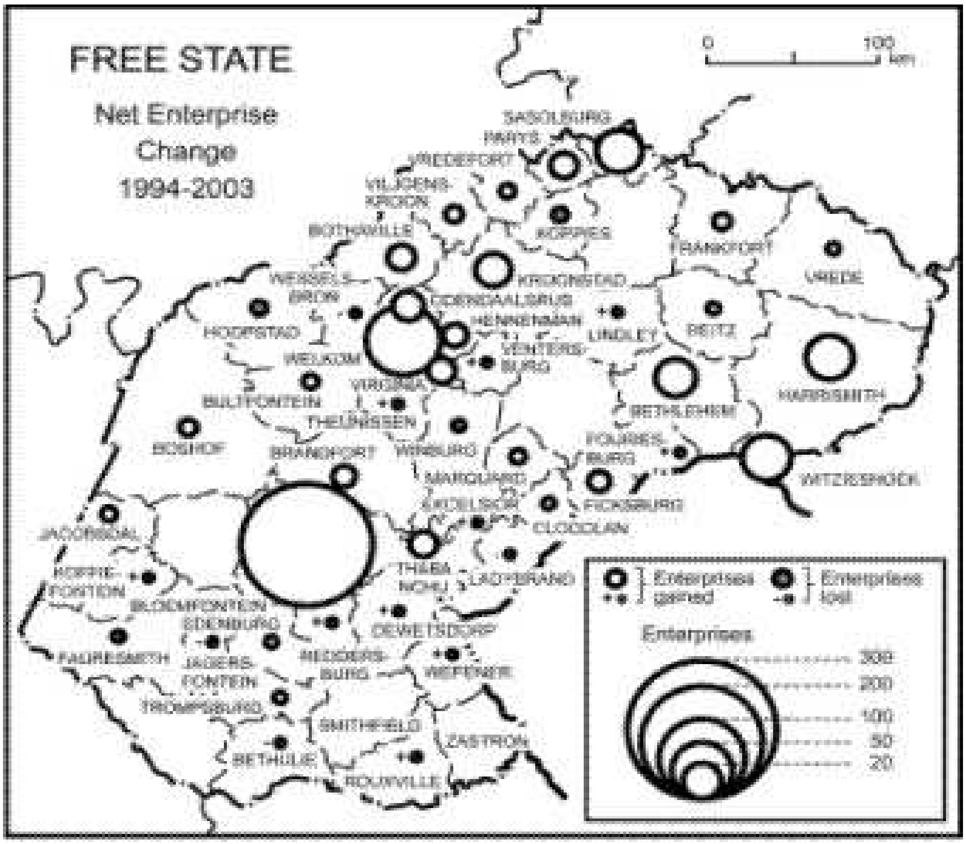

FREE STATE 1994
Total Manufacturing Employment
± 48 000
Manufacturing Employment
15 000
10 000
5 000
2 000
1 000
500
FREE STATE 2003
Total Manufacturing Employment
± 48 500
Manufacturing Employment
17 000
10 000
5 000
2 000
1 000
500

Figure 6


FREE STATE
Net Enterprise Change 1994-2003
Enterprises gained
Enterprises lost
Enterprises
300
200
100
50
20

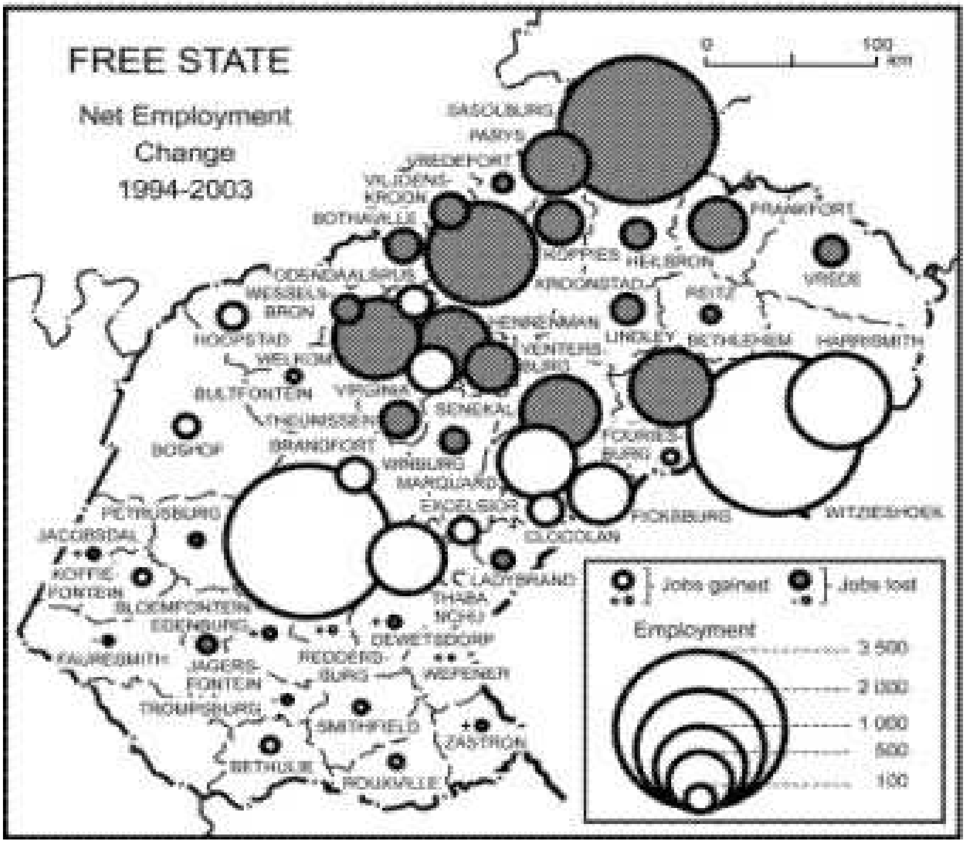

FREE STATE
Net Employment Change 1994-2003
Jobs gained
Jobs lost
Employment
3 500
2 000
1 000
500
100

Figure 7

Overall, therefore, the analysis of spatial change highlights the significance of the two clusters of manufacturing based around Bloemfontein and Harrismith-Phuthaditjhaba. It is only these two clusters that have exhibited any signs of vibrancy for the manufacturing economy. The stagnation, and in many cases decline, of manufacturing across much of the rest of the Province is clearly in evidence. The expansion in SMMEs has not compensated for the declines which have taken place through downsizing and closures of many of the Province's large enterprises and branch plants during the period 1994 to 2003.

THE LARGE MANUFACTURING INDUSTRY IN THE FREE STATE: AN OVERVIEW

1. Introduction

Manufacturing has been recognised as a sector with considerable potential for job creation and enterprise development. Manufacturing in the Free State cannot be analysed in isolation from the state subsidies provided in terms of the Regional Industrial Development Programme during the apartheid era. In essence, these subsidies attempted to develop industries in former homeland areas in the Free State.

The objective of this section is to investigate the development issues and core problems that confront the established large manufacturing industries in the Free State. This is done against the background of provincial planning initiatives, as well as the expectations of local municipalities to support and augment the manufacturing base.

This section consists of two major sub-sections:

- The first provides a macro-analysis and profile of the large manufacturing industries in the Free State.
- The second analyses the results of 30 interviews that were conducted in 2004 with large manufacturing industries across the Free State.

2. The large manufacturing industries: an overview

The data sources and methodology for the macro-analysis are as outlined in section 7.1 above. This section contains a discussion of key findings regarding the profiles of the large manufacturing industries as well as sectoral and spatial overviews. Only large manufacturing industries are considered. These defined as having more than 200 employees.

2.1 Employment: big industries

This section provides an overview of the number of jobs provided by the 54 largest industries in the Free State. These 54 businesses, which each employ more than 200 people, had a total employment figure of 27 650 for 2003. They represent 5.3% of all the manufacturing establishments in the Free State by number, but contribute 54% of the total employment in the manufacturing sector. If SASOL, the dominant employer, is excluded, the average employment figure for these industries for the year 2003 amounts to 401 people. Figure 8 provides an overview of the number of enterprises in terms of the various employment categories.

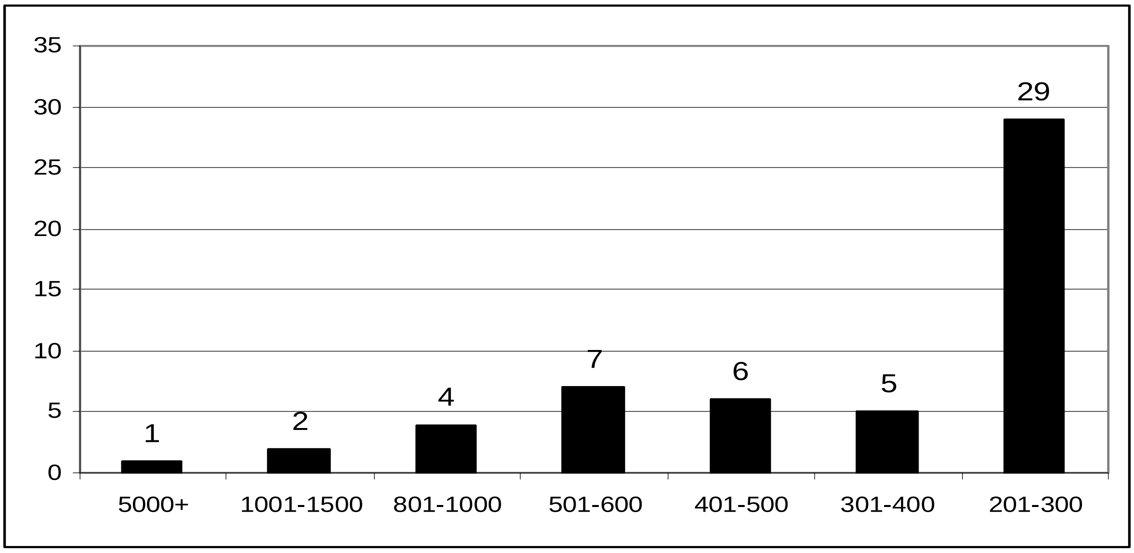


Figure 8: The number of large industries in the Free State by employment categories in the Free State, 2003

It is evident that the majority of these industries employ between 201 and 300 people. The dominance of SASOL, with approximately 6 000 employees, is also readily apparent.

2.2 Sectoral overview

In this section the various sectors, in which the 54 large manufacturing industries are located, will be analysed in more detail (see Figure 9).

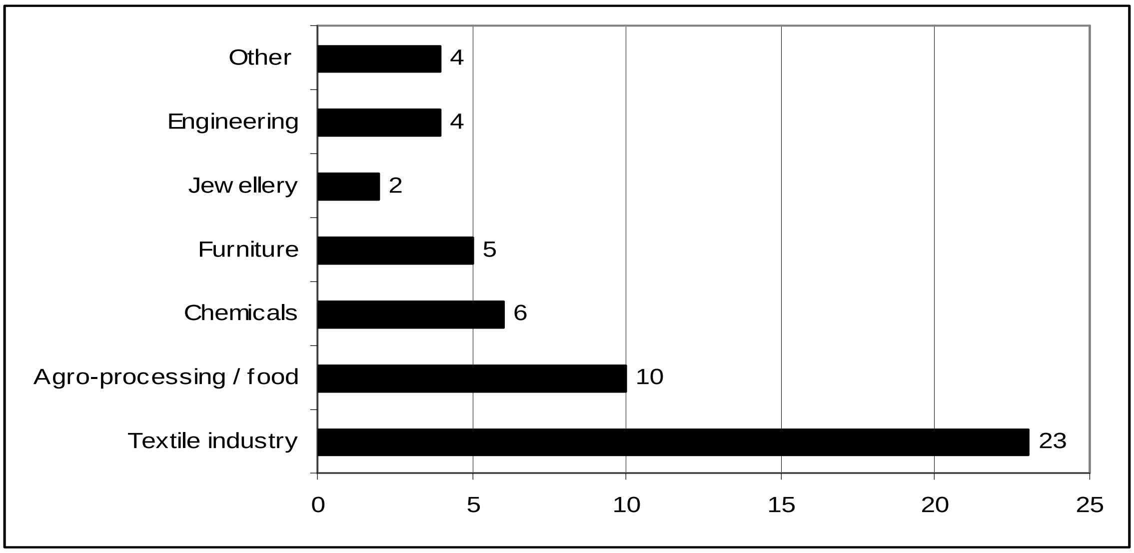


Figure 9: The number of large manufacturing industries per sector in the Free State, 2003

From Figure 9 it is evident that 42.6% (23) of the industries were in the textile field, 18.5% (10) were concerned with agro-processing and 11.1% (6) of the industries dealt with chemicals.

2.3 Spatial location of industries

This section provides a brief description of the location of the subject industries in the Free State (see Table 4).

Table 4: The location of the large manufacturing industries in the Free State, 2003

Area	**(n)**	**(%)**
Mangaung (Bloemfontein, Botshabelo and Thaba Nchu)	23	42.6
Maluti-a-Phofung (Harrismith and former QwaQwa)	13	24.1
Metsimaholo (Sasolburg)	9	16.7
Matjhabeng (Free State Goldfields)	3	5.6
Setsoto (Ficksburg)	2	3.7
Other	4	7.4
Total	54	100.0

From Table 4 above, it is evident that the majority of these large industries are located in the Mangaung Local Municipality and that the second biggest cluster is Maluti-a-Phofung followed by Metismaholo. The remainder are scattered between Matjhabeng, Setsoto, Bethlehem, Kroonstad, Heilbron and Marquard. It should also be mentioned that the spatial location of large manufacturing industries has been closely linked with the RIDP resulting in large-scale industrial development in the former homeland areas of QwaQwa, Thaba Nchu and Botshabelo.

3. Survey findings

3.1 Methodology

In this section findings are presented in respect of 30 interviews that were conducted with large manufacturing businesses across the Free State during 2004. The original intention was to conduct 40 such interviews. Initially, 54 manufacturing businesses with more than 200 employees were identified from the Bureau of Market Research Industrial Register compiled by UNISA in 2003. These businesses were all targeted and requested to complete a questionnaire (see Appendix 1). However, this proved to be over-optimistic, for the following reasons:

- Thirteen industrialists did not want to participate.
- Eight of the large manufacturing industries had closed down.
- Some businesses were in fact managed as one business on account of having a common owner.

The questionnaire focused on the following:

- the establishment of the various manufacturing businesses;
- the development of these businesses;

- business trends and future plans;
- job creation trends;
- problems experienced; and
- specific questions about the businesses' locations in the Free State.

Table 5 provides an overview of the geographic spread of the industries, as well as the geographic spread of the industries that completed the questionnaire.

Table 5: An overview of the spatial distribution of industries with more than 200 employees that responded to the questionnaire, in relation to the total of all such industries, 2003

Area	Sample (n)	Sample (%)	All industries (n)	All industries (%)
Mangaung (Bloemfontein-Botshabelo-Thaba Nchu)	11	36.7	23	42.6
Maluti-a-Phofung (former QwaQwa and Harrismith)	7	23.3	13	24.1
Metsimaholo (Sasolburg)	5	16.7	9	16.7
Matjhabeng (Free State Goldfields)	2	6.7	3	5.6
Setsoto (Ficksburg)	1	3.3	2	3.7
Other (Bethlehem, Heilbron, Kroonstad, Marquard)	4	13.3	4	7.4
TOTAL	30	100.0	54	100.0

In terms of the industries that were reached by means of the questionnaire, there is a slight under-representation of industries in the jurisdiction of the Mangaung Local Municipality matched by an over-representation is in the 'other' category. For the rest of the areas under consideration, the percentage in the sample more or less matches the percentage of the total number of industries. The majority of the industries in Mangaung are actually located in Botshabelo. It should be noted that, in terms of Krige's (1995) categorisation of the Free State urban areas, only one industry with more than 200 employees is found near a small town, namely Marquard. City areas have 60% (18) of the industries while the remainder of the industries are divided between regional towns (Kroonstad and Bethlehem – 2 industries), as well as middle-order towns (Puthaditjhaba, Harrismith, Ficksburg and Heilbron – 11 industries).

In addition to the overview of the spatial distribution of the large manufacturing industries in the Free State, a broad overview of the types of industries is provided. Once again, the actual sample is compared with the total number of industries employing more than 200 people (see Table 6).

Table 6: An overview of the types of industries with more than 200 employees that responded to the questionnaire, in relation to the total of all such industries, 2003

Type of industry	Sample (n)	Sample (%)	All industries (n)	All industries (%)
Textile industry	11	36.7	23	42.6
Agro-processing / food	8	26.7	10	18.5
Chemicals	4	13.3	6	11.1
Furniture	2	6.7	5	9.3

Jewellery	2	6.7	2	3.7
Engineering	2	6.7	4	7.4
Other	1	3.3	4	7.4
Total	30	100.0	54	100.0

Table 6 shows that the textile industry is somewhat under-represented in terms of the sample. At the same time agro-processing/food is correspondingly over-represented.

3.2. General characteristics

This section aims at providing a broad overview of the characteristics of the large manufacturing industries in the Free State. The racial composition of the respondents reveals that the vast majority are white (63%). There is also a remarkable percentage of Indian / Asian owners (27%) with black owners making up 10%. The large percentage of Asian respondents is noteworthy, considering that the Indian population had no residential rights in the Free State before 1988. Chinese owners make up the balance of this category. As ‘owner/managers’, males represented 86% (24 out of 28), and females 14% (4 out of 28) of the respondents.

Figure 10 provides an overview of the points in time when the various large manufacturing industries were established in the Free State.

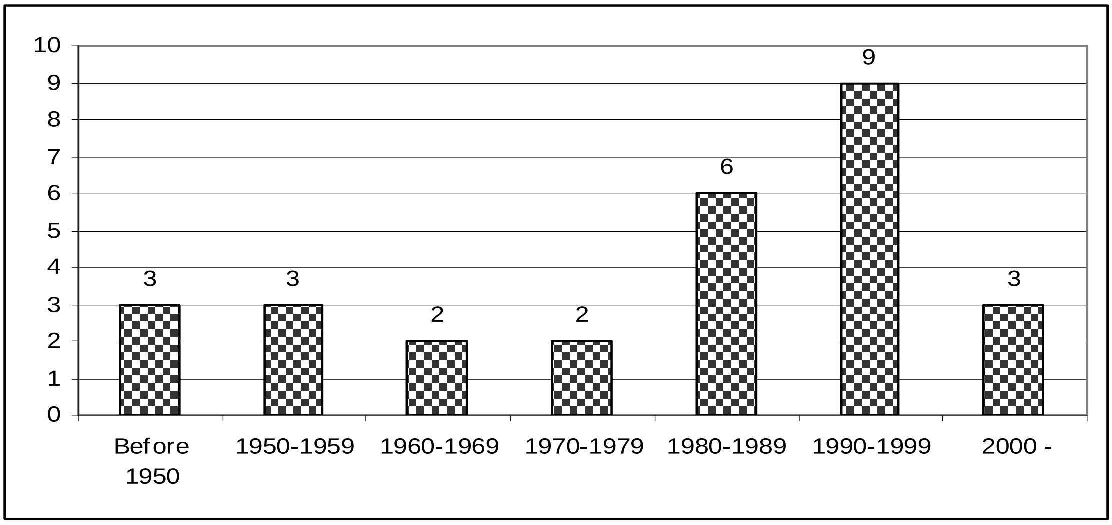


Figure 10: An overview of the points in time when the large industries in the Free State were established (Missing responses = 2)

The following comments should be made with regard to the years in which the industries were established in the Free State:

- The period up to 1979 represents a fairly low rate of establishment in the Free State, as only ten of the 28 industries (35.7%) were established before 1980. It should also be noted that this was a period in the Free State economic history that was dominated by agriculture and mining.
- A significant increase in the establishment of large manufacturing industries after 1980 can be noted. For the period 1980 to 1989, six large industries (21.4% of the

total in the survey) were established in the Free State, while nine industries (32.1%) were established between 1990 and 1999. The period after 2000 has seen three large industries (10.7%) being established. The increase in the establishment of industries after 1980 should be seen against the background of the provision of incentives in the former homeland areas (QwaQwa, Botshabelo and Thaba Nchu) by the Regional Industrial Development Programme. This is confirmed by the fact that all 12 businesses in these three areas were established after 1987.

- If the establishment dates of these 12 businesses are disaggregated further it emerges that six of them were established after 1997, while six were established between 1987 and 1997. The new establishments in these three areas since 1998 can thus be attributed to renewed endeavours by the FDC to fill the vacant industrial space in the former homelands.
- Since 1987, only three large industries have been established in locations outside the former homeland areas. One of these is related to a specific government initiative linking funding from the Free State Development Corporation to the establishment of a jewellery hub in the Free State Goldfields. The others are textile-manufacturing industries in Ficksburg (closely linked to the industrial development in Maputsoe in Lesotho) and in Harrismith.

From the trends above it seems that the large industrial initiatives in the Free State have been limited mainly to areas that benefited directly from the Regional Industrial Development Programme, or from the infrastructure created by this programme in the Free State since 1986. At the same time, only limited investments have been made in areas where such initiatives were not available. However, it should be acknowledged that the increasing industrialisation resulting from the Regional Industrial Programme, along with the infrastructure provided by means of this programme, has played a significant role in diversifying the Free State economy since the mid-1980s. The Free State economy is, however, still highly dependent on agriculture and mining.

3.2 Branch plants versus independent businesses

The geographical impermanence of a business's choice of location is often determined by its being a branch office with a headquarters located elsewhere. The respondents had to indicate in the questionnaire whether their plant was independent; whether it was a branch plant with its headquarters elsewhere; or whether it was a Free State-based business with branches elsewhere (see Figure 11).

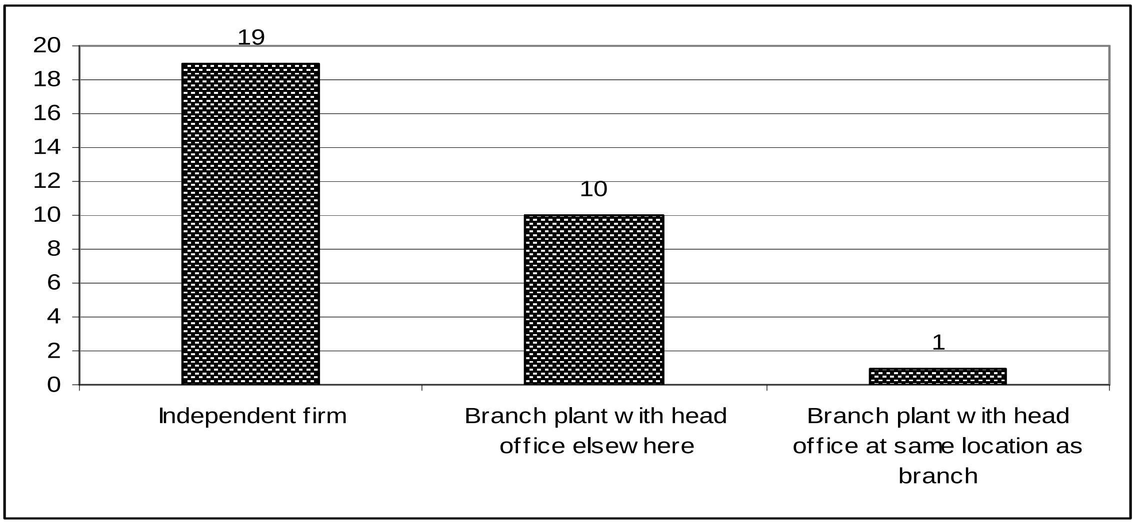


Figure 11: A profile of independent firms, branch plant firms and Free State-based manufacturing businesses with branch plants elsewhere, 2004

Thirty large manufacturing industries responded. Of these, 19 (63.3%) were independent firms with only a Free State plant. One industry (3.3%) had its head office located in the Free State with branch plants elsewhere. Ten businesses (33.3%) were branch plants with their head offices elsewhere. Eight of the 10 head offices are located in Gauteng, one in the Western Cape and one in Canada. This profile of head offices emphasises the fact that the Free State forms, to a large extent, the economic periphery of Gauteng. It is also noteworthy that only one of the 10 large industries with head offices elsewhere is located in one of the former homeland areas. This is probably an indication that big South African businesses tend to locate their business in areas of economic potential and not in peripheral areas such as former homelands. Although 19 of the 30 businesses were Free State-based, only one business based in the Free State has branch plants elsewhere. This picture reveals high locational dependence, with a limited number of businesses expanding beyond the Free State boundaries.

3.3 Reasons for establishment

Having considered the general characteristics of industries above, the emphasis now shifts to an assessment of the reasons for the establishment of the large manufacturing industries. The respondents provided the following main reasons for the establishment of their industries in the Free State:

- reasons relating to profit and production (x8);
- availability of raw materials (x5);
- to create employment (x3);
- knew the sector well and therefore started a business (x3);
- close to the market (x3); and
- owing to government incentives (x2).

As can be expected from the nature of business, i.e. the aim of profit-making, reasons relating to profit and production played an important role in the establishment of these large manufacturing industries. Also noteworthy is the ideal of creating employment. However, five of the industries indicated that the availability of the raw materials played an essential role in the establishment of their enterprises in the Free State. Three businesses mentioned proximity to their markets as the main reason. Only two mentioned that specific government incentives had played a crucial role in their motivation for locating in the Free State.

3.4 Start-up capital and problems experienced during the initial period

In terms of start-up capital, 16 respondents reported that such capital was provided by the owners themselves, four businesses were funded by means of bank loans, and two respondents said that their initial capital had come from government, but that since receiving the government aid, they had been transformed into fully fledged business units. In two cases businesses were established by means of groups of people (for example farmers), while foreign capital played a role in two more cases. Only one business reported having initially received capital from the previous QwaQwa government. Four main types of problems had been experienced during the start-up phase:

- the low levels of skill amongst the work-force (x10);
- lack of adequate capital (x3);
- lack of technical skill and management skills to make the business work (x3); and
- marketing-related problems (x3).

The low level of skills was cited with disturbing frequency (13 respondents referred to this problem). This means that nearly half the respondents reported difficulties relating to low levels of skills.

3.5 Locational issues

Four aspects with regard to large industries in the Free State will be analysed in more detail, namely: the reasons for establishing the businesses at their current location; an evaluation of the advantages and disadvantages of the current location; how the respondents see the future of industry in the Free State; and whether the decline in agriculture and mining in the province has influenced their business. Table 7 provides an overview of the main reasons for establishing the businesses at their current location.

