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**DEPARTMENT :**  
**Economic Development & Tourism**  
**PROVINCE OF KWAZULU-NATAL**

# **Districts Comparative Advantages Report**

**Economic Planning: Policy and Planning Unit**

**August 2012**

## Contents

|  |     |
|--|-----|
| Introduction and Background .....  | 3   |
| The Comparative Advantage Approach to Spatial Economic Development ..... | 5   |
| Special Economic Zones and Spatial equity .....                          | 7   |
| Amajuba District Comparative Advantages .....                            | 8   |
| Ugu District Comparative Advantages .....                                | 19  |
| uMgungundlovu District Comparative Advantages .....                      | 30  |
| Zululand District Comparative Advantages.....                            | 44  |
| Umzinyathi District Comparative Advantages .....                         | 54  |
| Umkhanyakude District Comparative Advantages .....                       | 64  |
| iLembe District Comparative Advantages.....                              | 77  |
| eThekweni Metropolitan Comparative Advantages .....                      | 89  |
| uThungulu District Comparative Advantages .....                          | 104 |
| uThukela District Comparative Advantages.....                            | 115 |
| Sisonke District Comparative Advantages .....                            | 126 |
| KwaZulu-Natal Comparative Advantages .....                               | 137 |
| Summary and Conclusion .....   | 143 |
| Way Forward –Revision of PSEDS .....                                     | 146 |

## Introduction and Background

The Provincial Spatial Economic Development Strategy (PSEDS), adopted by Cabinet in 2007, aims to put economic development firmly in its spatial context by answering the question of ‘where’ should development take place? At the time of its initial adoption, there was no Provincial Growth and Development Strategy (PGDS) from which the PSEDS could take its lead and, as such the PSEDS became a somewhat more holistic development strategy than what was originally intended. With the recent, 2012, adoption of the newly formulated PGDS by cabinet, it is imperative that the PSEDS is reviewed to accurately respond to this new overarching development strategy for the province.

The PSEDS is perhaps best known for introducing the concept of corridor and nodal development as the primary approach to spatial economic development in the province. The strategy identified and mapped out the key nodes and corridors for development in the province, and laid the foundation for the establishment of the Corridor Development Fund which would assist in providing funding for projects located in the identified corridors. Since the establishment of this fund, numerous ‘corridor’ projects have received funding. There are concerns, however, that projects that have received funding as well as unfunded developments along these corridors are uncoordinated in nature and sometimes even at odds with each other. This points to one of the major criticisms of the PSEDS, namely, that while it was excellent at answering the ‘where’ question, it failed to adequately answer the ‘what’ question. As a result spatial economic development has occurred in a largely ad-hoc and sporadic fashion. It is the aim of this document and the review in general, to begin to describe suitable economic developments for different localities.

In answering the question of what type of developments should occur in specific areas, it is critical to utilise a common geographical unit of reference. The PSEDS is clear that, “the District Municipal boundaries should form the common building blocks of all department’s spatial planning activities”. To this end the PSEDS profiled the 11 districts in KwaZulu-Natal and identified strategic interventions for each district. These profiles, however, were very limited in the local economic intelligence they revealed for the districts. It is clear that, while it was noted in the PSEDS that “Provincial strategies aimed at promoting growth and development must be developed on the basis of a thorough understanding of the existing profile of the province”, there was a lack of economic intelligence on the districts in the original PSEDS. This hampered the ability of the PSEDS to clearly indicate what form developments should take in districts or along corridors.

This Comparative Advantages Report aims to provide a more thorough understanding of the unique characteristics; strengths and opportunities for economic development in each of the 11 districts. The focus on districts is not intended to replace the nodal and corridor approach to spatial economic development but rather to supplement it by identifying substantive options for more equitable spatial economic development in the province. Corridor and nodal development must, of necessity, take its lead from the comparative advantages of the areas/districts they are located in. In the light of this understanding, the corridors and nodes will be reviewed in a subsequent report of the review process. The current report will focus on District Municipalities as the key units of measurement/reference in identifying spatial development priorities. The principal goals of this report are: **1) To describe comparative economic advantages in each of the districts; and 2) To identify economic opportunities and catalytic projects in each district.**

The Department is well placed to meet these goals as it has, over the last two years, systematically sought to enhance its relationships with the District Municipalities and has done so through its' Economic Capacity building Programmes and the Publication of District Indicators. In addition, the Department has recently completed a study on Economic Drivers in the province. As part of this study the major economic drivers in each district were identified and district profiles reflecting these findings were produced. In order to increase the level of intelligence on the economic characteristics of the districts and opportunities that lay therein, the Department also conducted interviews with planning officials from all of the districts and spoke to the five major Chambers of Commerce in the province for a private sector perspective. The processes behind the formulation of this report are graphically represented below:



The approach used for the identification of spatial development opportunities for provincial government is a 'bottom-up' approach whereby, opportunities and projects are obtained from the local level and then filtered through provincial economic strategies.

## The Comparative Advantage Approach to Spatial Economic Development

Investment in any large geographical area will tend to gravitate toward areas which are more productive and more efficient than other surrounding areas. This is especially true because economies of scale mean that there are often greater economic and financial rewards for the clustering of economic development in mega-centres of economic activity. Economic development in an area tends to be self-reinforcing – the larger the concentration of companies and supporting infrastructure, the greater the attractiveness of the destination. Ideally the mobility of labour should match the mobility of capital and investment, and people will be able to move to areas with high levels of investment and economic development. The fact that this process occurs in South Africa is undisputable, one only needs to observe the rapid growth in the country's major metropolitan areas, to validate this point. South Africa's population, however despite growth in metro areas, remains relatively un-urbanised by global standards and large swathes of the population dwell in marginal areas unconnected to any major forms of economic activity.

The restrictions on the mobility of labour and forced relocations during the Apartheid era have created severe spatial inequalities in South Africa. In KwaZulu-Natal many communities are entirely isolated from economic activity and eke out a life of meagre subsistence. This has led to some of the province's municipalities, such as Nquthu; Nkandla and Msinga being listed as amongst the most impoverished areas in the country. It is in this context that the provincial government cannot simply accept economic development which only favours already established centres of economic development such as Durban; Pietermaritzburg or Richards Bay, while ignoring large rural communities living in impoverished municipalities. Government must ensure that the benefits of economic development are spread beyond these traditional economic powerhouses. The comparative advantage approach is one way of beginning to do that.

To best understand the concept of comparative advantage as it relates to spatial economic development, one needs to make the distinction with Absolute Advantage. Very simply, Absolute Advantage is the ability to produce something more efficiently than someone else. In its international trade application, a country would export the product it had an absolute advantage in producing and import the product which its' trade partner had an absolute advantage in producing. The problem arises when one country can produce both products more efficiently. This leads to the unpalatable implication that maybe the less efficient country should simply import everything and produce nothing. This problem can also be applied to development economics in KwaZulu-Natal, where eThekweni can produce almost every product more efficiently than Zululand for example. Under an Absolute advantage approach to economic development, it would then make sense to concentrate exclusively on developing eThekweni. The aforementioned, spatial inequalities however, govern that provincial government needs to invest in the economic development of all districts and cannot simply put all of its eggs in one basket, although there will certainly be some instances of prioritisation.

The Theory of Comparative Advantage was formulated as a solution to the inherent problem of an Absolute Advantage approach. In short, comparative advantage dictates that each country has at least one comparative advantage, something that it can do best with the lowest relative opportunity cost (though not necessarily the lowest absolute cost). The theory posits that each country should

focus producing their comparative advantage and export the products of this advantage to other countries, while importing products/services for which its' opportunity costs of production are lower. Although district municipalities within KwaZulu-Natal do not, at least in the most commonly understood sense, export to each other, each district has unique comparative advantages in certain industries or sectors, something which it produces at a lower opportunity cost than everyone else. In the context of scarce resources, economic spending priorities in each district should focus on these unique comparative advantages.

Comparative advantage industries or sectors are defined as those industries which make the most intensive use of the district's unique resources endowments. The following is a list of comparative advantage categories. The first 7 categories concern existing resource endowment advantages, while the sectoral comparative advantage category can be thought of as being derived from these existing advantages.

***Key categories of comparative advantage:***

- **Locational/access advantages** – *Advantages derived from being strategically situated near major nodes or transport corridors*
- **Natural/geographical advantages** – *Advantages derived from the natural environment (topography; flora and fauna)*
- **Infrastructural advantages** – *Advantages derived from development-facilitating infrastructure (Ports; Airports; Dams)*
- **Resource advantages** – *Advantages derived from possession of mineral or renewable energy resources*
- **Human Capital Advantages** – *Advantages derived from the skills prevalent in the local labour market*
- **Institutional advantages** – *Advantages derived from the institutional importance or status of the district (i.e. a capital city)*
- **Cultural or Heritage Advantages** – *Advantages derived from the historical legacy, or cultural attractions of a district.*
  
- **Sectoral comparative advantages** – *Advantages derived from strong historical performance in a given sector and the clustering of companies in that particular sector*

## Special Economic Zones and spatial equity

The Department of Trade and Industry (DTI) recently released a Special Economic Zones (SEZ) Bill in 2011 which went to consultation country wide and is now currently on its way to cabinet for adoption. This bill essentially seeks to regulate the designation, development, promotion, operation and management of Special Economic Zones. The draft SEZ policy defines the SEZ as “a geographically designated area/s of a country, set aside for specifically targeted economic activities which are supported through special arrangements which may include laws and often support systems that are different to those applied in the rest of the country.” (DTI, 2011)

In order for various Special Economic Zones to avoid a race to the bottom to attract investors, the SEZ Bill is clear that SEZs should not directly compete with each other. If SEZs are to enhance the equitable distribution of economic development in the province and at the same time are to be non-competitive, then it would follow that SEZ opportunities for the different districts should be focused on each district’s comparative advantages.

The province initially adopted the approach that one SEZ per district must be identified, and to this end, this report has identified potential SEZ options per district. In consultation with the DTI it soon became clear, however, that 11 SEZs in the province would simply not be feasible and that the DTI would only look to conducting a feasibility study for at most two. In order to still use the SEZ programme as a way of promoting spatial equity while at the same time building on our existing industrial strengths, the Provincial SEZ Workgroup decided to adopt a view where all the district’s industrial hubs act as feeders to the selected two or three provincial SEZs. Thus, in the reading this document it is important to note that many of the ‘identified SEZs’ per district will not in fact be self-standing SEZs but rather feeder industrial hubs for the selected SEZs.

# Amajuba District Comparative Advantages

## Brief description of the District

Amajuba District Municipality is located in the North of the province and, in addition to be bordered by three KwaZulu-Natal district municipalities, is also bordered by districts in both Mpumalanga and the Free State. Amajuba District is the least populated district in the province, contributing only 4.4% to the total provincial population. The district is one of only two districts in the province (the other being iLembe) to have experienced a negative population growth rate (-0.1%) over the past 7 years. The size of the Amajuba economy is relatively small in the provincial context and only contributes 3.5% of the province's Gross Value Added (GVA). This said, owing to its' relatively small population the district has the fourth highest GVA per capita in the province.

*Key spatial features of the Amajuba District impacting on economic development include:*

- Newcastle-Madadeni-Osisweni is the key economic node of the district, and is one of the larger economic centres in the province.
- Utrecht and Dannhauser are the smaller urban centres in the district.
- The N11 is the main transport route through the area linking Ladysmith with Newcastle and Gauteng via Volksrust and Standerton.
- Owing to the racial segregation and industrial decentralisation policies during apartheid there are major population concentrations located to the north east of the town of Newcastle.
- The majority of industrial, commercial and services activities are located in Newcastle along the N11 and follow the road linking Newcastle to Madadeni - Osisweni.
- Utrecht and Dannhauser were mining and agricultural services sector towns in the 1960s and 1970s, but since the closure of these *collieries* these towns have experienced economic downturn. At the present time they are performing sub-regional residential, social and commercial service centre functions with limited manufacturing opportunities.

## Locational Advantages

**Amajuba is a gateway to the Free State and (especially) Mpumalanga:** The N11, which was described in the original PSEDS as a secondary corridor, runs from the N3 near Ladysmith, through Newcastle and on toward Volksrust in Mpumalanga while the R34 links Newcastle with Memel in the Free State. Newcastle's positioning as the biggest economic node in what is a relatively rural and undeveloped part of the province, means that it serves as the major retail and services node for an immense catchment area, which includes southern Mpumalanga and the Free State.

## Natural/geographic Advantages

**Excellent condition of natural resources:** Just more than 81% of the surface area of the district maintains the ability to produce and deliver eco-services. Of all the districts, Amajuba has the highest proportion of natural capital with an eco-service score allocation of '2'. While the district's land area constitutes 7.33% of the total land area of the province, the district contributes 11.18% of the total value of the environment eco-services for the province.

**Large tracts of unused arable land:** The district has at least 40,000ha of unused arable land available. This provides significant opportunities for the development of the agricultural sector within the district.

## Infrastructural Advantages

**Province's main rail link:** The main rail link between Gauteng and eThekweni passes through Ladysmith, Newcastle, Charlestown and Volksrust. This provides heavy industry in the district to move their goods quickly to their respective markets.

**Electricity supply:** The main power line route from the interior to Richards Bay runs through the Amajuba District. The District reports that as a result of this, it did not suffer from any load shedding.

**The N11 connects Mpumalanga with the N3:** The N11 has the potential to act as a viable alternate route to Gauteng or the Kruger National Park, but is hindered by the poor condition of the road in Mpumalanga.

## Resource Advantages

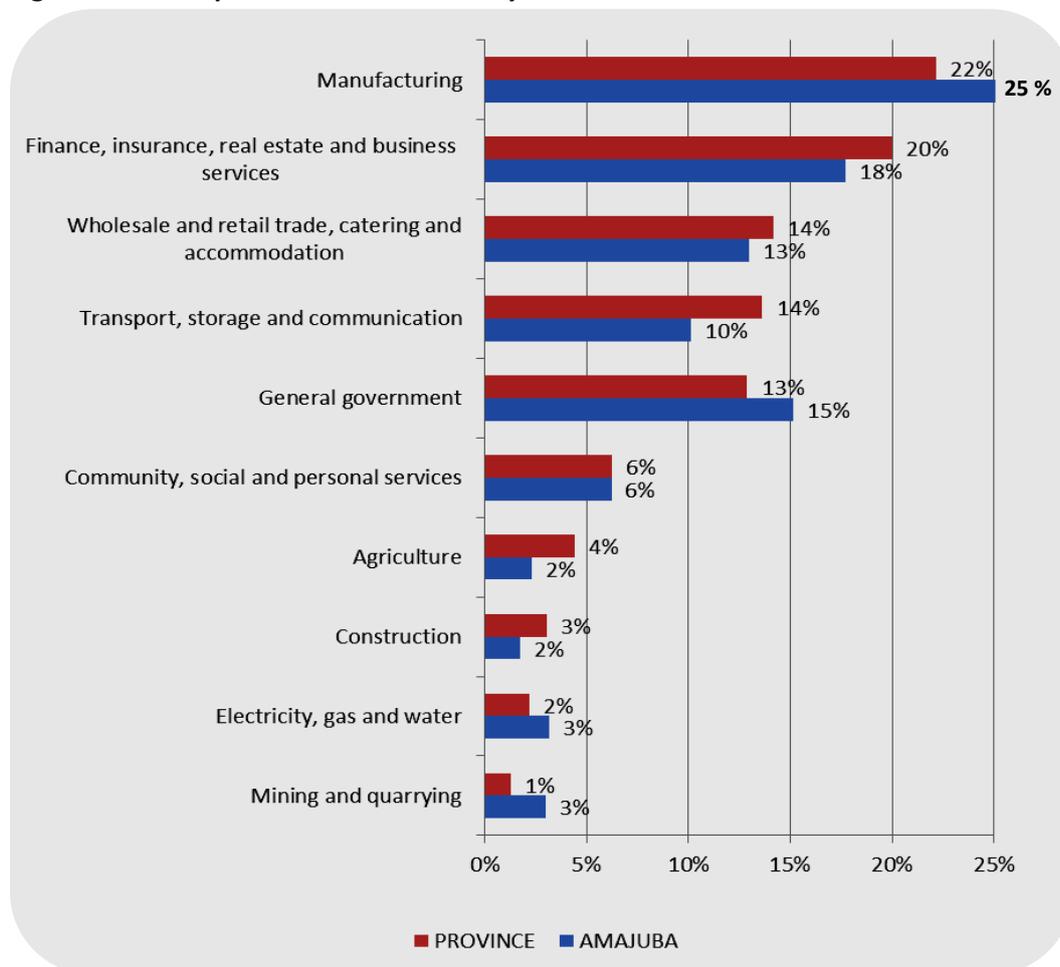
**Coal seam:** The district has a seam of coal deposits running through it and into Umzinyathi. This seam is still relatively abundant and far from depletion. The burgeoning international demand for coal, and the changes in technology which allow for the use of sub-grade coal, provide Amajuba with the opportunity to revitalise this industry within the district.

