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Article

Trade Policy and Industrial Development in Durban¹

Imraan Valodia

Introduction

In recent years there has been a renewed academic interest in the economics of cities. This has emerged, in part, in response to two developments. First, there has been, in the last three decades or so, a tremendous increase in urban populations, particularly in developing countries. Second, and more importantly in relation to this paper, recent developments in the literature have highlighted the importance of concentrations of economic and industrial activity in cities. The economics literature has since the time of Alfred Marshall recognised the importance of economies of scale and skilled pools of labour in explaining the agglomeration advantages of cities. More recent developments in the literature have highlighted the importance of technology and related spillovers or externalities, innovation, and formal and informal networks in city economies within a global context (Porter 1995). This newer literature points to the increasing local potential to improve economic fortunes. On the other hand, a related branch of this literature stresses that globalisation processes are in fact delocalising economic policy options as firms are increasingly driven to adopt complex global strategies (Amin and Thrift 1995).

Whilst this paper reflects on the implications of globalisation processes on the economy of Durban, the primary objective is to explore this literature outlined above using an international trade framework. There is an interesting, and growing, international trade literature exploring trade policy and its relationship to industry in developing country cities. Krugman and Elizondo (1996) analyse the reasons why many of the world's largest cities are now in developing countries. Using the case of Mexico City, they argue that large cities in developing countries are essentially the unintended by-product of import-substituting trade policies. Extending on the work of Krugman and others, Fujita and Mori (1996) explore why many great cities are port cities, and why these cities have been able to continue to grow, even when the initial advantage of water-access has become a secondary consideration. This emerging literature highlights the issues of trade policy and related scale and agglomeration issues, in explaining much of the development of large urban industrial centres in developing countries.

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Before World War One, Durban was largely a town that functioned as a port centre, with related commercial activities. The initial Maydon Wharf reclamation scheme was undertaken to provide a large bulk-storage facility thereby entrenching Durban's port-city character. Initial attempts by the city's authorities to develop an industrial base in the city were not immediately successful. In 1927, the city's attempts to develop the Congella area for industrial use proved to be difficult even though the land was offered to potential industrialists on very favourable terms. Thereafter, however, particularly after World War Two, the manufacturing industry grew rapidly in Durban. For example, land used for manufacturing purposes in Durban grew from 692.5 acres to 1135 acres between 1949 and 1954 (Katzen 1961). During this period, the industrial areas of Mobeni, Amanzimtoti, Jacobs and the northern areas grew rapidly. This rapid growth in Durban fostered industrial development in the adjacent areas of Pinetown and New Germany.

More recent analyses of industrial development in Durban have pointed to low levels of growth in the late-1980s and 1990s (Addleson et al 1989). The severe difficulties that the industrial sector of Durban is experiencing as a result of trade liberalisation and international competition are symptomatic of the malaise affecting the national economy as a whole (Morris et al 1998; Netshitomboni 1998; Barrett 1993). McCarthy and Bernstein (1996), however, are much more optimistic about the capacity of Durban's industry to adapt and grow in a new trade environment, and argue that 'Durban is South Africa's most promising global competitor' (1996:24).

This paper seeks to explain the rapid industrial development in Durban in the post-1960 period and its subsequent decline in the late-1980s and 1990s. More particularly, it is concerned with the role of trade policy in explaining this pattern of industrial development, and with tentatively exploring the future industrial development resulting from a fundamental shift in national trade policy – from an import-substituting trade strategy to one that is export-oriented. The analysis is restricted to the manufacturing sector of Durban. It may well be the case that trade policies have had an important effect on other sectors of Durban's economy (eg the service

73

sector). This and possible interactions between the manufacturing and other sectors of the economy of Durban are not analysed.

The historical component of the paper seeks to explain how the nature and structure of industrial development was fashioned by import-substituting trade policies. The contemporary component of the paper aims to analyse how the industrial structure of the city is changing in response to further liberalisation of the trade regime.

South African trade policy 1960s to 1990

A number of studies have explored the nature of the trade regime in South Africa over the last four decades (Holden and Holden 1975; Holden 1992; Belli et al 1993). These studies show that nominal tariffs had in general increased in the post-World War Two period, and were subsequently reduced rapidly in the wake of the changes in trade and industrial policy in South Africa in the post-1990 period. Tariff protection represented the major instrument of import replacement industrialisation strategy that was adopted in South Africa (Black 1991; Joffe et al 1995).

Although the above studies show that tariff protection increased in the post-War period, and at times it increased rapidly, it should be stressed that, for a number of reasons, nominal tariff rates only explain a part of industrial protection in South Africa since the 1950s. Holden and Holden (1975) point out that changes in the nominal rates of protection in South Africa provide only a limited indication of the impact of trade policy.² South African trade policy after 1945 was extremely fluid and incoherent, formulated largely in response to the interests of various fractions of South African capital, which simply had to display that they were unable to compete against normally priced imports.