Table 7: Reasons for establishing the manufacturing enterprises in the Free State, 2004

Reason	(n)	%
Access to labour force /cheaper labour	6	24.0
Close to raw materials	5	20.0
Central location	3	12.0
Government incentives	3	12.0
Available infrastructure	3	12.0
Proximity to place of residence/family reasons	3	12.0
Proximity to Gauteng	1	4.0
Low costs	1	4.0
Total	25	100.0

The following comments can be made with regard to the table above:

- The two most prominent reasons for establishing businesses in the Free State are access to cheaper labour (24%) and proximity to raw materials (20%). It is probably true that labour in the Free State may be somewhat cheaper despite minimum wage requirements. However, if the problem concerning labour skill is considered, it should be acknowledged that cheap labour goes hand in hand with low levels of skill.
- As the Free State economy is historically based on agriculture and mining, the fact that several respondents mentioned proximity to raw materials does not come as a surprise. This is relevant for agro-processing industries, jewellery and mining-related industries (which include SASOL).
- Three respondents (12%) mentioned centrality of locale. That so few cited centrality gives the lie to the easy assumption made in a number of government policy documents that the centrality of the Free State is one of the main incentives for manufacturing businesses to locate in the province.
- Government incentives (12%), available infrastructure (12%) and low costs (4%) could probably all be clustered together as one conceptual category. The incentives provided by the FDC, coupled with the factory space that the Corporation has available, probably result in lower costs for the manufacturer.
- Three respondents indicated that their choice of location was influenced by the fact that they were resident in the specific area chosen.

In addition to the question relating to the reasons for establishing their manufacturing businesses in the Free State, respondents were asked whether they had subsequently questioned their decision to set up their enterprises in the Free State (see Figure 12).

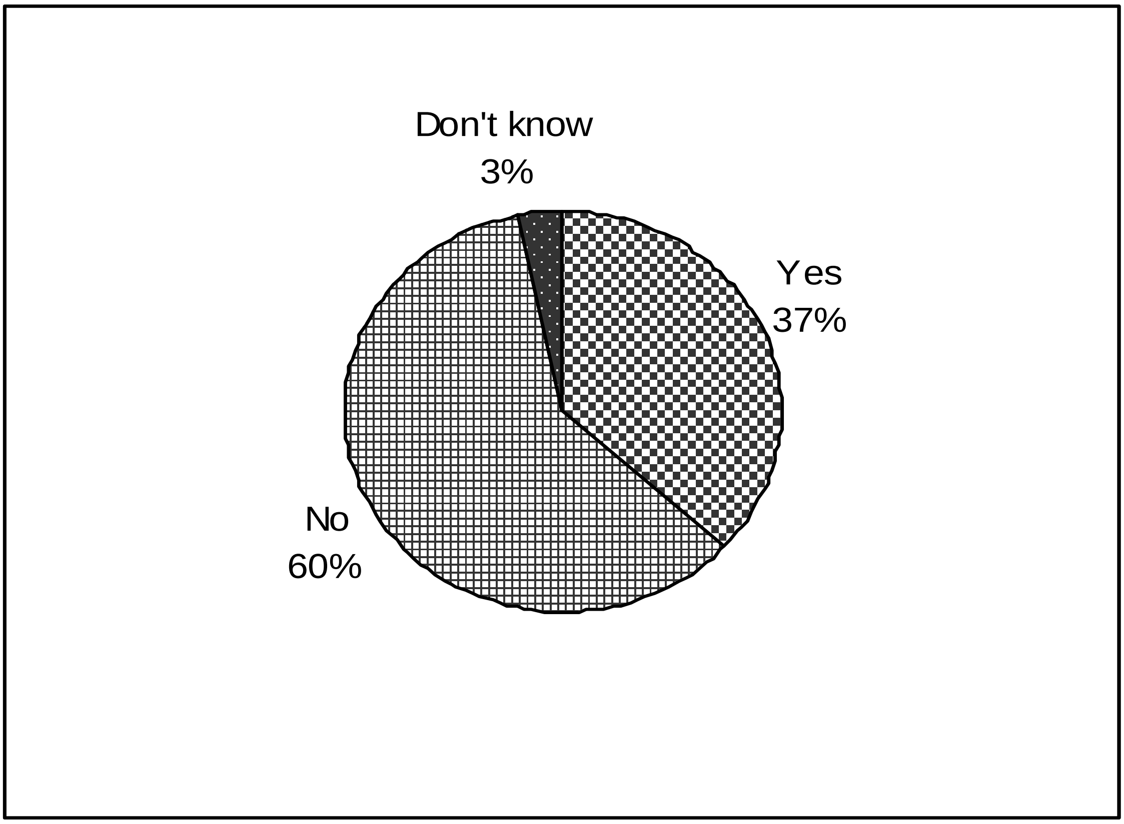


Figure 12: Manufacturing enterprises questioning their decision to locate in the Free State, 2004

From Figure 12 it is evident that a considerable number (37%) of enterprises are questioning their initial decision to locate in the Free State. The main reason provided by these enterprises was the poor access to markets or the distance from markets (including export markets). Eight of the 10 enterprises cited poor access. The remaining two mentioned the poor skills levels of labourers and the poor road and rail infrastructure. One company noted that it spends between 7% and 10% of its labour account on training. This is apparently considerably higher than the norm in similar industries. The complaint with regard to the road and rail infrastructure can, to a large extent, also be linked with the problem of access and distance to markets. The types of businesses that mentioned their reservations with regard to locating in the Free State are:

- 25% of the agro- processing and food sector (2/8);
- 50% of the petro-chemical industries (2/4);
- 100% of the jewellery businesses (2/2);
- 46% of the textile industries (5/11); and
- none of the furniture and engineering businesses.

The question of location in the Free State was further pursued in that respondents were asked to list the advantages and disadvantages thereof. The respondents' answers are summarised in Table 8 below.

Table 8: A summary of perceived advantages and disadvantages of the location of large manufacturing businesses in the Free State, 2004

Advantages	n	%	Disadvantages	n	%
Access to labour/stable workforce	11	22.4	Distance to markets/export harbours/suppliers	16	37.2
Central location	8	16.3	Labour-related problems (unions/skills)	7	16.3
Near raw material	7	14.3	Transport problems	5	11.6
Lower rates/other incentives	6	12.2	None	4	9.3
Very few/none	4	8.2	Poor infrastructure	4	9.3
Close to infrastructure	3	6.1	Supporting services do not exist	2	4.7
Close to established industries	2	4.1	Far away from qualified staff	1	2.3
Pleasant place	2	4.1	Local market is not growing	1	2.3
Crime is lower	2	4.1	Lack of security	1	2.3
Access to Gauteng / KZN markets	2	4.1	Weather is too cold	1	2.3
Disease control	1	2.0	Cost of services too high	1	2.3
No competition	1	2.0			
TOTAL	49	100.0	TOTAL	43	100.0

In total, 49 advantages and 43 disadvantages were recorded. The following comments need to be made:

- Access to labour and a stable workforce were jointly mentioned as the main advantage in the Free State. This is fairly significant, but at the same time it should be mentioned that labour was also cited as the second largest disadvantage. Rogerson also identified poor skills levels as an important factor in his 2003 assessment of the SMME manufacturing industry. The increasing problems concerning labour might result in an increase in mechanisation or have a negative impact on the competitiveness of various industries.
- Central location is the second most cited advantage. In contrast, it is noteworthy that 37.2% of the responses mentioned the distance to the market and export markets as a disadvantage. Moreover, if the five identifications of transport problems are added, this means that almost half of the responses identify peripheral location in relation to Gauteng and export markets as being the main disadvantage in the Free State. The issue of location is closely linked to the type of manufacturing business and the location of the main market.
- Proximity to raw materials received seven mentions. This is understandable, especially for engineering, agro-processing and mining-related industries. However, with regard to markets, it seems that - depending on the product - access to markets is more important than access to raw materials.
- Poor infrastructure is mainly related to the road and rail infrastructure in the province. This should remind government of its responsibility to ensure that the road infrastructure, in particular, is adequate and maintained.

In addition to the questions above, the 30 respondents were asked how they see the future of industry in the Free State. Although ambiguous answers were given by many respondents (and although some answers were not necessarily specific to the Free State), 11 of the 28 responses (36.6%) were positive, 11 were negative, and five (17.8%) were positive, but with the qualifier that a number of aspects need to be set right. One respondent was uncertain. The following reasons were given for being negative or conditionally positive:

- government tries to interfere too much;
- local government does not maintain the infrastructure;
- unions are too active (x2);
- too many imported goods;
- too many unskilled workers;
- provincial political infighting does not help to create priority areas;
- current exchange rate is problematic (x2);
- Free State is not aggressive enough in its marketing strategy; and
- competition with Lesotho where it is cheaper to produce.

These points have a direct bearing on the approach to industrialisation in the province. The interference and political infighting in government suggest that no overall strategy has been put in place with regard to manufacturing in the province. This situation also suggests that local governments do not really perform in terms of infrastructure maintenance, while the skill levels are, once again, mentioned as being problematic. In addition to these comments, three respondents were of the opinion that, for large manufacturing industries specifically, the future is bleak, but that smaller industries in the Free State that provide to local markets might have growth potential. The distance to the large markets simply makes operational costs too high.

The fact that the peripheral location of manufacturing businesses in the Free State is identified as a main disadvantage has major policy implications for programmes aimed at supporting the manufacturing industry in the province. In the first place, centrality should not automatically be used as a marketing ploy. Secondly, local municipalities should understand that decisions on the location of manufacturing-related businesses are highly dependent on operational costs and not necessarily on the initial establishment costs. This is probably the main reason why local government incentives that are directed at the establishment of businesses achieve limited results. Meanwhile, the considerably lower cost of floor space in the factories of the Free State Development Corporation has achieved more significant results. The low levels of skill that have been identified as a major shortcoming should be a matter of concern, and probably require specific, co-ordinated attention by the business sector and public service. Despite certain structural constraints, it does not seem that the provincial and local governments have always played a constructive role in terms of strategy and support.

3.6 Evaluating government support

In this section government support of the manufacturing industry, will be analysed in more detail. As already noted, the RIDP managed to attract a large number of industries to the Free State after the mid-1980s – although at a huge cost to government, as well as to local communities. Currently, the FDC offers various incentives including a considerable reduction in factory space rentals. Many local authorities also offer incentives. This section will also assess the influence of existing programmes of the Department of Trade and Industry.

Eight enterprises indicated that they were influenced in some or other way by a state-related institution to establish their business in the Free State. SASOL, a number of related petro-chemical industries, and the state-owned Transwerk, are included among these eight industries. The State influence that was brought to bear on these industries should not be confounded with that exerted by the erstwhile QwaQwa Development Corporation and the Bophuthatswana Development Corporation (predecessors of the FDC). The FDC subsidises industrial opportunities in the former homeland areas at considerable cost to the State. Only two enterprises indicated that they had been influenced in their locational decision by the RIDP. The RIDP's main legacy has been the surplus factory space it created. The current incentives of low rent and, in some cases, rental holidays have proved to be a renewed attraction for manufacturing businesses.

Nine of the respondents (30%) mentioned that some kind of assistance from the FDC had been important to them. The following specific aspects were mentioned:

- sponsorship of water and electricity;
- provision of a loan;
- assistance with administrative aspects;
- provision of factory premises at low rentals (x2);
- assistance with marketing; and
- assistance with building maintenance (x2).

The aforegoing underscore the efficacy of incentive schemes that reduce operational costs, compared to the limited success of start-up initiatives by, for example, local municipalities. In fact, no respondents indicated that any institution other than the FDC had influenced their decision to locate in the Free State. The FDC's attractive rentals are however only possible because the capital costs relating to the development of these factories have been written off against tax-payers' money. They cannot therefore be replicated at will. It should also be borne in mind that rental incentives carry the danger that businesses will relocate once their contracts have expired.

In terms of DTI support, 56.7% of the respondents were unaware of any support programmes offered by this department. This is alarming, as it reflects negatively on the effectiveness of the communication strategy in the department. Furthermore, only two of the businesses said that they had successfully applied for funding from the DTI. Considering that the 30 businesses that were included in the survey provide nearly 40% of the employment opportunities in manufacturing in the Free State, the low rate of access to assistance from the DTI is worrisome. The DTI support was in the nature of relocation assistance. There was also a single instance of the Industrial Development Corporation having provided a loan.

The FDC is clearly the most significant role-player in providing opportunities for large manufacturing businesses in the Free State. The impact of support programmes offered by local municipalities is not visible, while the DTI has played only a minor role.

3.7 Employment trends

This section provides an overview of employment trends since 1994, as recorded by 30 large manufacturing industries in the Free State. Table 9 gives an indication of the main trends.

Table 9: An overview of the increases versus the decreases in employment in the large manufacturing businesses of the Free State, 1994 - 2004

Criteria	**1994-1999 (n)**	**1994-1999 (%)**	**1999-2004 (n)**	**1999-2004 (%)**
Number of businesses that have increased their work-force:	11	55.0	15	55.6
Number of businesses that have decreased their work-force:	9	45.0	12	44.4
TOTAL	20	100.0	27	100.0

From the table it is clear that 55% of the large manufacturing industries increased their labour force for each of the two periods under consideration. It is interesting to note from the disaggregated data that 40% of the textile industries decreased their work-force, while 50% of the agro-processing and chemical industries decreased their labour force after 1999. The following reasons for decreasing labour complements were provided by the respondents:

- not competitive (also internationally) / need to restructure (x7);
- increase in labour costs (x3);
- increasing mechanisation (x2);
- company went insolvent and had to be built up by new owner; and
- market decline.

The number of industries that reduced their labour force to become more competitive is remarkable. This seems to be the result of the opening up of global markets. Support for this conclusion can be found in the fact that the decrease in employment has been more pronounced in the case of large manufacturing businesses established before 1990. Eight of the 14 enterprises in this category indicated that they had decreased their workforce. In comparison, only three of the 12 businesses established after 1990 decreased their workforce. This was probably also a reflection of the competition from cheap imports, especially in the textile industry. Figure 13 reflects the creation of employment. The disproportionate dominance of SASOL should be borne in mind. SASOL provides work to about a third of the gross number of employees attached to the 30 businesses under consideration. This figure also represents approximately 12% of the total employment in manufacturing in the Free State.

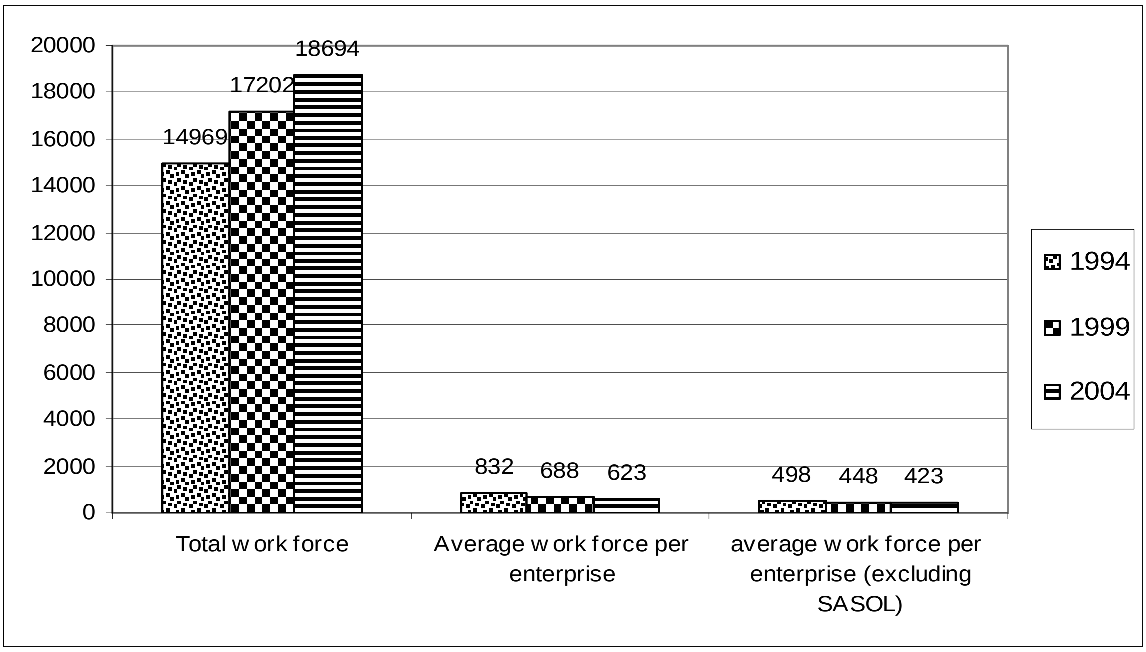


Figure 13: Employment trends with regard to large manufacturing industries in the Free State, 1994 – 2004

The following is evident from Figure 13:

- The overall employment figure in the industries that were interviewed increased from 14 969 in 1994 to 18 694 in 2004. This increase seems to be mostly a result of an increase in the number of manufacturing enterprises, rather than an increase in the employment figures of existing enterprises. This is supported by the fact that the average employment figure has decreased since 1994. In 1994 the average number of people per enterprise was 832; and if the employment figures for the dominant SASOL are taken out of the equation, the figure was 498. However by 2004 these figures had both declined to 623 and 423 respectively. It should also be noted that the employment figures in this section are somewhat higher than those provided by the data of the Bureau of Market Research, mentioned earlier in this report.

Other evidence from the data of the 30 respondent industries suggests that the manufacturing industries that were established before 1990 employ slightly more people than those established after 1990. The average employment figure for enterprises established before 1990 is 503 (excluding SASOL). Comparatively, the average employment figure for those industries that were established after 1990 is 462. It seems that employment within industries in the Free State is under pressure. This is mainly owing to increasing international competition, increasing labour costs and mechanisation. SASOL is a case in point. During the last 10 years SASOL has made large investments in various new production processes, but its employment figures have not increased.

Against this background the respondents were asked to indicate the conditions under which they would appoint new workers in their businesses. The following conditions were put forward:

- if there were an increased demand/market (x 9);

- if unions were less strict regarding wages / general labour legislation (x6);
- if certain business-specific conditions were fulfilled (x3);
- if the skill levels of employees increased;
- if the Rand became weaker;
- if government were to put a stop to illegal imports;
- if government provided more support; and
- if funding could be accessed.

There is little the Free State Provincial Government can do in response to the above conditions. Labour legislation applies to the whole country, while increased demand and/or markets are dependent on national growth and the ability of enterprises to access global markets. Furthermore, the Free State Provincial Government cannot do anything about the Rand/Dollar exchange rate, nor about illegal imports (especially in the textile industry). A limited amount of support could, however, be provided in terms of accessing funding, as well as increasing the skills levels of workers. In this regard, internships in partnership with the various enterprises could play a role. It should be mentioned that Natref in Sasolburg has such a programme in place and that it has had major positive results for the company.

A breakdown of gender and racial composition reveals that malesmake up 47.25% of the total workforce employed by the 30 polled industries with female representation at 52.75%. In terms of the racial composition of these industries black people comprise 82.5% of the workforce and white people 17.5%. The highest employment level of white people is found in the petro-chemical industry, while the ratio of female employment increases to over 65% in former homeland areas.

3.8 Operational links

In this section three specific links will be discussed, namely input links, output links and SMME links. Of the 30 industries that were interviewed, 18 source some of their raw materials from the Free State, 25 from South Africa and 17 from abroad. In terms of their markets, 15 industries have a market in the Free State, 20 have national markets and 15 have international markets. Figure 14 provides an overview of the geographical links with regard to the inputs and the outputs. It should be borne in mind that these figures have been calculated by means of huge aggregates and represent a summary of the various products per industry, and not business size or Rand value.

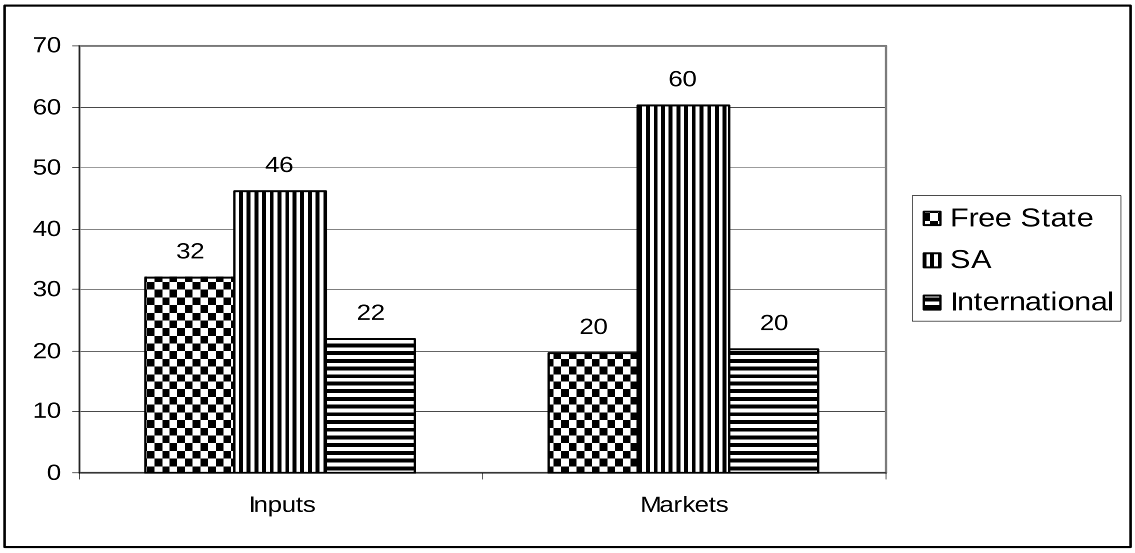


Figure 14: A geographical comparison of the average percentage inputs and markets of large manufacturing industries in the Free State, 2004

It is evident from Figure 14 above that the business links of the large manufacturing businesses, both in terms of inputs and in terms of markets, are mostly to areas outside the Free State. In terms of inputs, the various industries, on average, source only 32% of their raw materials in the Free State. Furthermore, only 20% of the products produced in the Free State are distributed to the Free State. The difference between the percentages for inputs and outputs probably also suggests that the location of industry in the Free State has been linked more to raw materials than to market access. These statistics, although determined in a fairly rough manner, provide a better understanding in respect of the following:

- They support the complaints by industrialists, mentioned earlier in this report, that one of the main disadvantages of their location in the Free State relates to the distance to the market.
- They also corroborate the fact that municipalities, other than those that have available industrial space belonging to the Free State Development Corporation, are struggling to get new industries located in their areas of jurisdiction. Locating in the Free State does not make business sense in the light of the high costs associated with transporting raw material and marketable products – with the possible exception of industries in the Sasolburg area.

This state of affairs, in which a large number of businesses are linked in terms of their operations to areas outside the Free State, also necessitates fairly good transport systems. Considering some of the complaints cited earlier in this report with regard to the available transport systems, the provision and maintenance of first-class transport infrastructure seems to be pivotal.

The third aspect relates to the links of the large manufacturing businesses in the Free State with SMMEs. Down-streaming is usually an important factor in the creation of employment. The survey showed that only six of 29 respondents had links to SMMEs. It should be pointed out that a fairly concerted effort was made to improve down-streaming in the petro-chemical industry, but that the process was hampered by the lack of skills and capital (see also the report on local governments and the petro-chemical sectoral report). It seems that down-streaming within the petro-chemical industry from SASOL has been taking place internally. The information provided by those claiming to have down-stream links was fairly limited. Only three companies provided more details. The following is a summary of what they reported:

- 14 down-stream companies, each with an asset value of R500 000, have created approximately 2 000 work opportunities (textile factory);
- 600 – 700 employees were part of the initial start-up process (jewellery); and
- about R5 million per annum is paid to various SMMEs for support services (engineering).

Lastly, respondents were asked whether the decline in the agricultural and mining sectors in the Free State had influenced their business performance. Ten of the respondents (33%) indicated that this was the case. The majority of these respondents directly linked the impact to the smaller markets resulting from negative growth in these two sectors.

In general, it seems that there are limited links between SMMEs and large industries in the Free State. The large manufacturing businesses in the Free State are linked to other provinces and the global environment to a larger degree than to the Free State, as far as their inputs and products are concerned.

3.9 Business performance and future plans

Here the business performance of the 30 respondents will be assessed in more detail. Each of the businesses was asked to rate its factory space and profit. The respondents were also requested to rate their competition in the Free State, as well as the national and international competition, in terms of whether this competition had increased, decreased or remained the same during the last five years and during the past year; and to indicate whether they expected it to increase, decrease or remain the same in the future (see Table 10).

Table 10: An overview of business performance and future plans of the large manufacturing industries in the Free State, 2004

	Increase(d)						**Decrease(d)**						**Remain(ed) the same**					
	5 y (n)	**5 y (%)**	**1 y (n)**	**1 (%)**	**Ex (n)**	**Ex (%)**	**5 y (n)**	**5 y (%)**	**1 y (n)**	**1 (%)**	**Ex (n)**	**Ex (%)**	**5 y (n)**	**5 y (%)**	**1 y (n)**	**1 (%)**	**Ex (n)**	**Ex (%)**
Factory space	14	53.8	11	45.8	9	33.3	1	3.8	1	4.2	3	11.1	11	42.3	12	50.0	15	55.6
Profit	16	66.7	13	50	14	51.9	5	20.8	11	42.3	8	29.6	3	12.5	2	7.7	5	18.5
Competition in the Free State	5	22.7	4	18.2	4	17.4	2	9.1	4	18.2	5	21.7	15	68.2	14	63.6	14	60.9
Competition nationally	12	57.1	12	52.2	11	47.8	3	14.3	5	21.7	4	17.4	6	28.6	6	26.1	8	34.8
Competition internationally	17	73.9	19	79.2	14	73.7	1	4.3	4	16.7	3	15.8	5	21.7	1	4.2	2	10.5

In terms of factory space, the largest percentage of industries mentioned that they had increased their factory space (53.8%) during the last five years. Only one industry (3.8%) indicated that it had decreased its factory space over the last five years. The same trend seems to be prevalent with regard to the preceding year. However, considering future plans, 33.3% indicated that they would increase their factory space while 11.1% of the industries claimed that they expect to reduce their factory space in future. These figures tend to paint a picture of a declining trend in terms of the utilization of factory space over the past five years. This trend will probably continue into the future.