## Comparative Sectoral Advantages

### Desktop Study

In order to identify the sectoral advantages of a given district, it is instructive to ascertain the relative importance of a sector to the district's economy as compared to the importance of that sector to the provincial economy. If a sector contributes relatively more to Gross Value Added (GVA) for the district than for the provincial economy, then the district may be considered to have a comparative advantage in that sector. Figure 1.1 compares the contribution of the main sectors of the economy to Amajuba's GVA, with the contribution of those same sectors to KwaZulu-Natal's GVA. It is clear that Manufacturing and Mining have a greater level of importance for the district than they do for the province. In contrast Agriculture; Finance; and Transport are relatively less important in the district as compared to the province.

**Figure 1.1 – Comparison of GVA shares by main economic sector**



**Source: District Drivers Profile (2012)**

It is too simplistic to say that Amajuba has a comparative advantage in Manufacturing or Mining, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 1.1 below shows the detailed sectors which have a location

quotient in excess of 1, which is to say is a sector that contributes more to the local economy than it does to the provincial economy.

**Table 1.1 – Positive Sectoral Location Quotients**

| Sector   | Locational Quotient |
|--|---------------------|
| Agriculture and hunting                            | 1.26                |
| Mining of coal and lignite                         | 4.50                |
| Textiles and clothing                              | 1.18                |
| Other non-metallic mineral products                | 1.45                |
| Metal products, machinery and household appliances | 6.03                |
| Electricity Gas and steam                          | 1.27                |
| Public administration and defence activities       | 1.30                |
| Education  | 1.36                |
| Health and Social Work                             | 1.41                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Amajuba has significant comparative advantages in the coal mining and metal production industries. The remaining sectors in which the location quotients are in excess of 1 but less than 1.5, may not have significant statistical variation from the provincial economy. While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Reports*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO             | COMPANY                        | Industry               |
|----------------|--------------------------------|------------------------|
| 1 <sup>1</sup> | Arcelor Mittal Steel Newcastle | Steel manufacturing    |
| 2              | Allwear Clothing               | Clothing manufacturing |
| 3              | NI-DA Transport                | Transport Services     |
| 4              | Trubok Clothing                | Clothing manufacturing |
| 5              | Magdalena Bituminous           | Coal products          |

<sup>1</sup> Note the numbering reflects the ordering of the largest employers in the survey sample. Where other large employers in the district are known but did not provide responses, these are added but un-numbered.

|    |                                       |                              |
|----|---------------------------------------|------------------------------|
| 6  | DCD-DorbylVenco                       | Equipment Manufacturing      |
| 7  | Newcastle Private Hospital            | Medical Services             |
| 8  | Siltech                               | Ferro silicon manufacturing  |
| 9  | Karbochem                             | Rubber product manufacturing |
| 10 | Natal Portland Cement Newcastle Plant | Cement manufacturing         |

The largest companies in Amajuba, by employment figures, are in the manufacturing sector, with a particular focus on steel; chemical and textile manufacturing. The steel industry is the most established industry in Amajuba and contains the largest company, Arcelor Mittal, as well a number of other downstream steel industries. With Newcastle historically acting as a hub for the steel industry, support industries such as transport and, in particular, trucking developed into important economic drivers in their own right. As a result NI-DA transport is one of the bigger companies in Amajuba today. The textile industry continues to contain some of the district's biggest employers, despite the well-documented current challenges facing this sector.

The district drivers report also identified smaller more dynamic companies in the Wholesale and Retail Trade and the Finance sectors. While these companies may not be as large as the companies listed in the table above, they are thought to contribute disproportionately to the growth and development of the district.

### *Findings of interview with Amajuba DM and Newcastle Chamber of Commerce*

Comparative advantages identified by the District Municipality and Newcastle Chamber of Commerce for the most part, agree with those revealed by the location quotients and the district drivers report. The manufacturing of metal products was seen as the largest comparative advantage sector, while, chemical manufacturing and coal mining were also seen as additional sectoral comparative advantages for the district.

The District Municipality identified the textile industry in Amajuba as historically having been a comparative advantage, but now shrouded with uncertainty around labour issues and struggling to be globally competitive. The district also noted the growing importance of Newcastle as a major retail centre for the Northern area of the province.

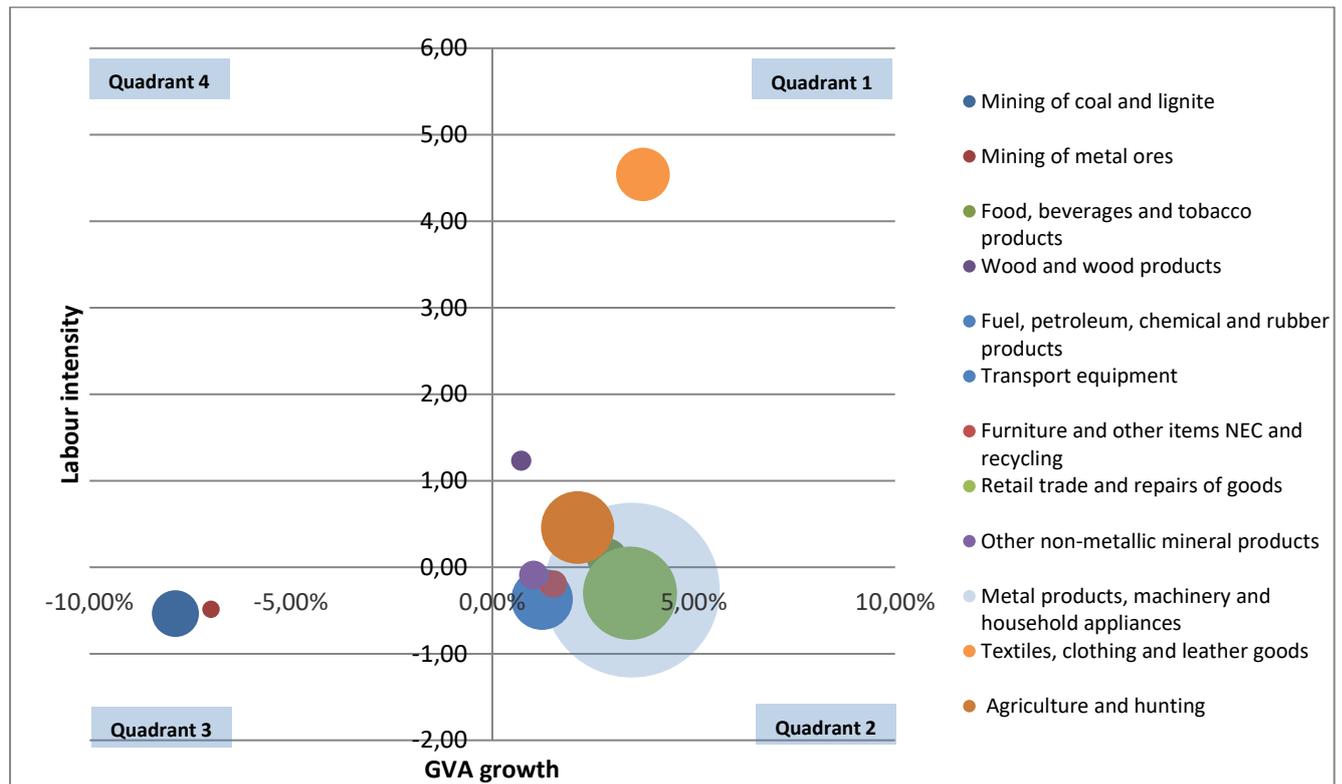
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 1.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 1.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 1.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Ideally policy makers would want a large value sector (big bubble) to be in quadrant 1 where it is labour intensive and experiencing positive growth. Sectors in quadrant 2 are growing but are not labour intensive. Sectors in quadrant 3, have limited scope for employment creation and have on average been declining over the past 10 years. Sectors in quadrant 4, are labour intensive but have been experiencing poor growth over the last ten years.

Figure 1.2 clearly shows the importance of the metals manufacturing industry (transparent bubble), validating previous findings. The sector is the largest value sector in Amajuba and, although it is not particularly labour intensive, has been growing at a relatively steady rate of 4% per annum for the past ten years. In contrast the textile industry, which is growing at a similar rate, is much smaller but more labour intensive. On the other end of the scale, mining has experienced negative growth and is capital intensive. While based on this analysis it may be tempting to suggest that the textile industry is the district’s main comparative advantage and should thus be the main focus of strategic interventions, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, Amajuba's comparative advantage sectors can be categorised as follows:

### ***Existing, stable***

- **Metal manufacturing** – The metal manufacturing industry is Amajuba's biggest industry in terms of value and, while it may not be categorised as labour intensive, it is the district's largest employer, contributing over 17% to total employment. It has also averaged around 4% GVA growth over 10 years. Amajuba is the province's key metal manufacturing hub, and the sector contributes far more to district GVA than it does at a provincial level. By virtue of its current economic performance and size as well as its long history in the area and the supporting industries and skills which have been built up around it, Metal Manufacturing is one of Amajuba's key comparative advantages.

### ***Unstable or threatened***

- **Mining** – Mining may have experienced a decline on average in the past 10 years, but the recent commodity boom and strong growth of countries such as India, has led to renewed demand for coal. Indeed, the District Municipality reports that 2 new mines are being opened up between Danhauser and Newcastle. Nonetheless, this boom in coal mining may be short-lived, especially with the move to greener energy generation. Mining also remains a highly capital intensive industry with low employment returns for investment.
- **Textile industry** – Although the bubble chart would suggest that the textile industry shows the greatest promise for employment growth, recent issues regarding the competitiveness of local labour have been strongly highlighted by the District Municipality and Chamber of Commerce. The sector is still one of the major employers in the district, but it is believed that increasing global competition from countries with cheap labour, compounded by South Africa's rigid-in-comparison labour laws, is eroding the comparative advantage previously enjoyed by this sector.

### ***Emerging***

- **Wholesale and retail trade** – While this sector has a location quotient of less than 1 and cannot compete with the likes of uMgungundlovu or eThekweni in this sector, it is of growing importance. In the absence of any significant competition, Newcastle is becoming a major retail hub for Northern KZN; southern Mpumalanga and the eastern Free State. The dynamic nature of this sector can be seen in its relatively strong growth rate of about 4% over the last ten years.
- **Chemical manufacturing** – Once again, although chemical manufacturing in Amajuba will struggle to compete with eThekweni in this regard, it is a growing sector with the potential to grow faster. The clustering of chemical companies in the district sets the foundation for potential future growth in this sector.

## Special Economic Zone/Industrial Hub Options

### ***Primary Option: Metals beneficiation around Newcastle***

It has been noted that Amajuba has a sectoral comparative advantage in the processing of steel and the manufacture of steel-related products. While this industry is already well established in the district, it is the view of the District Municipality and the Newcastle Chamber of Commerce that there exist further opportunities for the beneficiation of steel outputs. A steel beneficiation hub would provide incentives for downstream metal processing companies to locate in a designated area in close proximity to Arcelor Mittal. The hub/SEZ would target companies involved in the manufacture of window frames; car parts and domestic appliances, using steel and other metal outputs. Reasons for the identification of this type of hub are as follows:

- The Steel industry is well established in Newcastle and is one of the historical economic drivers of the town.
- There is already some clustering of metal manufacturing companies.
- The district has a relatively efficient road network as well as a direct rail linkage to the rest of the country.
- The district has good access to electricity.
- The district has a robust trucking and logistics industry, which could be used for the movement of heavy metal products.

### ***Secondary Option: Clothing and textiles in Madadeni***

This proposed SEZ will build on the existing textile industry established in the Ithala Madadeni Industrial Estate. While the sector is certainly still a large employer in the district and the fact that it is already largely located in an industrial estate, makes it organisationally attractive, the degree of uncertainty around labour regulation in the sector makes it a more risky option for the establishment of an SEZ. Additionally, other districts also have relatively strong textile industries which would also have strong arguments for becoming an SEZ/regional industrial hub.

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the District Municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list provides a good indication of what some of the spending priorities should be in the district.

| <b>Economic Opportunity</b>  | <b>Description</b>   | <b>Location</b>                | <b>Status</b> |
|--|--|--------------------------------|---------------|
| <ul style="list-style-type: none"> <li>• <b>Project</b></li> </ul>   |  |                                |               |
| <b>1. Enhanced agricultural production</b>   |  |                                |               |
| <ul style="list-style-type: none"> <li>• Amajuba techno Park</li> </ul>  | A park utilising the most modern hydroponic farming techniques for the production of fresh produce         | Next to Newcastle airport      | Planned       |
| <ul style="list-style-type: none"> <li>• Irrigation Programme</li> </ul>   | To provide irrigation for at least 1000 hectares along the Buffalo River                                   | Alongside the Buffalo River    | Planned       |
| <ul style="list-style-type: none"> <li>• Agricultural programmes <ul style="list-style-type: none"> <li>- Vegetables</li> <li>- Grain crop production</li> <li>- Livestock production</li> <li>- Herbs and Medicinal Plants</li> <li>- Talapia breeding</li> </ul> </li> </ul> | A variety of agricultural programmes aimed at realising local and community agricultural growing potential | Throughout district            | Planned       |
| <b>2. Development of agro-processing capacity</b>  |  |                                |               |
| <ul style="list-style-type: none"> <li>• Amajuba Tannery</li> </ul>  | Integration of value chain, and creation of export opportunities   | Dannhauser                     | Planned       |
| <ul style="list-style-type: none"> <li>• Meat deboning plant</li> </ul>  | The de-boning of meat for re-sale purposes   | On the border of Umzinyathi    | Planned       |
| <ul style="list-style-type: none"> <li>• Bakeries Programme</li> </ul>   | Development of major bakeries in the district – Albany   | Throughout the district        | Planned       |
| <ul style="list-style-type: none"> <li>• Production of Sun-Dried Tomatoes</li> </ul>   | NewCo has been established to manufacture processed sun-dried tomatoes for the export market               | Newcastle                      | Planned       |
| <ul style="list-style-type: none"> <li>• Hydroponic Techno Park</li> </ul>   | Need to produce tomatoes under controlled conditions for the tomato drying plant                           | Close proximity to the airport | Planned       |
| <ul style="list-style-type: none"> <li>• Fresh Produce Market</li> </ul>   | Retail and value adding zone linked to the techno park   | Newcastle                      | Planned       |
| <ul style="list-style-type: none"> <li>• Soya Bean Production and</li> </ul>   | There are currently a number of  | Amajuba                        | Envisioned    |

|   |   |   |             |
|---|---|---|-------------|
| Processing                                    | commercial producers of soya beans within these Districts who could supply feedstock to the factory.  |   |             |
| • Dairy Project                               | Powdered milk and cheese production facility.   | Just outside Newcastle                              | Exploratory |
| <b>3. Development of water capacity</b>       |   |   |             |
| • Horn river Dam                              | Construction of a dam on the Horn River just outside of Newcastle. Will be catalytic for the dairy project.   | Newcastle surrounds                                 | Exploratory |
| <b>4. Power generation and bio-fuel</b>       |   |   |             |
| • Revive old coal power station               | The coal power station outside of Newcastle has been dormant for many years, but the current boom in the coal industry and an increasing need for more power, may provide an opportunity for reviving this power station. | Newcastle   | Envisioned  |
| • Sasol bio-diesel plant                      | A Sasol plant producing bio-fuel from soya beans  | (Endumeni Municipality) favoured not yet determined | Exploratory |
| <b>5. Transport Infrastructure Upgrades</b>   |   |   |             |
| • Airport upgrade                             | Upgrade to scheduled flights; improved facilities   | Newcastle   | Exploratory |
| <b>6. Tourism property developments</b>       |   |   |             |
| • The Vulintaba Golf estate                   | The development of a large golf and leisure estate north of Newcastle   | Northern outskirts of Newcastle                     | Planned     |
| • Zaaihoek Dam                                | Development of accommodation and recreational fishing at Zaaihoek Dam   | Zaaihoek Dam  | Exploratory |
| • Cultural Village and Hotel                  | The development of a Cultural Village and Hotel   | Unspecified   | Envisioned  |
| <b>7. Increase tertiary education options</b> |   |   |             |
| • New University                              | Develop a new university to service northern KwaZulu-Natal  | Newcastle/Madadeni                                  | Envisioned  |
| <b>8. Promotion of metal manufacturing</b>    |   |   |             |

|   |  |           |            |
|---|--|-----------|------------|
| <ul style="list-style-type: none"> <li>Steel beneficiation cluster or SEZ</li> </ul>        | Build on existing steel manufacturing to support the establishment of steel or metal components manufacturing industries | Newcastle | Envisioned |
| <b>9. Utilising the wider potential of coal</b>   |  |           |            |
| <ul style="list-style-type: none"> <li>Downstream manufacturing of coal products</li> </ul> | Beneficiation of coal into other products  | Newcastle | Envisioned |

## Ugu District Comparative Advantages

### Brief description of the District

Ugu District Municipality is located along the southern coastline of the province and, in addition to be bordered by three KwaZulu-Natal district municipalities, is also bordered by districts in the Eastern Cape. Ugu District Municipality has the 5<sup>th</sup> largest population in the province, contributing 7% to the total population of the province. The district has experienced relatively modest population growth of 0.5% in the last 7 years. The size of the Ugu economy is relatively small in the provincial context and only contributes 4.4% of the province's GVA, which is significantly less than it contributes to total population for the province. As a result, Ugu ranks 7<sup>th</sup> in the province in terms of GVA per capita.