Table 1 below displays the incoherence of trade protection in South Africa. It shows that there is no systematic pattern to the Board of Trade and Industry's (the government institution charged with the responsibility of formulating tariffs) decisions about whether or not to support tariff applications. Owing in part to the frequent changes in tariffs, Belli et al (1993) argue that South Africa had, by the early-1990s, one of the most complex tariff structures in the world. Although the levels of nominal protection in South Africa were relatively low, in the post-W1ar period the protection of South African industry was increasingly implemented through quantitative restrictions. Although the use of quotas and licensing was intended as a temporary measure in response to balance of payment crises, these soon became a permanent feature of industrial policy. Fine and Rustomjee (1996) point out that between 1949 and 1973 licensing grew to cover 80-90 per cent of South African imports. In short, the factors that characterised trade protection in South Africa were the fluidity of the protection system (it changed on a day to day basis, and did not seek to protect any particular sectors of the economy), and its associated complexity.³

Table 1: Tariff Applications Supported and Rejected			
Year	Supported	Rejected	Support/Reject
1990	155	198	0.78
1989	65	253	0.26
1988	140	226	0.62
1987	151	83	1.82
1986	137	96	1.43
1985	269	20	13.45
1984	198	151	1.31
1983	177	115	1.54
1982	119	7	17.00
1981	128	2	64.00
1980	142	125	1.14
1979	115	127	0.91
1978	160	142	1.13
1977	172	135	1.27
1976	140	169	0.83
1975	150	174	0.86
1974	157	121	1.30
1973	212	150	1.41
1972	187	112	1.67
1971	121	112	1.08
1970	81	115	0.70
1969	139	140	0.99
1968	111	97	1.14
1967	116	72	1.61
1966	147	85	1.73
Av. % 1958-67	47.8	52.2	0.92
	(Source: Fine as	nd Rustomjee 1	996)

Industrial growth in Durban: major trends

Graph 1 below shows output growth in Durban's entire manufacturing industry over the period 1966 to 1993. Graph 2 below shows the output performance for the major groups of the manufacturing industries. Imraan Valodia



These graphs show that the period 1966-1972 witnessed the industrial economy of Durban growing at a phenomenal rate. This was most pronounced in the textiles, clothing, chemicals, fabricated metals and motor vehicles industries. Importantly, growth in the industrial sector of Durban during this time was not characterised by high growth off a low base, but rather growth in industries which were already well-established. These industries accounted

for some 67 per cent of the growth in employment in Natal's industry in the period 1965-1972). Interestingly, whereas in other South African metropoles the period from the mid-1960s was characterised by market-induced decentralisation resulting in lower levels of metropolitan industrial growth, the trend in Durban differed (Addleson et al 1989). This is precisely the period when the Durban-Pinetown metropole saw high levels of growth in both employment and the number of manufacturing establishments. This suggests that the trajectory of industrial growth in Durban differs substantially from that of the Witwatersrand and other metropolitan industrial areas. It may well be the case that the industrial sector of Durban acted as a decentralisation point for the Witwatersrand region, and 'pulled' industries into the Durban area. This point is discussed later in the paper.

This growth in the industrial sector of Durban declined in the 1972-1979 period when it matched the general slowdown in the national growth in output.⁴ Interestingly, total employment growth in Durban, at 20.3 per cent over the entire period, was lower than that of Natal at 23.1 per cent, but still slightly higher than the national growth of 18.4 per cent (Addleson et al 1989). A key problem during this stage was the relative decline of the textile industry in Durban (which continued to grow in the rest of South Africa). The one positive feature during this period, for the textile and clothing group of industries, was the continued growth in employment in Durban's clothing industry, albeit at a lower rate than that of the Natal region as a whole. This probably marked the beginning of the relocation of some components of the clothing industry out of Durban, into the industrial decentralisation points of Newcastle, Ladysmith and Isithebe. Particularly significant was the growth of the chemical industry in Durban, and to a lesser extent, growth in the food and wood and furniture industries (Graph 2).

The overall industrial performance in the 1980s and early-1990s was disappointing, with manufacturing output remaining static (Graph 1). Employment declined particularly in the textile industry. Output in all the manufacturing industries of Durban, with the exception of the wood-related industries declined, or remained static over the period.

Explaining industrial growth in Durban

This section of the paper attempts to explain the industrial growth of Durban. It begins by assessing the impact of import-substituting trade policies on industrial development in Durban. Thereafter, two other factors are suggested as important to explaining Durban's industrial development. These are Durban and its surround's resource base and its linkages to the Witwatersrand. The growth of two industries, the metal and textile industries which respectively highlight the role of labour resources and trade policies in Durban's industrial development, is then briefly analysed.