In terms of business profits, the same trends seem to be present. However, it should be recognized that business profits are closely linked to the Rand/Dollar exchange rate. Of the industries interviewed, 20.8% indicated that business profits had declined over the last five years, while 42.3% indicated a decline over the immediately preceding year. Furthermore, 29.6% indicated that they expected to experience a decline in profit over the next 12 months. At the same time, fewer enterprises expected to increase their profits over the next 12 months (51.9%), compared with the number that said their profits had increased during the past five years (66.7%). One of the respondents indicated that the business would be able to increase its profits if more skilled labour were available.

In general, the competition in the Free State appears to be waning. For example, 9.1% of the respondents indicated that the competition in the Free State has decreased over the last five years, while 18.2% mentioned that it has decreased over the last year. At the same time, 21.7% indicated that they expect the competition to decrease over the next 12 months. A number of respondents mentioned factory closures in the Free State. To a large extent, the competition in the Free State can thus be expected not to increase. This state of affairs can be analysed from two perspectives. In the first place, it probably reflects negatively on the Free State in respect of the provision of business opportunities for manufacturers. Secondly, it means that these businesses probably have a less competitive environment in the Free State – although this would not make much difference to their profits, as their links are mainly outside the Free State. Furthermore, the lack of capital in the Free State was indicated by a number of respondents as the main reason for not considering competition from the Free State as important. There are also claims that a number of larger companies in the Free State (especially in agro-processing) have closed, but have been replaced by smaller enterprises.

The most significant competition would come from the international environment. More than 70% of the enterprises noted an increase over the past five years, as well as during the past year. They expect an increase in global competition during the next 12 months. In general, about 50% of the establishments are of the opinion that national competition has increased and will increase in future. According to the results of the survey, the increasing competition, both nationally and internationally, can be attributed to the following factors:

- The importation of textiles is making it difficult for textile manufacturers to survive. This situation is reflected by the words of one of the respondents: "The production costs are going up, but our selling prices remain the same due to cheap imports. We take it one day at a time." Another respondent reacted as follows: "If government is not going to be stricter with higher import taxation, I see no future."
- Global restructuring of companies leads to a smaller number of role-players, but with more capital to manipulate production costs and processes.
- Another factor that was raised is that agricultural products do not receive proper access to European markets.

Considering the above trends, it is interesting to note that 66.7% (20) of the establishments have invested new capital in their businesses, while 70% (21) have started new production processes. In addition to these questions, the respondents were asked whether they were considering business expansion, closure, rationalisation or continuing in the same manner (see Figure 15).

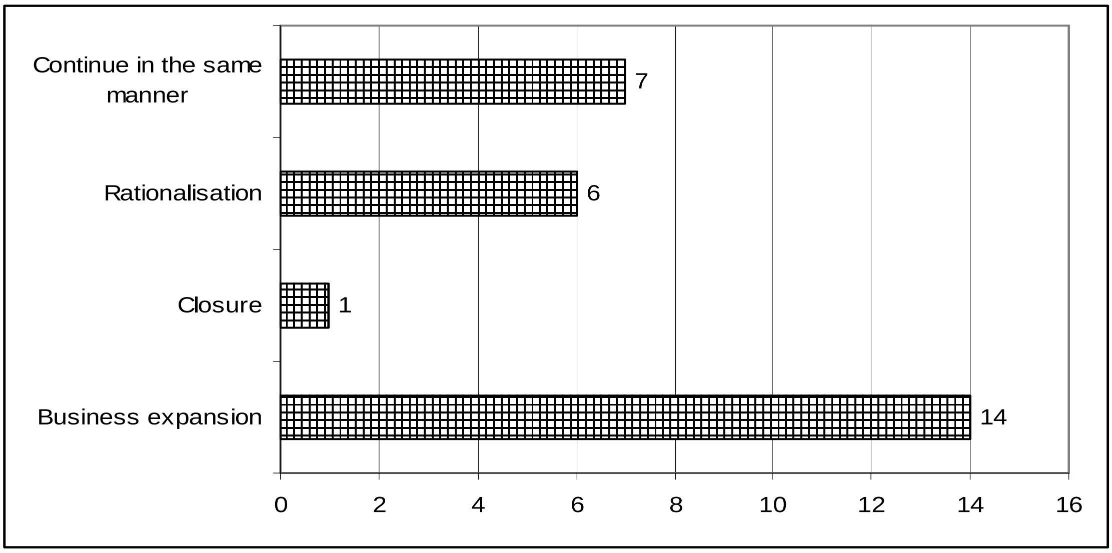


Figure 15: Future prospects of large manufacturing enterprises in the Free State, 2004 (Missing responses =2)

Twenty-one of the 28 businesses that responded will either expand or continue in the same way. More alarming is that one business indicated that it would be considering closure, while six more are considering rationalisation.

Having considered the above information on current performance and future plans, the following outstanding issues should be stressed:

- The ability to cope with increasing competition from the global environment will be vital for the survival of large manufacturing industries in the Free State.
- A quarter of these industries are already considering closure or rationalisation. This means that up to 3 000 jobs are already under threat in the Free State.

4. Conclusions

The following main conclusions can be drawn with regard to this report:

- There seems to be a decline in the number of large industries, as a percentage of the total number of manufacturing industries in the Free State. This decline is also relevant to the employment figures, as a percentage of the total manufacturing employment.
- The dominance of SASOL, as the industry with the single highest number of employees, is evident.
- Although white-owned businesses are still dominant, a number of Asian- and Indian-owned businesses have emerged over the last 10 years.
- The lack of appropriate skill on the part of labourers is evident.

- Although some businesses regard the central location of their enterprises in the Free State as an advantage, a more significant percentage view the distance between their businesses and the markets as problematic and as leading to increasing costs.
- The maintenance of infrastructure by local governments will be an essential prerequisite for the retention of manufacturing businesses in the Free State.
- Start-up incentives that are provided by various municipalities do not have any impact in terms of attracting manufacturing businesses. However, lower rentals in respect of factory space provided by the Free State Development Corporation have resulted in renewed industrial development in the Free State, after the decline in the early 1990s.
- The textile industry seems to be delicately balanced, and if all import taxes were to be finally scrapped by February 2005, a large number of these businesses might be forced to close down.
- There seems to be no specific strategy for large manufacturing industries. Comments made by industrialists in this report suggest that political infighting in the Free State has hampered such a process. Furthermore, large industrialists in the province have received limited support, as more than 50% of the industrialists were not aware of DTI support programmes. In fact, there seems to be no organised contact between provincial or local government structures and these large industries.
- A considerable percentage of large industries seem to be considering rationalisation, while the capital investments made by many do not necessarily lead to new employment creation. The degree of mechanisation has also increased during the past decade, resulting in fewer employment opportunities.
- At the same time, it seems that labour-related problems, such as increasing unionisation and higher minimum wages, have also impacted negatively on the creation of employment – according to the industrialists.
- Down-streaming from these large businesses seems to be limited.

SMME MANUFACTURING

1. Introduction

In this section findings are presented concerning aspects of the SMME manufacturing economy of the Province. Two sets of material are analysed here.

The first sub-section draws together the key findings from an earlier investigation conducted in 2003 which involved 50 interviews concerning established SMME manufacturers spread across the province and 53 interviews undertaken with emerging SMME manufacturers based in Mangaung and Thabong. The major themes that were addressed in the structured interviews relate to developing a profile of entrepreneurs and their enterprises; an examination of their recent and projected business performance; job creation in manufacturing SMMEs; and, issues of government support. Taken together, these two sets of material provide an overall profile of the characteristics, and key issues confronting the range of SMME manufacturers in different production sectors across the province.

In the second sub-section the findings are presented of a further set of 37 interviews which were conducted across the SMME manufacturing economy. This set of interviews was targeted at three important sectors of SMME manufacturing, namely the food and fabricated metals sectors which traditionally have been the most common forms of SMME manufacturing, and the clothing sector, which represents the segment of SMME manufacturing which has exhibited the greatest expansion in terms of both employment and numbers of new establishments in the period 1994-2003. Using a parallel set of themes to that in the cross-sectoral survey the objective in this set of interviews was to examine inter-sectoral variation in the SMME manufacturing economy, focusing particularly upon the more established end of the SMME spectrum.

2. A Profile of the Manufacturing SMME Economy of Free State

The macro-profile of the SMME economy revealed a number of significant findings:

- The role of established SMMEs is growing in significance in the provincial manufacturing economy both in terms of their contribution to total manufacturing enterprises and share of total employment.
- Between 1994-2004 important changes have occurred in the sectoral mix of SMME manufacturing with the most notable shift being the relative decline of the food sector and of the major growth recorded in clothing.
- Notable changes also are recorded in the geography of SMME manufacturing. The most important shift is the increased concentration of SMME production in two clusters around Bloemfontein and Harrismith.
- The decline of SMME manufacturing in Free State small towns was another important observation.

Overall, several dimensions of the characteristics of manufacturing SMME entrepreneurs were examined in the sample of 50 interviews. Issues that were investigated included the race, gender and age of entrepreneurs; length and reasons for business establishment; the start-up of business operations; and, explanations for their locational selection of the Free State.

The major findings from the interview research on established manufacturing SMMEs can be summarized as follows:

- The typical established SMME manufacturing entrepreneur is white, male and aged between 31 and 50 years.
- Although the desire for self-employment or the identification of market opportunities is the prime basis for SMME establishment, an increasing number of firms are set up out of necessity due to retrenchments.
- The major issues at start-up relate to growing knowledge of the business and securing markets rather than access to finance.
- At start-up the core source of capital is entrepreneur's own savings rather than formal bank sources.
- Lifestyle factors emerge as important bases for explaining the locational choice of SMME manufacturers. The location of most SMME manufacturing establishments is the result of such factors as where the entrepreneur has grown up or where he/she chooses to live.
- The Free State is perceived poorly as a base for SMME manufacturing due to its stagnant economy and declining provincial and local markets.
- The recent business performance of SMME manufacturers has been mixed with good results achieved through enterprise adjustments and poor results linked to a weak macro-economy and labour problems.
- The poor state of the manufacturing SMME economy in Goldfields is observed as a factor of concern especially as compared to developments in the growing clusters around Bloemfontein and Harrismith-Phuthaditjhaba.
- Major problems faced by SMME manufacturers relate to the need to expand markets rather than to any issues of access to finance or training.

A similar set of themes concerning characteristics, business development, and performance were examined in terms of groups of emerging production SMMEs – primarily micro-enterprises or informal manufacturers – that were interviewed in Mangaung and Thabong. It is evident that different issues confront the groups of emerging SMMEs as opposed to established SMMEs in manufacturing and that these two groups have different business constraints and support needs.

The major findings from this research on emerging manufacturing SMMEs can be summarized as follows:

- The typical entrepreneur is black, male and aged between 31 and 60 years.
- The most common forms of emerging production SMMEs are engaged in metal-working (especially welding operations), burglar-proofing and brick-making activities. Women's involvement is largely in clothing and dress-making activities.

- The vast majority of enterprises were set up for reasons of necessity rather than choice or as 'opportunistic entrepreneurs'. The growth of this emerging manufacturing SMME economy links crucially to the weak state of employment creation in the formal economy. Joblessness, retrenchments and the need for household survival are at the root of the growing numbers of emerging production SMMEs.
- The largest group of emerging manufacturers are unregistered enterprises that operate from informal premises based in the home or backyard.
- The major issues at start-up relate to critical shortages concerning access to finance, lack of equipment, machinery or tools and inadequate premises or spaces for manufacturing operations.
- In common with the group of established manufacturers, the major source of start-up capital for emerging manufacturing SMMEs is the entrepreneur or household savings.
- The location of these businesses is determined by where the entrepreneur lives.
- The recent business performance of emerging SMME manufacturers shows some growth in incomes and sales but almost no growth in long-term employment as entrepreneurs prefer to take on casual workers or part-time employees if the volume of business orders expands.
- Most enterprises operate in narrow and geographically localized markets with few manufacturing SMMEs having any 'exports' or sales of their output beyond the immediate locality in which they are situated.
- Emerging SMME manufacturers face different issues to those of established manufacturers in terms of seeking to expand their business operations.
- Lack of access to finance is a critical constraint which impacts upon the quality of equipment and of machinery as well as entrepreneur's capacity to improve their business premises. Human resource issues were further highlighted and underpinned by poor information and access to opportunities for training and skills upgrading.
- Overall, the findings on emerging SMME manufacturers highlighted the failures of national government support programmes to reach these 'target groups'.

3. Sectoral Focus on SMME Manufacturing

In order to complement the above analysis, a further group of 37 interviews were completed during 2003 and 2004 with established SMME manufacturers operating in the three important sectors of food, clothing and fabricated metals. The objective of this group of interviews was to probe more deeply into issues concerning the different production sub-sectors of the SMME economy. The earlier survey conducted for the SMME investigation offered cross-sectoral findings across the SMME economy *as a whole*; here the focus is upon specific sectoral issues around food, clothing and fabricated metals. In total, of the 38 interviews, 16 were with established SMMEs in the food sector; seven with clothing SMMEs and, 14 with established entrepreneurs engaged in fabricated metals production.

The key detailed findings that emerge from these 37 interviews are as follows:

- In terms of the race of the entrepreneur, certain differences emerge with the clothing sector most distinctive. The findings revealed that all 16 food SMMEs were white, 13 of 14 fabricated metals entrepreneurs were white but of the seven clothing businesses, only one was run by a White South African, three were Indian owned, two were Taiwanese entrepreneurs and one was a Black entrepreneur.

- Male entrepreneurs were dominant across all sectors, with four women entrepreneurs in food, two in clothing and two in fabricated metals. In total, 21 percent of the sample businesses were run by women.

- In terms of reasons for establishment; in the food sector 13 of 16 businesses were 'opportunistic entrepreneurs' (including the desire for self-employment) and the remaining three established their businesses initially because of the pressures of retrenchment or leaving mining work due to health reasons; in the fabricated metals sector the responses were similar with the majority of businesses set up due to a recognition of business opportunities,often linked to a desire for self-employment; in clothing the desire for self-employment, including from new immigrants from Taiwan, was overwhelmingly the major reason for business start-up and once again was linked to market opportunities.

- The factors underpinning the location of these SMME manufacturers reveal sectoral differences. In the food sector, the major issues were those of lifestyle factors in terms of place of residence of the entrepreneur, the take-over of an existing business operation or available land in a particular locality. For fabricated metals producers, the influence of owner's place of residence was strongly in evidence; also important was market opportunities around the mines and availability of land. For clothing SMME producers other factors came into the locational decision. In no case were lifestyle factors observed as exerting a significant influence upon choice of where production activity would occur. Significantly, in four of the seven cases the entrepreneurs had relocated to Free State from other places. In three cases, the entrepreneur had moved from outside South Africa, one an Indian South African from Lesotho to Ficksburg, and two Taiwanese manufacturers. In two cases – one Taiwanese owned and one Indian South African owned factory, a relocation to Free State had occurred due to reasons of labour costs from respectively East London and Durban.

- Issues of support by the province and municipal authorities for business establishment again disclosed certain sectoral variations. In the group of food manufacturers there were no cases of locational choice influenced by government policies, available Regional Industrial Development Incentives, the Free State Development Corporation or of firms securing access to subsidized land, premises or services. Indeed, in only case was an approach made by a food SMME entrepreneur to the Free State Development Corporation for assistance with the entrepreneur eventually choosing to not access the assistance that was potentially available. In the group of fabricated metals producers a similar picture is recorded of the limited influence of national government support programmes or of municipal intervention. Only two exceptions were recorded. The first was of one Bethlehem based manufacturer who acknowledged the very important role for his business of a loan received from the Free State Development Corporation. The second exception was of the support given by local municipalities in providing work opportunities to these local metal fabricating enterprises. Finally, it was observed that the RIDP incentives had little impact upon the locational choice of these producers. Nevertheless, in two of seven clothing interviews, support had been obtained from the provincial development corporation with the grant of six months rent-free premises in Phuthaditjhaba. Municipal level support was minimal with one case of an entrepreneur acknowledging limited support in Harrismith and another of an entrepreneur seeking unsuccessfully to get support from Ficksburg municipality.

- In terms of the locational advantages and disadvantages of having a business operation in the Free State a variety of opinions were offered by entrepreneurs. In the case of food manufacturers, several alluded to the input linkages back to the Free State agricultural sector, others to lifestyle considerations of living in the Free State (albeit tempered in some cases by the recent growth of crime), and others to issues of cheap labour. The major disadvantages were clearly those of distance from South Africa's major urban markets and of the associated transport costs. For those producers whose markets were mainly in Free State, issues of the declining macro-economy were strongly asserted. For fabricated metals producers, access to local markets and lifestyle considerations of a "nice environment" were stated as the most common advantages of a Free State business location. In common with the food SMMEs, the major disadvantages relate to transport costs to access suppliers, markets and spares. For the group of clothing manufacturers, the relative low costs of labour in the Free State were defined as a major locational advantage as well as the province's centrality in relation to both major domestic markets (Gauteng) and export points (Durban). In terms of disadvantages, there were several cases of companies pointing to the lack of skilled labour and of the poor quality of trained labour in relation to the needs of the clothing sector. Other producers were concerned that the Free State's former advantage of 'cheap labour' increasingly was no longer the case.

- In terms of the existing balance of advantages and disadvantages, a few firms are currently considering the option of relocating their business from the province. In the majority of cases discontent is expressed by a desire to sell-out rather than relocate. Nonetheless, one food producer was considering a move outside the province and one fabricated metal producer was relocating to Gauteng. In the group of clothing SMMEs the major issue was of the need to search locally for larger premises.

- In terms of size of labour force, there are different trends which are observed. In the food sector, the balance is clearly that a greater number of firms are downsizing their labour force rather than increasing their numbers of workers. Issues stated as behind this downturn in labour absorption were the state of macro-economy, labour legislation, and increasing competition. For fabricated metal producers, the labour situation was one of general decline or, at best, of stagnation. The poor labour outlook was linked to weak market conditions especially on the mines and in agriculture as well as to more stringent labour legislation which had increased the costs of labour. In the group of clothing SMMEs considerable new labour absorption has taken place, albeit there are strong signals that the rate of new job creation may be faltering due to the pressures of labour problems and especially of rising labour costs, exchange rate difficulties, and of competition from imports.

- The question of major obstacles to improved business performance produce mixed responses. In the food sector key issues of concern were the poor macro- economy, especially made worse by conditions in mining and agriculture, and uncertainty over labour, particularly its productivity and rising costs. For fabricated metals producers, the key highlighted issues were labour costs, the impact of AIDS on worker productivity, access to finance and concerns around the poor state of the macro-economy, particularly in the state of provincial mining and agriculture. Across all the group of clothing producers, labour issues were of paramount importance with concerns about poor productivity, rising labour costs and low levels of skills.

- The narrowness of markets that are targeted by Free State SMMEs is clearly of widespread concern. Only three of the 16 food producers were engaged in any form of export activity (one to Lesotho only); for fabricated metals in only one case were exports occurring (to Lesotho), and, perhaps surprisingly, all the clothing SMME manufacturers geared their outputs to domestic markets with no export activity at all. The Free State and Gauteng are, not surprisingly, the major national markets which are served by local producers in all three sectors.

- In respect of taking on additional workers, the enterprises that were surveyed offered a fairly common set of responses with improved market performance in a growing macro-economy the most common issue. For food producers, with one exception, issues of demand and expansion of markets were of central concern. The one exception was of an agri-food processor of asparagus for whom the core problem related not to demand considerations but to issues of supply and to a shortage of local producers of asparagus. For fabricated metals manufacturers issues of demand and poor markets were again highlighted; also of significance was the need for improved access to finance. The group of clothing producers was the most distinctive in its responses as issues of training for labour were strongly highlighted as a core constraint upon further labour absorption by existing producers.

- In terms of government support, a picture is disclosed of almost minimal support for manufacturing SMME development. No access to government support programmes was secured by any food or fabricated metals SMME manufacturer. In the case of the group of clothing SMMEs, as noted earlier, support had been secured from the provincial development corporation and one pro-active local municipality.

- In looking to future roles that the provincial and local governments might assume in terms of support intervention, a range of responses was recorded. For the group of food SMMEs, a variety of issues were aired including the need for greater local procurement, the importance of maintaining infrastructure (especially of electricity supplies) and the reduction of crime. In fabricated metals, the issues once more focused strongly on procurement as a basis for supporting Free State manufacturers; other issues related to support for workplace AIDS programmes, improved information flows and infrastructure maintenance. Finally, among clothing SMMEs the major expressed areas for support related to improving training facilities for workers, advice on labour problems more generally, and support through “proudly South African” campaigns to defend firms against rising levels of import competition.

SUB-SECTORAL STUDIES

A. CLOTHING AND TEXTILES

Over the past decade, the clothing and textiles sectors have been of major significance in terms of the Provincial Manufacturing economy. Indeed, between 1994 and 2003 the clothing and textiles sector has grown in a context of the general decline of the manufacturing sector as a whole. More specifically, in this last decade, the clothing and textiles economy of Free State has grown by nearly 8 500 jobs and with a net growth of nearly 100 new enterprises. The most important nodes for clothing and textiles are in the two growing manufacturing clusters of Bloemfontein-Botshabelo-Thaba Nchu and Harrismith-Phuthaditijhaba. Other rising production nodes include Ficksburg. By contrast, localities that have experienced cutbacks in clothing and textiles manufacture include Kroonstad, Parys, Frankfort, Vredefort. Overall, the restructuring taking place in the clothing and textiles sector has played an important role in geographically concentrating Free State manufacturing selectively in a small number of growing clusters on the one hand and accelerating the decline of many Free State smaller towns on the other hand.

More detailed information on the state of the Free State clothing and textiles economy can be gleaned from a total of 18 interviews which were conducted during 2003 and 2004 with 11 large enterprises and seven SMMEs. These interviews were conducted with firms in the major provincial centers of clothing and textiles production, including Botshabelo, Thaba Nchu, Harrismith, Phuthaditjhaba and Ficksburg.

The key trends which can be discerned from these interviews are reported below:

- In both the large firm and SMME sector of clothing the typical entrepreneur is not a white male, which makes this a highly distinctive segment of manufacturing. Rather, the entrepreneur is often a non-South African (usually Chinese/Taiwanese) or an Indian or Black. Moreover, relative to other segments of manufacturing women are strongly represented in the ownership of Free State clothing and textiles establishments.
- The majority of enterprises in clothing and textiles are independent firms; a small number are branch plants. Start-up capital is almost exclusively from the entrepreneur rather than any bank or other financing. Overseas financing is important for a number of the largest clothing and textiles factories.
- The labour force is 95-99 percent black and highly feminized. With one exception, all larger operations had a female labour complement of at least 90 percent.
- The predominant market that is produced for is the South African domestic market. Very little exporting takes place from the clothing and textile producers, whether large or SMME establishments. Many firms are producing large volumes of clothing for the leading South African chain stores such as Jet, Foschini, Truworths and Edgars.

- The majority of firms source their inputs from within South Africa and normally from outside Free State province. In one case all material was sourced from Botswana.
- The reasons for the choice of particular location for the factory were in several instances due to lifestyle considerations, in terms of the residence of the owner, but in the case of several larger clothing firms, particularly those with overseas investors, the decentralization incentives offered under the former regional development programmes were important locational influences.
- The impact of the Free State Development Corporation in terms of assistance for the clothing and textiles enterprises – large and SMME – has been minimal, with the minor exception of the take-up of six month free rental and of building maintenance in a small number of cases.
- At start-up nearly all firms received no support in terms of subsidized land, premises or services. Municipal support has been negligible despite requests that entrepreneurs made for such support. No firm secured any assistance from national government through the DTI assistance schemes and awareness of such support programmes was low, especially among SMME producers.
- Overwhelmingly, at start-up the core problem faced by clothing and textile producers related to training of labour. Almost all the larger establishments complained about the poor quality and lack of training of local labour.
- The most critical finding from the interviews is that currently the clothing and textiles sector is in serious trouble and, as described by one interviewee, is potentially "facing meltdown". It was observed by several interviewees that during the past 12 months several clothing producers had closed down their Free State operations and many had relocated to Lesotho. This is due to a mix of factors, most importantly, the less regulated labour environment, cheaper labour and the growing opportunities linked to AGOA.
- A consistent theme in the interviews with large producers is that many firms are variously cutting back their labour force, considering downsizing or even potential closure. Over the past 12 months in particular there has occurred a massive shake-out in the sector which has shed a large amount of labour and for the immediate future the prospects are not viewed favourably by industry stakeholders.
- On Table 11 is shown the responses from large clothing firms as to the recent and future job prospects in the clothing and textiles economy. The most successful enterprises appear to have been those which have most adaptive to the needs of a highly competitive environment, for example in the case of one firm which started as clothing wholesaler and then integrated backwards into production.

Table 11:. Labour Prospects in Clothing and Textiles Enterprises

Name	Location	Employment Trends 1999-2004	Reasons for Change	Expectations for Next 12 Months
Proton Textiles	Harrismith	Increase 200-380	Increase in orders	Increase in Labour Force
Feng Jun Fashions	Botshabelo	Decrease 240-170	Cheaper cost of imports and competition from urban producers	Depends upon import regulations – possible closure of factory
KDC Clothing	Ficksburg	Increase 150-300	Increase in orders but no growth foreseen in future	Depends upon imports – retrenchments likely
Night Owl Fashions	Phuthaditjhaba	Increase 120-300	Increase in orders but with worker problems and exchange rates, reduction of workforce will occur	If problems with unions persist, "we cannot take in more people"
Fet Knitwear	Thaba Nchu	N/A but decrease 1994-1999 from 600-300	Wage demands legislated through National Bargaining Council	Workforce may increase due to other factory closures and possible increase of capacity
Amica Fashions	Botshabelo	Decrease 1260 -885	Imported goods flooding the market due to Rand strength	Expected decrease in workforce due to Rand strength and imports
Apple Jeans	Botshabelo	Increase 300-375	Increased orders	Increase in workforce anticipated
Tradelink Clothing	Phuthaditjhaba	Increase 250-300	Increase in market share	No further labour increases expected due to labour costs and Rand strength
Formosa Knitting	Botshabelo	Stable at 222	Currently firm is decreasing its workforce due to import competition.	Further decreases in labour are anticipated
Purple Haze	Thaba Nchu	Increase 120-160	N/A	Decrease in labour is expected as firm "cannot afford new wage levels"

- It is evident from Table 11 that the key issues that are impacting upon the Free State clothing and textiles producers relate to an interrelated cluster of issues around rising production costs linked to legislated wage levels through the National Bargaining Council which make locally produced goods uncompetitive against the cost of imported products, primarily from China. The reduced ability to compete has been worsened further by Rand strength and very importantly by low level of skills amongst workers which impacts upon productivity and production costs.