*Key spatial features of the Ugu District impacting on economic development include:*

- An operational rail system stretches along the coast. Historically this system was linked to rail systems servicing the inland areas which have now ceased operation.
- Urban development in the District is concentrated on the coast with the exception of the towns of Umzinto and Harding which are located inland.
- Approximately 70% of economic activity in the District is concentrated in the Port Shepstone / Margate area.
- The tourism sector is well-developed along the coast, but tourism infrastructure and facilities are generally out-dated (developed in the 1960s and 1970s). The only inland tourism node of note is located around the Oribi Gorge.
- Agricultural activity is generally confined to the coastal strip and inland to the west of Umzinto and Port Shepstone (Oribi Flats) and is dominated by sugar cane and timber, with substantial areas also under bananas and nuts.
- Forestry plantations dominate land use in the western parts of the municipality.
- The bulk of the population of the District is located in rural inland areas on land with limited development potential characterised by severe topography.
- Rural nodes in three of the six municipalities are underdeveloped, i.e. Dududu, Mtwalume and Ezinqolweni. In other municipalities rural settlement is dislocated from urban nodes, i.e. Umuziwabantu, Hibiscus Coast and Umdoni.

### Locational Advantages

***Borders the Eastern Cape:*** The Umtamvuna River acts as the border between Ugu District and the Eastern Cape and the R61 links Port Edward in Ugu with dense settlement areas like Bizana in the Transkei. While, Ugu can be said to be the gateway to certain areas of the Transkei; like Bizana; Lusikisiki and Port St Johns, it cannot currently claim to be the primary gateway to the Eastern Cape. Kokstad in Sisonke District is undoubtedly the primary gateway to the Eastern Cape because the N2 exits the province in that location. The planned Wild Coast N2 extension, however, may change all

this as the N2 is re-routed to leave the province in the Port Edward area. This development could create a significant locational comparative advantage for Ugu district.

**Integration with South Durban Basin:** The South Durban Basin industrial area, as a key economic development node in the province is located immediately to the north of the District. This provides opportunities for downstream linkages of businesses in the district as well as providing the district with opportunities from 'spill-over' developments. The planned development of the Dig-out Port at the old airport site could provide further impetus for the development of this region.

**Primary Corridor linking Durban and Port Shepstone:** The N2 corridor linking Durban and Port Shepstone has been identified in the PSEDS as being a primary development corridor in the province and as such is earmarked as an economic growth corridor.

### Natural/geographic Advantages

**Sub-tropical climate:** The district's sub-tropical climate makes it the province's top producer of agricultural produce such as bananas and macadamia nuts.

**Beautiful and safe swimming beaches:** Ugu District is blessed with some of the best and most accessible beaches in the province. The district's most popular beaches tend to be formed around sheltered lagoons, making them ideal for families. As such the district can rightly boast having a comparative advantage in family beach tourism.

**Marine Life (Sharks and Sardines):** The district possesses two of the country's top dive sites in the form of Aliwal Shoal and Protea Banks, and while diving at these two locations may not be as diverse an experience as diving the tropical reefs of Sodwana, they are known as some of the best areas in the province for diving with sharks. Additionally the district annually plays host to one of the greatest migrations on Earth, the Sardine Run. Ugu District is perhaps the easiest place on Earth to observe this phenomenon.

**Two dramatic gorges:** The district has two of the largest and most spectacular gorges in the province, Oribi Gorge and Umtamvuna Gorge. The opportunities for adventure and eco-tourism emanating from these two sites provide the district with distinct tourism advantages in these tourism niche markets.

### Infrastructural Advantages

**The N2 highway:** The N2 stretches through the area from north to south (Scottburgh to Port Shepstone) and east to west (Port Shepstone to Harding).

## Resource Advantages

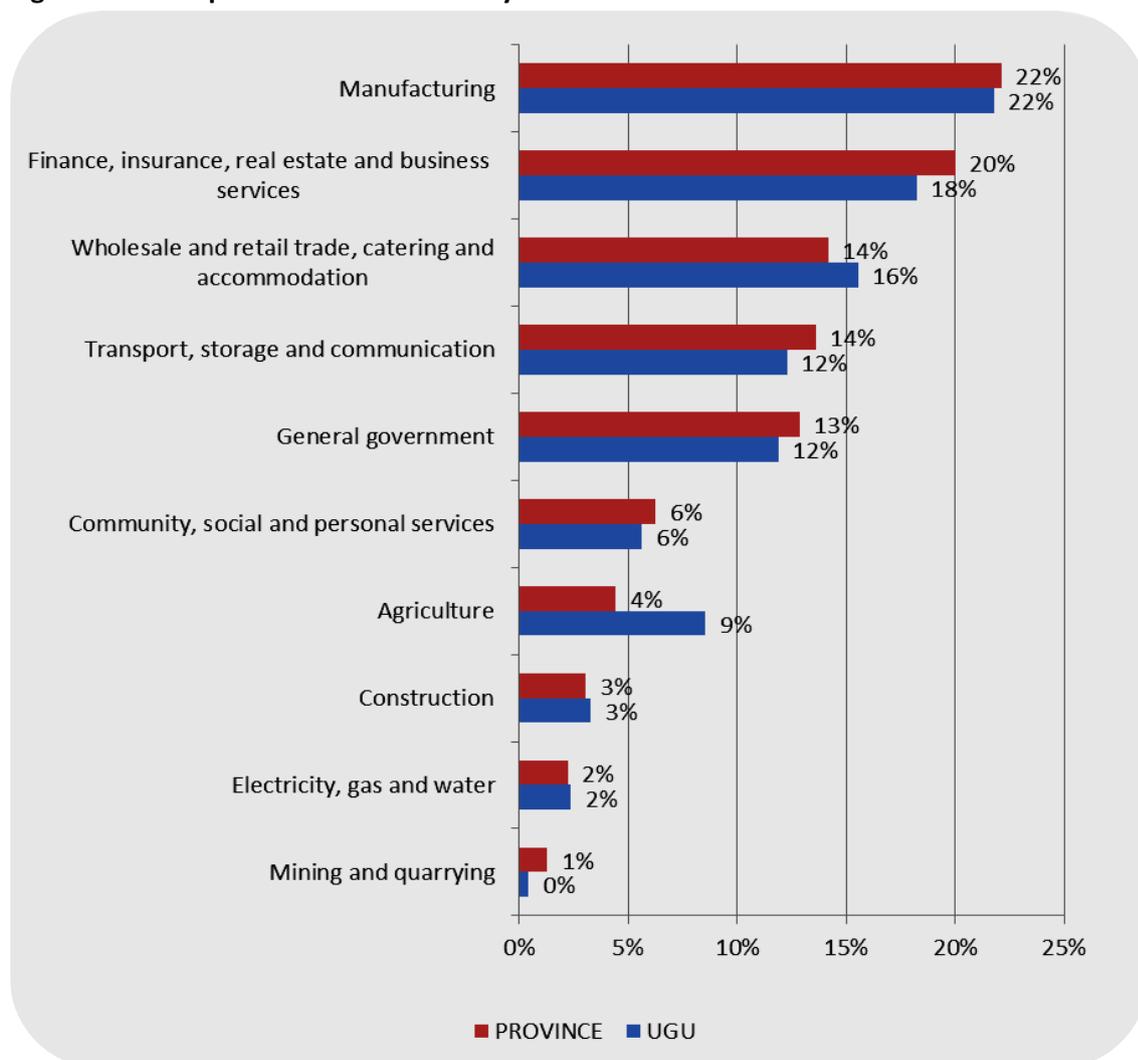
**Good quality limestone:** The district has some of the best quality limestone rock in the province, and has two major quarries in the Oribi Gorge area.

## Sectoral Advantages

### Desktop Study

As indicated in the Figure 2.1 below, only two of Ugu's main economic sectors contribute more to the local GVA than what that sector does to provincial GVA. These two sectors are Trade and Hospitality; and Agriculture. This corresponds with the previous analysis of some of the district's key comparative advantages. Agriculture, in particular, contributes more than double to the district economy than what it does to the provincial economy.

**Figure 2.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that Ugu has a comparative advantage in Trade or Agriculture, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 2.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 2.1 - Positive Sectoral Location Quotients**

| Sector   | Locational Quotient |
|--|---------------------|
| Agriculture and Hunting                            | 2.99                |
| Forestry and Logging                               | 2.70                |
| Fishing, operation of fish farms                   | 1.64                |
| Other mining and quarrying                         | 2.12                |
| Food, beverages and tobacco products               | 1.31                |
| Wood and wood products                             | 1.92                |
| Furniture and other items NEC and recycling        | 1.20                |
| Electricity, gas, steam and hot water supply       | 1.25                |
| Collection, purification and distribution of water | 1.62                |
| Construction                                       | 1.28                |
| Wholesale and commission trade                     | 1.38                |
| Retail trade and repairs of goods                  | 1.07                |
| Hotels and Restaurants                             | 2.03                |
| Post and Telecommunications                        | 1.32                |
| Public Administration                              | 1.06                |
| Education  | 1.15                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Ugu has significant comparative advantages in the primary sectors of Agriculture and Hunting; Forestry and Logging and Other Mining and Quarrying. In the secondary sector, Wood and Wood products features fairly strongly, and in the tertiary sector the Hospitality industry, as reflected in 'Hotels and Restaurants', is shown to be a comparative advantage of the district. The remaining sectors in which the location quotients are between 1 and 1.5, may not have significant statistical variation from the provincial economy. While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

## *A Company Perspective – Findings of the District Driver Report*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY                           | Industry                                    |
|----|-----------------------------------|---|
| 1  | Marburg Manufacturers (Pty) Ltd   | Clothing                                    |
| 2  | Illovo Sugar - Sezela Sugar Mill  | Sugar cane processing                       |
| 3  | Singtex Clothing                  | Textiles and clothing                       |
| 4  | Harding Treated Timbers (Pty) Ltd | Timber                                      |
| 5  | Outlook Farm                      | Agricultural commodities                    |
| 6  | Bargain wholesalers               | Retail                                      |
| 7  | Illovo - Umzimkhulu Sugar Mill    | Sugar cane processing                       |
| 8  | Crookes Brothers                  | Agricultural commodities, mainly sugar cane |
| 9  | Hibiscus Private Hospital         | Health care                                 |
| 10 | Kulucrete South Coast             | Cement products                             |
| 11 | Kulu Snacks (Pty) Ltd.            | Food production                             |
| 12 | Highcroft Sawmills cc             | Timber                                      |
| 13 | Twin Stream Manufacturing         | Timber products                             |
| 14 | Idwala Carbonates                 | Quarrying                                   |
|    | <i>NPC Simuna Plant</i>           | <i>Quarrying<sup>2</sup></i>                |

The major employers of Ugu are an interesting combination of manufacturing, agro-processing, agricultural and quarrying firms. Clothing and textiles feature strongly in the Manufacturing sector, while Kulu Snacks is a good example of a small town agro-processing company that has grown to provincial significance. Further Agro-processing activity includes the Sezela and Umzimkhulu Mills, as well as a number of timber mills, processors and manufacturers. Illovo and Crookes Brothers remain major contributors to the Ugu economy. The big Idwala and NPC quarries in the Oribi Gorge region are also major employers in the district and have created downstream opportunities captured by companies such as NPC Concrete and Kulucrete, as well as smaller construction companies. These construction companies service not just the Ugu area, but also a large portion of the Transkei.

While no tourism companies make the list of top companies by employment, tourism is a major economic driver and employer within the district. Tourism companies tend to be smaller but more numerous, and have multiplier effects for other industries such as the Retail and Services and transport Industries.

<sup>2</sup> Note the numbering reflects the ordering of the largest employers in the survey sample. Where other large employers in the district are known but did not provide responses, these are added but un-numbered.

The district drivers report identified smaller more dynamic companies in the clothing and textile; agro-processing and wood product industries. The report also identified dynamic companies in the Retail Sector, Medical Services and Boutique tourism hospitality industries. Although these companies are relatively small in comparison to the ones listed in the table above, they can be seen as significant drivers of economic growth in the region.

### *Findings of interview with Ugu DM and Hibiscus Chamber of Commerce*

The sectoral comparative advantages highlighted by the District Municipality and the Hibiscus Chamber of Commerce corroborate the findings of the location quotient and company analyses. The district municipality identified Agriculture and Forestry as being a sector in which Ugu had comparative advantages, but stressed the need to diversify Agricultural production. While sugar cane farming has been the main agricultural driver in the past, lowering yields (which has led to the erratic operation of Umzimkhulu Mill in particular) and competition from other African countries, is construed as a major threat to the future of the industry. As such, some sugar cane farms have taken to replacing their cane with macadamia or essential oil plantations.

The district highlighted the beneficiation potential of the timber industry and believed that this should be linked to the light manufacturing capacity of areas such as Marburg in Port Shepstone. Indeed light manufacturing was believed to be an advantage of the district due to the existing cluster of these industries in Marburg and Park Rynie and due to the lower wage structure as compared to urban areas such as eThekweni. Although tourism is regarded as the flagship industry of the district, the Chamber of Commerce, felt that it receives disproportionate attention given its employment levels (as compared to Manufacturing) and its high degree of seasonality. The Chamber felt that there were also further opportunities for smaller companies to get involved in quarrying in the Oribi region.

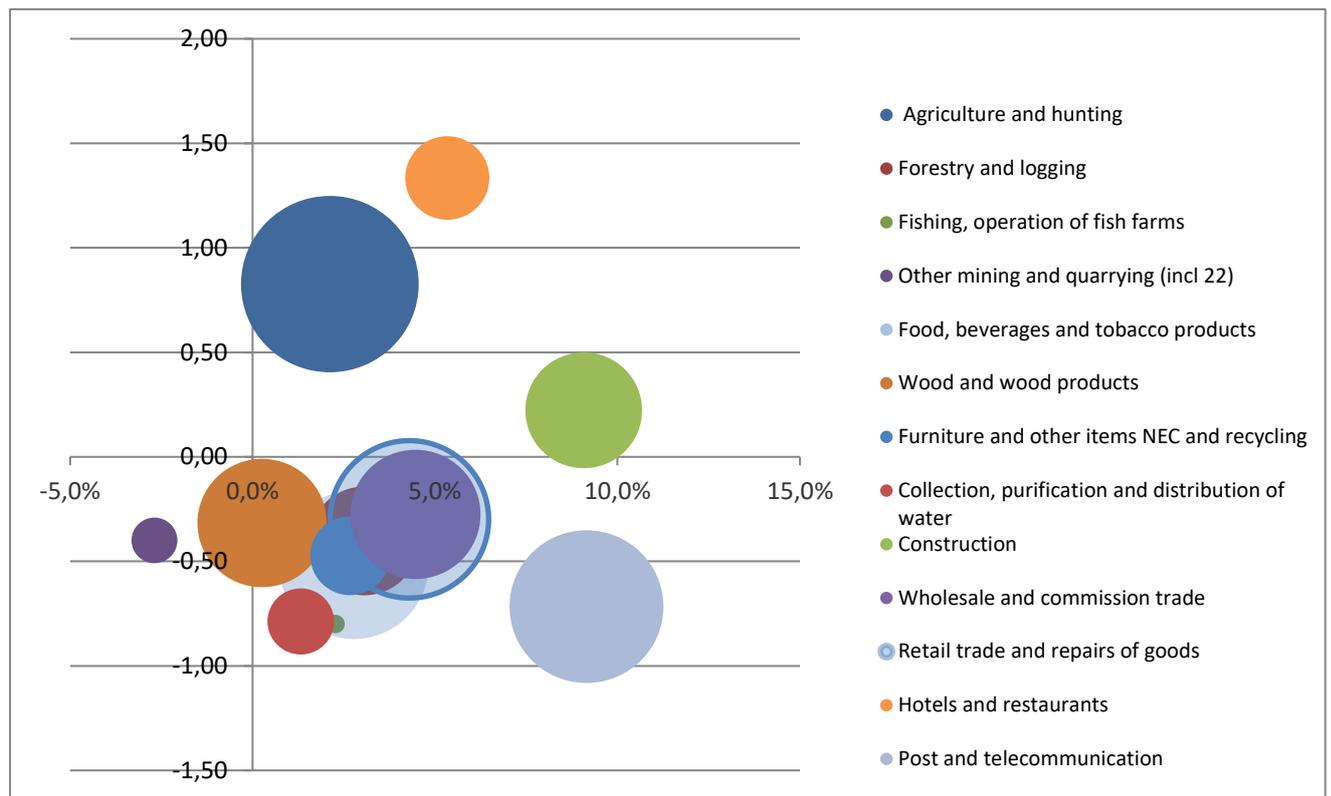
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 2.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 2.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 2.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 2.2 shows that Agriculture and Hunting is the largest value contributor to the district’s GVA. With a positive labour intensity figure, Agriculture and Hunting would also be considered to be a labour intensive sector. Retail Trade and Food and Beverage products, similarly, are large contributors to district GVA, and have both enjoyed positive economic growth. The largest growth sectors in the district economy over the past ten years, however, are Post and Telecommunications; and Construction. The most labour intensive sector is Hotels and Restaurants which has also experienced relatively strong growth at around 5%. Other Mining and Quarrying is a capital intensive sector and has average negative growth over the past 10 years.