Trade policies

The growth of Durban's manufacturing industry in the 1960s and early-1970s coincided with a sharp increase in protection rates and a widespread use of quantitative trade restrictions, mainly due to a foreign-exchange constraint. Although intended as a temporary measure, these import restriction measures became a feature of South African trade policy. The widespread support by industrialists for the import-replacement strategy was expressed by PH Thomas, then secretary of the Natal Chamber of Industries. In the 1960/61 issue of *Natal Review*, he argued:

The need to harness our foreign exchange resources led to the imposition of control over imports. Wisely, the government limited the importations to capital goods, raw materials and essential commodities not available from South African sources. In turn these conditions created a stimulus for industrial expansion within the Union. (1960/61:27)

A feature of the industrial development of Durban, within the context of import replacement, was the critical role that the port played in the sorts of industries that developed in the Durban area. Given the increases in import controls, Durban and its surrounds was the logical area for the development of industries aimed at import replacement which were dependent on imports of raw materials. Hence the emergence of industries such as paints, fertiliser, rubber products and plastics in the Durban and surrounding area. On this point, Thomas wrote that 'Durban, and its environs, is today the natural home of those industries (fertilisers, paints, plasticware and rubber goods) which draw part of their raw materials from overseas (*Natal Review* 1960/ 61:28).

McWhirter's (1959) study of industry in Durban investigates the role of raw material inputs as a factor in decisions by the manufacturing sector to locate in Durban. He found that for firms located in Durban, the effect of raw materials manufactured in South Africa was negligible as far as locational decisions were concerned. McWhirter concludes that most of Durban's industry was almost exclusively focussed on production for the local market, and that for a number of industries (clothing, textiles, chemicals and rubber, paper) imports of raw materials were a critical factor explaining firms' decisions to locate in the Durban area.

It should be stressed that government policy at the time was not necessarily restricted to import replacement. The early-1960s saw a concerted effort on the part of government to increase exports of manufactured goods. Although this was driven largely by the same logic that shaped the import-replacement policies, ie, a foreign- exchange constraint, it had the effect of shifting, to some extent, the focus of industry to the international economy. An important factor at this time was the very encouraging growth performance and prospects of the global economy. The export promotion effort consisted mainly of sending trade missions to countries where there seemed to be some scope for exports of South African mineral products, and to a lesser extent manufactured goods. In 1961 the Department of Commerce and Industry embarked on a number of trade missions to Europe. North and South America, Asia and Australia. Other important export trade facilities such as information flows, market surveys, the appointment of trade representatives. and export credit insurance were also introduced by government. With the exception of a limited number of cases (for example, the South African Industrial Cellulose Corporation - or SAICCOR - case discussed below), there is little evidence to suggest that export-promotion policies had any impact on manufacturing industry in Durban.

Durban's resource base

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Labour resources in Natal, and more specifically in Durban, have, according to Stanwix (1987), played a significant role in the industrial development of the city. There are two aspects to this argument. First, the city and its surrounds drew on an abundant supply of cheap migrant labour (Tichmann 1983). Second, the racially segmented nature of the working class in Durban and its surrounds played an important role in the development of industry. These factors contributed to the maintenance and growth of low-waged manufacturing activities in Durban and the surrounding area. In 1963/64, the Durban-Pinetown area had the lowest average wage per worker among South Africa's four metropolitan areas. Wages in the Durban-Pinetown area averaged only 82.6 per cent of that on the Witwatersrand, while the comparative figures for Cape Town and Port Elizabeth were 97.9 per cent and 94.8 per cent respectively (Stanwix 1987). Labour market factors played an important role in 'pulling' industry away from other metropolitan areas into Durban. This explains the concentration of low-waged manufacturing activities, such as clothing and textiles, in the economy of Durban.

The supply of unskilled labour is an important factor explaining the development of industry in Durban and its surrounds. The 1960s also saw

the consolidation of Group Areas and the emergence and consolidation of African townships under grand apartheid. Much of the industrial development in the Durban area occurred on the fringes of these townships and drew its unskilled labour from the townships. The southern industrial areas drew their labour from Umlazi, Pinetown, and from Claremont.

Governmental institutions also played a significant role in the development of business based on a cheap supply of labour in the Durban area. In the early-1960s, for example, the Industrial Development Corporation (IDC) established Elangeni Estates, an industrial estate in Hammarsdale which bordered on the African Reserve of Umlaas. This estate marked the IDC's first foray in the development of industrial estates (*Natal Review* 1961/62).

There is some evidence of Durban and its surrounds being a natural site for the development of industries based on the export of beneficiated agricultural and mineral products. Beween the 1940s and the 1960s, the timber industry in Natal grew at a steady pace. From 1955 to 1960 alone, the total value of timber production in South Africa increased from R91 million to R105 million (*Natal Review* 1961/62:115). The increased locally-grown timber supply fostered the development of not only a larger furniture industry, but also led to a vibrant paper and pulp industry in Durban and its surrounds. In the early-1960s, the Mondi paper mills in Durban began production. Two hardboard factories and a number of related manufacturing plants emerged.

The 1960s saw a number of large industrial projects of this sort. Some examples included the R20 million rayon-pulp factory, South African Industrial Cellulose Corporation (SAICCOR) in Umkomaas, and a R6 million ferromanganese plant in Cato Ridge (*Natal Review* 1960/61).