- It was significant that no firm was taking advantage of the export opportunities offered under the African Growth and Opportunity Act for exports to the USA. All producers – large and small – appear involved in production for domestic value chains rather than export value chains.
- In terms of local factors that were negatively impacting upon the industry, labour related problems were paramount. Entrepreneurs stressed the reduced competitiveness of enterprises in the face of strong competition from imported products (sometimes claimed to be illegal imports) which was impacted badly by labour related difficulties, especially concerning wages but also with a continued emphasis upon poor quality of labour through lack of training. The cheaper costs of operating clothing and textiles operations from Lesotho were strongly recognized.
- Overall, it must be concluded that the findings from the interviews suggest that the phase of enormous growth of clothing and textiles manufacture in the Free State has peaked and that the uncertainties surrounding global competition, the strength of the Rand suggest strongly that the industry is experiencing considerable restructuring. Certain producers with outputs geared to niche markets are most likely to survive. Possible links to locally produced wool, cotton and leather might well provide unique market niches.Those producers of mass volume products that are experiencing the most intensive competition from low cost imports are facing rationalization, downsizing and potential closure or relocation to other cheaper labour spaces with Lesotho the major potential beneficiary.

B . THE PETROCHEMICAL INDUSTRY

1. Introduction

The petrochemical industry, mainly located in Sasolburg, is acknowledged to be one of the main contributors to the Free State economy. Provincial and local government strategies regularly mention the potential of this industry and the potential down-streaming advantages. In fact, the establishment of Chemcity (an industrial estate for petrochemical down-streaming), funded by SASOL and the provincial government, was an attempt to stimulate down-streaming in the petrochemical industry. This section aims to:

- provide a brief national perspective on the petrochemical industry;
- provide a broad overview of Sasol;
- analyse the size and nature of the petrochemical industry in the Free State; and
- analyse the opportunities and the obstacles in the industry in terms of the Free State manufacturing economy.

2. A broad national overview

According to the World Bank, as discussed in Gaintsos (1995), the widespread integration of petrochemical products into manufacturing and industrial processes has led to this industry being identified as a key sector in the industrial strategies of both developed and developing countries. Gaintsos identifies three distinct phases in the growth of the petrochemical industry in South Africa: from inception to the early 1970s; from the early 1970s to the early 1980s and from the early 1980s to the early 1990s. Although chemical-related industries were not new to South Africa, the establishment of SASOL in 1954 can be seen as the first major step in the growth of this industry. At the same stage, the first petroleum refinery was established in Durban. Others would follow later. The second phase, from the early 1970s to the early 1980s, experienced an average growth of 13% of the industry, due mainly to growth in domestic demand and the overall protection afforded to domestic petrochemical producers (Gaintsos, 1995). The period between the early 1980s and the 1990s saw the growth rate declining to about 2.6% per annum as domestic demand declined and a general relaxation of customs tariffs occurred. At the same time, the depreciation of the Rand during the mid-1980s and the possibilities of larger exports contributed specifically to the continued growth of the industry in the early 1990s.

Gaintsos further identifies the following factors that have affected the development of the local petrochemical industry in South Africa:

- the advent of SASOL;
- the establishment of domestic oil refineries;
- strong growth in the domestic demand for petrochemical products;
- protection from imports in the form of duties and quantitative restrictions;
- the establishment of plants of sub-optimal size by producers to ensure a foothold in the domestic market; and
- the devaluation of the Rand in the mid-1980s.

Today the chemical industry is one of the largest sectors of economic activity in South Africa, employing more than 200 000 people, contributing 5% to GDP and 25% to total manufacturing sales. The 25% of manufacturing sales are made up as follows:

- upstream and basic chemicals: 12.6% of total or 50.4% of the chemical industry;
- plastic products: 2.4% of the total or 9.6% of the chemical industry;
- ceramics, concrete and stone: 2.3% of the total or 9.2% of the chemical industry;
- cosmetics and detergents: 1.6% of the total or 6.4% of the chemical industry;
- pharmaceuticals: 1.3% of the total or 5.2% of the chemical industry;
- fine and speciality chemicals: 1.1% of the total or 4.4% of the chemical industry;
- rubber products: 1.1% of the total or 4.4% of the chemical industry; and
- glass products: 0.5% of the total or 2% of the chemical industry.

3. Sasol: A historical overview

Sasol was formed in 1950 after domestic and international technological investigation, research and negotiations in the field of the Fisher-Tropsch conversion technology had been conducted for more than 20 years. In 1955 the first Sasol production complex for synfuels and chemicals was erected at Sasolburg. In 1967 an oil refinery started as a joint venture between Sasol/Total in Sasolburg. This refinery is today one of six similar refineries in South Africa. The year 1976 marked the founding of giant production facilities for synfuel and chemicals in Secunda. The first major down-streaming processes emerged in 1983 when Sasol Fertilisers was formed to manufacture and market fertilisers. This was followed by Sasol Explosives in 1984. The latest addition has been the construction of the 865 km long gas pipeline from Mozambique to Sasolburg (later also to be connected to Secunda). This involves an investment of US$ 1.2 billion. The Sasol business structure is outlined in Table 12 below:

Table 12: An overview of business initiatives by Sasol and their location, 2003

Name	Description of products and process	Location of activities
A. Sasol mining	Supplies coal to Sasol Synfuels, Sasol Infrachem and international customers. Turnover in 2003: R 1013 million.	- Sasolburg - Secunda - Syferfontein
B. Sasol Synfuels	Coal-based synfuel manufacturing. Turnover in 2003: R13 643 million	- Secunda
C. Sasol Oil and Gas 1) Sasol Oil	Sasol Oil markets the liquid fuels – a retail network is being established.	- Major urban areas of SA -
2) Sasol Gas	Markets and distribute Sasol's hydrogen gas and methane-rich gas. New gas pipeline from Mozambique. Gas lines provide gas to Gauteng, Free State, Mpumalanga and Kwazulu-Natal. These two units had a turnover of R8 507 million in 2003.	- Sasolburg - Secunda - Mozambique
D. Sasol chemical businesses 1) Sasol Olefins and Surfactants	Manufactures and markets surfactants. Turnover in 2003: R 19 543 million	- Undisclosed but also found internationally
2) Sasol Polymers	Turnover in 2003: R 6245 million	- Sasolburg and Secunda - Malaysia
3) Sasol Solvents	Manufactures and markets a range of solvents and associated products. Turnover in 2003 is R5 950	- Undisclosed but also found internationally
4) Sasol Wax	Wax manufacturing. Turnover in 2003 R4 663million	- Sasolburg - Secunda
5) Sasol Nitro	Manufactures and market ammonia, nitric acid etc	- Sasolburg - Secunda - Bronkhorstpruit
E. Sasol Synfuels International	Develops and implements international ventures	-
F. Sasol Petroleum International	Develops and implements international upstream interests	-
G. Sasol Technology	Do research to support Sasol	- Sasolburg
H. Sasol Financing	Manages group cash and liquidity	-

Although Sasolburg was the initial plant where synfuel was produced, the production of synfuel has now shifted to Secunda. This means that the Sasolburg plant has been transformed during the past 20 years from a synfuel production unit to a high technology plant for the manufacturing of chemicals.

The core growth areas of Sasol are:

- the Sasol Natural Gas Project, which will provide natural gas from Mozambique to Sasolburg and Secunda;
- the development of a network of retail service stations of the Sasol brand;
- an major investment for gas-to-liquids in Nigeria;
- the acquisition of one of Germany's largest power utility companies led to the formation of the Sasol Olefins and Surfactants division, as well as the significant expansion of the Sasol Solvents division;
- an amount of R2.9 billion is invested at Sasolburg for two new, world-scale chemical plants; and

- Sasol Olefins and Surfactants commissioned a new generation, R1 billion plant at Secunda during 2002 to produce alcohol in the C12 and C15 range as a feedstock mostly for the international detergents industry.

The global spread of the 2002 SASOL sales was as follows:

- 43.8% in South Africa
- 2.7% in Africa
- 28.6% in Europe
- 4.6% in the Middle East
- 16.7% in North America
- 1.1% in South America
- 2.5% in Southeast Asia.

In 2002, Sasol Chemical Industries generated the highest turnover in the company (68.2%), but Synfuel generated the largest profits (50.8%). These figures, as well as the fact that the highest profits are still being generated in South Africa, probably suggest that the chemical industry is still in a growing stage. This implies that large-scale capital investment is required compared with a fairly settled Synfuel industry.

Sasol was first listed on the JSE Securities Exchange in Johannesburg in 1979 and on the NASDAQ Stock Market Inc in the United States of America in 1982. Sasol moved its NASDAQ listing to the New York Stock Exchange with effect from 9 April 2003. Today, Sasol is a diversified international fuel and chemical company with exploration, production and sales operations in South Africa and 23 countries worldwide.

4. The size and nature of the chemical industry in the Free State

This section will provide a brief statistical background of the petrochemical industry in the Free State. The total employment figure for the petrochemical industry in the Free State in 2003 was 9 241. This was approximately 20% of the total employment in manufacturing in the Free State in 2003. The spatial attributes of the industry in terms of establishment and employment provision will be discussed (see Table 13).

Table 13: The number of petrochemical industries and people employed in the Free State per area, 2003

Area	Number of establishments	Number of people employed	% of total establishments	% of total employment
Mangaung (Bloemfontein, Botshabelo, Thaba Nchu)	15	705	34.9	7.6
Metsimaholo (Sasolburg)	13	8081	30.2	87.4
Matjhabeng (Free State Goldfields)	3	100	7.0	1.1
Other	12	355	27.9	3.8
Total	43	9241	100.0	100.0

Source: BMR, 2003

The above table reveals that the majority of establishments, 34.9%, are found in the area of the Mangaung Local Municipality (Bloemfontein, Botshabelo, Thaba Nchu), followed by Metismaholo (Sasolburg) with 30.2%. However, in terms of employment in this industry, 87.4% of all people are employed in Sasolburg. Table 14 provides the number of establishments and employment figures per type of chemical industry.

Table 14: The number of petrochemical industries and people employed per type of chemical industry in the Free State, 2003

Type of chemical industry	**Number of establishments**	**% of establishments**	**Number of people employed**	**Employment %**
PETROL, FUEL OILS, LUBRICATING OILS AND GREASES, PRIMARILY FROM CRUDE OIL	3	7.0	6663	72.1
MANUFACTURE OF PLASTICS IN PRIMARY FORM AND OF SYNTHETIC RUBBER	7	16.3	1165	12.6
MANUFACTURE OF FERTILISERS AND NITROGEN COMPOUNDS	6	14.0	353	3.8
MANUFACTURE OF SOAP AND OTHER CLEANING COMPOUNDS	6	14.0	257	2.8
MANUFACTURE OF EXPLOSIVES AND PYROTECHNIC PRODUCTS	1	2.3	250	2.7
MANUFACTURE OF PHARMACEUTICALS, MEDICINAL CHEMICALS AND BOTANICAL PRODUCTS	2	4.7	184	2.0
MANUFACTURE OF BASIC CHEMICALS, EXCEPT FERTILIZERS AND NITROGEN COMPOUNDS	6	14.0	136	1.5
MANUFACTURE OF PAINTS, VARNISHES AND SIMILAR COATINGS, PRINTING INK AND MASTICS	2	4.7	80	0.9
MANUFACTURE OF ADHESIVES, GLUES, SIZES AND CEMENTS	5	11.6	55	0.6
MANUFACTURE OF PERFUMES, COSMETICS AND OTHER TOILET PREPARATIONS	2	4.7	53	0.6
COMPOUNDED AND BLENDED LUBRICATING OILS AND GREASES FROM PURCHASED MATERIALS OTHER THAN CRUDE PETROLEUM	2	4.7	40	0.4
MANUFACTURE OF COKE OVEN PRODUCTS	1	2.3	5	0.1
Total	43	100	9241	100

From Table 14 it is evident that petrol, fuel oils, lubricating oils and greases provide 72% of employment opportunities in the petrochemical industry of the Free State, whilst only constituting 7% of the total number of petrochemical industries in the Free State. This is the result of the Sasol plant being located in Sasolburg. It should be mentioned that these figures and particular categorisation mask the fact of the transformation of the Sasol plant in

Sasolburg from a petrol production unit to a chemical industry. The three other main types of petrochemical industries are:

- plastics and synthetic rubber: 16.3% of the establishments and 12.6% of the jobs in the sector;
- manufacturing of fertiliser and nitrogen compounds: 14% of the enterprises and 3.8% of the employment; and
- explosives: 2.3% of the enterprises and 2.7% of the employment.

It should be mentioned that plastics, rubbers, fertilisers and explosives are all downstream products of the production of petrol and gas from coal and crude oil.

Another aspect that needs more specific attention relates to the size of the enterprises and their proportional contributions in terms of number of industries and employment creation. Figures 16-18 provide an overview of these in terms of the Free State in general and of Sasolburg, specifically.

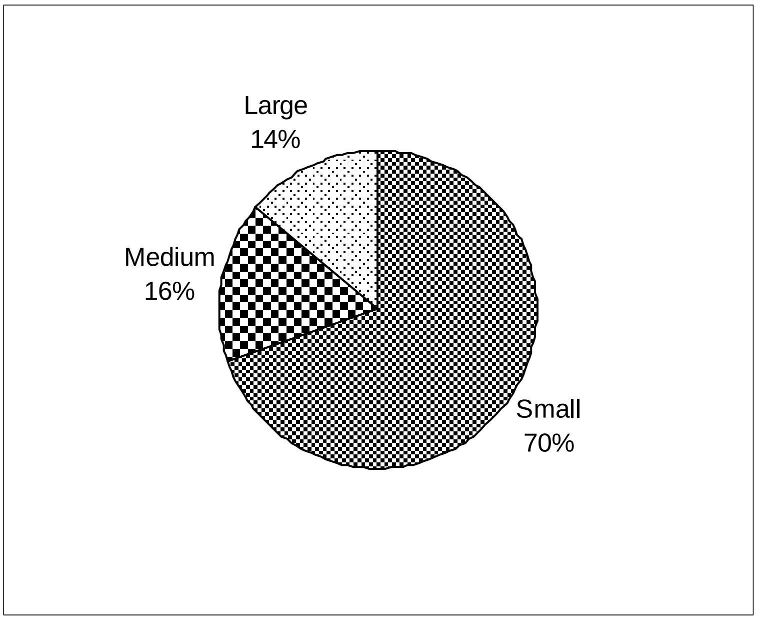


Figure 16: A breakdown of the number of SMMEs, and large industries in the petrochemical industry of the Free State, 2003

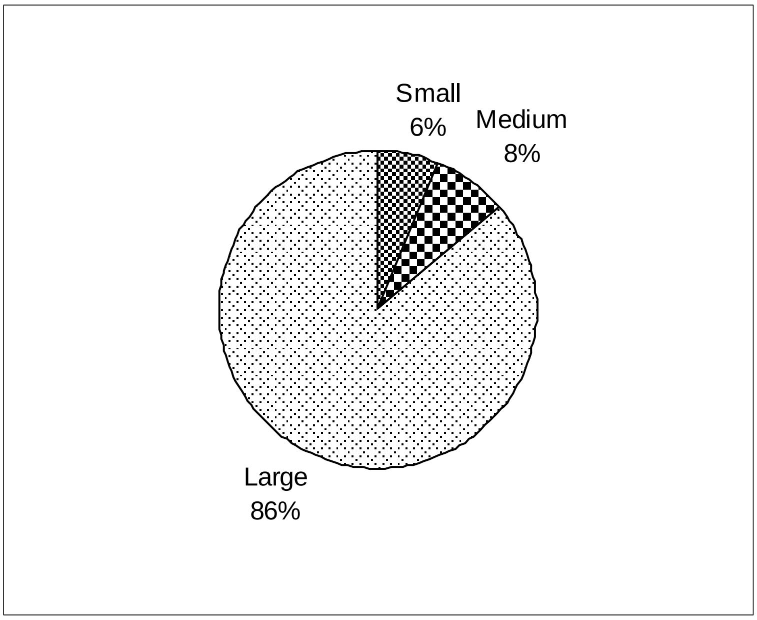


Figure 17: A breakdown of the employment created by SMMEs and large industries in the petrochemical industry of the Free State, 2003

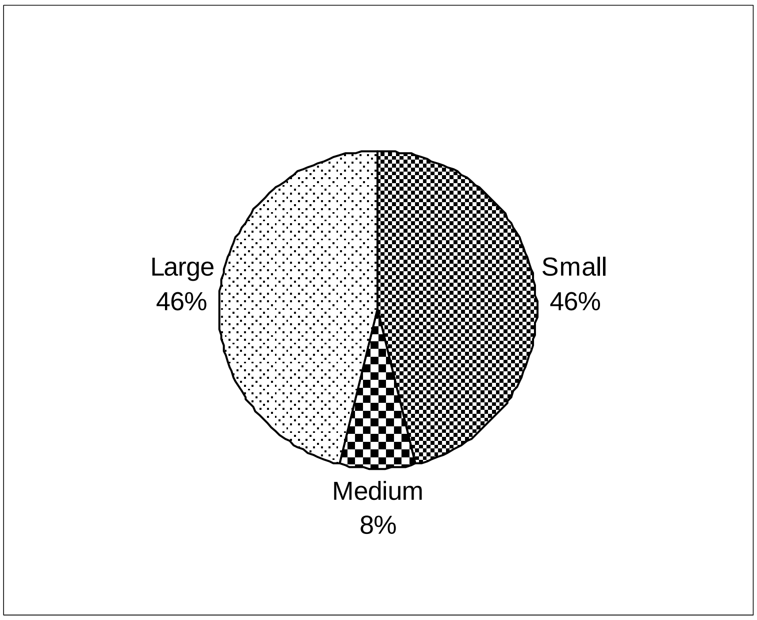


Figure 18: A breakdown of the number of SMMEs and large industries in the petrochemical industry in Sasolburg, 2003

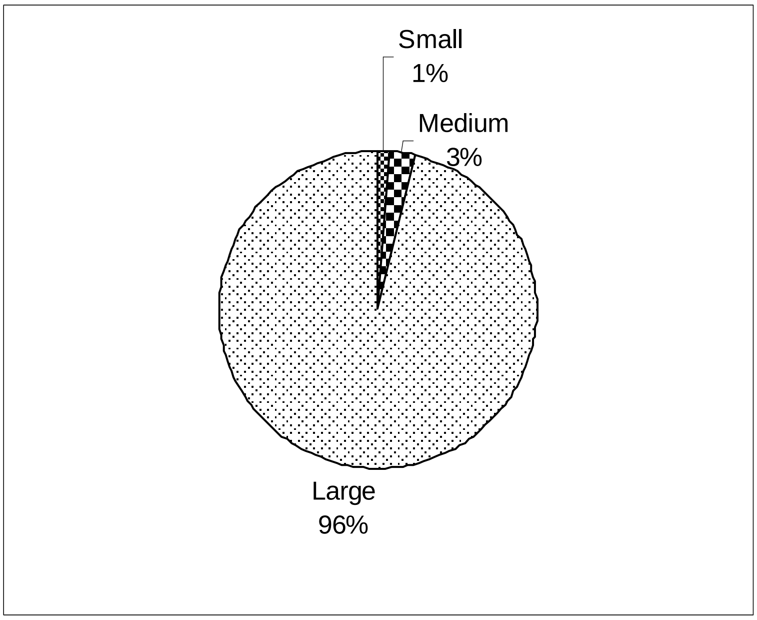


Figure 19: A breakdown of the employment created by SMMEs and large industries in the petrochemical industry in Sasolburg, 2003

The figure of 86% of manufacturing industries related to the chemical sphere and classified as SMMEs in the Free State is somewhat more than the 83% of the manufacturing industries classified as SMMEs in the Free State by Rogerson (2003). In Sasolburg SMMEs contribute only 54% of the total number of chemical industries in the area. These figures probably suggest that down-streaming has not developed in the same way as in other types of manufacturing industries and that Sasol dominates the petrochemical industry in the Free State. The domination of Sasol is further reflected in the employment figures, as 86% of the employment in the chemical industry in the Free State is provided by large industry. In Sasolburg the comparative figure is 96%. The low percentages of employment by SMMEs in the petrochemical industry (14% for the Free State and 4% for Sasolburg) are in contrast with the 38.9% of employment in SMMEs for the total manufacturing industry in the Free State.

5. The petrochemical industry in the Free State: Key considerations

There seem to be a number of key aspects that will influence the petrochemical industry in the Free State. The following key aspects will be analysed in more detail:

- the issue of down-streaming
- the capital-intensive nature of the industry
- the environment
- the link with Gauteng
- deregulation
- increasing globalisation.

Other sections of this report have already mentioned the issues of down-streaming, as well as the attempt by both Sasol and the Free State provincial government to create down-streaming in Sasolburg with the development of Chemcity. Although the statistics have shown that down-streaming in the petrochemical industries is limited, they perhaps also suggest that there is some potential in this regard. However, it seems that down-streaming in the chemical industry in Sasolburg is hampered by the capital-intensive nature of the industry, as well as the fact that it requires fairly high levels of skill. Although the approach by Sasol to keep the majority of potential down-streaming products within Sasol seems to be an effort to keep everything in-house, the capital-intensive nature might perhaps be the precise reason for doing so. Overall, it seems to be extremely difficult to realise viable down-streaming in the industry.

The second characteristic of the industry is that it is capital-intensive. Large-scale capital investment seldom leads to increased job creation. In fact, the numbers of people employed by Sasol have remained stagnant over the past 10 years, this in spite of huge capital investments. In 2002 alone, R8-billion was invested in major capital and investment projects. At the end of June 2002 Sasol had 162 capital projects in various phases of development, representing a potential capital investment of R60-billion. So, although some potential still exists in this industry, it will probably not create massive job opportunities.

The conflict between the petrochemical industry and the environment is well known. The reality of large-scale air pollution is evident in Sasolburg. The change from coal to natural gas, to be phased in shortly, might assist in a reduction of air pollution, though coal will still be used for electricity creation. From the interviews conducted, it seems that there are still some misunderstandings amongst the role players in this regard. Industry argues that they are the main job creators and that increased pressure on their impact on the environment creates increased costs which impact negatively on the environment. There are also claims from the side of industry that there is no coherent policy approach and that the Department of Environmental Affairs are not systematic in its management of the problem. For example, junior staff is assigned to negotiate with industry, while the turnover in staff in the Department is not conducive to continuity in respect of the problem. It seems that the biggest pressure comes from community groups.

In terms of inputs and markets the industry in Sasolburg is closely linked with the Gauteng economy. However, planning for public infrastructure takes place in the Free State context. As has been mentioned in the report on the local government structures, there is some upgrading of the road network that would potentially benefit the industry in Sasolburg. At the same time, the feeling in Sasolburg is that they do not receive enough attention when allocations for infrastructure are made. A large link with Gauteng authorities, especially in terms of spatial planning, is probably required to ensure that Sasolburg is better integrated.

According to industrialists, the deregulation of the petrol industry is a matter of concern. Total deregulation might have a negative impact on the refinery in Sasolburg as it could lead to foreign companies taking over the market as the latter are able to access oil more cheaply – especially if they are oil producers.

From the interviews conducted, it would appear that increasing exposure to the global markets will necessarily take place. This situation has probably also led to fewer jobs being created over the past 10 years, as competition and company profits have being pivotal.

6. Concluding comments

The petrochemical industry in South Africa is regarded as an important sector and contributes significantly to the economy of the country. In the Free State it is especially the Sasol plant in Sasolburg that dominates the manufacturing industry in the province. Despite the massive scale of investment, the creation of new jobs in the petrochemical industry seems to be limited. Furthermore, down-streaming also seems to be fairly limited in the petrochemical industry, as such downstreaming usually requires extremely high skill, technology and vast capital. The most serious threat to continuous job creation is perhaps environmental legislation in South Africa.

C. FREE STATE JEWELLERY MANUFACTURING SECTOR

1- General Information & Details of Ownership and Establishment

There is currently evidence of a growing jewellery manufacturing cluster located in Virginia in the Matjhabeng Local Municipality centred around the Harmony Jewellery Park, off Harmony Way. The Virginia Jewellery School, with the municipality and Jewellery Park forms the third link in this cluster, which has the potential of encouraging additional business ventures to open in the area provided certain conditions for support are met. At present, there are two separate jewellery manufacturing businesses in operation in Virginia producing hand-made gold jewellery, both of which were established in 2001. Both firms are the product of international investment and are independent firms with their sole branches being located in Virginia. One is however partially owned by a Canadian company, whose head-office is located in Toronto. Management of the jewellery manufacturers reflects their international origins with the second managed by a group of Peruvian, Norwegian, and Americans entrepreneurs.

Financial capital investment for the establishment of the companies was obtained from a combination of the Industrial Development Corporation, share holders and private savings. The decision to locate in Virginia was influenced by the availability of land, facilities, and subsidised utilities offered by Harmony Gold, who was, in so doing, then released of its obligation to return the land to its original state. Other than the funding received by the IDC, neither company has received any support from government or associated institutions. According to them, government did display some interest in the establishment of a dedicated jewellery park, but has since not provided any of the infrastructure or support required to grow the sector beyond what the independent businesses can do on their own. The proximity of raw materials and a large available workforce pool were also influencing factors in the decision to establish in the Free State. One firm also made reference to the fact of wanting to tap into the artistic talent of local residents to give the jewellery a unique African 'hand-writing' or style.

The jewellery manufacturing cluster has run into numerous obstacles that have prevented the two companies from developing to the extent that was originally desired. Despite the availability of labour, the lack of skills amongst the workforce combined with a perceived lack of commitment, performance, and productivity on their part have hampered production resulting in reported workforce turn-over rates of up to 250%. Due to the distance from major centres, it has been difficult to obtain machinery spares, access service providers, and attract the skills necessary to maintain and repair precision machinery. Furthermore, both companies claimed that it has been difficult obtaining support (in the form of advice, research details, and encouragement) from different levels of government in growing their businesses, despite the governments' emphasis that the development of a jewellery cluster is an important part of the economic diversification for the Goldfields area. Sustained interest in the development of the cluster, on-going support, help in employee recruiting, the creation of a forum of local stakeholders concerned with the promotion of jewellery manufacturing, and support from the the municipality (in the form of advice, infrastructure and encouragement / networking) would have gone a long way in alleviating many concerns and promoting continued investment and growth. These problems have also been heightened by reports of considerable internal employee theft and incidences of sabotage.