While based on this analysis it may be tempting to suggest that Agriculture and Tourism (Hotels and Restaurants) should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, Ugu's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- **Forestry and Timber production** - Ugu has extensive forestry plantations and saw mills in the Harding region. This sector has a large location quotient and has averaged 3% GVA growth over the past 3 years.
- **Hospitality/Tourism** - Despite the relocation of the province's main airport to the north of Durban, Ugu District continues to be the province's premier domestic beach tourism destinations. Attracting events such as 'Bike Week' have ensured positive economic growth in the hospitality industry. The industry is labour intensive offering strong employment returns to GVA growth.

### ***Unstable or threatened***

- **Agriculture and Hunting** - While this sector has averaged positive growth over the past 10 years, there are significant threats to future growth in the sector. To the extent that Ugu's comparative advantage in this sector was derived from sugar cane, lowering crop yield and regional competition may strip the district of this comparative advantage. Until the sugar cane industry is reformed or agricultural products are diversified, this comparative advantage remains unstable and under threat.
- **Quarrying** – This industry is largely monopolised by two companies and the potential for expansion, based on the current status quo is relatively low. The industry has averaged negative GVA growth over the ten year period. Like most mining operations, the industry is also capital intensive.

### ***High growth potential***

- **Food beverages and tobacco processing** – This is a dynamic and steadily growing (around 3%) sector and contains a number of the smaller newer companies in the district
- **Furniture production and wood products** – Although growth has been almost stagnant in the production of wood products, the manufacture of furniture has been growing relatively steadily over the period. Additionally the forestry industry, from which the furniture and wood product industry derive their inputs, continues to grow at a relatively impressive rate for a primary sector industry.
- **Post and telecommunication** – This capital intensive industry has been growing at a very impressive rate for the past 10 years and may be buoyed by the talk of MTN establishing a switching hub in the area.

## Special Economic Zone/Industrial Hub Options

### ***Primary Option: Furniture Manufacturing located in Harding or Marburg***

The DTI have indicated that SEZ's will predominantly target the Manufacturing industry. As such an SEZ utilising the district's comparative advantages in Agriculture and Tourism is not an option. A furniture manufacturing SEZ or industrial hub, however, could provide backward linkages to comparative advantages in the Forestry industry. Despite a relatively large Forestry sector very little advanced beneficiation of timber takes place in Ugu. Reasons for a Furniture Manufacturing hub in Ugu are as follows:

- Forestry is a large and growing sector in the district
- The district contains a number of saw mills
- First stage beneficiation of timber products by companies such as Harding Treated Timber already occurs within the district.
- Timber products can be easily transported on the N2
- There is existing light manufacturing capacity in the district

A furniture manufacturing hub in Harding would have the advantage of being close to the raw inputs and could promote efficient vertical integration of the entire value chain. However, Marburg would have the advantage of existing industrial capacity and access to markets.

### ***Secondary Option: Telecommunications technology hub***

This would include an MTN Switching Hub; telecommunications companies and a technology park, and would look to exploit the district's comparative advantage in the telecommunication sector.

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b><br>• <b><u>Project</u></b>    | <b>Description</b>   | <b>Location</b>           | <b>Status</b>                   |
|---|--|---------------------------|---------------------------------|
| <b>1. Expansion of Furniture Production</b>               |  |                           |                                 |
| • Furniture incubator facility                            | Similar to Furntech in Durban  | N/A                       | Exploratory (Feasibility Study) |
| • Timber processing<br>uMuziwabantu municipality          | Most of the timber is exported out of the District. There is a high potential in terms of arable land to plough new timber. This could lead to the growth of a furniture manufacturing cluster | uMuziwabantu municipality | Envisioned                      |
| • SEZ for timber industry                                 | Vertical integration of timber industry from growing to milling; to treating and to furniture production.  | Harding/Marburg           | Envisioned                      |
| <b>2. Beach tourism revitalisation</b>                    |  |                           |                                 |
| • Enhance fishing tourism                                 | Improve marketing of angling product in Ugu  | Mtwalume                  | Envisioned                      |
| • Hibberdene Small Craft Harbour                          | Develop a small craft harbour and retail hub in Hibberdene   | Hibberdene                | Exploratory                     |
| • Beachfront upgrades                                     | Much needed upgrade of the beachfront areas in the main resort towns   | Beachfronts               | Planned                         |
| • Upgrade of Margate Town                                 | Arrest the movement of businesses out of Margate, by upgrading facilities and infrastructure in the CBD  | Margate                   | Envisioned                      |
| <b>3. Diversification of Tourism Product</b>              |  |                           |                                 |
| • Development of Big Five Game reserve                    | Development of a Big Five game reserve in the hinterland running from Vernon Crookes to Lake Eland   | Umzinto to Oribi          | Exploratory                     |
| • Development of adventure tourism cluster at Oribi Gorge | Expansion of existing adventure tourism options  | Oribi                     | Envisioned                      |
| • Promotion of District as a major events location        | Attracting new events similar to 'Bike Week' and the 'Loerie Awards'   | District Wide             | Exploratory                     |
| • Development of convention centre                        | To attract more events to the district   | Possibly Margate          | Envisioned                      |

|  |  |                    |             |
|--|--|--------------------|-------------|
| • Margate Airport upgrade  | Able to offer scheduled flights to service the whole of the South Coast and much of the Transkei   | Margate Airport    | Envisioned  |
| • Port Shepstone Beach Front Re-Development                          | R2 billion initiatives will include an inner harbour, canal, pier and coastal boardwalk. The development is aimed at being a family destination. | Port-Shepstone     | Exploratory |
| <b>4. Develop communication sector</b>                               |  |                    |             |
| • Develop ICT technology Park  | Cluster ICT companies in a technology park   | N/A                | Envisioned  |
| • Support Creative Media Industries                                  | Including film social media  | N/A                | Envisioned  |
| <b>5. Exploit Mining and Quarrying Opportunities</b>                 |  |                    |             |
| • Smaller-scale quarrying  | Support the introduction of smaller quarrying companies to use an Idwala concession  | Oribi              | Envisioned  |
| <b>6. Develop Alternative Energy Options</b>                         |  |                    |             |
| • Sugar cane co-generation projects / ET Umzimkhulu Power Generation | Support co-generation projects by the sugar mills  | Sezela; Umzimkhulu | Exploratory |
| • Hans Merensky Bio-fuel production                                  | A development aimed at generating bio-fuel from sawdust  | N/A                | Exploratory |

## uMgungundlovu District Comparative Advantages

### Brief description of the District

uMgungundlovu District Municipality is located in the South western region of the province and is surrounded by 6 other districts within the province. uMgungundlovu District Municipality has the 2<sup>nd</sup> largest population in the province, contributing almost 10% of the province's total population and growing at an average of 1% over the past 7 years. The uMgungundlovu district's economy is the 2<sup>nd</sup> largest in the province and contributes nearly 12% to provincial GVA. GVA per capita of R30,436 also makes it the second most prosperous district in the province.

*Key spatial features of the uMgungundlovu District impacting on economic development include:*

- The Msunduzi Municipality houses the administrative and legislative centre of the provincial government in KwaZulu-Natal as well as performing an important commercial and industrial function in the economy of the district.
- Urban centres outside of Pietermaritzburg include Howick located in uMngeni Municipality, Mooi River located in Mpofana Municipality, Impendle village in Impendle Municipality, New Hanover-Wartburg-Hamburg in uMshwathi, Camperdown located in Mkhambathini Municipality and Richmond-Ndalen located in the Richmond Municipality.
- The municipalities in the district include large areas of land owned by the Ingonyama Trust Board and occupied by traditional communities. There are number of identified nodes in these traditional areas as well as extensive areas of informal settlement and limited agriculture: a large proportion of the regional population is located in traditional areas.
- Outside of urban and traditional areas, the district is characterised by commercial farming operations which include sugar cane, timber, vegetables, livestock and dairy.
- Areas of land have been set aside in the district for conservation (private and state) and these attract local and international tourists to experience the wide range of biodiversity in these areas.

### Locational Advantages

**Centrality:** Being bordered by 6 districts within the province, uMgungundlovu and Msunduzi in particular, acts as a regional service and economic hub to a relatively large proportion of the province's population. Pietermaritzburg is at the cross roads of major access routes linking Ixopo; Underberg, with Greytown; Stanger, and as such there are multiple options for access into or out of the district.

**Located on Durban – Gauteng Corridor Primary Logistics Corridor:** uMgungundlovu is less than 40 minutes, along the N3, from the continent's biggest Port and sits astride the country's biggest and most important logistics corridor. The development of this corridor has recently received renewed prioritisation by being declared as one of the President's Strategic Integrated Plans. This will no

doubt provide economic development opportunities for the district's nodes (Camperdown; Pietermaritzburg; Howick and Mooi River) which are located along this corridor.

### Natural/geographic Advantages

**Highly fertile land:** The district has an abundance of very fertile land and is considered to be one of the most productive areas for agriculture in the province.

### Infrastructural Advantages

**Major dams:** The district has no fewer than four major dams (Midmar; Nagle,; Wagendrift and Albert Falls, with another being built near Mooi River) and is the major water source for the province's most densely populated areas (including eThekweni).

**Excellent road network:** the district is serviced by an excellent road network, primarily centred around the N3 but including the R33; R56; R617 and R103.

**Numerous rail linkages:** The district is characterised by a developed system of rail. The main Gauteng line follows the N3 and passes through Pietermaritzburg, while the line to the Eastern Cape starts at Pietermaritzburg and runs through a number of areas in the district.

### Human Capital Advantages

**Good schools and tertiary institutions:** The Pietermaritzburg and Midlands area is considered to possess the best schools in the province. These schools produce highly capable Matriculants with good leadership abilities. While the tertiary institutions are perhaps not as robustly developed as they are in eThekweni, the University of KwaZulu-Natal and the Cedara Agricultural College, along with various other private tertiary institutions, provide opportunities for well-trained Matriculants to become highly skilled members of the labour force. The existence of these educational institutions gives uMgungundlovu a significant comparative advantage in terms of being able to offer companies a skilled workforce.

### Institutional Advantages

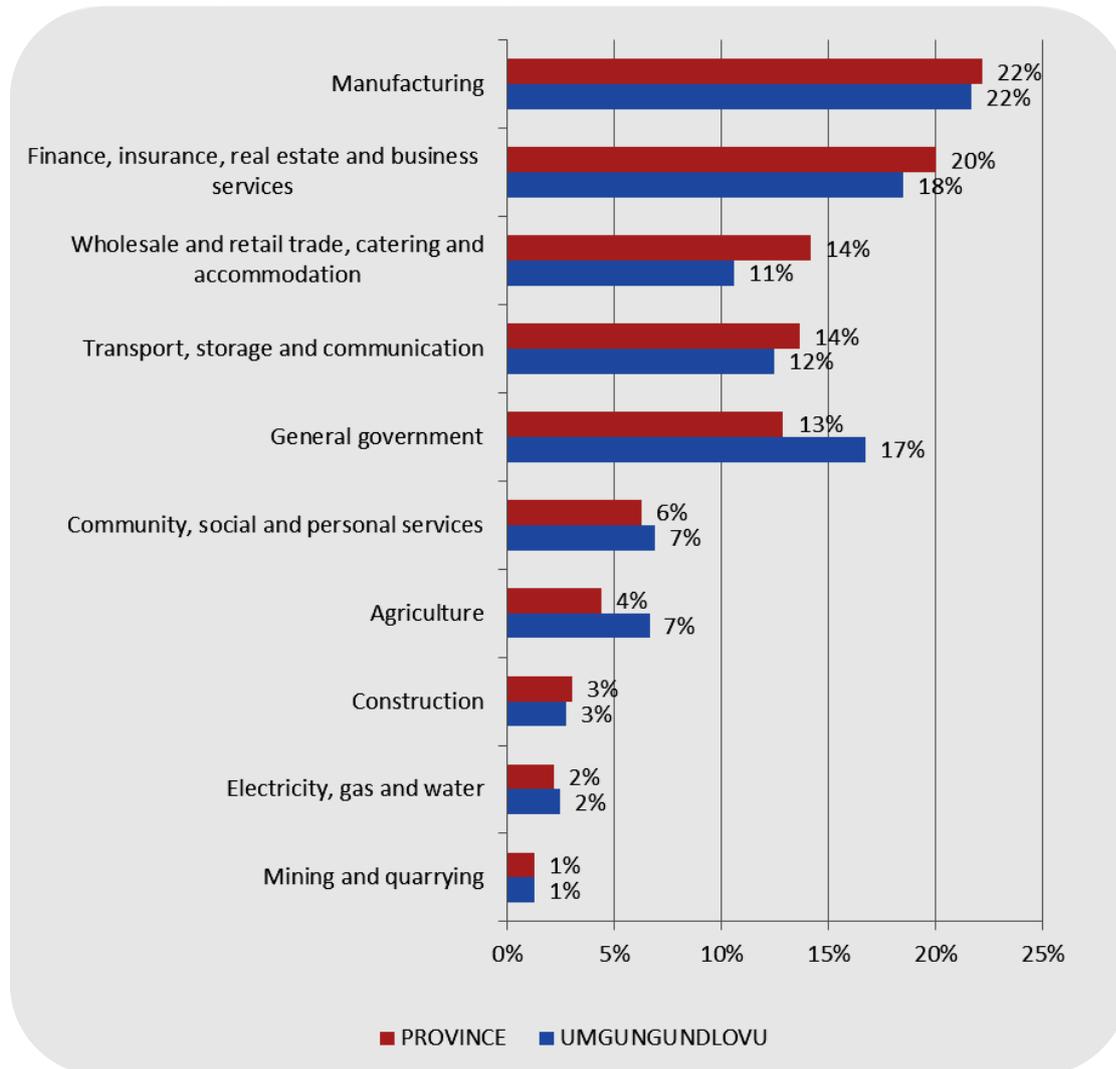
**Capital City status of Pietermaritzburg:** The designation of Pietermaritzburg as the province's capital is a major advantage for the district. The district benefits directly from the location of government departments in Pietermaritzburg, while indirect benefits include, private sector clustering around government departments and substantial levels of business tourism. The capital City status of Pietermaritzburg also raises the profile of the entire district.

## Sectoral Advantages

### Desktop Study

Economic activity in the uMgungundlovu District is diverse, with a number of sectors performing strongly. As expected, General Government contributes proportionally more to district GVA than it does to provincial GVA. Agriculture is also shown to be a relatively more important sector, supporting earlier findings that the district is highly fertile.