The SAICCOR plant represented an important development in the rise of the textile industry in Durban. The plant was essentially developed to manufacture rayon, an important requisite for the manufacture of textiles, from pulp. This served the requirement of import replacement, as well as providing the stimulus for the formation of large textile plants such as South African Fabrics Limited, a large textile factory owned by Courtaulds Limited, then the world's largest textile manufacturing company. Interestingly, although the SAICCOR plant facilitated import replacement in the downstream textile industry, its essential focus was the export market, with 99 per cent of its production destined for markets in Europe, Canada and the United States of America. The siting of the plant in Durban's surrounds was important for three reasons. First, the plants major input is timber. In the

1960s SAICCOR used approximately 350,000 tons of timber per year. Second, rayon-pulp production is a water-intensive process. In the 1960s, it was estimated that the plant needed 15 million gallons of water daily (*Natal Review* 1961/62) hence the siting of the plant on the Umkomaas River. Third, the export orientation of the plant required a siting reasonably close to a port.

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Although the development of the textile industry in South Africa occurred behind a wall of tariffs, its siting in the Durban area was related, inter alia, to the agricultural sector. Natal's climatic and soil conditions made the area eminently suitable for the growing of a range of fibre crops related to textiles. Cotton, sisal, phormium and other fibre crops are ideally suited for growing in Natal. In the early 1960s already, 70 per cent of South African sisal and phormium was produced in Zululand, and 20 per cent of South African cotton was produced in the Northern Natal lowveld (*Natal Review* 1961/62).

Relatedly, the importance of sugar in the economy of Natal resulted in the emergence of a growing industry related to sugar. Besides the sugar mills and refineries, the farming of sugar in Natal led to a growth in sweet and confectionery establishments and related food products manufacturers. The food industry in Durban was largely made up of firms linked downstream to the sugar refining industry. Further, the Durban area saw the emergence of industry related to the by-products of sugar cane, such as bagasse-based paper, cane-based alcohol and fuels.

The early 1960s saw the construction of an oil refinery - South African Petroleum Refineries (SAPREF) - in Reunion, jointly owned by Shell and BP. The total investment in the project amounted to 25 million pounds, at that stage the biggest single investment project in Natal (Natal Review 1960-61:11). The siting of the refinery in Durban's surrounds was obviously related to the port and its proximity to the Witwatersrand. However, by this stage the city had already developed a large chemical industry whose emergence was related to the (then) abundant supply of water in the city. By the late 1950s, the mining industry and the industrial sector on the Witwatersrand were experiencing serious shortages in water supply. This provided a boost for the establishment of chemicals and related industry in Durban (fertilisers, paints, polishes, soaps and detergents, pharmaceuticals, etc). The emergence of the chemicals industries is also related to the sugar industry in Natal through its by-products. Molasses, the principle byproduct, forms the basic input into a host of organic solvents and is also used in the production of fertiliser. Bagasse, another by-product, is an input for the paper industry.

Linkages to the Witwatersrand

The initial stimulus for the economic and industrial development of Durban came largely from forces beyond the city's borders. Not unlike the rest of South Africa, the discovery of diamonds and more importantly gold on the Witwatersrand in the late nineteenth century was a critical factor in the city's development. The emergence of thriving inland mining centres created the demand for both consumer and capital goods, which, given the rudimentary nature of the economy at that stage, were largely imported. This provided a major boost to economic activity in Durban. In 1889, Natal's exports were five times that of the 1870 level, and imports over the same period had increased ten fold (Stanwix 1987).

Addleson et al (1989) point to the fact that a substantial amount of industry in Durban 'feeds' the Witwatersrand area through forward linkages to manufacturing in the area. This would suggest that developments in the manufacturing industry on the Witwatersrand would have an important impact on Durban industry. The industrial development of Durban, in as far as it is linked to the Witwatersrand, seems to have been determined largely by economic factors. Most important among these are Durban's relative proximity to imported inputs; its lower land costs; and the lower cost of skilled, semi-skilled and unskilled labour.

The expansion in transport links, in particular the rail transport network, and the railway rating system are important factors explaining industrial development in Durban. The South African Railways rating system charged a higher rate on finished goods than on raw materials. Further, the system involved tapering, where the tariff cost decreased (per kilometre) with the distanced travelled. This reinforced the incentive for manufacturing industry to locate in the Durban area. It thus worked to the advantage of Durban and the Witwatersrand, and to the disadvantage of the Natal midlands and other areas along the transport route linking Durban to the Witwatersrand (Dee 1966).

The metal and textile industries in Durban

The number of metal firms in the Pinetown area grew rapidly from six to 22 over the period 1954-61. These tended to be relatively small metal products manufacturers employing an average of 39 workers per firm. They produced mainly household, commercial and engineering equipment aimed at the local market (85 per cent of output was sold in South Africa). The primary inputs

were steel, iron and pig-iron. The bulk of the firms' inputs were sourced locally, with only 7.7 per cent imported.