2. Employment

There are approximately 1000 people employed in the jewellery manufacturing sector in Matjhabeng with the vast majority employed by a single firm (all but 12). This also includes the number of employees that are subcontracted to on a regular basis. This number has risen since 2001 as the one company has expanded its operations, developed new techniques, and re-invested profits back into the businesses. The second company has in fact down-sized. 95% of the workforce is Black and 95% are women representing an important opportunity for economic empowerment for women and demonstrating the perceived need for attention to detail in finely crafted jewellery.

3. Firm Operational Links

Inputs into jewellery production are procured locally, nationally, and internationally. Raw material, including gold is obtained directly from Harmony Gold although the local availability of gold does not appear to have been critical in the original locational choice pertaining to the establishment of the cluster. Chemicals used in the production of jewellery are obtained nationally, most in Johannesburg, whereas the machinery used comes from international sources including Italy, Germany, and Japan. All of the one firm's output is sold to American consumers, whereas the second firm's output is sold mainly at Johannesburg International Airport.

One firm subcontracts production to SMMEs who employ between 600-700 of the total jewellery manufacturing workforce in the area as part of an attempt to create new businesses and develop value-added chain processes. The second will subcontract depending on the size of orders that it receives and the ability of permanent employees to handle the contract.

4. The Free State

Both companies stated that the advantages of being located in the Free State included the availability of raw materials (gold) and labour (despite high turn-over rates). Secondary advantages included the availability of land, infrastructure, and subsidised water and electricity provided by Harmony Gold. Additional benefits include lower wage costs, lower costs of living, and the relative lack of transport congestion. Access to gold, though important, has not prevented the growth of the jewellery industry in countries such as India and Italy, which do not produce their own gold. This does imply that the industry is not necessarily place-bound and in encouraging the growth of the sector, all key locational and support variable need to be considered.

Primary disadvantages included the remoteness of Virginia in relations to service providers for spare parts in Johannesburg and the difficulty in bringing in skilled technicians, who often come from overseas, to service precision machinery. Poor infrastructure, long supply lines, internal security concerns, union activity, and the dustiness of the surrounding area have also been identified as secondary disadvantages to being located in the Free State.

In terms of the industrial future for the Free State, the manufacturers stated that the province had not been aggressive enough in its industrial attraction policies. There is the need for strong leadership, stakeholder communication, and aggressive marketing which are not perceived to be fully entrenched in the Free State's economic strategies. There is the additional, complementary belief that the province is too quiet and not nearly competitive enough to deal with investment attraction. The decline in the mining industry in particular in the Matjhabeng area has been identified as contributing to this problem. The closure of businesses in the area and the subsequent rise in unemployment have left a negative attitudes, disillusionment, and the feeling that government is not doing enough to change the direction of the local economy. Though being the perceptions of only two firms, these comments do suggest that current provincial policy and approach may well need attention.

5. Business Performance and Future Plans

Since their establishment in 2001 business performance has been one of continual growth and re-investment of profits back into the businesses. For one firm, employment levels and factory space have increased. They have expanded into existing premises also made available by Harmony Gold. Business profit has however not increased and they are only beginning to break even now. They expect to begin turning a profit within the year. Both companies are the only source of competition for themselves in the Free State in terms of their respective size and there is limited national level competition. The larger company has experienced increased international competition from long-standing, experienced jewellery manufacturers in Malaysia, Bolivia, and Peru which are able to produce large quantities and where employees already possess the necessary skills and where there is increased access to funding opportunities. The smaller company is too small in output to be affected by international competition.

Both companies are optimistic about being able to expand production, increase profits, and hire more people in the future. The larger firm would in fact like to increase its workforce to 1 500 people within the year. Rationalisation at a future date might be considered as part of an ongoing process to seek optimal production efficiency, but this is not being considered at present. It is proposed that new production techniques, including machinery, will begin replacing some hand-made jewellery in the future. Both firms are of the belief that they should be able to expand, depending on the availability of orders and depending on the attitude of government towards providing various levels of support. While the larger firm has been affected by the volatility in the value of the Rand, it has been able to hold its own despite this and even managed to expand its labour force. Low property rentals and effective management clearly have ensured continued profitability internally and overseas. Should the Rand weaken, this firm will clearly benefit.

The continued existence and the expansion of this industry in terms of output and employment generation rests on market demand, economic conditions and the ability of various stakeholders, including different levels of government to work together to strengthen the cluster. The larger firm is of the opinion that there is no reason why it cannot, potentially, increase its production, in the long term, to the point where it employs 20 000 people, given the demand for its product. While this might be overly optimistic, the enthusiasm of the firm is naturally to be welcomed. Its ability to do so is compromised by its inability to recruit sufficient numbers of skilled or trainable people in the area and accessing the resources that would allow it to be able to do so. It is currently finding it difficult to compete with companies around the world who are competing to supply global demand . The smaller firm claimed it was unable to expand, apparently because it has not been able to secure the support of local stakeholders and municipality. The firms are not necessarily looking to the municipality or government for finance but would also want closer dialogue on issues such as infrastructure provision, marketing and advice.

6. Recommendations

1. There needs to be a formal link between the jewellery sector and different local stakeholders concerned with the industry. This could take the form of a stakeholders' forum where concerns and issues can be raised and discussed on a regular basis. The jewellery sector needs to at least feel as though it is being listened to.
2. The proposed link / forum between government and the jewellery cluster, including the jewellery school, would be important to establish, especially if the cluster is part of a provincial growth strategy. There needs to be a dedicated government official whose responsibility it is to liase with the jewellery sector and who can bring their concerns and issues directly to the appropriate government departments. Such a link / forum could help ensure appropriate training, employment of graduates, joint marketing and research, infrastructural provision, access to relevant business information and joint discussion and resolution of difficulties / opportunities as they arise,
3. The jewellery manufacturing sector itself also needs to be made aware of the opportunities that exist in the area. For example, they were not aware of the FGF or the opportunities and support that it offers .
4. In order to keep existing jewellery companies in the area and to attract new ones, government should consider the support detailed above under points 1) and 2) above and the active use of such incentives as current DTI policy allows.
5. The continued provision of land and premises on the part of mining houses needs to be encouraged to expand and attract jewellery production. Government can serve as an intermediary in this regard .
6. Government needs to ensure that physical infrastructure is appropriate to the needs of the areas and the industry . .
7. There needs to be a formal link between the jewellery sector and the jewellery school to ensure that local residents are being trained in the skills that are required for jewellery production – both handmade and machine made - and that graduates can make a smooth transition to employment in these firms. There also needs to be skilled training in the machine repair.
8. There needs to be a facilitating body to help with the recruiting of the large number of staff required to the manufacturers, who need to have certain skills and attained required educational standards. The FGF has some experience in recruiting local residents to fill certain positions and training programmes and could play a role in this regard.

D. FOOD / AGRO-INDUSTRY

1. Introduction

The agriculture sector and associated agro-industrial processing was the mainstay of the Free State economy until the advent of gold-mining and later the petro-chemical industry. Despite a relative shift in its significance, it remains one of the key back-bones of the provincial economy. The province is still, *de facto*, the heart of the maize quadrilateral / belt, and it still plays a dominant role in the supply of core products, such as potatoes and beef. It also has, in recent years, emerged as key supplier of niche market products such as asparagus and horticultural products. Despite these key strengths and the well-established tradition of farming, there are clearly weaknesses at the same time, these include:

- climatic variability which often has a negative impact on harvests,
- farming in the more environmental marginal south western parts of the province is not always reliable,
- with improved road transport the need to refine or process produce locally is reduced, thus reducing the value-adding potential for local industry.

Despite these considerations, as noted in the recommendations of this study, agriculture and more especially the processing of specialized crops or the search for niche markets does hold considerable potential for manufacturing at present and in the future.

In this section, key findings from interviews with agro-industries, both small and large are discussed, before concluding with a discussion of options for the way forward.

2. The Overall Picture

As noted in preceding sections of this document, the agro-industrial sector is clearly a key mainstay of manufacturing in the province, albeit that this role has diminished somewhat. In 1994, 33% of all manufacturing establishments in the province were involved in this sector, which was the largest in the province, by 2003, this had shrunk to 18% of all firms. While the actual number of firms had actually increased, from approximately 130 to 170, in a relative context, more significant growth in other sectors, and textiles and clothing in particular, have diminished the overall, relative significance of this sector. As noted above, there has been a rapid growth in the number of SMMEs, but a worrying decline in the number of large firms. This has in fact translated into employment loss in the sector, despite the increasing number of firms, most of which are obviously very small operations. From 1994 to 2003, the number of employees in the sector fell from 10 500 to approximately 10 000.

In terms of differences between the different size categories of agro-industries, if one just considers all the large manufacturing concerns in the province, i.e. those which employ more than 200 workers, it is apparent that agro-industry is not the dominant sector in this bracket. Ten of the 54 large firms in the province fall into this sector and the large-firm economy is clearly dominated by textiles, despite the historical importance of agro-industry sector in the province.

In terms of SMMEs, there are 160 manufacturing SMME involved in the sector, which does represent a significant growth, however as suggested above, the loss of jobs in larger firms, which have closed their doors has been not balanced out the opening of SMMEs. All firms are clearly linked to the local farming economy and in the case of the SMMEs are often focused on meeting the needs of local and national markets.

3. The Perspective of the Large Firms

Eight of the 10 large, agro-industrial firms in the province were interviewed. Based on those interviews, certain key conclusions can be drawn about this group of firms which were interviewed:

- Most of the large firms are involved in the processing of animal products (meat and dairy) and only one was in involved in the processing of grain products,
- In terms of ownership, only three are independent firms and the rest are branch plants, which naturally raises questions about whether they might close at some future stage should the corporates / holding companies rationalize their operations in the province,
- The firms are well established and six have been in the Free State since before the 1970s,
- In terms of staff, three have increased staff over the years and the rest have actually down-sized,
- Only two of the firms regard the Free State as their main market, the rest focus on the national or international market, even though three quarters of inputs are locally sourced,
- In terns of support received to set up operations, only two received any support and in both cases this was from the FDC - in the form of a service subsidy and a loan respectively,
- The advantages of a Free State location for the large firms include the central position of the province, access to raw materials, the availability of feedlots and the absence of major diseases,
- Major disadvantages include distance to markets, lack of support from government and poor infrastructure, minor concerns include labour issues and farm attacks, drought and red-tape,
- In overall terms they regard the business environment as generally positive and feel reasonably confident about the province.

This overview reveals that while the firms are well established, many have actually downsized. In addition, most are branch plants and while sourcing inputs locally, supply distant and local markets. As a result, issues such as distance to market and infrastructure are major operational concerns for the present and future operation of this category of agro-industries.

4. The Perspective of Small Firms

There are a significant number of small agro-industrial firms in the province. Numbers have increased in recent years, albeit that they have not had a significant job creation impact. From the interviews which were conducted it appears that many of those interviewed established their SMMEs in recent years owing to their retrenchment in other sectors or the desire to operate as independent entrepreneurs. As a result, there is, to some degree, a sense of zero-sum game in terms of what is happening. Other factors explaining establishment include, the take-over of existing businesses, available land and the desire to set up some form of operation in the home town. Factors such as these do not suggest that business expansion has been as the result of strategic, economic choice or clear market opportunities.

Key findings with respect to this sector, derived from interviews undertaken with a sample of manufacturing SMMEs are:

- effectively none of the firms have received support to set up and operate,
- the nature of the macro-economy and sluggish performance in the provincial economy are regarded as barriers to growth,
- disadvantages experienced by the producers include, distance to the main markets which tend to be national not local, the costs of transport associated with such movement, the limited absorptive capacity of the provincial market, slow growth in the national economy, and a downturn in the provincial mining and agricultural economy,
- it is noticeable and worrying that the majority of firms, owing to economic difficulties are prepared to consider relocation out of the province or closure,
- in terms of employment, the trend, as with the larger firms, has been one of down-sizing; issues such as labour legislation and competition are cited as key reasons for this situation,
- in terms of the future, firms argued that government could help in terms of issues such as procurement, maintaining infrastructure and combating crime.

As with the larger firms, the picture is rather negative. Key themes are that even though there has been growth in this sector, jobs have been lost, firms have been set up almost as a second best option for many entrepreneurs and there are problems in terms of issues of transport, market size and access and the limited nature of the support received to set up and operate the businesses.

5. Key Findings and the Way Forward

This overview of the agro-industrial sector has revealed a number of key points:

- the sector has experienced job loss over the last 10 years, the closure of some large firms, but also a significant growth in the number of small manufacturing firms,
- firms of all sizes are experiencing constraints in terms of issues such as market access, infrastructure and labour concerns,
- whilst the FDC has assisted some of the firms, the majority did not receive any support to set up operations,
- despite this, locally available raw materials clearly are an advantage for agro-industrial firms and may well provide a future asset which, if focused on key niche

markets with growth potential, may well enable agro-industry to play an enhanced role in the future.

Despite the various concerns which have been raised and the job loss which has been experienced, agricultural related manufacturing clearly has a unique and continued role to play in the province. This situation is made all the more pertinent in the context of what is happening in other key sectors and the need to try and base future manufacturing growth on locally available resources as far as is possible. In terms of other key sectors, the depletion of gold resources and slow-down in that industry globally limits prospects for this once key sector; clothing and textiles are very important, but are vulnerable to the absorptive capacity of the international market and trade agreements; petro-chemicals are partially limited by available oil supply capacity for the petrol sector, but the chemical sector may well have some elasticity. As a result, agriculture may well be the key sector with the most significant growth potential in the province, based on the rich agricultural base of the Free State and the farming sectors potential capacity to support agro-industry.

While conventional mainstays of the agro-industrial activity – such as beef, dairy, maize and grain are unlikely to be expanded significantly, future efforts should focus on supporting and encouraging what already exists (to prevent the potential of closure) and should also stimulate development in specialized or unique niche markets. Options in respect of both of these considerations could include:

- ensuring that existing infrastructure meets the needs of the beef, dairy, maize and grain industries,
- support such industries through government procurement purchases,
- enter into negotiations with farming and manufacturing interests to try and resolve issues of concern, such as farm safety and labour issues,
- through the FDC to support agro-industry, particularly small firms and those which take advantage of niche markets – for example the processing of paprika which is now been experimented with in Welkom, or expanding the cherry processing industry,
- an option worth exploring, based on a current major product could be that of processing potatoes into chips for the fast food industry in Gauteng.

MANUFACTURING IN THE FREE STATE: SPATIAL CONSIDERATIONS

THE REACTION OF LOCAL MUNICIPALITIES

1. Introduction

This section aims at assessing the response of local municipalities regarding the drive to diversify the economy by means of the manufacturing industry. The report is divided into two sections. Firstly, specific themes from the assessment of IDPs, as well as key interviews and information received from local municipalities, will be discussed. In the second part of this section the attention will be shifted to an assessment of the importance of the drive, as well as the efforts made by the four largest municipalities in the Free State to support the manufacturing industry. These municipalities are Matjhabeng (Free State Goldfields), Mangaung (Bloemfontein, Botshabelo and Thaba Nchu), Metsimaholo (Sasolburg) and Maluti-a-Phofung (Harrismith and the former QwaQwa). The Department of Tourism, Environment and Economic Affairs (1998) mentions that there is a limited understanding of industrialisation at local municipal level. It is against this background that the paper will assess the current understanding and planning in this regard.

2. Key issues at local municipality level

The analysis in this section is based on the following methodology. All IDPs in the Free State were assessed from a manufacturing point of view. Face-to-face interviews with the four largest municipalities, as well as telephonic interviews with the remainder of the municipalities, followed this assessment.

2.1 The level of economic assessment

In general, the level of economic assessment is inadequate in the majority of IDPs. Although most of the IDPs have information available on the relevant contributions of various economic sectors (including manufacturing), this information is seldom assessed over a number of years to show specific trends. Furthermore, in many cases simplistic assumptions are made. For example, the fact that certain areas have limited industrial developments automatically results in proposals for such industries. The reason as to why so little industrial development has taken place is rarely questioned, and the possible obstacles to such developments are seldom investigated. When such questions are asked, it is usually assumed, in a simplistic manner, that the causes are a lack of promotion programmes, inadequate infrastructure and, in a limited number of cases, a lack of skill. In addition to the above aspects, the economic assessments usually do not include assessments from businesses in the respective municipalities. To a large degree, the economic assessments in IDPs reflect available statistical information provided by the respective consultants, as well as needs that have been identified during community meetings. The fact that these assessments do not reflect business views is a major shortcoming that impacts negatively on the manner in which manufacturing is planned for.

2.2 The need to diversify

The need to diversify the economy and the need to promote the development of industrial stands are mentioned in 19 of the 20 local municipal IDPs. The promotion of industry is therefore one of the key priority areas in IDPs. In the assessment of the various IDPs, the following quotes provide an indication of the importance accorded to industrial development in all of the IDPs:

Lejweleputswa
- Masilonyana: Objective to establish new industries.
- Tokologo: Key performance area: Industrial development.
- Tswelopele: Develop a diversified and industrial base.
- Matjhabeng: Industrial development and retention are important.

Motheo District
- Mangaung: An IDZ should be developed and an industrial corridor should also be developed.
- Mantsopa: Industrial development is a specific objective - nine new industries to be established by 2007.
- Naledi: Value-adding to agricultural products is important; need for a light industrial area was identified.

Northern Free State
- Mafube: Assist small-scale manufacturing entrepreneurs in opening factories and provide infrastructural services.
- Metsimaholo: The need for more industrial stands is noted while certain types of industries are identified in order to promote them.
- Maqhaka: More land to be made available for industrial development.
- Ngwathe: Industries to be established in order to create jobs.

Thabo Mafutsanyana
- Dihlabeng: A specific objective is to broaden the economic base of Dihlabeng by means of industrial development.
- Maluti-a-Phofung: Agricultural products, agro-processing and industries to be established.
- Nkotoane: Industrial development is expected to play a major role in future economic growth and decreasing unemployment.
- Pumelela: Industries and skill development are an important consideration. The promotion of agro-processing plants and other value-adding industries should be encouraged in order to diversify the economy of the area.
- Setsoto – No information.

Xhariep
- Letsemeng: To ensure economic development that will encourage investments and be supported by agricultural diversity, tourism development and local industrial development.
- Kopanong: Processing of agricultural products and brick-making.
- Mohokare: During the IDP process a need for a light industrial node was identified.

2.3 The availability of industrial erven

All the municipalities in the Free State have industrial erven available, except for Metsimaholo (Sasolburg), where the council does not have any stands available. A private developer has developed the available industrial stands in Metsimaholo. In the majority of cases these stands were developed during the 1980s or early 1990s. No evidence was found of council-owned stands that had been developed during the last 10 years. This could probably be ascribed to shifting priorities in addressing poverty and, considering the financial position of the majority of municipalities in the Free State, the lack of funds to develop new industrial stands. To some degree, this can probably be seen as a blessing in disguise, since there can hardly be said to be a trend of increasing manufacturing industries or employment in manufacturing in the Free State.

2.4 Existing industries

Of the 20 IDPs, eight provided some indication of the existing industries in their areas of jurisdiction. As can be seen from the list, the large majority of these activities already comprise some form of agro-processing. The following lists of existing manufacturing industries are provided in the IDPs:

<u>Agriculturally related:</u>

- Agro-processing in general
- Agro-services
- Sorghum beer
- Maize millers
- Milk processing
- Ground nut processing
- Abattoirs
- Engineering works (these may also be general or mining-related industries)
- Tanneries
- Meat processing
- Engineering works
- Fertiliser factories
- A wool factory
- Mills
- A mohair factory
- Potato packaging
- A winery.

<u>Petrol and chemicals</u>:

- A petrol refinery
- Chemical production
- Fertilisers
- Oil and by-products.

<u>Other</u>:

- Concrete toilet structures
- Furniture
- A bottling company
- Brick-making
- Pottery

- A knitting factory
- Plastics
- Clothing
- Engineering works.

Agro-processing and food seem to be prominent in the above lists, while petro-chemicals in Sasolburg also warrant specific mention. The latter parts of this report on manufacturing in the Free State will provide more sectoral details.

2.5 Planning for further development of industrial erven and associated infrastructure

An interesting aspect is that many IDPs suggest that specific land should be developed for potential industries. In total, 12 of the 20 IDPs have objectives in this regard. Some of these objectives are specifically aimed at the development of more industrial stands, whilst others are focused on the support infrastructure surrounding industrial erven, such as better roads and airfields.

2.6 Incentives

Of the 20 local municipalities that were contacted, eight had specific incentives in place while a further six were in the process of developing some incentives. Six local municipalities had no incentives available. The following incentives are offered by local municipalities:

- Land prices can be negotiated.
- Discount on water and electricity bills.
- Subsidies on planning and the cost of stands (for example, processing of building plans free of charge).
- Local land tax holidays.

It should also be mentioned that the Free State Development Corporation has extensive incentives for industries that locate in the Corporation's buildings in the former QwaQwa, Thaba Nchu and Botshabelo. These incentives mostly involve rentals that are considerably lower than average. However, they should not be confused with incentives from the local municipalities. Despite the fairly extensive incentives offered by these municipalities, large-scale success in attracting new business (and specifically manufacturing business) is apparently not being attained. This is also in contrast to the success that the Free State Development Corporation has achieved in attracting business to its premises. One of the possible reasons for these differences in the rate of success with the use of incentives is probably the fact that, in the case of the Free State Development Corporation, the factory is provided to the entrepreneur at a low rental. The provision of the factory thus has a direct impact on the production costs, while the incentives provided by local municipalities relate to the development costs of the factory. Once the factory is in operation, the production costs would probably be the same as in other areas of the country.

2.7 Business retention

It is also noteworthy that, in contrast to the specific efforts to establish new businesses and manufacturing industries in many municipalities, only three local municipalities are considering business retention as a strategy. These three are Matjhabeng, Mafube and Mangaung. One of the pertinent stated objectives in the Mafube IDP is: "to prevent the closing and scaling down of industries and business in our area." More details will be provided when the initiatives in Matjhabeng are discussed later, but it seems that a fair amount of success has been achieved in Matjhabeng in terms of business retention. Typically absent from most IDPs and economic development initiatives, are processes to listen to business and industry and to react to their message.

2.8 Skills training for manufacturing

It is interesting to note that in four IDPs (Mafube, Metsimaholo, Maluti-a-Phofung, Pumelela), the relationship between industrial development and the skills levels of people is highlighted. These IDPs and their related objectives focus on industrial development, but also consider the need for higher levels of skill in an integrated manner. Although this aspect will be discussed in more detail later, it should be mentioned that a low level of skill is one of the main obstacles identified by the big industrialists.

2.9 Industrial erf prices

As already mentioned, the price of industrial stands is usually one of the incentives that can be negotiated. In general, the price of industrial stands varies between in the Free State. In addition, it seems that in at least 50% of the cases, it is possible to negotiate the price. In such cases, the prospective entrepreneur is required to make a submission to the relevant Local Council. Council will then consider the submission and make a recommendation on the price. Although such an approach is commendable, it should not lead to an increased amount of "red tape" in the selling of industrial stands. In fact, it seems that in some cases the selling of industrial land is carried out in this manner because there is no overall policy on the selling of land. The process is therefore slowed down because the Local Council must first approve such an application.

2.10 No central point of information

From the assessment of the IDPs, as well as the individual and telephonic interviews conducted for this assignment, it was clear that, with the exception of Matjhabeng, there is no central point in local municipalities where the necessary information about industry and industrial stands can be obtained. The following examples provide more detail:

- In the majority of the cases the LED manager does not manage the industrial erven, and therefore does not have sufficient knowledge concerning their prices, incentives and development processes. Although there are some exceptions, LED has, to a large degree, become the economic programme for the poor in many municipalities and does not always provide information on the bigger picture.
- Information on the size and price of industrial stands, as well as on the various incentives, is not always available at a single point. This was evident from the telephonic and face-to-face interviews conducted with the various municipalities. In many cases the municipal offices in more than one town had to be contacted in order to obtain the required information.

2.11 The issue of centrality

A number of IDPs, as is the case with various documents on the development of industry in the Free State, also identify their central location as one of the main strengths. However, as already argued in the provincial literature review, this approach does not take the economic process of manufacturing into consideration.

2.12 Limited partnerships to ensure implementation

The current buzzword in the South African governance environment is Public-Private-Partnerships. The drive and initiatives to diversify the economy seem, to a large degree, to be led by the respective Local Municipalities. Except in the case of one or two Local Municipalities (Matjhabeng specifically), there are very few role-players from the private sector who are providing assistance with the development and implementation of programmes. This could potentially lead to inappropriate development of strategies for industrial development.

2.13 Environmental considerations

It is noteworthy that a number of IDPs acknowledge the impact of industrial development on the environment. The four specific IDPs that address these issues are:

- Mangaung
- Mantsopa
- Metsimaholo
- Maluti-a-Phofung.

The report will address the environmental concern later on, during the spatial overview of the petro-chemical industry in the Metsimaholo Local Municipality. However, the environmental impact of such developments should always be acknowledged – an aspect that is not always addressed adequately. To a large degree, the inclusion of environmental aspects in the respective IDPs largely depends on the consultant drafting the IDP.

2.14 Trends in industrial development

During the interviews with Local Municipalities, the latter were asked to rate the trends in industrial development in terms of growth, stagnation or decline. The following results reflect their response:

- Growing: 20%
- Stagnant: 55%
- Declining: 25%.

Although these trends largely represent the perceptions of one individual per municipality, they probably comprise a fair reflection of the trends of industrial development in the Free State. These trends are also confirmed by the stagnation of employment figures in manufacturing in the Free State between 1993 and 2003.

2.15 Conflict between established business and emerging businesses

Although only a few IDPs reflected on the conflict between established industrialists and emerging businesses, it seems that in the majority of Local Municipalities there is a trend to support emerging businesses. In some cases the efforts to do so seem to be over-emphasised in comparison with the efforts to engage with established industrialists.

3. The main municipalities

3.1 Matjhabeng

Matjhabeng, with Welkom as its core economic region, has traditionally been the heart of the Free State Goldfields. However, the decline of the gold-mining industry in South Africa has impacted negatively on the economy of the area since the late 1980s. The declining mining industry did not only result in the down-scaling of employment in the Free State Goldfields, but also in reduced business for many down-streaming industries in the area (especially the engineering sector).