**Figure 3.1 – Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that uMgungundlovu has a comparative advantage in General Government (if indeed one can say this at all) or Agriculture, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 3.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 3.1 – Positive Sectoral Location Quotients**

| Sector   | Locational Quotient |
|--|---------------------|
| Agriculture and Hunting                            | 1.99                |
| Forestry and Logging                               | 3.50                |
| Collection, purification and distribution of water | 1.62                |
| Sale and Repair of Motor Vehicles                  | 1.01                |
| Post and Telecommunications                        | 1.09                |
| Real estate activities                             | 1.36                |
| Public administration and defence activities       | 1.73                |
| Education  | 1.28                |
| Health and social work                             | 1.46                |
| Other service activities                           | 1.25                |

Source: Own calculations based on data from Global Insight

Based on the location quotient method as a means for identifying comparative advantages, it is clear that uMgungundlovu has significant comparative advantages in the primary sectors of Agriculture and Hunting; and Forestry and Logging. In the secondary sector the Collection, Purification and Distribution of Water comes out relatively strongly, and in the tertiary sector, as expected, Public Administration is a comparative advantage of the district. The remaining sectors in which the location quotients are between 1 and 1.5, may not have significant statistical variation from the provincial economy. While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver's report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district, these are presented in the table below.

| NO | COMPANY                 | Industry                         |
|----|-------------------------|----------------------------------|
| 1  | Hulamin Limited         | Aluminium processing             |
| 2  | National Chix           | Chicken farming                  |
| 3  | Tai Yuen Textile        | Clothing and textiles            |
| 4  | Willowton Oil           | Soap, candles and oil production |
| 5  | Belgotex Floorcoverings | Artificial floor coverings       |
| 6  | Carrida Shoes           | Footwear                         |
| 7  | Eddels Footwear         | Footwear                         |

|           |                               |                          |
|-----------|-------------------------------|--------------------------|
| <b>8</b>  | Illovo - Noodsberg Sugar Mill | Sugar cane processing    |
| <b>9</b>  | TDM                           | Timber products          |
| <b>10</b> | Summerhill Stud Farm          | Equestrian               |
| <b>11</b> | Gelvornor Textiles            | Clothing and textiles    |
| <b>12</b> | De Heus                       | Animal feed              |
| <b>13</b> | Aberdare Cables               | Cables                   |
| <b>14</b> | Exotex Textiles Hammarsdale   | Clothing and textiles    |
| <b>15</b> | Illovo - Eston Sugar Mill     | Sugar cane processing    |
| <b>16</b> | The Witness                   | Publishing               |
| <b>17</b> | Meadow Feeds                  | Animal feeds             |
| <b>18</b> | Interpak                      | Printing                 |
| <b>19</b> | Sourveld Farm                 | Agricultural commodities |

The table above, listing the companies employing the most people in the district, reflects the diversity of the uMgungundlovu economy. Major employers range from companies in the primary, agricultural sector; to companies in the textile; metal processing; and printing and publishing industries. While Hulamin, a metal processing company, is a major employer in the District, it is evident that the textiles, clothing and footwear industry and the agro-processing and agricultural supplies industries dominate the list of major employers in the district. The agriculture, agro-processing and supplies industries are located primarily in the rural areas of the District represented by the Eston and Noodsberg Mills, animal feed manufacturers De Heus and Meadow Feeds. Major producers of food products include National Chix and Willowton Oil. The continued strong presence of the textiles, clothing and footwear sector as a major district employer primarily based in Pietermaritzburg, is evident from the presence of Tai Yuen Textile, Carrida Shoes, Eddels Footwear, Gelvornor Textiles and Exotex Textiles.

Naturally, although not captured in the company survey, the Public Sector is also a major employer in the district, as both the provincial legislature and provincial government departments are located in Pietermaritzburg. In addition, large retail facilities such as the Midlands Mall service a vast hinterland, and provide a number of employment opportunities to the people of the district.

The district drivers report identified smaller more dynamic companies in the clothing and textile; agro-processing and wood product industries. The report also identified dynamic companies in the Retail Sector, Medical Services and Boutique tourism hospitality industries. Although these companies are relatively small in comparison to the ones listed in the table above, they can be seen as significant drivers of economic growth in the region.

### *Findings of interview with uMgungundlovu DM and Pietermaritzburg Chamber of Commerce*

The meetings with the district municipality and the Chamber of Commerce revealed quite different focuses for the district. The district municipality stressed the importance of the district's comparative advantages in the agricultural sector, particularly with regard to crop; dairy and chicken farming. The district municipality also highlighted the potential for agro-processing and noted that the Midlands Meander was one of the most successful tourist routes in the country. The Chamber of Commerce believe that the district has a comparative advantage in the production of leather and footwear, and cited a number of the leather and footwear companies identified in the list of top employers in the previous section. The Chamber of Commerce also highlighted the potential and advantages of the Engineering and Electronic industries in the district. As a niche industry, the Chamber believes that the district has a comparative advantage in Railway Coach manufacturing, as currently centred around Mason's Mill.

Both the district municipality and the Chamber of Commerce feel that the district does not sufficiently exploit the comparative advantage of Pietermaritzburg being the province's capital city. In this regard it is believed that the Pietermaritzburg CBD should be upgraded and expanded, and that more upmarket tourism and residential accommodation options should be developed so as to take better advantage of the economic opportunities of 'capital status'.

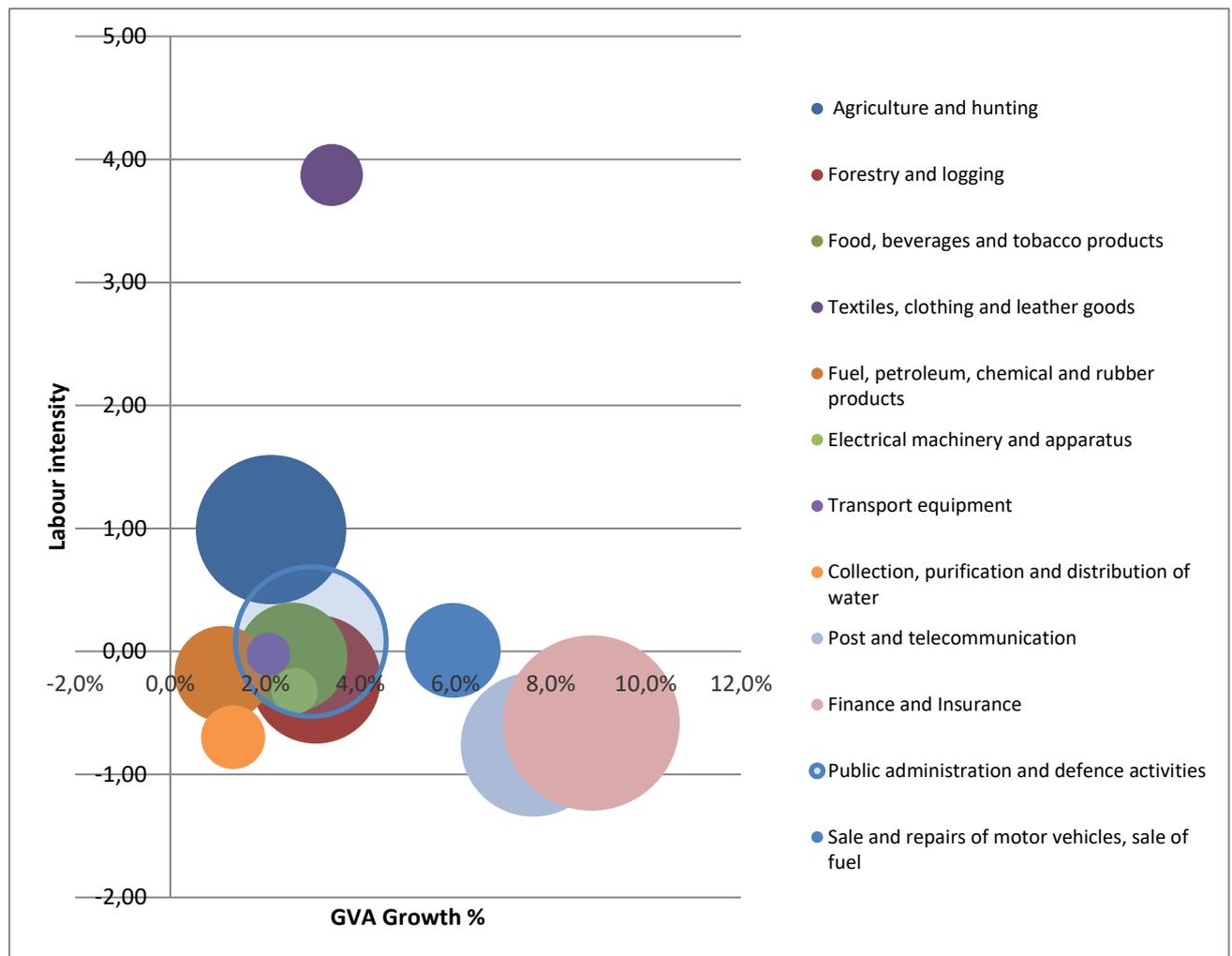
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 3.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 3.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 3.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 3.2 shows that Finance and Insurance is both the largest and fastest growing sector in the district. This is not unusual for a district which contains a large urban area, and is not necessarily indicative of a comparative advantage. Indeed Financial and Business Services normally contribute up to 18% of the provincial economy. Other big industries in the district include Agriculture and Hunting and Forestry and Logging, with both sectors experiencing positive, albeit sluggish growth rates. The Sale and Repair of Motor Vehicles and Fuel is a relatively large and fast growing (6.0%) sector. Public Administration, as expected, is one of the larger sectors in the economy, but surprising is not very labour intensive. On the other hand the clothing and textile industry, while small, is very labour intensive. The other sector in which a number of the district’s big companies exist, Food and Beverage Production is a relatively high value sector and is growing steadily.

While based on this analysis it may be tempting to suggest that the Financial Sector should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, uMgungundlovu's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- **Forestry and Timber production** – The district has a number of forestry plantations, particularly in the Richmond area and the industry is growing relatively steadily at 3% per annum.
- **Agriculture and Hunting** – The agricultural sector in uMgungundlovu is one of the two biggest agricultural sectors in the province. The district is blessed with highly fertile land and areas around Mooi River and Richmond are considered some of the most fruitful agricultural areas in the province. The district's agricultural output is highly divers and not reliant on single commodity, this makes the sector more resilient to change than in other districts. Various outgrower programmes and experimentation with new farming techniques, aim to ensure growth in the sector and spread the economic benefits to wider communities.
- **Public Administration** – Although general government would not normally be regarded as a comparative advantage sector, the public sector's role in the district is not so much a welfare role as it is an institutional and business one. The location of the provincial capital in the district provides the district with a comparative advantage for attracting public sector business and services, as well as associated private sector business.

### ***Unstable or threatened***

- **Clothing and textiles (footwear production)** – The employment benefits of this sector are clearly illustrated in Figure 3.2 and the sector has experienced relatively healthy growth over the past 10 years. Although the sector as a whole is not revealed to be a comparative advantage by the location quotient method, there may be a niche industry comparative advantage in the production of leather products and footwear. This is confirmed by the fact that the district has the largest concentration of footwear companies in the province and also possesses some leather tanneries. While the sector as a whole is growing there are significant threats to the future of the leather and footwear industry in the district. In particular cheap labour in Lesotho has recently drawn investors away from investing in the district.

### ***High growth potential***

- **Post and telecommunication** – This capital intensive industry has been growing at a very impressive rate for the past 10 years and probably reflects the fact that uMgungundlovu and Pietermaritzburg in particular serves as the telecommunications hub for a large hinterland.

- ***Sale and repair of motor vehicles and fuel*** – This industry is growing rapidly within the district and reflects the importance of the district being situated on a major transportation corridor. The comparative advantage of this sector is only likely to grow with the renewed strategic focus on the Durban – Gauteng corridor.

### ***Emerging***

- ***Food beverages and tobacco processing*** – This is a relatively large but dynamic and steadily growing (around 3%) sector. The majority of the large companies in this sector are suppliers (in the form of feed stocks) to the Agricultural sector. Other large companies in this sector are involved in sugar cane processing and dairy. The strength of the Primary Agricultural sector is such that there is much potential for the expansion of companies involved in the beneficiation of raw agricultural produce. In addition, considering that the district services a vast rural hinterland dominated by Agriculture, there are significant opportunities for the district to expand its feed stock industries. The district municipality also believes that there is further scope for the expansion of the dairy production industry.

## **Special Economic Zone/Industrial Hub Options**

### ***Primary Option: Leather and Footwear SEZ***

The DTI have indicated that SEZ's will predominantly target the Manufacturing industry, as such an SEZ utilising the district's comparative advantages in primary agriculture is excluded. The district has a long association with leather and footwear companies, and while the sector is under threat from global competition, it still offers the potential for substantial job creation if it receives significant support and incentivisation. The SEZ/industrial hub would incorporate the whole value chain from tanneries; trims; adhesives and designs all the way to the retail of the final products. The reasons for a leather and footwear hub in the district are as follows:

- There are already a number of shoe manufacturers in the district
- The district possesses leather tanneries
- The industry is highly labour intensive
- The industry can (and to an extent already is) be linked to the Midlands Meander to provide tourism retail opportunities for leather and shoe products

### ***Secondary Option: Agro-processing Hub***

There is an argument than the footwear sector is too small in scope and that an SEZ should exploit the districts agricultural advantages by being located in the Agro-processing sector. This hub would include crop and dairy processing, as well as canning and packaging.

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b>  | <b>Description</b>   | <b>Location</b>                              | <b>Status</b>  |
|--|--|--|----------------|
| <ul style="list-style-type: none"> <li><b>Project</b></li> </ul>                             |  |  |                |
| <b>1. Enhance Agriculture and associated Agro-processing</b>                                 |  |  |                |
| <ul style="list-style-type: none"> <li>Outgrowers programmes</li> </ul>                      | Local production of vegetables; fruit and corn, sometimes using tunnel farming techniques  | Predominantly in the Mooi and Richmond Areas | Implementation |
| <ul style="list-style-type: none"> <li>Quails Project</li> </ul>                             | To establish and implement a quails pilot project at uMgungundlovu district. Project involves production, processing and marketing of quail meat & eggs.   | Unspecified                                  | Planned        |
| <ul style="list-style-type: none"> <li>Agro-processing plant in Mooi River</li> </ul>        | Development of a facility for the processing of agricultural produce   | Mooi River                                   | Planned        |
| <ul style="list-style-type: none"> <li>New Abattoir</li> </ul>                               | The development of a new abattoir in the district  | N/A  | Envisioned     |
| <ul style="list-style-type: none"> <li>Expansion of commercial dairy production</li> </ul>   |  | N/A  | Exploratory    |
| <ul style="list-style-type: none"> <li>SEZ for agro-processing companies</li> </ul>          | Establishment of an SEZ for agro-processing of fresh produce from local production. Linked to export facility at Dube Trade Port   | N/A  | Envisioned     |
| <b>2. Exploit opportunities associated with N3 corridor</b>                                  |  |  |                |
| <ul style="list-style-type: none"> <li>Dedicated; large scale truck stops</li> </ul>         | Designated stop for trucks using the N3 Durban-Gauteng corridor  | N3   | Envisioned     |
| <ul style="list-style-type: none"> <li>Development of logistics platform</li> </ul>          | Currently uMgungundlovu products are packaged and loaded in Durban for trips to Joburg; this represents as waste of fuel and increased costs; a logistical platform should be established north of PMB | North of PMB on the N3                       | Envisioned     |
| <ul style="list-style-type: none"> <li>High Speed train between Durban and Joburg</li> </ul> | High speed train, as part of the development of the Durban- Free State – Johannesburg Corridor   | Passing through Pietermaritzburg             | Planned        |
| <ul style="list-style-type: none"> <li>Train coach manufacturing at</li> </ul>               | Encourage the manufacture of coaches   | PMB  | Envisioned     |