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There were two main reasons why these firms chose Pinetown as their location. First, it offered relatively cheap land for industrial use, being on average, approximately one-quarter of the cost of that in Durban. Second, firms were able to draw on an abundant supply of cheap, unskilled labour from the adjacent townships of Clermont, Klaarwater and Mariannhill in Pinetown. These labour forces were segmented, with African workers performing unskilled tasks; whites, skilled and administrative tasks; and Indian workers doing semi-skilled tasks, because 'industrialists felt (that) the Indian shows greater facility than the Bantu for skilled manipulative work and clerical employment, but lacks the physical strength and stamina of the Bantu' (Wilkinson 1963:64).

The metal industry in the Durban area has retained its early character, being still largely centered on the Pinetown area and still dominated by small firms. In 1993, the average metal firm in Durban employed just 29 workers.

The textile sector only became an important part of the Durban industrial area after the Second World War. Hirsch (1979), however, argues that the foundations of the present textile industry were laid in late 1925, when protective duties on blankets, rugs and shawls were increased substantially. This led to the establishment of six textile mills, two of which were located in Durban. Both these in Durban were established to supply the 'native trade' in South and Southern Africa. Interestingly, a Belgian firm that had earlier exported blankets to Southern Africa set up one of the Durban mills. This marked an early example of foreign firms locating in South Africa, through 'creeping under a tariff barrier' (Hirsch 1979:4). By the mid-1930s, the industry had been consolidated under the control of Philip Frame, notorious for his close relationship to the National Party in later years and which gave him enormous influence over government's tariff policy in textile and related tariff lines.⁵

The post-war period saw a rapid growth in the textile industry within the Durban area. In 1955, half of the textile firms in existence in South Africa had gone into production within the previous five years (Hirsch 1979:5). The consolidation of the industry in Durban occurred in the 1960s. Whereas in 1952-53, only 12 textile firms were located in the Durban area, compared to 33 in the Western Cape and 39 on the Witwatersrand, by 1970 the situation had changed to that shown in Table 2 below.

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No. of workers 24 508 17 210
24 508 17 210
17 210
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14 214
12 154

Hirsch (1979) identifies a number of factors that account for the significant growth and consolidation of the textile industry in Durban. First, being dependent on imports of raw materials, a location close to South Africa's premier port was an important consideration. Second, was the availability of a cheap supply of unskilled labour. Hirsch argues that although the textile industry is capital-intensive, the particular form that the industry took in South Africa, and particularly in Durban and Natal, relied heavily on cheap labour because wage costs comprised a large proportion of operating costs. An interesting feature of textiles firms' labour practices throughout its growth relates to the manner in which the cost of labour was constantly driven down through racial and gendered segmentation. Whereas in its early years, the industry largely employed Indian men, by the late 1930s white women had become an important component of the labour force. During the 1940s and 1950s. A frican men formed the bulk of the labour force. The 1960s and 1970s saw the increased incorporation of African women into the textile industry such that by the 1980s, African women formed some 70 per cent of the workforce.

Wilkinson's (1963) account of industry in Pinetown provides some empirical evidence of the issues discussed above. In 1961, the textile and clothing industry constituted 22 per cent (21 firms) of all firms in the Pinetown area. Between 1955 and 1960, the number of clothing and textile firms in Pinetown trebled. Wilkinson's account shows the importance of imported raw materials for the textile industry, with approximately 59 per cent of raw material inputs imported. Proximity to the port was thus a major cost consideration in decisions to locate in the Durban area. Equally important was the availability of cheap labour in the Pinetown area. Three of the 21 clothing and textile firms had moved to Pinetown from the Witwatersrand. These were able to reduce their labour costs substantially by employing Indian men and women, instead of the white women they had previously employed on the Rand. The development of the textile industry in Durban seems to be a classic case of import substitution. Whereas in 1927, 98.3 per cent of textiles consumed in South Africa were imported, this figure declined to 93.2 per cent in 1947, to 65.9 per cent in 1957 and 25 per cent in 1976 (Hirsch 1979). Wilkinson (1963) shows that by 1961, for clothing and textile firms in the Pinetown area, 95.1 per cent of output was sold on the local market, with the balance of 4.9 per cent being exported to Rhodesia and Nyasaland. The initial boost for the industry was provided by an increase in duties on blankets and related products ranging from 197 per cent to 312 per cent. Equally important, however, has been the role of cheap labour, and the role that the state played in ensuring a supply of cheap labour to the industrial sector. Also, various other forms of state intervention have characterised the growth of the industry. This ranged from the instrumental role of the Industrial Development Corporation in financing, sometimes on a short-term basis, and income tax concessions.

In summary, the strategy of import replacement together with Durban's advantage of being the premier port in South Africa has played an important role in the industrial development of the city and its surrounds. A large number of the industries located in Durban draw on, or drew on, imports of raw materials and other imported inputs. The vast majority of manufacturing development of Durban is linked closely to production for the domestic market, which was facilitated by tariff and non-tariff protection. There are, however, other important factors that explain the industrial growth of Durban. Most important, is the role of cheap labour that is segmented both racially and in terms of gender. Durban's relative lower labour costs are important in explaining the dominance of low-wage industries such as clothing and textiles in its industrial structure. Other factors, such as its climate, water resources and historical factors have played a critical role in manufacturing development in Durban and its surrounds.