In the attempt to address the decline in the mining industry and the accompanying decline in the down-stream industries, the Free State Goldfields Development Corporation was established in 1992. It was established as a joint venture between the public and private sectors. Its board consists of a public-private coalition and its operational arm is a Section 21 company, which receives direct funding from the municipality.

To counter downward trends, the Free State Goldfields Development Corporation (FGF) has been considering various economic strategies, not related to mining, that could promote the refocusing and redevelopment of the area. This objective is reflected in their website, which identifies their mission as follows: "to broaden this economic base by establishing a broad and diversified manufacturing sector that, in turn, will create job opportunities and wealth for all our residents." To help achieve this goal, the FGF has striven to ensure that elected officials, members of both NAFCOC and SACOB, as well as different community groups, are part of the decision-making process. It has also ensured that formulated strategies reflect the need to cater for both macro-economic growth development and poverty alleviation schemes that are socially responsible.

Some of the recent key initiatives in which the FGF has been involved, include:

- The proposed construction of an international cargo airport to service products from Johannesburg, Durban, and Bloemfontein destined for international markets. This would kick-start the local construction, warehousing and related services sectors.
- The re-routing of the N1 national road through the area to feed this airport and to generate additional business for local companies.
- The commencement of a paprika-growing project aimed at establishing a viable urban farming initiative to give unemployed residents from informal settlements the opportunity to become retrained as commercial farmers.

- The facilitation of a training project to provide skills for the paprika farmers, amongst other beneficiaries. This initiative has been additionally facilitated through the Welkom College, which has provided much of the skills-training capacity for the FGF, as well as beneficial learnerships for emerging farmers.

Considering the FGF's successes and failures over the last decade, the following comments need to be made:

- The successes have mostly been achieved at a level of business retention, rather than in respect of obtaining new industries in the area. The names of only two new enterprises that have located in Welkom in the last 10 years were mentioned during the interviews. However, the FGF has been successful in retaining a fairly large number of businesses.
- In essence, the fact that the area is in a state of economic decline is not conducive to locating new businesses and industries in the area.
- An extensive incentives programme exists, which entails cheap erven, as well as low planning costs. It should be noted that, despite these incentives, very little progress has been made in attracting new business to the area during the last 10 years. One of the key reasons for this is that businesses, including businesses in the manufacturing field, are hesitant to invest in areas of economic decline – such as the Free State Goldfields.

The FGF is probably the institution with the most experience in lobbying for industrial development for a specific municipality in the Free State. In essence, their track record with regard to business retention (including manufacturing businesses) seems to be good, although the success with regard to attracting new industries has been fairly limited.

3.2 Mangaung

The Mangaung Local Municipality consists of Bloemfontein, Botshabelo, Thaba Nchu and the rural areas between them. Botshabelo and Thaba Nchu received extensive investments under the Industrial Development Programme of the Apartheid government. The Mangaung municipality has a newly developed economic strategy. In the assessment of its economy, the following main aspects are mentioned:

- There is an extremely small primary and a small secondary sector with, proportionally, a large tertiary sector.
- No drastic changes in the Mangaung economy have occurred over the last 16 years.
- The Mangaung economy plays a significant role in the Motheo economy and the Free State economy, but is relatively small when compared to the national economy.
- Sectors that are showing strong growth are the transport and finance sectors, while manufacturing and construction have shown negative growth over the last 16 years.
- The main aim of any economic strategy for the MLM should be the diversification of its economy.
- It appears that it is mostly the secondary sectors that are struggling in the MLM.

Against this background the following principles should steer future economic development in MLM:

- a regional economic centre;
- a dynamic economy;
- a vibrant economy;
- a sustainable economy; and
- an investor-friendly economy.

In order to attain the vision that is fundamental to the above principles, the following four strategic thrusts have been identified:

- economic diversification;
- the creation of an environment conducive to economic growth;
- the development of Mangaung into a regional economic centre; and
- the creation of employment.

One of the programmes under the economic diversification thrust is the initiation of a cluster programme for industrial development. The underlying principle in this regard is that such a cluster has its core sector (material), but that what is drawn into the cluster is everything that impacts on the competitiveness of the cluster. This means that the forward and backward links should be integrated into the value chain. Under the creation of an environment conducive to economic growth, the following relevant programmes are identified. In the first place, the strategy aims to develop a marketing programme to present the MLM to investors. Secondly, an incentive programme linked to business retention needs to be implemented.

It thus seems that at a strategic level, MLM views the development of the secondary sector as important. The attraction of new manufacturers and the retention of existing ones are significant programmes of the strategy. There also seems to be a specific spatial imperative in terms of which the corridor between Bloemfontein, Botshabelo and Thaba Nchu should be developed. The development of a partnership with all role-players for the economic development of the MLM also comprises part of the strategy.

Having considered the above strategy of the MLM, it is possible to make the following comments with regard to the MLM and its drive towards manufacturing:

- The assessment of the MLM economy is commendable.
- Investment promotion to external investors is an extremely difficult aspect. The deterioration of the railway infrastructure and the fairly high costs of air travel to Bloemfontein do not help to promote investment in the area.
- There also seems to be some conflict between the development of the corridor between Bloemfontein, Botshabelo and Thaba Nchu on the one hand, and the availability of industrial stands in Bloemfontein (the economic core of the area), on the other. If stands are still available in Bloemfontein, there is little reason for investors to invest in Botshabelo and Thaba Nchu.

3.3 Metsimaholo

The Metsimaholo local municipality is the heart of the petro-chemical industry in the Free State. Sasolburg, with SASOL and a number of related chemical industries, occupies the majority of the industrial land in this municipality. As already noted in the literature review, the area contributes extensively to the Free State GGP (approximately 12%). As far as Metsimaholo is concerned, the following crucial aspects will be discussed in more detail:

- organisational development for industrialisation;
- the general trends;
- the infrastructural needs;
- down-streaming.

Both the Metsimaholo Local Municipality and the Northern Free State District Municipality have economic development offices. These offices are tasked with the development of strategies for economic development in their areas of jurisdiction. It seems that in the Northern Free State District Council some progress is being made. One of the key problems, however, is that both the Local Municipality and the District Municipality believe that they are not receiving the necessary attention from the Free State Provincial Government – especially with regard to the required infrastructural investments, such as the development of roads. A further organisational stumbling block seems to be the fact that limited planning takes place with the relevant authorities north of the Vaal River in Gauteng.

Metsimaholo is furthermore the only municipal area where extensive industrial growth is taking place. This is evident from the following aspects:

- The Local Council does not have any industrial erven available. The last industrial erven in Sasolburg were sold in the mid-1990s. According to information obtained for this study, this is the only municipality where available industrial erven developed by the municipality have been sold during the last 10 years.
- A private developer has started to develop and sell industrial erven in an industrial area called Naledi Park. Although some limited private development of industrial erven has taken place in Bloemfontein, the scale on which such development is taking place in Sasolburg seems to entail by far the most extensive private development of industrial land in the Free State. It should also be noted that the prices at which the industrial erven are currently being sold are lower than the prices at which the Local Council sold their last erven in the mid-1990s.
- The municipality has approved approximately 12 building plans for this area during the last year.

Although the new investments by SASOL have not necessarily resulted in new job opportunities, it seems that there is a fair amount of growth in industrial activity around Sasolburg – an aspect that has not really been addressed in the last 10 years. This growth can be attributed to a combination of the following factors:

- the proximity of Sasolburg to Gauteng;
- continued investment of SASOL in Sasolburg (although this investment does not necessarily lead to new job opportunities).

One of the areas in which urgent attention is needed, is infrastructure and, especially, road infrastructure. Far better interchange, especially with the East Rand, is urgently needed on the Free State side. The Metsimaholo Local Municipality and its predecessor, the Sasolburg TLC, have made various requests to the relevant department in the Free State Provincial Government. However, until now their requests have not been addressed. It seems that the proposed infrastructural investment in this area is probably the investment in the Free State that will have the most direct impact on future industrial development.

Down-streaming from established and big industries is usually mentioned as one of the main aspects with a view to supporting SMME development. In this regard, SASOL and the Free State Provincial Government have invested in the development of Chemcity. The initial idea was that some down-streaming from the bigger industries related to SASOL should take place. However, this has not materialised. The two main reasons for the limited success of Chemcity are the high capital costs that are required for down-streaming in the chemical industry, as well as the high levels of skill needed to make a success in this regard.

In conclusion, it seems that the manufacturing industry - and industry in general - in Sasolburg, has the largest potential in the Free State for future industrial development. However, at the same time it should be mentioned that any future development would be linked to Gauteng rather than to the Free State.

3.4 Maluti-a-Phofung

The former QwaQwa area was one of the areas in the Free State that benefited extensively under the Regional Industrial Development Programme of the Apartheid government. Today the Maluti-a-Phofung Local Municipality consists of the former QwaQwa area, as well as the magisterial district area of Harrismith. Industrial development in this area is addressed by the Free State Development Corporation, while the Local Municipality addresses other economic development efforts.

Two specific areas were targeted for the industrial developments, namely Phuthaditjhaba and Tsiame (Industriqa). In the process 181 industrial stands were created for large industries in both these areas, with 313 978m^2 of industrial space available. For small industries, 193 factories with a floor space of 29 275m^2 were created. Large industrial spaces were usually developed for large industrialists from outside the area. The smaller factories were developed for local business people. However, the business links between small and large industries seem to be virtually non-existent, with practically no attempts having been made to create such links. The literature on SMME development usually suggests such links as a precondition. Currently, 86% of the large industries in the two areas are occupied, while the figure for the small industries is 49%. In Phuthaditjhaba the occupancy levels for large industries amount to 90%, while in Industriqa the figure is 70%. For small industries the figures are 50% in Phuthaditjhaba and 57% in Industriqa. The clothing industry occupies the largest proportion of factories, namely 90%, while the furniture business occupies 8% and other industries account for 2%. According to the FDC, these industries provide employment to 18 000 people. However, this figure might be somewhat high, since it probably represents between 10% and 15% of the workforce in QwaQwa and Tsiame. The current employment figures are considerably lower than the employment figures of the early 1990s, when an estimated 30 000 job opportunities were created. However, it should be acknowledged that this figure was also somewhat inflated. The decline in employment opportunities is probably the result of the larger degree of mechanisation during the last 10 years. The FDC believes that it has a number of competitive advantages. Firstly, as a result of its geographic location, it is strategically placed between Johannesburg, Durban and Bloemfontein. Secondly, it charges lower rates than those charged in areas such as Midrand in Gauteng. Thirdly, it tends to receive very favourable word-of-mouth marketing. Fourthly, the area has a very stable workforce that is also cheap. However, the Corporation realises that all this is still not enough, and that more mainstream marketing needs to be done if the area is to attract more investors. It has been urged, by sources from outside the QwaQwa environment, that the current industrial success in QwaQwa should be replicated elsewhere. However, as will be argued later in this section, this will be a difficult task, if the financial viability is taken into consideration.

The main question arising from the assessment above, is that of why the existing factories have such a high rate of occupation. This question is especially relevant considering that the large concessions that were accessible under Apartheid are no longer available. A number of reasons can be given for this. Firstly, the fact that the Free State Development Corporation was transformed from a state-funded institution to a self-sustaining corporation has played an important role in the current levels of occupancy. This transformation ensured that the occupation and rental of the industrial sites occurred on the basis of commercial principles, while the drive to be self-sufficient certainly brought about better management. This also ensured that the culture of non-payment among industrialists was transformed into a culture of positive payment. However, it should be noted that the transformation also entailed a large number of job losses in the Free State Development Corporation. In particular, the sections providing business support to the smaller enterprises in QwaQwa were no longer financially viable. Thus, although the pursuit of financial self-sustainability had positive impacts, the business support to SMMEs has disappeared, as it is not always financially viable. Secondly, the fact that current rental amounts do not need to account for the initial capital costs under Apartheid also ensures that factory space can be given at a price below the market value. Industrial space is rented at R4-5/m^2, while the same amount of space in Johannesburg would cost as much as R25/m^2. Furthermore, the current incentives of the Free State Development Corporation provide for a rent-free period of six months – provided that a contract of five years is signed and adhered to. Simultaneously, it should be mentioned that if existing factory space had not already been available, it would probably not have been financially possible to provide that space today. From that perspective it could be argued that the provision of highly subsidised industrial space under Apartheid has actually been fundamental to the current extraordinarily high levels of occupancy.

There are also a number of concerns with regard to industrial development for the future. Firstly, there are no links between the small industries and the larger industries. It seems that particular efforts need to be made to ensure that the smaller SMMEs are also linked specifically to the larger industries. The key role which partnerships can play in this process of supporting SMMEs has been alluded to by Burger (2002) who pays attention to the potential support which government can render and the role which larger firms can play in this process. Typically, small industries, as reported in literature on the topic, find it difficult to access markets. They have limited managerial skills and in some cases experience problems with sub-standard workmanship. Secondly, the large amount of unauthorised imported clothing from the east that is dumped on the South African market seems to have a negative influence on the long-term potential of the industry in the area. The high levels of dependency on the clothing industry make the situation extremely difficult. In the third place, despite the lower prices for industrial space, the area is in competition with similar incentives in Lesotho and Botswana. So, despite the existing high levels of occupation, the competition to attract industries in Southern Africa, as well as between provinces and areas in South Africa, is stiff, rendering the endeavour extremely vulnerable. Fourthly, the fact that no specific municipal plan is in place to provide support and better incentives to the various industries, is also a major shortcoming. Although this shortcoming is probably being addressed by means of the marketing plan, it also seems that, as far as financial viability is concerned, it is virtually impossible for the municipality to contribute in this regard.

3. Conclusions

The following conclusions can be drawn with regard to the manufacturing industry and the manner in which local municipalities see the industry in the Free State:

- The majority of local municipalities have sufficient industrial stands available. It seems unlikely that a large-scale development of industrial erven will be needed in the short to medium term.
- Close to 50% of all municipalities have incentives for industrial development. However, despite these incentives, very little progress has been made in terms of attracting industrial development to the Free State. However, it should be mentioned that the assistance provided to existing businesses in Matjhabeng during the last decade has ensured a larger degree of business retention.
- Despite the importance of developing industries (as reflected in the IDPs) in the majority of local municipalities in the Free State, it seems that very little progress has been made in this regard. In fact, the majority of municipalities have indicated that industrial development has been fairly stagnant during the last 10 years.
- It also seems that there are only a few municipalities that understand the economic dynamics associated with industrial development.
- The operationalisation of a promotion and marketing strategy in most cases seems to be driven only by the public sector. This is probably one of the areas where a greater number of public-private partnerships could play a role.
- The fact that all IDPs have identified industrial development as a priority potentially creates a provincial spatial dilemma. To some degree it is inappropriate to spread the provincial resources for the promotion of industrial development and manufacturing to all municipalities. In fact, business and industry are, to a large degree, dependent on agglomeration to support their functioning. In order to assist agglomeration, specific spatial priorities need to be set and local municipalities should take note of these.
- Despite certain structural economic dilemmas, such as the peripheral location of the Free State in relation to Gauteng, as well as infrastructural blockages, it also seems that the manner in which the drive for economic diversification in the Free State is being conducted, is not adequate for a competitive environment. The lack of central points of information and assistance, and the lack of uncomplicated processes to establish manufacturing enterprises, also play a crucial role.
- It is important that the lessons of the FGF on attracting new industries, as well as on business retention in the Free State Goldfields, should be shared with the rest of

the Free State. Their hands-on approach, as well as the various obstacles experienced, should also provide valuable insight to other municipalities.

- Sasolburg seems to be the one area in the Free State where large-scale industrial investment and growth are taking place. However, road infrastructure is urgently required, while the development of industry in Sasolburg would probably be linked far more directly to Gauteng than to the Free State.

LESOTHO INDUSTRIALISATION: AN OVERVIEW

1. Introduction

This report is an input to highlight the implications for industrialization in the Free State Province as a result of the industrialization efforts of Lesotho. It is based on an overview of relevant studies and reports on industrialization in Lesotho, discussions with representatives of the Ministry of Industry, Trade, Marketing & Co-operatives (MITMC), the Lesotho National Development Corporation (LNDC) and three Taiwanese industrialists.[2] The report begins by highlighting key characteristics of the Lesotho economy that are relevant for a proper understanding of industrialization and its impact in Lesotho. The focus then shifts to the manufacturing sub-sector in Lesotho taking Government of Lesotho policies on and incentives for industrialization into consideration. Then the African Growth and Opportunity Act (AGOA) and its impact on Lesotho and South Africa are discussed before the views of industrialists and officials are considered. Lastly a number of comments and conclusions are made. The brief of this assignment limits the investigation to an overview and not an in-depth analysis.

2. Main characteristics of the Lesotho economy:

Lesotho's macro-economic policy environment is basically determined by the developments in South Africa since Lesotho is tied to the Common Monetary Area. This eliminates monetary policy autonomy and Lesotho's competitiveness depends on the fluctuations of the Rand.

Whilst the large majority of the population is involved in agriculture, care should be taken not to depict agriculture as a sector of employment. Some studies had indicated that the average time devoted to agriculture by rural households amount to less than 3 hours per day[3].

For an overview it is important to consider first of all the relative size of the respective sectors as a percentage of GDP (see ***Table 15***). It should immediately be noted that Lesotho experiences a marked difference between GDP and GNP, mainly because of the large number of mineworkers employed in South Africa which for decades had dominated the local internal economy as well.

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2 The interview was granted on the undertaking not to reveal identities.

3 Ruicon 1998 (b)

Table 15: The contribution of different sectors to the Lesotho GDP (percentages)

		1982	1985	1988	1991	1994	1997	2000	2003
Primary sector		**21.7**	**19.0**	**20.3**	**14.1**	**15.2**	**14.3**	**16.4**	**14.7**
	Agriculture	18.7	18.8	20.3	13.9	15.2	14.3	16.2	14.5
	Crops	11.1	10.2	11.7	8.4	9.3	9.2	10.3	8.7
	Livestock	6.1	7.4	7.6	4.5	4.9	4.1	5.1	5.3
	Agric services	1.5	1.2	1.0	1.0	0.9	0.9	0.8	0.5
	Mining & quarrying	3.0	0.3	0.1	0.2	0.0	0.1	0.1	0.1
Secondary sector		**21.5**	**22.2**	**23.0**	**30.6**	**32.2**	**37.0**	**35.8**	**37.9**
	Construction	12.4	11.6	10.6	17.6	16.4	16.2	15.9	15.8
	Manufacturing	8.7	10.1	11.6	11.5	13.6	14.2	14.7	17.7
	Food & beverages	6.4	6.9	6.1	5.7	6.3	6.5	5.7	0.0
	Textiles, clothing, footwear	0.7	1.2	3.5	4.1	4.8	5.1	6.1	0.0
	Other manufacturing	1.6	2.0	2.0	1.7	2.5	2.7	2.9	0.0
	Electricity & water	0.4	0.5	0.7	1.5	2.2	6.5	5.1	4.4
Tertiary sector		**44.6**	**45.9**	**40.9**	**38.6**	**39.5**	**37.9**	**38.8**	**38.1**
	Wholesale & retail	5.5	6.7	6.4	6.8	7.8	8.2	7.9	8.4
	Hotels & restaurants	1.3	1.1	1.1	1.1	1.0	1.2	1.3	1.3
	Transport & communication	3.8	3.7	3.3	3.7	3.4	3.4	3.1	3.3
	Transport & storage	3.3	3.4	1.8	2.3	2.1	2.3	1.8	2.0
	Telecommunications & post	0.5	0.4	1.5	1.3	1.3	1.1	1.3	1.3
	Financial services	4.1	4.3	3.9	4.8	4.3	2.6	4.2	3.9
	Real estate	13.9	12.9	10.9	7.1	6.7	5.6	4.7	4.8
	Owner occupied	11.7	10.8	9.0	7.0	4.7	3.6	3.1	3.3
	Other services	2.2	2.1	1.9	0.1	2.0	2.0	1.6	1.5
	Government services	14.6	15.5	14.0	13.9	15.0	15.8	16.6	15.3
	Health services	1.6	1.7	1.6	1.3	1.8	1.5	1.7	1.5
	Education	5.6	5.8	5.4	6.3	7.3	7.5	7.6	7.5
	Other services	7.4	8.0	7.0	6.2	5.9	6.8	7.3	6.3
	Community services	1.6	1.6	1.2	1.2	1.2	1.0	1.0	1.0
	Indirect taxes	12.2	12.9	15.8	16.7	13.1	10.8	9.0	9.4
	GDP at purchaser prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	Net primary income ex territory	42.4	37.5	36.3	30.9	25.9	20.5	17.4	0.0
	Net transfers	5.9	13.1	12.1	12.9	15.1	15.2	11.9	0.0
	GDP as % of GNI	51.7	49.4	51.6	56.3	59.0	64.3	70.7	100.0
	GNI	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank

The following is of importance:

- Agriculture has been in constant decline despite substantial investments through development aid, for many years a higher subsidized maize price than in South Africa[4] and ongoing input subsidies in the form of seed, fertilizer and mechanized services. In fact, agricultural production is not only in decline as a percentage of GDP, concerning crop production the yield in tons per hectare has been in decline over a period of 30 years.[5]

4 The aim was to promote through high maize prices production in an attempt to wean Lesotho from grain imports from South Africa. This attempt at self-sufficiency failed dismally and in 1997 a market approach to grain prices was introduced.

5 Ruicon 1998 (b)

- Construction achieved the extraordinary high levels because of the impact of the massive first phase of the Lesotho Highlands Water Scheme that came to an end in 2003. A contribution of 18% by the construction sector (as in the early 90's) is not sustainable and was only due to the fact that the largest single civil construction project in the southern hemisphere at that stage was implemented in a small country with no real diversified economy. LHWP Phase I had changed the country in many aspects, e.g. opening the rural hinterland through good roads over impressive mountain passes, developing new and constant avenues for national income through both stimulating tourism and the water royalties paid by South Africa, accelerated urbanization, improved energy supply through hydro-power.

- Industrialisation has been a constant focus of the Lesotho National Development Corporation since the late 1960's with limited success until the industrial take-off in the mid 1980's.

- Tourism remains relatively negligible in the overall context.

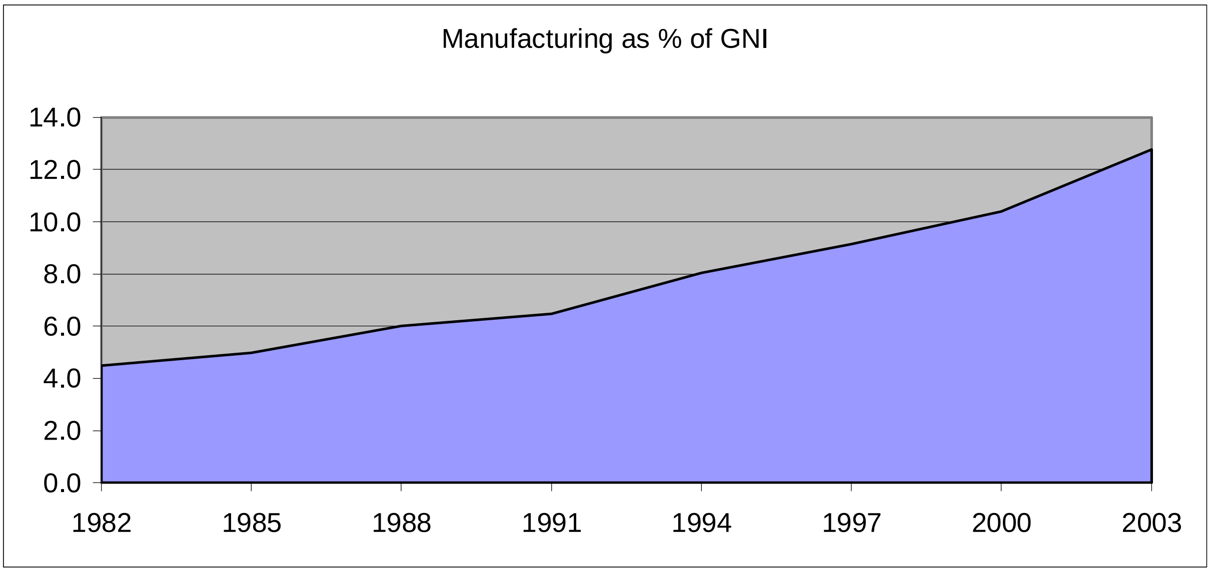

Figure 20: Manufacturing as a % of GNI

The reasons for the dramatic narrowing of the original massive gap between GDP and GNI (Figure 20) are threefold:

(i) The impact of the LHWP on the internal economy;
(ii) The increasing importance of industries in the local economy;
(iii) The declining role of mineworker remittances.

Table 16 presents an overview of the importance of different sources of Government income.

Table 16: Sources of income for the Government of Lesotho

	1985/86	%	1991/2	%	1994/5	%	2001/2	%	2002/3	%
Total GoL income:	**316.6**		**969.3**		**1581.8**		**3122.5**		**3408.8**	
Income before grants:	246.6	*77.89*	820.1	*84.61*	1438.5	*90.94*	2864.9	*91.75*	3077.2	*90.27*
Taxes:	49.3	*15.57*	277.6	*28.64*	423.6	*26.78*	942.0	*30.17*	1124.7	*32.99*
Income Tax:	25.7		135.4		224.4		579.1		710.6	
Individual Income Tax	18.2	*5.75*	73.5	*7.58*	140.1	*8.86*	361.6	*11.58*	443.7	*13.01*
Company Tax	7.5	*2.37*	61.9	*6.39*	84.3	*5.33*	217.5	*6.97*	267.0	*7.83*
Sales Tax/VAT	19.8	*6.25*	112.7	*11.63*	149.8	*9.47*	306.5	*9.82*	323.6	*9.49*
Other tax revenue	1.5						4.4		8.2	
Fuel levy	2.3	*0.73*	29.5	*3.04*	49.4	*3.12*	52.0	*1.67*	82.3	*2.41*
Customs Revenue	161.1	*50.88*	424.1	*43.75*	840.9	*53.16*	1438.2	*46.06*	1470.0	*43.12*
Non tax revenue	36.2	*11.43*	118.4	*12.22*	174.0	*11.00*	484.7	*15.52*	482.5	*14.15*
Grants	70.0	*22.11*	149.2	*15.39*	143.3	*9.06*	257.6	*8.25*	331.6	*9.73*

Source: *Ministry of Finance*

Since the 1990's the number of Lesotho mineworkers employed on South African mines has declined drastically, mainly because the general trend of retrenchments at South African mines, but also since mineworkers with a certain period of employment in SA qualified for permanent residence for their families as well.