|   |   |                                    |   |
|---|---|------------------------------------|---|
| Mason's Mill  | and rail components at Mason's Mill and link this to Prasa's refurbishment plan   |                                    |   |
| <ul style="list-style-type: none"> <li>Further development of Mkhambatini Portion of the N3 Provincial Priority Corridor</li> </ul> | The main function of this corridor is as a limited access, long distance movement corridor. However, along the urban component of the corridor it will attract the full range of urban uses.                            | Camperdown – Msunduzi – Mooi River | Implementation                                |
| <ul style="list-style-type: none"> <li>Inland port development</li> </ul>   | The development of an inland port performing the same logistical function as a sea port.  | Mooi River                         | Exploration                                   |
| <ul style="list-style-type: none"> <li>Hilton/Mondi Development Project</li> </ul>  | Property development including Residential; and light industry  | Hilton off-ramp; N3                | Planned (awaiting funding from Corridor Fund) |
| <b>3. Development of leather and shoe industry</b>  |   |                                    |   |
| <ul style="list-style-type: none"> <li>SEZ for leather and footwear companies</li> </ul>  | Vertical integration of companies in this sector to include entire production process: tanneries; trims; adhesives; retail  | Msunduzi/Umgenei                   | Envisioned                                    |
| <b>4. Exploit Capital City Status of PMB</b>  |   |                                    |   |
| <ul style="list-style-type: none"> <li>CBD revitalisation</li> </ul>  | PMB CBD needs to reflect its importance as a provincial capital. Derelict buildings should be restored to their Victorian splendour and the city should be positioned as a preferred location for companies to operate. | PMB CBD                            | Envisioned                                    |
| <ul style="list-style-type: none"> <li>Development of a five star hotel in PMB</li> </ul>   | Currently there are a shortage of high-class hotels in the city; this limits business tourism growth  | PMB CBD                            | Envisioned                                    |
| <ul style="list-style-type: none"> <li>Further expansion of PMB airport</li> </ul>  | Revamp and expansion of existing airport to make it more accessible and attractive to use for both business and leisure   | PMB airport                        | Planned                                       |
| <ul style="list-style-type: none"> <li>Establish a museum and heritage cluster</li> </ul>   | Consolidate a number of the disjointed collections into a modern and iconic   | PMB CBD                            | Envisioned                                    |

|   |   |                         |            |
|---|---|-------------------------|------------|
|   | world class museum  |                         |            |
| <ul style="list-style-type: none"> <li>Development of large-scale conference centre</li> </ul>                      | Despite being an events capital; PMB offers very few conferencing options. The development of a conference centre at the Royal Show Grounds could offer greater opportunities for hosting more sporting events. | Royal Show Grounds PMB  | Envisioned |
| <ul style="list-style-type: none"> <li>Development of an eco-estate in PMB</li> </ul>                               | PMB needs an up-market residential estate so as to attract top business people.   | Above the Midlands Mall | Envisioned |
| <b>5. Development of water resources</b>  |   |                         |            |
| <ul style="list-style-type: none"> <li>Construction of Spring Grove Dam</li> </ul>                                  | The Spring Grove Dam will provide much-needed water to the municipalities via the transfer of water to Midmar Dam   | Mooi River              | Underway   |
| <ul style="list-style-type: none"> <li>Construction of Dam on the Umkhomas River</li> </ul>                         |   | Richmond/Hela Hela area | Envisioned |
| <b>6. Development of Wildlife attractions</b>   |   |                         |            |
| <ul style="list-style-type: none"> <li>Big Five Game reserve in Mkhambatini</li> </ul>                              | The development of a community owned game reserve in the Mkhambatini Municipality   | Mkhambatini near the N3 | Planned    |
| <b>7. Development of educational niche markets</b>  |   |                         |            |
| <ul style="list-style-type: none"> <li>Film school</li> </ul>   | The development of a world class film school  | N/A                     | Envisioned |
| <ul style="list-style-type: none"> <li>Development of flight school</li> </ul>                                      | The development of a flight school at Oribi Airport   | Oribi airport           | Envisioned |
| <b>8. Utilise engineering skills in the district</b>  |   |                         |            |
| <ul style="list-style-type: none"> <li>Encourage the location of an airline manufacturer in the district</li> </ul> | This would be beneficial to the downstream component manufacturers already located in the district  | Near Oribi Airport      | Envisioned |
| <ul style="list-style-type: none"> <li>Establish an electronic hub</li> </ul>                                       | Cluster companies which can supply electronic components for the motor  | N/A                     | Envisioned |

|  |  |          |             |
|--|--|----------|-------------|
|  | industry   |          |             |
| <b>9. Develop ICT sector</b>   |  |          |             |
| <ul style="list-style-type: none"> <li>Msunduzi ICT incubator</li> </ul> | To provide an enabling environment for the emerging ICT small business to be sustainable and competitive in regional, provincial and nations markets | Msunduzi | Exploratory |

## Zululand District Comparative Advantages

### Brief description of the District

Zululand District Municipality is located in the North Eastern region of the province and is surrounded by 4 other districts within the province, as well as districts in Mpumalanga. Zululand also shares a border with Swaziland. Zululand District Municipality has the 4<sup>th</sup> largest population in the province, contributing about 9% of the province's total population. The district has the fastest population growth rate in the province, growing at an average of 1.8% per year over the past 7 years. Despite the size of Zululand's population, it only contributes 4.1% to provincial GVA. With a GVA per capita of less than R12,000 per annum, Zululand is the third poorest district in the province.

*Key spatial features of the Zululand District impacting on economic development include:*

- Of the almost one million people in the municipality more than 50% reside in Nongoma and Ulundi in mainly traditional settlement areas (Ulundi town being the one exception).
- Vryheid is the business and service centre of the district, while Ulundi, which used to be the provincial capital, is the administrative seat of the district.
- The Ulundi and Nongoma Municipalities are regarded as two of the poorest rural municipalities in South Africa.
- In terms of land-use the District is divided nearly equally between commercial agriculture (west and north) and traditional settlement areas (mainly to the east).
- Historically the Zululand District has been isolated, in some respects referred to as a *cul-de-sac*, because of limited linkages to both the coast and the north. This relative isolation is being addressed by the development of the P700/701 rural link road between Ulundi and Empangeni, the establishment of a surfaced link road between Nongoma and Hlabisa, and the current (albeit delayed) construction of the link road between Nongoma and uPhongolo.

### Locational Advantages

**Gateway to Swaziland and Mozambique (Maputo):** The border post between KwaZulu-Natal and Swaziland at Golela is the province's preferred gateway to not just Swaziland but Mozambique as well. The poor state of the coastal, Ponta Du Ouro route into Mozambique means that people travelling from or to KwaZulu-Natal from Maputo, will most often choose the Golela route through Zululand. Proximity and accessibility to foreign markets provides Zululand with a locational comparative advantage.

### Natural/geographic Advantages

**Abundance of wildlife:** The district has a comparative advantage in possessing a natural environment (fauna and climate) which has almost continuously throughout history been populated by a variety of big game species. As such the district can boast proximity to some of the province's best game viewing destinations. This includes the Ithala Game Reserve, the Pongolapoort Dam and Reserve, the Hhuhluwe-Umfolozi Game Reserve; Mkhuze Falls Private Game Reserve and the

eMakhosini Heritage Park. In addition, the district has a numerous small game farms on which game roam.

### Infrastructural Advantages

**Possesses the province's largest dam: Jozini (Pongolapoort Dam):** Jozini Dam lies along the eastern boundary of the district, and is the province's largest dam. The dam yields Zululand District a comparative advantage in terms of fishing tourism, as the best place in the country to catch tiger fish; and in terms of potential hydro-electricity developments.

### Institutional Advantages

**Current Home of the Zulu King and birthplace of the Zulu Kingdom:** Nongoma is the home of the Zulu Royal Household and the current Zulu Monarch. It is also the birthplace of the Zulu Kingdom, as reflected in the Valley of the Kings at Emakhosini. This rich cultural heritage provides the district with a comparative advantage in that it can draw on the renowned 'Zulu brand' to the attract tourists.

### Resource Advantages

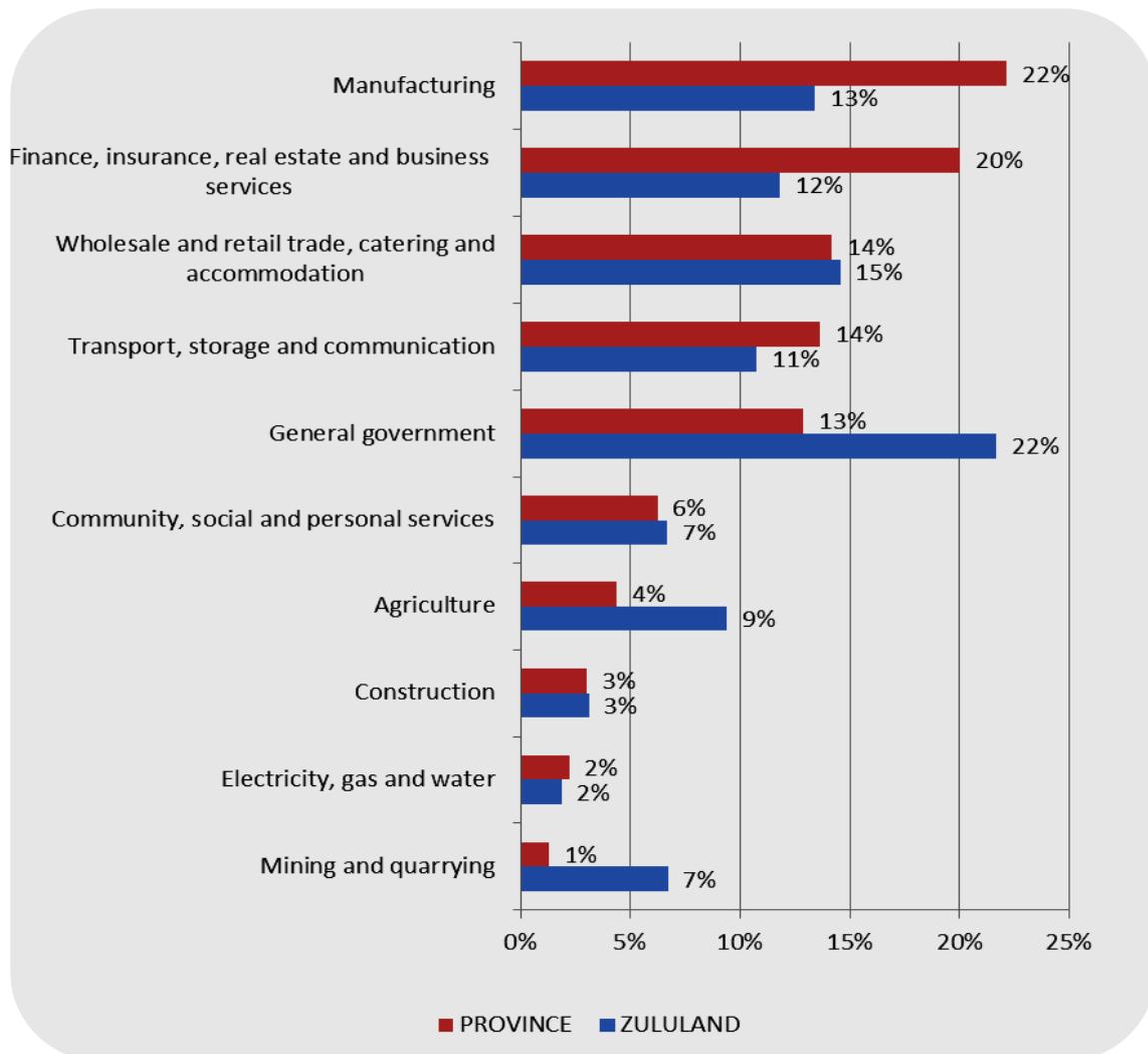
**Mineral deposits (coal and anthracite):** The district possesses significant coal reserves around the Vryheid Area as well as anthracite reserves near Ulundi.

### Sectoral Advantages

#### *Desktop Study*

Zululand's sectoral economic breakdown shows features typical of a more impoverished district. Namely, the primary and basic service-related tertiary sectors are relatively more important in the district while a relatively undeveloped secondary sector is of lesser importance. In the primary sector Agriculture and Mining are both significantly more important to the local economy than they are to the provincial one. In the tertiary sector, General Government and Community Services contribute disproportionately to the local economy, revealing a strong dependence on the public sector. The Manufacturing sector, however, at almost half the provincial share, would seem to be underdeveloped in the district.

**Figure 4.1 – Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that Zululand has a comparative advantage in Mining or Agriculture, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 4.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 4.1 – Positive Sectoral Location Quotients**

| Sector                                       | Locational Quotient |
|--|---------------------|
| Agriculture and Hunting                      | 2.40                |
| Forestry and Logging                         | 4.39                |
| Mining of coal and lignite                   | 10.92               |
| Mining of gold and uranium ore               | 8.68                |
| Electronic, sound and visual                 | 1.19                |
| Collection and purification of water         | 1.14                |
| Retail Trade and Repairs                     | 1.07                |
| Real estate activities                       | 1.07                |
| Public administration and defence activities | 3.28                |
| Education                                    | 2.42                |
| Health and social work                       | 1.24                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Zululand has significant comparative advantages in the primary sectors of Agriculture and Hunting; Forestry and Logging and in Mining. Outside of these sectors the only other sector which can be considered as having a ‘comparative’ advantage is the public sector (general government and community services). For the purpose of this report, unless the public sector is generating positive private sector impacts as it is observed to do in uMgungundlovu, it cannot be regarded as a meaningful comparative advantage. Rather the strength of the public sector in a district, which is not an administrative capital, is more likely to act as a proxy for the level of underdevelopment and dependency on government in that district.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes.

### *A Company Perspective – Findings of the District Driver Report*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district, these are presented in the table below.

| NO | COMPANY            | Industry          |
|----|--------------------|-------------------|
| 1  | Mvutshini Farm     | Sugar and related |
| 2  | Space Construction | Construction      |
| 3  | Mvutshini Estate   | Sugar and Related |
| 4  | Sugar Cane Farm    | Sugar and Related |
| 5  | Kwa Mngandi Group  | Hardware          |
| 6  | Val Aqua           | Mineral Water     |

|           |  |                          |
|-----------|--|--------------------------|
| <b>7</b>  | TSB SUGAR  | Sugar and related        |
| <b>8</b>  | Natal Spa & Hot Springs                            | Tourism Accommodation    |
| <b>9</b>  | Ithala Game Reserve (KZN Wildlife)                 | Tourism Accommodation    |
| <b>10</b> | Zululand Hunters                                   | Hunting                  |
|           | <i>Zululand Anthracite Colliery Mining Company</i> | <i>Anthracite mining</i> |

Agriculture is a major employer in the Zululand District, specifically on those estates producing sugar cane and fruit (in this case citrus). TSB Sugar in Pongola represents the only major agro-processing facility in the District, but confirms the importance of sugar cane production in the north eastern parts of the District. Aside from the ZAC Mining Company, mining companies are not well represented in the above list because they refused to participate in the company survey. Nonetheless mining companies are major employers in the district. The tourism sector also already makes a major contribution to employment, and there is substantial potential for this contribution to be increased with the appropriate development of the natural and cultural assets of the region.

While the larger companies in the district can be found in Agriculture and Mining, newer and smaller companies can be found in certain tourism niche sectors and in wholesale and retail trade. At this stage, however, the impact of these smaller companies remains limited.

### *Findings of interview with Zululand DM*

Findings from the interview with the Zululand District Municipality correspond strongly to the comparative advantages identified by the location quotients and the company analysis. The district believes that coal and anthracite mining have historically been the sectoral comparative advantages of the district. While this sector has declined over the past few decades, it is noted that there is currently a boom in the demand for coal, and new shafts are being opened near Vryheid.

With regard to the Agricultural sector, the district provides greater detail as to the exact nature of Zululand's comparative advantages. They highlight the fact that Zululand have the highest concentration of livestock in the province, and also have the most game farms. While sugar cane farming is well established in the district, the Nkwalini Valley is also the principal area for the growing of citrus fruits in the province.