Industry in Durban and exports in the 1990s

The difficulties that Durban firms have experienced in adjusting to international competition have been highlighted in a number of recent studies (Morris et al 1998; Kaplinsky and Morris 1997; Harrison 1996 and Netshitomboni 1998). This paper hopefully adds an additional element to understanding Durban's evolving industrial development pattern. First, by using export data, Durban's export performance is assessed. Second, on the basis of 30 interviews with exporting firms, a more qualitative assessment of firms' adjustment to a more open trade regime is presented. Research on South Africa's trade performance in recent years has, to an extent, been limited by a lack of disaggregated trade data. For the purposes of this paper, we have been able to assess, from the South African Revenue Services, trade data disaggregated by postcode. The existence of this data offers exciting opportunities for the exploration of South African trade issues at a local and provincial level. The data relevant to the postcodes of Durban were extracted, and are used below. The postcodes used are those of the final exporter. Given that Durban has a number of trading houses that export on the part of the country's manufacturers, the data does, however, overestimate Durban's (true) exports.

Table 3 below shows the total level of exports in the Greater Durban area for the years 1993-1997. The striking feature of the table is the more than doubling of the value of exports in 1994, an export boom associated with the political changes of 1994. The growth in exports continues into 1995, although at a much lower rate. After 1995, exports in Durban level off, and fall in 1996, probably the result of the removal of exports incentives (see below on the General Export Incentive Scheme).

Table 3: Total Real Value of Exports in Durban, 1993-1997		
Year	Exports in 1995 Rands	
1993	5 095 814 456.00	
1994	10 951 692 334.00	
1995	12 196 402 969.00	
1996	11 415 684 262.00	
1997	11 791 169 673.00	

Graph 3 shows Durban's exports classified by the HS system for trade data.⁶ The graph shows that almost all sectors of Durban's manufacturing increased exports dramatically in 1994, but this performance was maintained over the next few years only by the chemicals, motor vehicles and plastics industries. Surprisingly, the most important exports from Durban are base metal products. Although the five-year period under consideration may be too short a one over which to assess how Durban's industries are adjusting to changes in the trade regime, the data indicates that after an initial boom, industry in Durban is experiencing difficulties competing in international markets, except in the chemicals, motor vehicles and plastics industries. The lowering and final removal of export subsidies (see below) after 1995 have clearly had a significant negative impact on exports of manufactures in Durban.



Graph 4 shows the destination of exports from Durban. It shows that exports to Europe and the East Asian-Pacific region grew most dramatically in 1994, and then stabilised. Durban's export sector is linked mainly to these regions, although a sizable proportion of exports is destined for markets in east and southern Africa and the United States. Only exports to east and southern Africa grew throughout the period. A number of vision statements (see, for example, the Provincial Growth Strategy) have identified Durban as an ideal location from which to develop global trading links with the East. Surprisingly, given its historical links to India, Durban's exports to South Asian countries are relatively low. However, the volume of exports to these countries when coupled with those of the East Asian Pacific countries suggests that these links may well be developed further.

To supplement the data for this period, a selected group of exporters was interviewed in order to assess how firms in Durban are adjusting to the reduction in tariffs. In total, 30 firms were interviewed. Firms that were known exporters were targeted for interviews. In making the selection, an attempt was made to get some diversity of size and of industry. The firms interviewed ranged from large firms that employed more than 1000 workers to small family-owned businesses, and covered a wide range of industries.

87



The interviews revealed that businesses in the Durban area are beginning to view exporting as an important component of their activities. Despite this however, firms remain largely inwardly focused. The average firm exports only between 10 per cent and 20 per cent of production. These findings are in line with other research on firms in the province. Harrison (1996) in a study of 96 industrial concerns found that while 46 per cent of the firms that were sampled were exporters, only 4 per cent depended solely on the export market. Of the exporters, only 27 per cent of firms exported more than 50 per cent of their production, while 47 per cent of the exporters exported less than 20 per cent of their production.

The impression gained through the interviews was that firms' activities in the export market and the local market are not integrated. Often, the products that firms sell on the export market are not the same as those sold on the local market. One large clothing exporter even had the extreme case of two separate factories, one devoted to production for the local market and the other for the export market. The observed lack of integration notwithstanding, this is, however, a substantial increase on export performance in the past. Most firms only began exporting in the 1990s. All

firms interviewed reported that their levels of exporting had increased through the 1990s. Interestingly, Harrison (1996) in a more comprehensive survey found that 37 per cent of firms reported increasing exports, 47 per cent static levels, and 13 per cent declining levels of exports. The discrepancy with the present study is probably explained by the fact that the firms interviewed for this study were largely among the more successful exporting firms in the Durban area.