The decline in mineworkers is summarized in ***Table 17***. It is interesting how the value of remittances had rocketed despite the decline in mineworkers. This can be attributed to higher wages, but also to retrenchment benefits being repatriated.

Table 17: Number of mineworkers per district 1986-2001

	Maseru	**B-Buthe**	**Leribe**	**Berea**	**Mafeteng**	**M' Hoek**	**Quthing**	**Qacha's N**	**Mokhotlong**	**Total**	**Remittances**
1986	20167	8662	13247	10966	13352	8577	9139	5563	3215	92888	95468396
1987	32619	9186	14659	12003	14821	9550	9519	5513	3347	111217	114842939
1988	23020	8947	14602	11707	14384	9565	9317	5414	2904	99860	347806399
1989	23999	9037	15261	11801	14656	9605	9210	5421	2751	101741	408417862
1990	23983	8978	15033	11601	14181	9573	8851	5084	2423	99707	472436243
1991	22572	8528	14159	10984	13339	9108	8315	4830	2062	93897	344380767
1992	24701	7928	12326	9822	11838	9620	7072	6338	3874	93519	283963136
1993	23010	7883	13693	10087	12469	8321	7743	4256	2478	89940	318699227
1994	32192	6799	13005	9760	12902	8714	7863	4311	2530	98076	329139775
1995	10954	9906	10697	9876	10972	9984	9764	7937	7854	87944	382915417
1996	10794	9667	10554	9498	10498	9502	9647	6698	5499	82357	495243705
1997	15447	7983	9471	7687	9780	8171	6998	5948	4875	76360	494750207
1998	16340	8491	5806	4778	2371	9245	5391	1599	6428	60449	595925808
1999	14683	4465	9194	4390	7743	5213	3754	1810	1234	52486	513063189
2000	14874	4350	9252	3792	8261	4632	3324	1636	1230	51351	476764917
2001	14868	4167	9425	3239	7754	3870	3205	2054	1017	49599	547274374
2002	17355	4354	11194	3221	8303	4312	2910	1554	1187	54390	623763898

Source: TEBA

2.1 The industrial sector

Before independence Lesotho had really no industrial base except for a few cottage industries and with traditional beer brewing being by far the largest sub-segment. The LNDC Act no 20 of 1967 which established the LNDC to "initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce in a manner calculated to raise the level of income and employment". After 18 years with the GoL as the only shareholder, the German DEG became the main co-investor.

In the early years impact remain very modest. An attempt was made to support cottage industries built on traditional weaving and pottery skills. Tapestries, carpets and pottery were produced and markets in South Africa and abroad were explored. In addition, Lesotho promoted import substitution industrialization in the field of basic goods: food and beverages, construction materials and light engineering products. Several light industrial concerns – mainly engineering services - were lured and a few large endeavours aimed at agro-processing were also launched, partially fuelled by the desire to develop food self sufficiency and also to promote crop diversification towards higher value crops. Lesotho Milling and Basotho Canners were two examples. The latter was linked to attempts to promote cultivation of asparagus, beetroot, potatoes and fruit. In the field of construction materials Loti Brick was launched in 1979. Investments were also made in the pharmaceutical arena and the production of ceramic tiles with an entry in the latter 1980's into the textile arena.
This industrialization effort was supported by the incentive package described in ***Table 18***:

Table 18: Incentives for Manufacturing industrialists in Lesotho

Land & Infrastructure	LNDC provides: • Fully serviced industrial plots that could be leased for 30 years at a marginal ground levy if industrialists want to erect their own buildings. Property tax would then be payable to the local authority. • General-purpose built factory shells that could be rented. Waiving of rent for several months is offered as an additional incentive when factory space is available (which is since 2001 no longer the case)
Capital Allowances	The following incentives are available: • 40% depreciation on building and plant capital expenditure in year 1 • Low interest loans for financing of up to 60& of the cost of imported plant and machinery.
Tax incentives	• A 15% maximum tax rate on profits earned by manufacturing companies. • No withholding tax on dividends distributed by manufacturing companies to local or foreign shareholders. • Free repatriation of profits derived from manufacturing profits. • A tax holiday of up to 10 years can be granted under certain circumstances
Other incentives	• Training allowances of 50% of cost of certain training programs for local employees.
Financial incentives	• Unimpeded access to foreign exchange. • An export finance facility and guarantee scheme • Long term (up to 10 years) fixed interest loans

Source: LNDC

These incentives, coupled by a desire by several South African based industries to escape the sanctions net that was woven around South Africa, led to substantial industrial growth in the early and mid 1980's. Several SA firms established new endeavours in Lesotho with its preferential access to the EU markets. A second wave of industrialization took place in the latter 1980's when the EU waived the cumulation formula for textiles of the Lome convention for Lesotho for a period of 8 years. According to the cumulation formula at least two manufacturing processes have to take place in the exporting country for access in terms of Lome, but the 8 year waiving enabled several Taiwanese firms to obtain fabric from India, Taiwan, Malaysia and China for processing in Lesotho. As this exemption expired after 8 years, several firms closed down, whilst other shifted their attention to the US market although there a tariff of 17% and quotas applied. A basis was laid for further development of the textile industry when negotiations on AGOA commenced.

The industrialisation road was also characterized by several failures:

- The National Ceramic Tile Factory established in Mafeteng was liquidated within 3 years after commencing operations.
- Loti Brick is after 26 years still operating at a loss and the investment in one of the most modern computerized kilns in Southern Africa is not paying at this stage.
- The Lesotho Pharmaceutical Company (also Mafeteng based) is running at a large loss and all attempts to find a strategic investor to recapitalise it and to ensure the full privatization of LPC have failed to date.
- Basotho Canners was liquidated.
- The once famous Kolonyama Pottery, which exported to the United Kingdom, Canada and South Africa, is no longer in existence; neither is the carpet weaving that was based on locally produced wool.

Table 19 provides an overview of the growth in manufacturing concerns since 1994.

Table 19: LNDC Assisted Manufacturing Companies 2004, 1999, 1994

Company	Year	Origin	Product	Number of Workers			Markets	Estate
Loti Brick	1978	Lesotho	Bricks	155	150	153	RSA/Lesotho	Thetsane
Basotho Canners	1979	Lesotho	Agro-Products		0		Lesotho	Masianokeng
Lesotho Milling	1980	RSA	Agro-Products	235	182	188	Lesotho	Maputsoe
Lesotho Brewing Co.	1980	Lesotho	Beverages	340	336	330	Lesotho	Maseru
Lesotho Umbrella	1981	RSA	Umbrellas	84	84	84	RSA/EU	Maputsoe
Lesotho Steel	1984	Lesotho	Structural	20	20	20	RSA/Lesotho	Maseru
Lesotho Motor Engine	1985	RSA	Auto parts	20	16	17	Lesotho	Maseru
Sotho Development	1986	Israel	Engines				RSA/Lesotho	Thetsane
Poltex	1986	Hong-Kong	Jeans			50	RSA	Thetsane
Maseru Clothing	1986	RSA	Sportswear				RSA	Maputsoe
Lesotho Haps	1986	Taiwan	T-Shirts	1400	1400	1410	RSA	Maputsoe
Gatti Ice Cream	1987	RSA	Confection			0	Lesotho	Maseru
CGM	1987	Taiwan	Jeans	1888	3300	3200	USA	Thetsane
LPC	1987	Lesotho	Pharmaceutical	100	98	98	RSA/Lesotho	Mafeteng
Lesotho Bakery	1988	RSA	Bread, Conf.	136	133	122	Lesotho	Thetsane
Lesotho Sandstone	1989	Italy	Blocks				Lesotho	Maseru
Super knitting	1989	Taiwan	T-Shirts	806	890	872	USA	Maseru
Kiota Electronics	1989	RSA	TV's	285	282	288	RSA	Thetsane
C&Y Garments	1990	Taiwan	Jeans	1950	2200	2130	USA	Thetsane
Supreme Bright	1991	RSA	Jeans				RSA	Nyenye
Sun Textiles	1994	Taiwan	Pants/T-Shirts	1014	920	889	USA	Thetsane
Springfield Footwear	1995	RSA	Shoes	1276	1298		RSA	Maputsoe
Evergreen Textiles	1995	Taiwan	T-Shirts		0		RSA	Thetsane
United Clothing	1996	Taiwan	Jeans	1811	1871		USA	Thetsane
J&S Fashions	1996	Taiwan	Skirts/T-Shirts	580	585		USA	Thetsane
Vogue Landmark	1996	Taiwan	T-Shirts	1142	1400		USA	Nyenye
BA Tex	1997	RSA	Kids wear	272	235		RSA	Nyenye
LMA	1997	Lesotho	Knitwear		0		Lesotho	Maseru
Pioneer Plastics	1997	Lesotho	Plastics		0		Lesotho	Maseru
Carca Footwear	1997	RSA	Shoes	597	360		RSA	Nyenye
Teboho/Shinning.cent	1997	Taiwan	T-Shirts	1100	1494		USA	Maseru
Lekim Textiles	1997	Singapore	T-Shirts		0		USA	Thetsane
Maluti Textiles	1998	Taiwan	Jeans	500	620		USA	Thetsane
Mu Plastics	1998	Taiwan	Plastic	8	12		Lesotho	Maseru
CeeBee	1999	Lesotho	Jeans	332	0		RSA	Maputsoe
Heritage	1999	Namibia	Jeans		0		RSA	Maseru
Lekokoaneng sandstn.	1999	Lesotho	Sandstone	14	14		Lesotho	Berea
Precious Garments	1999	Taiwan	T-Shirts	3878	3600		USA	Maseru
Presitex Clothing	2000	Taiwan	Jeans	2700			USA	Thetsane
Reflex Footwear	2000	RSA	Shoes	353			RSA	Nyenye
Tai Yuan	2000	Taiwan	T-shirts	945			USA	Thetsane
Hong Kong Int Knitters	2000	Taiwan	T-shirts	1049			USA	Nyenye
Hippo Knitting	2000	Taiwan	T-shirts	1300			USA	Maseru
Nien Hsing	2001	Taiwan	Jeans	2295			USA	Thetsane
Chainex	2001	Taiwan	T-shirts	70			USA	Maseru
Export Unlimited	2001	RSA	T-shirts	307			RSA/USA	Nyenye
E-River	2001	Taiwan	T-shirts	416			USA	Maseru
Maseru E-Textile	2001	Taiwan	T-shirts	430			USA	Thetsane
N River	2001	Taiwan	T-shirts	562			USA	Maseru
C River	2001	Taiwan	T-shirts	805			USA	Maseru
King-Ang	2001	Taiwan	T-shirts	900			USA	Nyenye
P & T Garments	2001	Taiwan	T-shirts	2695			USA	Mafeteng
Humin Jeanswear	2002	RSA	Jeans	249			RSA/USA	Nyenye
Global Garments	2002	Taiwan	Jeans	1790			USA	Thetsane
Lesotho Carton	2002	Taiwan	Paper carton	55			Lesotho	Maseru
Wonder Garment	2002	Taiwan	T-shirts	330			USA	Maseru

Raytex Garments	2002	China	T-shirts	520			USA	Nyenye
Santi Kon	2002	Taiwan	T-shirts	700			USA	Thetsane
TW Garments	2002	Maylasia	T-shirts	833			USA	Nyenye
Five-Eight	2002	China	T-shirts/sweaters	220			USA	Maseru
JW International	2002	RSA	Work wear	240			USA/RSA	Nyenye
Astoria Bakery	2003	RSA	Confectionery	50			Lesotho/RSA	Maseru
Sweatsun	2003	Mauritius	Garments	370			USA	Maseru
Alley cat Lesotho	2003	RSA	Jeans	650			USA	Maputsoe
Baneng Lesotho	2003	Singapore	T-shirts	600			USA	Thetsane
Ever Unison Garments	2003	Taiwan	T-shirts/pants	1400			USA	Nyenye
Tzicc	2000	Taiwan	T-shirts	1975			USA	Maseru
TOTAL WORKERS				**42777**	**21500**	**9851**		

Source: LNDC

It is clear that by 1994 textiles had already dominated the industrial scene in Lesotho, and that the demise of the small built-on-indigenous skills cottage industries was already complete. The full impact on further growth in the textile industry after the introduction of AGOA has taken off, is not as yet clear from Table 20 since industrialization in the period 2000 – 2003 was to a certain degree hampered by a lack of serviced industrial sites. Several factories in the industry are only now and in 2005 coming on stream and an additional 9 000 to 12 000 jobs will be created, with the southern town of Mohale's Hoek also becoming a focal point for industrialisation.

Table 20: Textile share of manufacturing concerns

	2004		***1999***		***1994***	
	Workers	**% Share**	**Workers**	**% Share**	**Workers**	**% Share**
Textiles & footwear	41275	96.49	20173	93.83	8551	86.80
Food & beverages	761	1.78	651	3.03	640	6.50
Building materials	189	0.44	184	0.86	173	1.76
Other	552	1.29	492	2.29	487	4.94
Total	42777	100	21500	100	9851	100

Based on LNDC data

2.2 AGOA as driver for textiles: the case of Lesotho and SA

AGOA was enacted on May 18, 2000 and became the cornerstone of the Bush Administration's interaction with Sub-Saharan Africa. It is in line with the growing US approach of "trade, rather than aid". AGOA took effect on 1 October 2000 and expires on 30 September 2008. The aim of the Act is to promote free markets and to lower trade barriers. It is a so-called second tier preferential treatment arrangement, below free trade agreements but with better benefits than the Generalized System of Preferences (GSP). See table 21.

Table 21: The hierarchy of preferences in the US trade regime

			Share of US imports in 2001	**Ave. tariff on imports**
Level 1: *Reciprocal preferences*	Free Trade Agreements (FTA)	Canada and Mexico in the North American Free Trade Agreement (NAFTA) Israel, Jordan.	31.7%	0.1%
Level 2: *Non-reciprocal regional preferences*	African Growth and Opportunity Act (AGOA)	Sub-Saharan Africa countries enjoy duty-free access for nearly all goods. Some also have duty- and quota-free access for textiles and apparel.	0.8%	0.7%
	Caribbean Basin Initiative (CBI)	Central America and Caribbean countries enjoy duty-free access for most goods and North American Free Trade Association.	1.8%	2.8%
	Andean Trade Preferences Act (ATPA)	Four Andean countries enjoy duty-free access for most goods.	0.8%	1.5%
Level 3: *Non-reciprocal global preferences*	Generalized System of Preferences (GSP)	Beneficiaries enjoy duty-free access for some goods, but many items are excluded. For Leas-developed countries (LDC) the product range is wider than for the rest of the countries.	9.8%	3.6%
Level 4: *Non-preferential treatment*	Normal Trade Relations (NTR)	This covers most of Europe, the East and some erstwhile Communist countries.	53.9%	2.2%
	Denied Trade Relations (DTR)	Cuba The Democratic People's Republic of Korea	<0.1%	35.1%
	Trade embargoes	Iraq (prior to the invasion). Iran	0.4%	0.3%
			100%	1.6%

Source: UN

To a certain degree AGOA is a preferential treatment package for countries in Sub-Saharan Africa that are also eligible for GSP-treatment. It is clear that AGOA had in the first year (2001) of operation little impact: imports to the US under AGOA accounted for less than 1% of total US imports. AGOA lowered the tariff barriers for textiles to the US, but almost all countries qualifying for AGOA had already quota-free access to the North American market. Quotas are, however, in terms of the Multi-fibre Arrangement due to vanish altogether by 2005 where-after only tariffs will remain to regulate access. After 2005 the beneficiaries from AGOA will only have a tariff advantage.

Although under AGOA the US listed 1 835 items for AGOA treatment (which enhanced the 4 650 products that already qualified for duty-free treatment under the GSP) the UN reckons that AGOA implied only limited preferences for 30 of the 48 counties eligible for designation under AGOA and that it had potentially more significance for the non-LDC countries. Lesotho was one of the 8 LDCs with full AGOA benefits that and was designated for AGOA preferential treatment in October 2000 and on 23 April 2001 received textile certification, six weeks later than South Africa that received their textile certification on March 7, 2001.

The duty-free and quota-free access for textiles and apparel in terms of AGOA is subject to a strict arrangement concerning origin of fabrics and yarn: duty-free access to the US market depends on textiles and apparel produced from "fabrics wholly formed and cut in the United States from yarns wholly formed in the United States". Moreover, the act provides for duty-free and quota-free apparel imports made from fabric produced by beneficiary countries in Sub-Saharan Africa. (The so-called apparel clause). This clause further has a Special Rule for LDCs that offers a grace period till 30 September 2004 during which such countries could have duty-free and quota-free access for apparel produced from fibre and yarn sourced anywhere else in the world.

Lesotho qualified for the Special Rule but not South Africa. This window of opportunity for LDCs (disappearing within a few months) was seized by several (especially) industrialists from Taiwan, Hong Kong and Mainland China[6]. This incentive led to the substantial expansion of the textile industry in Lesotho, but became now also its biggest threat: if Congress would not agree an extension of the Special Rule, the textile industry in the AGOA LDCs could be jeopardized.

However, this cut off date was not intended to close the window of opportunity for Sub-Saharan countries: it is an example of how the US is using international trade as a lever to promote industrialisation in African countries. The threat of not being able to access cheap fabric outside AGOA countries provided all AGOA countries with an opportunity. Lesotho utilized this opportunity for gearing up its industrialisation programme: two Taiwanese textile industrialists decided that the end of the Special Rule would compel all textile industries in AGOA countries to source yarn and fabric from either the US or other AGOA countries. This demand will result in a price hike for AGOA countries in sourcing yarn and fabric. They therefore commenced with the establishment of a denim mill in Lesotho. Construction on a massive factory by Nien Hsiang (an amount of US $ 50 million) that will employ 6 000 workers commenced in Thetsane, Maseru in 2001. The expectation is that this concern will commence operations in spinning of yarn and weaving towards the end of 2003 or the first half of 2004. In the beginning production will not be sufficient to provide for all the needs of the textile factories in Lesotho, but it has the potential to develop this in the medium term as well as exports to other AGOA beneficiaries who can no longer import cheap fabric from India and elsewhere in the East. This is vertical industrial integration that could enable the textile industry to become anchored in Lesotho. Nien Hsiang already has (apart from the mill) investments of US $ 200-million and employs almost 10 000 workers (numerous smaller companies listed in Table 19 above belong to this group) in manufacturing garments in Lesotho. This development of a denim mill has also persuaded a Mauritius textile firm Sweatsun to commence with a factory for apparel production in Lesotho, even though Mauritius has AGOA benefits (without the Special Rule exemption).

South Africa has benefited substantially from AGOA with exports increasing by 45.5% from US $ 923 million in 2001 to US$ 1 343 million in 2002 and US $ 1 669 million in 2004, a further growth of 24% despite a strengthening Rand. South Africa's AGOA exports are in order of importance transportation equipment (almost 50% of BMW South Africa's production is exported to the US), Minerals and metals, Chemicals, Agricultural produce and then Textiles. However, when considering the growth rate in exports in these segments from 2001 to 2003, it is clear that Textiles and Transportation are the sectors that have grown in excess of the average AGOA growth in exports from 2001 to 2003. In fact, the growth that South Africa has experienced in Textiles is far larger than the growth rate that Lesotho has experienced in apparel exports to the US, (table 22) though from a low base.

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[6] The reason why industrialists from these countries are flocking to Sub-Saharan Africa to benefit from AGOA, is quite evident: their home country based industries are limited in their textile exports to the North American market by both duties and quotas.

Table 22: Exports under AGOA from 2001 to 2003 for South Africa and Lesotho in US $ million

		2001	*2002*	*2003*	*% Growth in export 2001 - 2003*
South Africa	Transportation equipment	300	545	731	**143.67**
	Minerals & metals	317	372	397	25.24
	Chemicals & related products	126	130	175	38.89
	Agricultural products	79	124	133	68.35
	Textiles & Apparel	33	88	131	**296.97**
Lesotho	Lesotho textiles	130	318	373	**186.92**

Source: AGOA web site

An interesting development is that in both these two top export sectors in South Africa, the first few years since the launch of AGOA in 2000 had seen substantial investments. The automotive manufacturing industry in South Africa upgraded their production plants to the tune of US $ 20 million. Simultaneously cotton producers have geared up to supply the increased demand for cotton by African textile manufacturers. Table 23 depicts the AGOA exports of Lesotho and South Africa in the context of the rest of Africa.

Table 23: Sub-Saharan Africa: U.S. imports, total under the African Growth and Opportunity Act (YTD = Jan - Mar) AGOA-eligible countries only

(Thousands of dollars, Customs value)

Country	TOTAL 2002	TOTAL 2003	TOTAL 2003 YTD	TOTAL 2004 YTD	AGOA including GSP provisions 2002	AGOA including GSP provisions 2003	AGOA including GSP provisions 2003 YTD	AGOA including GSP provisions 2004 YTD
Nigeria*	5,819,603	10,113,618	2,603,010	3,398,713	5,409,660	9,356,012	2,396,081	3,149,015
South Africa	4,235,974	4,887,962	1,108,048	1,288,453	1,342,594	1,668,573	372,224	335,560
Gabon*	1,622,021	1,927,715	476,219	534,378	1,145,627	1,177,458	255,508	366,371
Cote d'Ivoire	381,860	490,248	210,296	212,583	49,733	88,037	14,853	18,222
Congo (ROC)	223,824	407,186	112,250	73,055	106,633	340,790	95,211	57,901
Lesotho	321,475	393,056	82,303	101,188	318,029	372,674	81,887	97,691
Madagascar	215,923	383,329	53,261	121,076	79,728	187,879	22,387	61,079
Mauritius	280,433	298,096	81,266	68,217	114,292	143,077	31,574	39,227
Kenya	189,156	249,137	56,550	80,750	129,210	184,441	44,198	68,845
Cameroon	172,057	193,319	36,981	77,653	115,804	147,011	25,382	66,055
Congo (DRC)	0	173,867	56,083	35,485	0	119,471	46,466	31,989
Swaziland	114,464	162,033	31,715	43,242	81,252	133,975	26,707	39,057
Namibia	57,353	123,249	17,237	44,708	1,717	46,755	5,011	21,302
Ghana	115,641	83,603	23,852	27,303	34,830	40,586	11,413	18,165
Malawi	68,109	80,076	18,487	24,702	46,904	59,256	10,415	22,156
Guinea	71,600	69,226	17,651	13,796	68	194	60	13
Uganda	15,197	34,883	6,437	7,677	32	1,509	191	836
Ethiopia	25,659	30,496	5,816	4,619	2,320	2,885	830	1,102
Tanzania	25,343	24,234	5,605	5,384	1,293	1,569	371	361
Chad	5,700	22,434	395	107,165	0	14,478	36	70,447
Seychelles	26,291	15,324	7,068	664	0	3	0	0
Botswana	29,732	13,642	4,560	13,302	4,578	6,324	926	3,532
Zambia	7,790	12,469	2,209	5,513	83	510	11	54
Mozambique	8,160	8,711	1,249	855	5,916	7,917	1,120	191
Sierra Leone	3,833	6,478	1,421	2,527	217	75	0	174
Cape Verde	1,811	5,640	1,294	736	51	2,465	537	519
Senegal	3,799	4,326	775	534	499	720	142	125
Niger	897	4,034	346	12,445	22	63	36	0

Rwanda	3,086	2,623	619	900	10	6	0	0
Mali	2,583	2,394	616	555	342	262	6	16
Cen African Rep	2,004	1,959	616	0	192	43	0	0
Guinea-Bissau	35	1,912	1,843	98	0	0	0	0
Mauritania	929	929	119	3,673	35	3	0	0
Djibouti	1,915	615	307	368	23	27	0	17
Benin	680	602	12	242	0	0	0	0
Eritrea	369	251	106	0	11	0	0	0
Gambia	0	134	19	102	0	20	0	8
Sao Tome & Prin	391	91	55	47	0	0	0	0
Angola*	0	0	0	903,668	0	0	0	833,517
Total	14,055,698	20,229,905	5,026,695	7,216,376	8,991,705	14,105,065	3,443,583	5,303,544
* *Mainly crude oil exports.*								
Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce								

2.3 Perceptions of industrialists

In an interview with Taiwanese industrialists, the following aspects emerge:

- South Africa was considered a good friend of Taiwan in the 1970's and 1980's and with diplomatic ties the two pariah states pursued economic co-operation. With disinvestments accelerating in the 1980's due to apartheid, South Africa provided excellent incentives to lure foreign investment. Taiwanese companies took that opportunity. "*The political transformation in South Africa changed all that. It brought uneasiness under the Taiwanese. The ANC not only severed ties with Taiwan, it is pursuing close ties with Beijing*".
- Simultaneously some of the previous subsidies in SA were being phased out. "*Lesotho was a very logical place to relocate to with factories, since the export environment (harbours of Durban and Cape Town), the financial system (banks and procedures) remain the same*".
- For those who established factories in Lesotho, it was also possible to maintain ties with the sizeable Taiwanese community residing in Bloemfontein.
- The company tax in Lesotho for manufacturing is only 15% compared to double that in South Africa.
- Labour is cheaper and less well organized in Lesotho. The South African labour regulations and all the taxes and levies and the cumbersome procedures to get rid of unwanted workers, all work in favour of Lesotho.
- There is no pressure of Black Economic Empowerment (BEE) in Lesotho. The interviewees view BEE in South Africa as "*worse than high taxes*". One of the industrialists said BEE brings major internal expenditure in the firm before the "tjo-tjo" (bribes) that anyway is required to obtain some government contracts or approval of applications for relaxation of building or environmental regulations.
- "Tjo-tjo" in Lesotho comes at a discount compared to South Africa.

3. Conclusions

Whilst Lesotho was successful in developing substantial industrial growth, this growth was driven mainly by a combination of factors:

a) A generous tax regime for manufacturing;
b) The AGOA window of opportunity:
c) Eastern – mainly Taiwanese and Chinese – entrepreneurs in the textile industry utilizing Sub-Saharan Africa as the springboard to access first the European and then the US market.
d) Pro-active action to meet the requirements after the lapsing of the Special Rule by establishing denim mills. (This will also enable Lesotho to meet the requirements of the EU cumulation requirement in apparel).