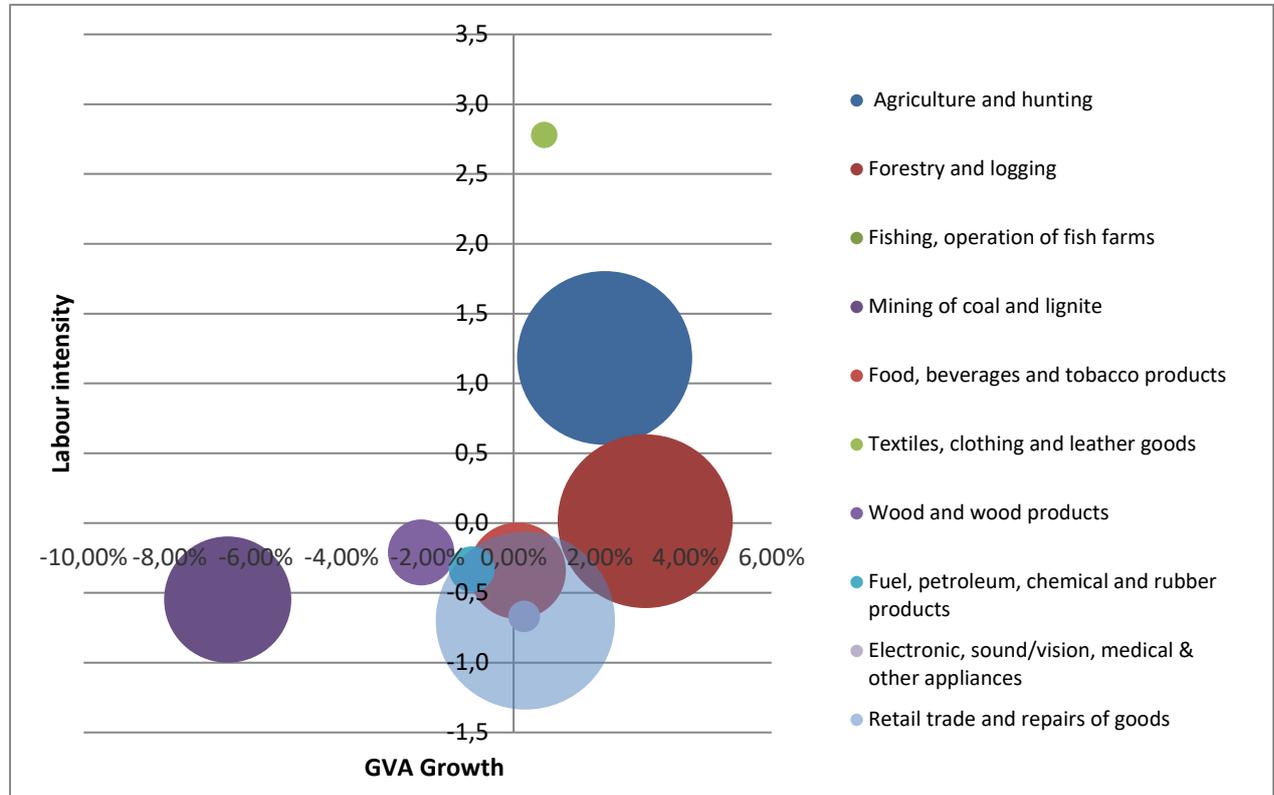
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Figure 4.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 4.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 4.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 4.2 shows the importance of the Primary sector (Forestry; Agriculture and Coal Mining) in the district. While agriculture is a labour intensive industry in the district, Forestry and, to a greater extent, Mining are capital intensive industries. Mining has, on average, retracted quite sharply over the past ten years. The district performs relatively badly at benefiting its raw agricultural commodities, as evidenced by the small size and slow growth rates of the Food and Wood processing sectors.

While based on this analysis it may be tempting to suggest that the Forestry and Logging industry should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, Zululand's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- **Forestry and Timber production** – This industry is underpinned by large Mondi plantations in the Babanango region, and is growing at a stable rate of about 3.5% per annum.
- **Agriculture and Hunting** – Zululand has a healthy livestock and game population. The large concentration of Nguni cattle in the district can also be perceived as an advantage in terms of the sale of cattle and cattle skins. Game farming in the district, in particular, is a growing sector and many farmers have transformed their crop and livestock farms to game farms.

### ***High Potential***

- **Meat and skin processing** - Owing to the large concentration of livestock and game, there is significant potential for developing the meat and hide processing industry in the district. Linking the two large existing abattoirs in Vryheid with livestock and game farmers, and also extending this link to traditional retail markets (like the Mona Market in Nongoma), would provide the district with the opportunity to develop an integrated value chain of meat and hide production.

### ***Unstable or threatened***

- **Coal and Anthracite Mining** – Traditionally the district's main sectoral comparative advantage, the mining industry remains a major economic driver for the district. Currently there is an insatiable global demand for coal, but analysts are unsure how long this will last. The positive impacts of this increase in demand are being seen in Zululand with the opening of new and old mine shafts.

## **Special Economic Zone or Industrial Options**

### ***Primary Option: Meat and hide processing hub in Ulundi/Nongoma***

The DTI have indicated that SEZ's will predominantly target the Manufacturing industry, as such an SEZ utilising the district's comparative advantages in primary agriculture is excluded. The district desperately needs to develop its downstream agricultural beneficiation industry to take advantage of its agricultural comparative advantages. The best opportunity for this would be in the creation of an SEZ or hub focusing on integrating the entire value chain for meat and skin production. This would include abattoirs; tanneries; meat processing; and food and skin manufacturers and distributors.

- The district has large concentrations of livestock and game

- The district is home to the popular Nguni cattle varietal
- The district already has two major abattoirs
- Hide and skin sales can be linked to the cultural tourism industry in the district

***Secondary Option: Coal and anthracite beneficiation hub***

## **Economic Opportunities and Catalytic Projects**

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b><br>• <b>Project</b>            | <b>Description</b>  | <b>Location</b>  | <b>Status</b>   |
|--|---|--|---|
| <b>1. Development of livestock value chain</b>             |   |  |   |
| • All inclusive livestock processing facility              | Possibly an Agro-processing SEZ focused on meat processing and Nguni skin/hide production.                              | Ulundi/Nongoma   | Envisioned  |
| • EMKHWAKHWENI Chicken abattoir                            | Chicken abattoir facility   |  | Envisioned  |
| • Goat Farming Project                                     | N/A   | Ulundi LM  | Planned   |
| <b>2. Further development of agricultural potential</b>    |   |  |   |
| • Expansion of tea production                              | To exploit opportunity of increasing tea production, especially through companies such as Ntingwe Tea Estate in Nkandla | Nkandla  | Planned   |
| • Commercial farming development around Nongoma            | Linked to the development of the Mona Market in Nongoma   | Nongoma  | Planned   |
| <b>3. Development of P700 corridor</b>                     |   |  |   |
| • Sasol integrated energy centre and retail node           | Production and sale of gas and other energy products. Skills training and retail  | Along P700 between Richards Bay and Ulundi                                       | Planned   |
| • Cengeni Gate Development                                 | Development of up-scale accommodation outside of Cengeni Gate on a community owned concession of the game reserve       | Just off the P700, outside of the Cengeni Gate of Hluhluwe-Imfolozi Game Reserve | Planned (but stalled due to community related problems) |
| • Truck Stop Development                                   | N/A   | N/A  | Envisioned  |
| <b>4. Development of the Ulundi and Ulundi Airport</b>     |   |  |   |
| • Upscale the airport to a level 4                         | The airport should be able to offer scheduled flights.  | Ulundi   | Implementation  |
| • Relocation of Virginia Airport training School to Ulundi | Relocation of Virginia Airport training School to Ulundi area and use the Prince Mangosuthu Airport                     | Ulundi   | Envisioned  |
| • Nongoma Town Regeneration                                | Development of town to allow for greater economic activities  | Nongoma  | Implementation  |

|  |   |             |                                      |
|--|---|-------------|--------------------------------------|
| <ul style="list-style-type: none"> <li>Development of a tourism hub adjacent to airport</li> </ul> | The hub will include a hotel; internet cafes; offices and Amphitheatre and is estimated to cost about R40 million | Ulundi      | Implementation                       |
| <b>5. Expansion of eco-tourism product</b>   |   |             |                                      |
| <ul style="list-style-type: none"> <li>Expand Ithala Game Reserve</li> </ul>                       | Expand Ithala Game Reserve  | Louwsburg   | Envisioned                           |
| <ul style="list-style-type: none"> <li>Develop Pongola Dam tourism node based on a PPP</li> </ul>  | Including new accommodation; fishing and boating options  | Pongola Dam | Planned (community-related problems) |

## Umzinyathi District Comparative Advantages

### Brief description of the District

Umzinyathi District Municipality is located in the central interior region of the province and is surrounded by 6 other KwaZulu-Natal districts. Umzinyathi District Municipality has the 2<sup>nd</sup> smallest population in the province and has averaged a population growth rate of 0.6% over the past 7 years. The district has the smallest economy, contributing only 2.1% to provincial GVA and has the 2<sup>nd</sup> poorest population in the province, with a GVA per capita of R11,106 per person per annum.

*Key spatial features of the Umzinyathi District impacting on economic development include:*

- Greytown, one of the district's main economic hubs, is almost perfectly in the centre of the province.
- The District is made up of four Local Municipalities each with distinct development features, viz.
  - Endumeni: The northernmost municipality with strong links to Newcastle. A strong coal mining industry has historically been associated with the towns of Dundee and Glencoe. Cattle and crop farming is currently a key feature of the economic landscape;
  - Nqutu: Located to the east of Endumeni, the town of Nqutu is the main rural centre. The pre-dominant land use in the municipality is traditional settlement.
  - Msinga: Straddling the Thukela River, the Msinga Municipality is generally viewed as one of the municipalities with the highest poverty levels in South Africa. Tugela Ferry is the only significant rural centre serving the population of nearly 200 000 people in the Municipality.
  - Umvoti: The southern-most municipality in the District has a strong agricultural economy with timber being the major product of the region. Greytown is a fully developed agricultural service centre that also serves substantial rural settlement areas.
- From a spatial planning perspective it should be noted that the linkage between Endumeni and Umvoti Municipalities are not strong. This can be attributed to distances between the centres, but also to road conditions and historically security concerns for people travelling through Msinga. The Umvoti-Msinga-Endumeni link does, however, present an alternative and shorter route between the north of Durban and Newcastle.
- The topography and soil conditions in the central parts of the District, including large parts of Msinga and Nqutu, are an impediment to future agricultural development.

### Natural Advantages

**Good tomato and peach growing conditions:** The district is said to be one of the best areas for growing tomatoes and peaches.

## Heritage Advantages

**Possesses the province's most significant battle sites:** The district is home to some of the province's most evocative and popular battle sites. These include battle sites of the Anglo Zulu War (Isandlawana and Rorkes Drift); the Anglo-Boer War (Talana Hill); and battles involving the Boers and the Zulus (Blood River). The location of these famous battle sites within the district gives the district a unique comparative advantage in the province's Battlefields tourism markets.

## Resource Advantages

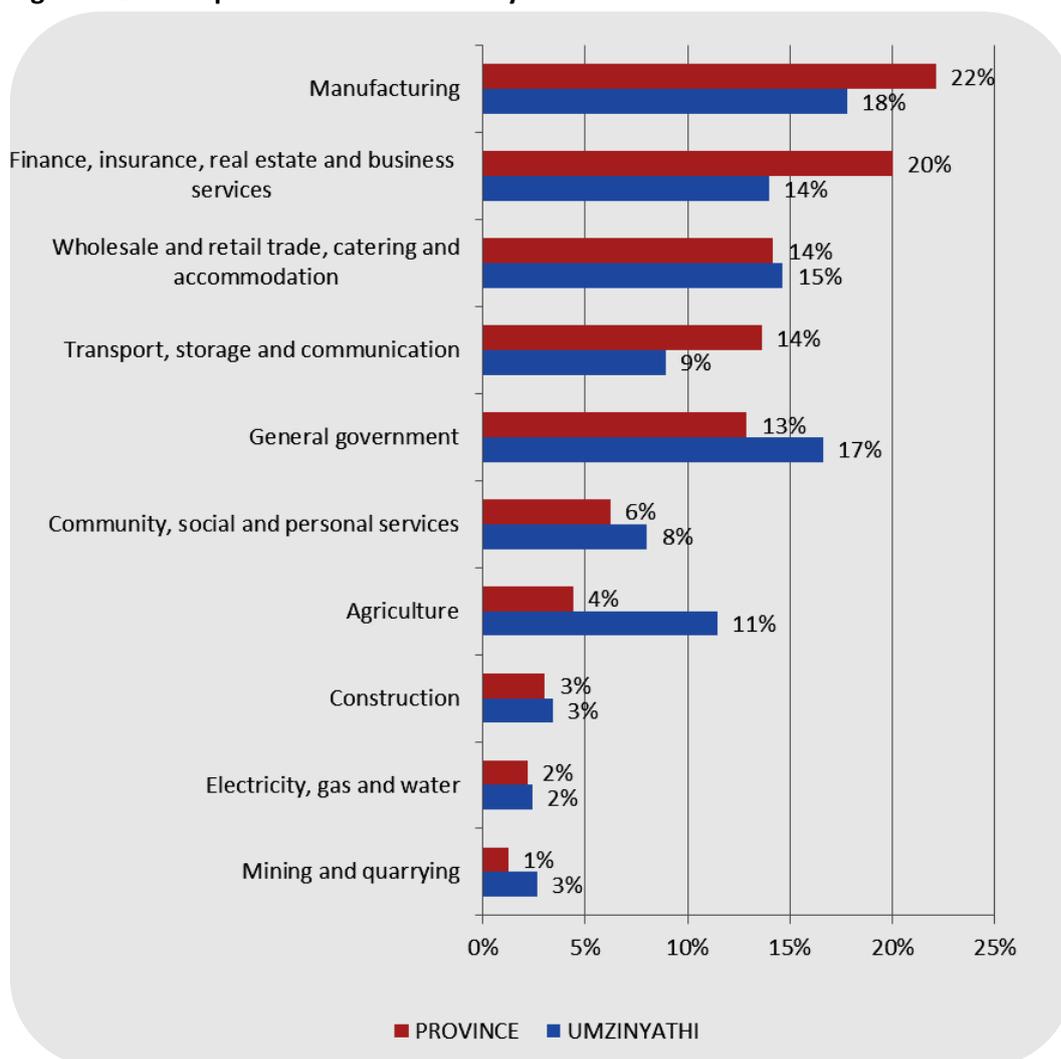
**Mineral deposits (coal):** The district shares the underground coal reserves seam with Amajuba District, and has traditionally been the location for a number of coal mines. The burgeoning international demand for coal, and the changes in technology which allow for the use of sub-grade coal, provide Umzinyathi with the opportunity to revitalise this industry within the district.

## Sectoral Advantages

### *Desktop Study*

Umzinyathi's sectoral economic breakdown shows features typical of a more impoverished district. Namely, the primary and basic service-related tertiary sectors are relatively more important in the district while a relatively undeveloped secondary sector is of lesser importance. In the primary sector agriculture and Mining are both significantly more important to the local economy than they are to the provincial one. In the tertiary sector, General Government and Community Services contribute disproportionately to the local economy, revealing a strong dependence on the public sector.

**Figure 5.1 – Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that Umzinyathi has a comparative advantage in Mining or Agriculture, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 5.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 5.1 – Positive Sectoral Location Quotients**

| Sector                            | Locational Quotient |
|-----------------------------------|---------------------|
| Agriculture and Hunting           | 2.91                |
| Forestry and Logging              | 6.17                |
| Mining of coal and lignite        | 2.50                |
| Other non-metallic products       | 1.10                |
| Real estate activities            | 1.56                |
| Public administration and defence | 2.53                |

|                               |      |
|-------------------------------|------|
| <b>activities</b>             |      |
| <b>Education</b>              | 2.95 |
| <b>Health and social work</b> | 1.60 |

Source: Own calculations based on data from Global Insight

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Umzinyathi has significant comparative advantages in the primary sectors of Agriculture and Hunting; Forestry and Logging and in Mining. Outside of these sectors the only other sector which can be considered as having a significant 'comparative' advantage is the Public Sector (General Government and Community services). For the purpose of this report, unless the public sector is generating positive private sector impacts as it is observed to do in uMgungundlovu, it cannot be regarded as a meaningful comparative advantage. Rather the strength of the public sector in a district, which is not an administrative capital, is more likely to act as a proxy for the level of underdevelopment and dependency on government in that district.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes.

#### *A Company Perspective – Findings of the District Driver Report*

The District Driver's report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district, these are presented in the table below.

| NO | COMPANY                                   | Industry              |
|----|---|-----------------------|
| 1  | Bracken Timbers (Pty) Ltd                 | Timber                |
| 2  | Msinga Security                           | Security services     |
| 3  | Orange Grove Dairy                        | Dairy products        |
| 4  | Pannar Seeds                              | Seed products         |
| 5  | aQuellè                                   | Mineral water         |
| 6  | Churchyard & Umpleby – Glencoe            | Construction services |
| 7  | Charlies Spar Dundee                      | Retail                |
| 8  | Aviemore (Slater) Coalierly - Slater Coal | Anthracite mining     |
| 9  | BB Transport                              | Construction Services |
| 10 | Khonzinkosi Tugela Ferry Spar             | Retail                |
|    | <i>Miranda Minerals</i>                   | <i>Coal Mining</i>    |

There are a paucity of major employers in the district. The majority of companies employing large numbers of people are based in the Agricultural; Mining or Construction sectors. Agricultural companies perhaps make the most important contribution to employment in the district with Bracken Timbers being one of the largest employers in the district. Firms such as Orange Grove, Pannar Seeds and aQuelle located in Umzinyathi are viewed as key role players in their respective sectors. Bracken Timbers, Pannar Seeds and Churchyard and Umpleby are all exporters and thus have a scale of influence which extends beyond Umzinyathi district. From interviews with the mines in the area it is evident that there is an anticipated revival of the industry, but the extent and impact thereof is not clear at this stage. Such is the low level of employment capacity by companies in predominantly rural districts like Umzinyathi that retail outlets also feature quite strongly as the district's biggest employers.