Some firms interviewed had gained access to important niche markets where price was not a primary factor in customers' decisions on purchases. Most were exporting to traditional markets in Europe but there had been some growth in exports to the USA, while firms reported new opportunities in Africa. A few firms were exploring new markets in South America, Asia and other non-traditional markets.

Firms were exporting for a variety of reasons. Some indicated that exporting allowed them to utilise their production resources better. In the clothing industry for example, because of seasonal differences between the local and export markets, firms were able to use their plant throughout the year. Further, they were able to plan their production schedules more systematically. A number reported that entering the export market had significantly improved their productivity, as they were able to reap economies of scale. In a more systematic study of exports in the motor vehicles components industry in KwaZulu-Natal, Valodia (1997) found that the relationship between exporting and productivity is complex, and that the evidence on the exports-productivity relationship was ambiguous.

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A number of firms reported that margins in the export market were lower than that on the local market. Nevertheless, they pursued export orders because they felt that the export market had long-term growth potential while the local market was saturated, and highly competitive. This suggests that trade policy is having the desired impact of shifting the focus of firms from the local to the export market, even though the incentive structure still favours a focus on the domestic market.

The interviews revealed that for many firms the General Export Incentive Scheme (GEIS)⁷ was an important factor in shifting them from an exclusively inward focus to the export market. For a few, the GEIS subsidy was an important source of funds that allowed them to devote resources to product and market development and diversification. Almost all firms interviewed reported that the scrapping of the GEIS in 1997 was a major factor impeding export growth. Firms argued that the main barrier to increased exports was the fact that KZN firms were not cost competitive. The GEIS effectively subsidised the price of goods exported by these firms. Footwear firms were the most critical of the scrapping of the GEIS. For them, the GEIS was critical to their exporting efforts. There were, however, some notable exceptions who reported that the GEIS served mainly as a 'top-up' to their profitability, and was not a critical factor in their export planning decisions. The effect of the scrapping of the GEIS on Durban's firms can be gauged from Graph 3 which exposes the decline in exports as the GEIS subsidy was reduced in 1995 and 1996 before its ultimate scrapping in 1997.

Other, more recently introduced trade policy and industrial development measures have also had an important bearing on decisions about exporting. In the automobile industry there has been a huge increase in the export of motor components, as shown on Graph 3. These exports are driven largely by the Motor Industry Development Plan (MIDP), an import-complementation scheme. Similarly, the duty-drawback scheme has facilitated a growth in exports in the clothing industry.

In general, firms indicated that export inquiries are increasing, and that they do not have too many problems accessing potential markets. Difficulties in penetrating export markets relate to other factors which are discussed below.

The most important barrier to increased exports on the part of Durban firms is their cost structures. Most firms argued that they were finding it difficult to penetrate international markets because they were not price competitive. Some firms which had in the past managed to gain large export orders were losing these because their customers were continually demanding price reductions. Respondents argued that the cost advantages resulting from devaluation of the local currency were quickly absorbed by international buyers demanding further price reductions.

A number of firms indicated that raw material inputs were a key cost driver. A large clothing exporter in Durban was in a position to increase exports substantially, but was unable to do so due to the high price of textile inputs. Difficulties with inputs were not solely in relation to prices. A wood products exporter, for example, reported that suppliers of wood were unreliable and their supplies of poor quality. These factors had a major impact on the firm's costs.

A few firms reported that exports were being restricted because they were not large enough to compete for major export orders. Firms in the province did not have the capacity to meet the volume requirements of major clothing retailers in the United States. This difficulty was accentuated by the fact that there seemed to be very little, if any, co-operation among firms jointly to penetrate large-volume export markets. In all of the interviews conducted in this study, there was no instance where one firm co-operated with another as a consortium to win an export order.

Firms expressed the concern that there was a substantial degree of uncertainty about the direction and future of certain policies that had been introduced by the Department of Trade and Industry (DTI). Specifically, there was concern as to the unclear future of the duty-drawback scheme in the clothing industry and the import-export complementation scheme in the automotive industry. The DTI had initiated a number of supply-side programmes to assist South African firms to adjust to the reduction in tariff protection and the consequent import competition, and to develop local firms' capacity to compete in global markets. While those firms interviewed indicated that they supported the introduction of supply-side measures, they expressed doubt as to the existence of such programmes. If they existed, they claimed it was impossible to access them, or even to contact the DTI to enquire about them.

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The argument that the DTI's supply-side measures were not adequately assisting firms is corroborated by the KwaZulu-Natal Industrial Restructuring Project. Kaplinsky and Morris (1997:24) argue that 'government at a national level, which is primarily responsible through the DTI for industrial policy and implementation, has struggled to give substance to its new supply side approach at the regional level'. They argue that there are two aspects to this problem. First, they believe that the DTI is not 'hearing its constituency at the regional level' and, second, that the DTI does not have capacity in the province systematically to support the supply-side package.

In general, firms in the province are finding it difficult to adjust to the new liberalised trading environment. Many feel that trade liberalisation is proceeding too rapidly for them to adjust positively. However, given that most firms remain largely inward-oriented, the validity of this argument is questionable.