To date local indigenous entrepreneurs in Lesotho have failed abysmally to seize the opportunities. In addition, local businessmen also failed to develop linkages or service industries to benefit economically from the changing scenario – e.g. cleaning and catering firms – that would also have made life easier and therefore more attractive for foreign investors.

The story of Lesotho's industrial growth is to a large degree a story of the Free State's inability (always in the context of the larger South African picture) to utilize or explore almost similar opportunities. The following aspects can be highlighted:

- The decline of the gold mine industry in the Free State Goldfields had a dismal impact economically on both the Free State and Lesotho. However, Lesotho was able to explore massive industrial potential by exploiting its opportunities in apparel first with the EU and thereafter with the US. The Free State Goldfields with infrastructure, spare electricity capacity, industrial infrastructure, and so forth, totally failed to develop a manufacturing alternative.
- Sanctions prevented certain growth opportunities in manufacturing in the Free State, and Lesotho benefited directly from that.
- The Free State is at a disadvantage concerning the tax regime applicable to manufacturing, labour costs in wages as well as labour costs in terms of procedures, employee benefits and employer-employee negotiations.
- The restrictions concerning property rights for foreign entrepreneurs in Lesotho weigh on industrialists less than their concerns related to BEE in the South African context.
- The Free State failed to pursue complementary industrialization efforts. If it realized in advance the implications for Lesotho when the Special Rule would lapse, it could have pursued the establishment of a denim mill in, say, Botshabelo or Thaba Nchu where there is sufficient vacant industrial space. It is an opportunity lost, which Lesotho hopes to exploit to its full extent.

Industrialisation in the Free State could benefit from pursuing a complementary strategy in the field of manufacturing, rather than trying to compete with Lesotho. In this regard, the following is of importance:

- Are there any cross border linkages with the Lesotho manufacturing sector that could be pursued, e.g. in the field of transportation of imports and exports, and/or the supply of raw materials – e.g. cotton or wool – that could be utilized by the new denim and knitting mills, etc.

- Could there be scope for synergy between industrialization in the Bloemfontein-Botshabelo-Thaba Nchu corridor where substantial factory floor space is either vacant or grossly underutilized, and the growing industrial estates of the Lesotho Lowlands? In short: how can underutilised industrial infrastructure, rendering poor returns in employment and economic growth, be used to pursue opportunities in conjunction with Lesotho, especially since Lesotho's manufacturing sector remains vulnerable being overweight in textiles and apparel. Lesotho has not been able to successfully diversify its industrial sector and the Free State province has not effectively transformed its history of decentralisation and deconcentration incentives into a vibrant industrial sector. Could the Province and Lesotho find common ground in pursuing industrialisation options that could also benefit from AGOA (and later from the envisaged Free Trade Agreement between SACU and the US) in sub-sectors outside apparel? A detailed analysis of the products benefiting from AGOA arrangements as well as current suppliers of these products to the US is required to determine possible openings in this field.

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SUMMARY, CONCLUSION, DISCUSSION AND THE WAY FORWARD

1. Key Findings

The literature survey, questionnaires, and discussions with key role players, culminated in a number of general conclusions:

7) The Free State in the National Context

In a national context, despite having key industries situated in the province such as NATREF and SASOL, the province plays a relatively minor role in the national manufacturing economy, contributing some 3,7% of national output. The dominance of the northern Free State, which generates 70% of the provincial manufacturing output (Sasolburg alone generates 45% of this), is an obvious feature - as is its integration in the Gauteng economy.

8) Key Trends in the Free State Economy

Various factors impinge upon the provincial manufacturing economy and its future sustainability. Key amongst these are:

- the downscaling of the gold mining industry which has negatively impacted on the Goldfields in particular either through direct job losses or indirectly through impacts on supplying and supporting firms,
- a general decline in the relative importance of the food and agricultural industries. This has less immediate, but more long-term, impact on the industries located in the rural towns and the bigger centres,
- the ending of support for Homeland industrial development points and the reuse of these spaces,
- the enhanced importance of the clothing and textiles industries, often in the former Homeland growth points. In employment terms this growth has been very important. There appears to be some uncertainty about its long-term future however, as it is dependent on foreign investors seeking to use favourable international trade opportunities,
- the jewellery industry shows potential in terms of local beneficiation,
- the proximity of Lesotho and its offering of more favourable trade access to international markets could impact on the provincial economy,
- in terms of size-based differences, it is apparent that there has been a significant expansion in the numbers of manufacturing SMMEs. Although this is a positive trend, it seems to have only just balanced out the job losses caused by the closure of a number of larger firms. Loss of firms in the Goldfields and Bloemfontein areas is cause for concern,
- growth appears to be focussing on the Bloemfontein-Botshabelo-Thaba Nchu and Harrismith-QwaQwa areas. The Sasolburg area is holding its own and the rest of the province is either not growing or is experiencing loss.

9) Existing Policy

Both national and provincial policy provide a basis for boosting the manufacturing economy. Key amongst these prescriptions are:

- national and provincial support for the SMME sector which, as this report suggests, appears to be generating positive returns in the province,

- the Microeconomic Reform Strategy and the Integrated Manufacturing Strategy, with their key focus on issues such as BEE, integration, ICT and competitiveness, which has particular resonance in areas such as Sasolburg,
- the Free State Poverty Relief Strategy which identified the need for job creation and the need to establish Business Advisory and Business Service Centres,
- the Free State Development Plan which has a strong focus on economic development and job creation and support for SMMEs and various spatial interventions,
- the Free State Growth and Development Agreement which clearly identified key growth options in: downstreaming from petro-chemicals, agro-industry and gold jewellery.

10) Key Trends in the Provincial Manufacturing Economy

The number of firms in the province increased significantly between 1994 and 2003 rising from 461 to 1 014. Of these the percentage share of manufacturing SMMEs has increased from 69 to 83%. However in terms of jobs the picture is effectively static, the number of jobs rising from 48 000 to only 48 500. What seems to have happened is that some large firms have been lost, and while there are a significant number of new SMMEs, they do not employ many people. As a result, positive SMME growth in numbers needs to be balanced against the worrying loss of jobs caused by the closure of large firms such as SAB and various branch plants. Key growth has occurred in the clothing and metal fabrication sub-sectors however. The two clusters experiencing real growth are the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas.

A survey of larger firms (i.e. those with over 200 staff) established that most were still relatively modest in size of operations. Clothing and textiles, followed by food are the dominant sub-sectors. Enterprise establishment was most often linked to availability of raw material and labour. The State or the FDC had assisted nearly 30% of them in some way. Concerns relate to the vulnerability of the textile sector and market access. There is only limited downstreaming taking place. Most firms are broadly positive about the future of the province and its economy.

Smaller firms (i.e. those with less than 200 staff) have increased in number. Whilst engagement in the food industry has declined, it has increased significantly in clothing and textiles. Small towns have experienced loss and growth has focussed on the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas. Small firms are worried about the perceived poor state of the provincial economy, declining market share, isolation, limited downstreaming and labour legislation. These very real concerns call for investigation and appropriate responses.

The clothing and textile sector has experienced significant growth gaining 8 500 new jobs and 100 new firms between 1994 and 2003. Many were assisted by the erstwhile Regional Industrial Development Programme (RIDP) and some more recently by the FDC. Many are foreign owned. There is the risk of future closure dependent on international market access, wage levels and the state of the Rand and global economy.

The petro-chemical industry is a key anchor in the province. SMME development / downstreaming has been retarded by the sophisticated technology and skills requirements of the sub-sector. Poor local infrastructure would appear to be retarding further growth.

The jewellery sector is an emergent one and has considerable potential. Only two firms are operating at present. They have concerns about their isolation and limited interactions with government.

11) The Role of Local Municipalities

Most Integrated Development Plans (IDPs) are patchy in terms of manufacturing, despite the role which municipalities recognize they need to play in economic development. Only a few municipalities provide incentives to firms, although most recognise the need to supply land and infrastructure. Only three of 20 municipalities interviewed had business expansion and retention strategies in place, only four had skills development programmes, and partnerships do not seem to be on the agenda of most authorities. Clearly municipalities can become more pro-active in terms of encouraging manufacturing development.

12) The Role of Lesotho

Lesotho has gained from economic change, past and present in South Africa. Its more favourable trade access, lower tax, cheaper labour and differing establishment requirements have drawn in firms. Growth in the clothing and textiles areas has been particularly pronounced. Collaboration with Lesotho for mutual economic benefit should be considered. As both South Africa and Lesotho are part of the same Customs and Monetary Union, collaboration and trade across the international border is potentially simplified. Collaboration could revolve around attempts to encourage firms which operate in both countries in the same sector, say textiles, to form joint forums to discuss issues of common concern such as trade and transport concerns and labour issues. Similarly, encouraging cross-border sub-contracting linkages which draw on unique skills and specialization, e.g. segments of the garment manufacturing process, could be an avenue to pursue in seeking to build a stronger, unified regional economy.

2. Key Discussion Points

13) The centrality of the Free State

The centrality of the Free State is often presented as a locational advantage, one which is endorsed by manufacturers, particularly in agro-industry and some of the Chambers of Commerce. For others, as Gauteng is the economic heartland, the Free State is seen as too peripheral and has too small a market. Poor infrastructure and the cost of relocation are cited as barriers to taking advantage of the Free State's centrality. These issues are difficult to address short of through major improvements in transport infrastructure.

14) The Former Homeland Growth Points

These areas represent considerable economic and social investment. Fortunately they did not collapse as many predicted would happen in the early 1990s when targeted state support ended. Though not operating at full capacity many still continue as viable industrial operations and hence do have a job creation impact. However there are certain concerns, namely that there are vacancies, many factory buildings are being used as warehouses and not as manufacturing plants, and areas such as Bloem-Industria are clearly not operating at optimal capacity. Further, there appears to be an over-reliance on the clothing and textile industries. These may disappoint in the long-run if the current favourable trade access to foreign markets is not maintained. Although these areas are currently holding their own, their long term future cannot be assured

15) Where is Growth Occurring ?

Both large and small firm growth is taking place mainly in the Bloemfontein-Botshabelo-ThabaNchu and Harrismith-QwaQwa areas. Although this is to be welcomed and supported the reasons for closure of firms in these areas, and the limited or negative growth in other areas, needs to be responded to. Growth here would appear to be as a result of two primary factors: general economic growth in South Africa which impacts on all key economic nodes, and access to the AGOA provisions which have encouraged the clothing and textile industries.

16) The Role of the Free State Development Corporation (FDC)

The FDC is in charge of the former growth points and other aspects of economic development in the province. In this regard it appears to be having an impact, particularly in ensuring the sound management of the former growth points and the provision of low rentals which have clearly influenced many firms' locational choice. Ideally the FDC's role and support should be expanded. In these growth points, where textiles and clothing is often the key anchor, the overall support of the FDC has clearly been very important. However, given the vulnerability of this sector, in terms of its reliance on AGOA, the FDC should try and foment economic diversification in these points.

17) The North: South Divide

There are very real differences in the province between the 'North' and the 'South' in terms of the industrial foci, i.e. mining and petro-chemicals in the North and agro- and general industry in the South. Aside from the often referred to political differences between the two areas, greater integration is desirable to ensure balanced growth. Many role players allege that the North does not receive adequate support. This is difficult to gauge, especially relative to the real needs of the South. Nonetheless, striving for a unified manufacturing economy is desirable.

18) The Role of Sasolburg

Sasolburg is the key industrial node in the province, but its markets and links lie mainly in Gauteng. This reality should be accommodated because of the node's significant job creation potential and its ability to contribute to both national and provincial growth. Support for down-streaming and improvements in local infrastructure will yield very real benefits for the province. It would be of value to consider entrenching the role of Sasolburg and neighbouring areas as a satellite to Gauteng in order to generate real benefits for the Free State province.

19) Support for key sectors

Various provincial and national policy documents identify key, lead sectors and the issues which need to be considered are as follows:

- Downstreaming in the petro-chemical industry would seem to have potential. The Chem-City complex has now been established. There appear to be few occupants however and much of SASOL's out-sourcing is not in terms of manufacture but rather maintenance. Given the costly, high-tech and high-skills requirements of the petro-chemical industry SMME development related to it will not be easy to achieve. Thorough analysis with an eye to identifying possible niches needs to be undertaken.

- The jewellery sector: the establishment of a jewellery cluster and training facility is a logical path to pursue and endorses the principle of beneficiation. It is however worrying that neither of the two firms in Virginia claim to have any contact with the province or to be aware of the notion of the cluster. One firm did receive IDC support however. Clearly better working relations need to be established between this flagship project and government to ensure that the desired growth and benefits are realised.
- Clothing and Textiles: this sector has grown significantly but is vulnerable. Market shifts need to be anticipated and diversification encouraged. This has spatial implications in that many of these firms are in the FDC-supported former growth points and if loss is experienced, these areas will be hard hit. Efforts to ensure greater stability and encourage local market links for the sector should be undertaken.
- Food and Agro-Industries: as the traditional mainstay of the province this sector still has a key role to play. Whilst there may well be some contraction in the agricultural sector generally, efforts to encourage manufacturing SMMEs and to discourage larger firms from migrating to the main national markets should be embarked upon.

20) Municipalities and their Role

Most key municipalities clearly comprehend their role as agents of economic change. However, given the importance of the manufacturing industry, a case could be made for trying to enhance their role of providing support, and incentives.

21) The Provincial Government

The Province has acknowledged that its role is key and the Growth and Development Agreement gives greater support and endorsement to its actions. Officials do appear to be overstretched however and more dedicated support for industrial development is required, both in terms of acting as a 'one stop shop' for investors but also in terms of targeted support in key areas / clusters.

22) The Role of Lesotho

Lesotho is a potential competitor with industries in the Free State, especially in the light of its access to more favourable trade agreements and its input costs which are probably cheaper. This should not be seen as a threat. Instead cross-border economic and sub-contracting linkages should be forged to the mutual benefit of both areas. Enhanced collaboration with Lesotho authorities should be encouraged.

23) The Province and its Neighbours

The reality is that political borders seldom coincide with economic ones. While politicians and government plan within their spatial boundaries, economic agents think more broadly. Given the importance of Sasolburg to the Gauteng economy and potential competition from Lesotho, pro-active action is needed to develop the province as a base to serve other areas. Even though not all the benefits will accrue to the Free State, this is a clear route by which to capitalise on the province's central location.

24) The IDZ and Cargo Airport Debates

The IDZ and cargo airport questions are topical in the province. However before major expense is incurred questions need to be asked about who would use them and to what purpose. Can a province develop an independent IDZ? A cargo airport presupposes fast, bulk transport to and from the facility to key national markets. Neither of these can be guaranteed at present. The economic realities of the country need to be examined and not the competing political goals in differing parts of the country or province to possess such facilities. While earlier studies have examined this issue both in the Goldfields and the Bloemfontein areas, it is unlikely that the more central towns in the province have the capacity to sustain a cargo airport or to reliably supply other markets. The reality is that Gauteng is the economic heartland and, building on that core, development in the Sasolburg area is far more likely to succeed and to generate real long-term benefits for the province.

3. Way Forward

What the study reveals is that the province plays a very defined and sector-specific role in the national economy. Whilst key sectors such as mining and sub-sectors of agriculture have experienced difficulties, other opportunities do present themselves. While there does not appear to be a single, lead or dominant sub-sector which has the capacity to fundamentally transform the province's manufacturing potential, as the following discussion reveals, focusing on niche markets, providing appropriate policy support and meeting local demands are options which merit serious consideration.

In terms of the way forward, the report proposes various considerations which the PEAC might consider in its planning for the future of manufacturing industry in the Free State. These are:

5.1 Policy Considerations

22) The development of a Manufacturing Industrial policy which recognises and supports both large and small firms and the links between them.
23) The need to recognise the limited and sector-specific role which the Free State plays in the South African manufacturing economy and the associated need to build on the strengths which exist.
24) The need to encourage Public-Private Partnerships.While the Growth and Development Agreement exists at the provincial level, and there is collaboration in cities such as Bloemfontein, the only really active growth coalition is that of the Free State Goldfields Development Centre. This could serve as a model for how to initiate and promote manufacturing growth.
25) To acknowledge that many firms are branch plants and to work within that context to encourage their permanence.
26) To monitor the former Homeland points and respond to possible changes in their industrial composition should such become imminent.
27) The need to investigate what support measures or incentives can be provided.
28) Parallel support for the informal sector and for Local Economic Development is required.
29) The need to acknowledge and respond to the long term structural decline in the mining industry and in sub-sectors of the agricultural industries and their related processing and servicing components. This requires both a search for alternatives and a need to work on business expansion and retention plans and support for existing firms. Loss has been experienced and government needs to liaise with exiting firms to identify the challenges which they face in order to prevent further closures. If such challenges can be addressed through government mandates e.g. infrastructure provision and training, such support could go a long way to both maintaining and hopefully expanding the current manufacturing base. The clothing industry in

particular appears to be vulnerable to market changes and Business Expansion and Retention strategies may well be timely and appropriate. Current liaison between Mangaung municipality and business should be encouraged both in that city and elsewhere in the province.

5.2 Sectoral Support

30) In this study, small firms in particular expressed concerns regarding markets, their isolation, labour legislation and the lack of downstreaming. This needs further investigation to ensure that recent rapid growth in the SMME sector is not negated by future losses.
31) To support SMMEs and also large firms which often provide key downstreaming links to SMMEs.
32) The need to encourage growth industries which align with new opportunities and national policy e.g. jewellery and petro-chemicals. In the case of the jewellery industry establishing a close working relationship between local production plants and government is important in terms of the provision of advice and research, and in ensuring that there are links between training and production and that marketing is effective. In terms of petro-chemicals, the supply of physical infrastructure and appropriate skills training could go a long-way to helping with the distribution of products and the expansion of the industry.
33) Whilst acknowledging climatic and economic limitations to further expansion in the growing areas and the production potential of certain key crops, opportunities exist for the expanded production, and related industrial processing, of more specialized crops like paprika (currently being experimented with in Welkom) and horticultural products. An additional activity which may have potential is that of the processing of potatoes into chips. At present vast quantities of potatoes are road-hauled to a factory in distant Lambert's Bay and turned into chips for the fast-food industry. Given that potatoes are a key Free State product and the province's proximity to the country's main market, this option merits investigation.
34) Much of what the Free State produces is not sold in the province – mineral, agricultural and petro-chemical products are destined for sale in Gauteng or in markets further afield. Although this strengthens the role which the province plays in the national economy, it means that inter-firm linkages and local sales are not that well developed. Opportunities exist to meet the needs of local firms in areas such as timber processing, cotton and various fabrics and food products. Though demand would be relatively small, this would provide ideal opportunities for small / emerging manufacturing firms in these areas.
35) The centrality of the Free State should not be overlooked. While many firms' preferred location is Johannesburg, for those with a more regional or national focus, the Free State's centrality should make it a candidate for consideration. The province's centrality could recommend itself to firms in two possible ways:
    - companies using the province as a base from which to make and distribute products nationally. The aforementioned potato example is a case in point. At present Afrox uses Welkom as a regional base. Their reasons for doing so and their experiences to date merit investigation to guide policy and inform other role-players.
    - in an era when bulk transport by road is moving towards the 'hub and spoke' model, there should be scope for the Free State's being viewed as a base for road transport and distribution. This would stimulate vehicle maintenance and sales, as

well as the possible use of old mine infrastructure in the Goldfields as warehousing or distribution centres.

5.3 Institutional Support

36) Province needs to work closely with local municipalities to ensure alignment of plans, to recognise growth sectors and to provide appropriate support.
37) There is a need for a provincial industrial support structure to collect data and conduct research. This structure should advise potential investors and existing firms and act as a 'one stop shop', in accord with the provincial Poverty Relief Strategy's objectives. Such an agency could also facilitate sub-contracting linkages.
38) The need to work with institutions of higher education to encourage research which can improve production and create jobs.
39) The need to work with educational authorities to provide skills appropriate to the demands of the manufacturing economy.
40) The FDC has clearly influenced industrial development in the province. This role and the support which the FDC can offer needs to be enhanced. A key support measure was the low rentals in the former Homeland growth points.
41) In a global era in which knowledge-based industry is regarded as the way of the future, a task team should establish the role which IT industry can play, either on its own or as a catalyst to help other industries in the province.

5.4 Lesotho

42) As South Africa and Lesotho are part of the same customs union, and given the physical proximity of Lesotho to many key centers in the Free State, high-level talks to encourage sub-contracting, inter-firm linkages, joint negotiations and marketing should be encouraged. At present the textile and clothing industry is the most obvious sub-sector within which to encourage such dialogue. Lesotho should not be seen as a rival but rather as a complement and partner to the Free State economy.

APPENDIX 1: COPY OF THE SURVEY QUESTIONNAIRE

Manufacturing Industry: Structured Interview

As part of its planning for future economic development in the province, the Premier's Economic Advisory Council of Free State Province (Contact Person: MALINDA WA MAFELA, Executive Officer at Premier's Economic Advisory Council: Tel 051-401-2423) is preparing a development strategy for the industrial economy of the province.
The survey – undertaken by researchers at Universities of Witwatersrand, Rhodes and Free State – is designed to try to understand the major problems and support needs of the industrial sector with a view to improved assistance for firms in the Free State. Your co-operation in this survey is thus important.
* - denotes a key question.

A. General information

1. Name of enterprise: ____________________________

2. Location: _________________________

3.Type of establishment: ______________________________

4. Code of establishment: ______________________________

5.Race and gender of owner and/or manager: _______________________________

B. Details of ownership and establishment

5. Complete the details below:

Question	**Answer (x)**
Independent firm?	
Branch plant with head office elsewhere?	
Branch plant with head office at same location as branch?	
If branch plant and head office are elsewhere, indicate location of head office / branch plant.	

6. When was the enterprise established in the Free State (and as a national/ international body if relevant – indicate year)

Established in the FS: _____________________

Established nationally: ______________________

Established internationally: _______________________

*7. Why was this business established?

8. Why was the firm/plant established at its present location?

*9. What was the source of capital for the business?

10. What were the major problems experienced when starting up the business?

11. Did municipal/provincial/Free State Development Corporation/national support influence your establishment? If yes, please provide details.

12. Did the Regional Industrial Development Programme play a role in the establishment of your firm and what have the effects of its suspension been on your firm/other firms?

13. Has the Free State Development Corporation (or any other previous state corporation) assisted you? If yes, please provide details and assess the importance of their support.

14. Were you able to access subsidized land/premises/services? If yes, please provide details and evaluate the significance of these issues for the establishment of your enterprise.

Items	Received Subsidization (yes or no)	Details
Land		
Premises		
Services		
Other: explain		

*15. Did municipal/state/FDC (or any other state corporation) support strongly influence your establishment decision? Detail, if yes.

16. Are there any considerations at establishment which may have caused you / your firm to question whether establishment in the FS was a good idea?

*17. In what ways – positive or negative - has government impacted on your firm. What more could/should they be doing?

Positive:

Negative:

What can they do?

18. Please answer the following questions with regard to DTI assistance

Question	
Are you aware of possible assistance from DTI?	
Have you previously or are you currently accessing assistance from DTI?	

C. Employment

19. Please complete the following table:

Criteria	1994	1999
Number of full time workers		
Number of part time workers		
Number of seasonal workers		

20.1 If you have increased your work force, please explain why.

20.2 If you have decreased your work force, please explain why

21. Please complete the following table.

Criteria	1999	2004
Number of full time workers		
Number of part time workers		
Number of seasonal workers		

21.1 If you have increased your work force – explain why?

21.2 If you have decreased your work force – explain why?

*22. Current employment breakdown by race:
White
Black

*23. Employment breakdown by gender
Male
Female

D. Firm Operation/Links

24. Please detail you're the main inputs of your plant by source and type. (% in the FS, SA and international)

Inputs (raw products)	Source where? (indicate % in monetary value)		
	Free State	SA but outside Free State	International

25. Please detail your the outputs and markets of your plant (% in the FS, SA and international)

Market products	Sold where? (indicate % in monetary value)		
	Free State	SA but outside Free State	International

26. Do you have sub-contracting/SMME links? Please provide details and estimates of firm value/sales.

E. The Free State

27. What do you consider the major ADVANTAGES of your factory being located in FREE STATE?
Major:

Others:

28. What do you consider the major DISADVANTAGES of your factory being located in FREE STATE?
Major:

Others:

29. Please detail the various factors impacting on the performance of your firm and other industries in the province, with reference to global, national, provincial, local issues. (i.e. in terms of trade, investment, decision-making, sales etc.)

*30. Continuing from the previous question, what are the key threats faced?

32. What are your views on the future of industry in the FS/the key opportunities and barriers that it faces? Please relate to your sector specifically.

33. Please comment on whether the FS is an ideal location for industrial activity ? Why ?

34. How do you see the future of industry in the FS? Why?

35. Have changes in key sectors such as agriculture and mining impacted on your industry or industry in general in the FS ? Why and in what ways ?

F. Business Performance and Future Plans

36. Over the past 5 years and the past year, respectively, what have been the main trends for your business in terms of:

Criteria	**Increased**		**Remained the same**		**Decreased**		**Reason**
	5 years	1 year	5 years	1 year	5 years	1 year	
Factory space							1 year: 5 years:
Business profit							1 year: 5 years:

Competition in the Free State							1 year:
							5 years:
Competition nationally							1 year:
							5 years:
Competition globally							1 year:
							5 years:

37. What performance do you expect from your business in the next 12 months in terms of:

Criteria	Increase	Remained the same	Decrease	Reason
Work force				
Factory space				
Business profit				
Competition in the Free State				
Competition nationally				
Competition globally				

*38. Are the present premises of your factory adequate for the need of your business? If not, why not?

*39. In your mind, what have been the major obstacles, in order of importance, for improved performance of your business?
- over the past 5 years;
- over the last 12 months;
- In the next year.

40. Have you introduced any new capital into your business during the last 12 months?
If yes, what was the source of that capital. Own funds/bank/retained earnings?

41. During the past 5 years, have you introduced into your business:
- any new production processes? How many?
- any new products? How many?

*42. Do you have any plans for future capital investment (i.e. new machinery)/ employment expansion in your business? Please provide reasons.

Details::

43. Are you considering business expansion, closure or rationalization? Why?

	Yes/No	Reason
Business expansion:		
Closure		
Rationalization		
Continue in the same manner		

*44. What do you consider to be the major strengths of your business?
*45. What do you consider to be the major weakness?
*46. How are you trying to address those weaknesses?
47. Under which new conditions would you take on additional workers in your business?

THANK YOU FOR YOUR ASSISTANCE IN THIS SURVEY