While a number of firms reported that their export performance had improved as a result of the devaluation of the Rand against major currencies, a number claimed that the volatility of the exchange rate affected their operations in other ways. The volatility, for example, made it difficult for firms to price potential orders. Moreover, taking forward cover to hedge against exchange rate volatility was expensive. The high effective interest rates that South African firms pay for finance were identified as a key constraint to export growth. Firms argued that in order to pursue new markets they were required to make substantial investments in market development and product design and the excessively high real interest rates in South Africa limited their capacity to make these investments.

Further, given the relatively long lead-time between order delivery and payment in the export market, firms were finding it difficult to fund large export orders. These usually lead firms into severe working capital difficulties. A leading exporter reported that while the firm's working capital cycle for the local market was 150 days, the corresponding figure for the export market was 240 days. A large number of smaller firms interviewed reported major difficulties with the banking industry. Smaller firms had difficulties in accessing credit to fund the long payment cycle for export orders. Further, some firms claimed that the large commercial banks were only prepared to discount letters of credit to the extent of the firm's credit limit, itself usually low.

Conclusion

This paper has attempted to investigate the links between trade policy and the industrial development of the city of Durban over two time periods. First, looking at the relationship between import replacement and industrial development, the paper has established that Durban's industrial development was based on production for the domestic market behind tariff protection, using imports of raw materials. Second, the paper has explored how industry in Durban is responding to a change in trade policy, from import replacement to export orientation.

The evidence indicates that the historical development of Durban has been closely linked to the trade policies of the government of the day. Much industry in Durban is based on production for the domestic market, and as the country's main port, the historical development of Durban has been closely associated with industries based on imports of raw materials. The industrial development of Durban has thus been closely linked to the policy of import-substitution industrialisation. However, this explains only part of Durban's rich industrial history.

Equally important, Durban's industrial development has historically been linked closely to the development of the diamond and gold sectors, and the particular form of capitalist development this fostered. A key feature of

Durban's industrial development is its highly segmented labour force which gave rise to a dominance of low-waged industrial development in Durban. Other associations with the Witwatersrand such as transport links and Durban's vast resources of water vis-à-vis the Witwatersrand have also been important factors influencing Durban's industrial development.

Although the period associated with recent changes to South Africa's trade policy has been short, one tentative conclusion regarding its impact on Durban industry can be made, namely that although industry in Durban has shifted somewhat from an almost exclusive focus on the domestic market, export successes have been limited. The adjustment of firms to a change in trade policy has been mixed and uneven. Whilst some industries like metal products, in spite of their protected past, have been able to shift into export markets others, like the clothing and textiles industries, have found the adjustment process more difficult.

The uneven and multifaceted response of Durban's industry to a changing international trade environment casts doubt on the notion that such responses are orderly. As Amin and Thrift (1995) point out, new processes of globalisation redefine localities in a contested manner. Whilst on the one hand, these processes divide and fragment cities and regions and disconnect their historical linkages, on the other, these locations continue to possess elements of their specific identities which seek to transcend these local disconnections. The evidence presented in the latter sections of this paper shows that, whilst the nature of industry in Durban is changing in response to a new open-trade regime, the industrial sector retains much of its historical specificity.

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- An earlier version of this paper was presented at the City of Durban Project Conference held at the University of Natal on 9-11 July 1998. Thanks to Bill Freund and Vishnu Padayachee, the project directors, for financing the research costs of this paper and for other forms of assistance, and to participants at the conference for comments. Thanks also to an anonymous referee for comments. Richard Devey assisted with data analysis.
- Holden and Holden (1975) calculate an effective rate of protection, an estimate
 of tariff protection that takes account of tariffs on both inputs and output, which
 arguably, provides a better indication of the impact of trade policy. They find
 that the percentage change in nominal tariff rates and effective tariff rates is 5.1,
 thus showing that the actual and desired impact of trade policy differ substantially.

- 3. For a historical review of South African trade policy see Belli et al (1993) and Fine and Rustomjee (1996).
- 4. Note that the dramatic rise in Durban's manufacturing output in the period 1972-1976 shown in Graph 1 is the result of massive growth in the chemical sector over this period (see Graph 2). Manufacturing data on the chemical industries is highly unreliable as imports, exports and production of petroleum and related products, which should be reported under this category, were, depending on the whims of the official statisticians, reported in creative ways. The decline in the 1970-1972 period, and the massive increase in the subsequent period are highly improbable.
- 5. Anecdotal evidence from within the textile industry suggests that Philip Frame made regular contributions to National Party coffers. National Party ministers reciprocated with tariff adjustments in the textile industry to suit the operations of Frame Textiles.
- 6. Note that HS trade data is not strictly comparable to the earlier data in this paper which was based on manufacturing data using the SIC classification.
- The GEIS is an export incentive scheme introduced in 1990 designed to offset the price disadvantage that South African firms face in international markets. Its effect on exports has been widely debated (see Joffe et al 1995; and Belli et al 1993). In 1995 the incentive scheme was reduced and was scrapped in 1997.

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