While the larger companies in the district can be found in Agriculture and Mining, newer and smaller companies can be found in certain tourism niche sectors and in wholesale and retail trade. At this stage, however, the impact of these smaller companies remains limited.

### *Findings of interview with Umzinyathi DM*

The Umzinyathi District Municipality confirmed the findings of the previous analyses by identifying Agriculture; Forestry and Mining as sectoral comparative advantages. In terms of Agriculture, the district highlighted the importance of cattle farming; maize milling and soya bean farming. Related to Agriculture, the district also has a large Abattoir in Glencoe and a number of small scale tanneries. Coal mining was noted as experiencing positive growth and four new mines were due to open in the near future. The district did, however, point out that the coal grade in the area had previously be considered too poor, but that new technologies had lessened the need for pure grade coal.

The District Municipality also identified Heritage tourism as a comparative advantage niche sector for the district.

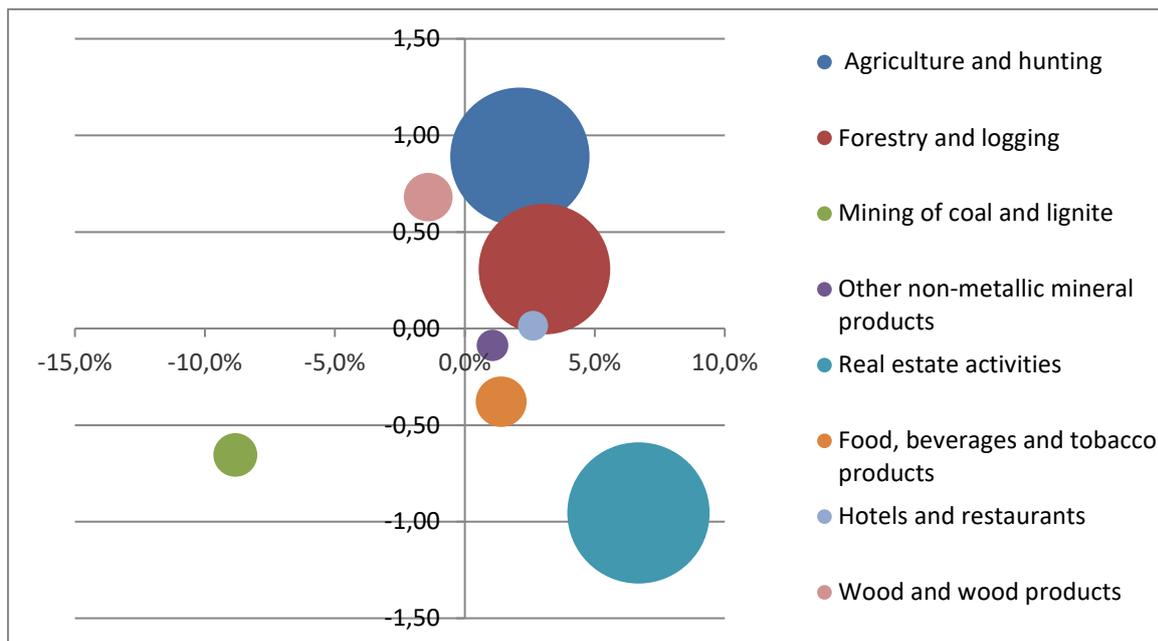
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 5.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 5.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 5.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 5.2 shows the importance of the Primary sector (especially Forestry and Agriculture) in the district. Both Forestry and Agriculture are labour intensive industries in the district. Mining, which is a capital intensive industry, has, on average, retracted quite sharply over the past ten years, and on the whole is not as big a sector as it is in other northern KwaZulu-Natal economies. The district performs relatively badly at benefiting its raw agricultural commodities, as evidenced by the small size and disappointing growth rates of the Food and Wood processing sectors. Real estate activities, perform remarkably well in the district and is a fast growing sector. This probably reflects the growing demand for property in areas with constrained supply like Greytown and Dundee. The small size of the Hospitality industry is a missed opportunity in a district which has the province’s foremost historical attractions.

While based on this analysis it may be tempting to suggest that the Forestry and Logging or Agriculture should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, Umzinyathi's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- **Forestry and Timber production** – The Forestry and Logging industry in the district has experience stable growth in the past ten years.
- **Agriculture and Hunting** – Umzinyathi contains some of the most productive maize yielding areas in the province. Livestock farming, while perhaps not on as large scale as Zululand, is also an important agricultural activity in the district. There are also opportunities to link the produce of perishable agricultural goods with the export facility at Dube Trade Port.

### ***Unstable or threatened comparative advantage***

- **Coal and Anthracite Mining** – There is currently an insatiable global demand for coal, but analysts are unsure how long this will last. This has seen an increase in prospecting within the district and the planned opening of 4 new mines. The district has to compete with traditionally stronger mining areas such as Zululand and Amajuba, and while the demand for coal remains high now, the long-term future of this industry, particularly with the move to greener energy, is uncertain.

### ***High Growth Potential***

- **Battlefields Tourism** – The Tourism and Hospitality sector is not represented well within the district, especially when one considers the comparative advantage the district has when it comes to historical sites. While the district's historical sites are connected and marketed on the Battlefields Route, there are latent opportunities to enhance the district's benefits from these attractions. This should include the development of more accommodation options and supporting facilities such as restaurants and craft centres.
- **Food and Beverages: Livestock Processing** – The Dundee area is probably the best known hide and skin producing area in the country. This has been established through the location of both an abattoir and tanneries in the Dundee area. Further plans to build a major meat processing plant, could give the district a comparative advantage in the meat and skins industry.

## **Special Economic Zone or Industrial Hub Options**

### ***Primary Option: Meat and hide processing SEZ***

The DTI have indicated that SEZ's will predominantly target the Manufacturing industry, as such an SEZ utilising the district's comparative advantages in primary agriculture and heritage tourism is

excluded. The district desperately needs to develop its downstream agricultural beneficiation industry to take advantage of its agricultural comparative advantages. The best opportunity for this would be in the creation of an SEZ or hub focusing on integrating the entire value chain for meat and skin production. This would include abattoirs; tanneries; meat processing; and food and skin manufacturers and distributors.

- The district has abundant livestock
- The district has a number of tanneries in the Dundee area
- The Dundee area is known to be the major source of hides and skins in the country
- The district has an Abattoir in Glencoe
- The district has plans to develop a major meat processing plant

***Secondary Option: Coal and anthracite beneficiation hub***

### **Economic Opportunities and Catalytic Projects**

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b><i>Economic Opportunity</i></b>  | <b>Description</b>   | <b>Location</b>         | <b>Status</b>                           |
|---|--|-------------------------|---|
| <ul style="list-style-type: none"> <li>• <b><u>Project</u></b></li> </ul>                         |  |                         |   |
| <b>1. Mining Opportunities</b>  |  |                         |   |
| <ul style="list-style-type: none"> <li>• New coal mines</li> </ul>                                | 4 new coal mines are set to open in the district   | Throughout the district | Planned                                 |
| <ul style="list-style-type: none"> <li>• New mineral extraction opportunities</li> </ul>          | Ascertaining the potential for other mining opportunities perhaps linked to gold.  | Msinga area             | Exploratory                             |
| <ul style="list-style-type: none"> <li>• Establishment of coal mining zone</li> </ul>             | Establishment of SEZ-type zone along the coal deposit seam between Umzinyathi and Amajuba  | Umzinyathi and Amajuba  | Envisioned                              |
| <b>2. Agro-processing</b>   |  |                         |   |
| <ul style="list-style-type: none"> <li>• Meat processing plant, possibly SEZ</li> </ul>           | A major meat processing plant is planned for the Dundee area. A meat processing SEZ would incorporate the whole value chain including the existing tanneries around Dundee | Around Dundee           | Planned (Business Plan being developed) |
| <ul style="list-style-type: none"> <li>• Development of pack houses</li> </ul>                    | Development of pack houses to package fresh produce from surrounding areas and link to Dube Trade Port   | Greytown and Msinga     | Exploratory                             |
| <b>3. Property development</b>  |  |                         |   |
| <ul style="list-style-type: none"> <li>• Development of old age homes and care centres</li> </ul> | There is an increasing market for residential nodes which cater for retirement complexes   | Greytown/ Dundee        | Exploratory                             |
| <ul style="list-style-type: none"> <li>• Attract business developments</li> </ul>                 | Take advantage of available space to promote business property opportunities   | Dundee                  | Envisioned                              |
| <ul style="list-style-type: none"> <li>• Expand formal residential property</li> </ul>            | N/A  | Greytown; Dundee        | Envisioned                              |
| <ul style="list-style-type: none"> <li>• Greytown Mall and entertainment cluster</li> </ul>       | To capture current retail spending leakages to Newcastle. To develop viable nightlife options for residents and visitors alike.  | Greytown (and Dundee)   | Exploratory                             |

|   |  |                         |                     |
|---|--|-------------------------|---------------------|
|   |  |                         |                     |
| <b>4. Ensure water capacity for further development</b> |  |                         |                     |
| • Greytown Bulk water scheme from Craigieburn dam       | N/A  | N/A                     | Planned             |
| • Purification of water from the Tugela                 | N/A  | N/A                     | Planned             |
| • Dundee Bulk water Plan                                | N/A  | N/a                     | Planned             |
| <b>5. New agricultural opportunities</b>                |  |                         |                     |
| • Expansion of tomato and peach production              | N/A  | N/A                     | Exploratory         |
| • Tulapia fishing project                               | Utilise aquaponic fishery techniques.  | N/A                     | Planned             |
| • Goat Farming Project                                  | N/A  | Msinga LM               | Planned             |
| <b>6. Energy generation</b>                             |  |                         |                     |
| • Gasification power generation project                 | The production of electricity from gas   | N/A                     | Exploratory         |
| • Extraction of bio-fuel from soya                      |  |                         | Exploratory         |
| <b>7. Improvement of Transport Infrastructure</b>       |  |                         |                     |
| • Improve roads   | The R33 between Keats Drift and Pomeroy needs to be upgraded. The P700 corridor should be extended to Dundee | Throughout the district | Envisioned          |
| • Revival of the Glencoe Siding                         | This would be utilised for the dumping and distribution of coal  | Glencoe                 | Exploratory         |
| <b>8. Diversification of tourism product</b>            |  |                         |                     |
| • Mangeni waterfall project                             | Development of accommodation at the scenic Mangeni waterfall   | Nquthu                  | Exploratory         |
| • Lilani Hot Springs upgrade                            | Significant upgrade of the existing Hot Springs at Lilani  | Lilani, Umvoti          | Exploratory/Planned |

## Umkhanyakude District Comparative Advantages

### Brief description of the District

Umkhanyakude District Municipality is located in the far north eastern corner of the province. The district is bordered by the Indian Ocean to the east and Mozambique and Swaziland to the north, as well as two KZN districts to the south and west. Umkhanyakude District Municipality has the 7<sup>th</sup> largest population in the province and has averaged a population growth rate of 1.0% over the past 7 years. The district's economy is small, contributing only 2.4% to provincial GVA. According to the GVA per Capita measure of wealth, the district's population is the poorest in the province.

*Key spatial features of the Umkhanyakude District impacting on economic development include:*

- The district shares international borders with two countries: Mozambique in the north and Swaziland along its north-western boundary.
- The Lubombo SDI corridor (MR439) was upgraded in the late 1990s to a tar road – extending from Hluhluwe through to Mbazwana to join the only other tar road in the region at Pelindaba, before heading north east through KwaNgwanase (Manguzi) to the Mozambique border at Farazel. This corridor has opened up an area which was previously only accessible on un-surfaced dirt roads.
- The dominant land tenure of the district is communal tenure under Ingonyama Trust lands. The only privately owned commercial farms lie in a narrow strip along the N2 from Mtubatuba to Mkuze.
- The district covers 12 848 km<sup>2</sup> of which over 21% is under proclaimed conservation area – mostly under the auspices of Isimangaliso Wetlands Park, a World Heritage Site, with smaller reserves falling under the jurisdiction of Ezemvelo KZN Wildlife.
- The physical characteristics of the district play a major role in the location of economic activity. These characteristics include:
  - The vast coastal plain which is part of the Mozambique coastal plain, comprising largely sandy soils – part of which is known as the Makhathini Flats.
  - The unique hydrology of the area with large coastal lake systems (St Lucia, Sibaya, Kosi), wetland systems (Muzi swamps, Mkuze riverine wetland swamp system, Pongola River floodplain pans and wetlands system as well as the wetland/riverine system feeding the Kosi Lakes).
  - The Pongola River which has been dammed at Jozini to form the vast Pongolapoort / Jozini dam which feeds a system of canals which form the Makhathini Irrigation Scheme
  - The ridge of mountains, the Lebombo's, in the west of the district that rise relatively quickly from the coastal plain. In the north-west the Lebombo's form the border with Swaziland, and in the central part of the district, they dissect the district east of the N2.
  - Because of the soils and topography of the district, there is a reliance on the riverine and wetland systems for water and agricultural production, with the exception of the Makhathini irrigation scheme. The Lebombo's also create a rain shadow area along the commercial farming corridor along the N2.

- The historical development of the area lagged behind much of the rest of the Province with the only formal towns being Mtubatuba, Hluhluwe and Mkuze. In the last 10-15 years, this situation has changed with the improvement in roads, with centres such as Jozini, Mbazwana and KwaNgwanase growing fast, particularly in terms of commercial development
- The location of the district and its history has contributed to the relative lack of industrial development of any kind, and of large scale commercial development.
- There is also a greater reliance on the natural resources of the district for the majority of people due to employment opportunities being very limited in the district.

### Locational Advantages

**Gateway to the Southern Mozambique coastline:** Umkhanyakude is the only district in KwaZulu-Natal to directly border Mozambique. This said, however, it is not the primary gateway into Mozambique from the province (this title belongs to Zululand through the Golela Border Post with Swaziland). Rather Umkhanyakude, can only currently be considered as being the gateway to the resort towns of Southern Mozambique, this is because of the poor nature of the road on the Mozambican side of the Kosi Bay Border Post. Nonetheless the district and the small towns therein, act as retail and service centres for this southern region of Mozambique. Furthermore, large planned projects in Mozambique may see an increase in development in the southern region of that country and, as a consequence, the development of better road access between Maputo and the South African border. This would place Umkhanyakude in a unique position to tap into the Mozambican market.

### Natural Advantages

**Isimangaliso World heritage site:** The Isimangaliso World Heritage Site is really a combination of a number of tourism, natural advantages for the district. These include:

- Pristine beaches
- Southern Africa's largest estuarine system
- An astonishing diversity of habitats (ranging from coastal; sand; fig and mangrove forests to bushveld and pans)
- One of the largest populations of hippos and crocodiles in Southern Africa
- One of the world's top ten dive sites at Sodwana Bay
- Excellent snorkelling at Cape Vidal and Kosi Bay

The fact that the areas has been declared a World heritage site makes it an internationally marketable attraction and yields Umkhanyakude District with a unique comparative advantage in eco-tourism.

**Highly fertile land in the Makhathini Flats:** The Makhathini Flats region is commonly regarded as having enormous agricultural potential, especially in terms of its produce yield. The lack of commercial agricultural development means that there is still opportunity to develop large scale commercial farming operations in the area.

## Infrastructural Advantages

**Downstream of the biggest dam in the province:** The district's prime agricultural land in the Makhathini Flats lies downstream from Jozini Dam. Portions of this land are already under irrigation schemes, but there is potential for an extension of this scheme to incorporate new farms. The district's close proximity to the dam also provides opportunities in the form of fishing tourism and potential hydroelectricity developments.

**The N2:** The N2 links the major towns of Mtubatuba and Mkhuze and acts as an access corridor for the entire district. The majority of the district's main tourist attractions are located short distances from this corridor which makes it the preferred way to access these attractions from Gauteng and Mpumalanga. This gives the district an access advantage over other tourist areas in the province.

**Rail Link to Swaziland:** Running through the district is a rail link running parallel to the N2 which comes from Durban, through the region to Swaziland.

## Heritage Advantages

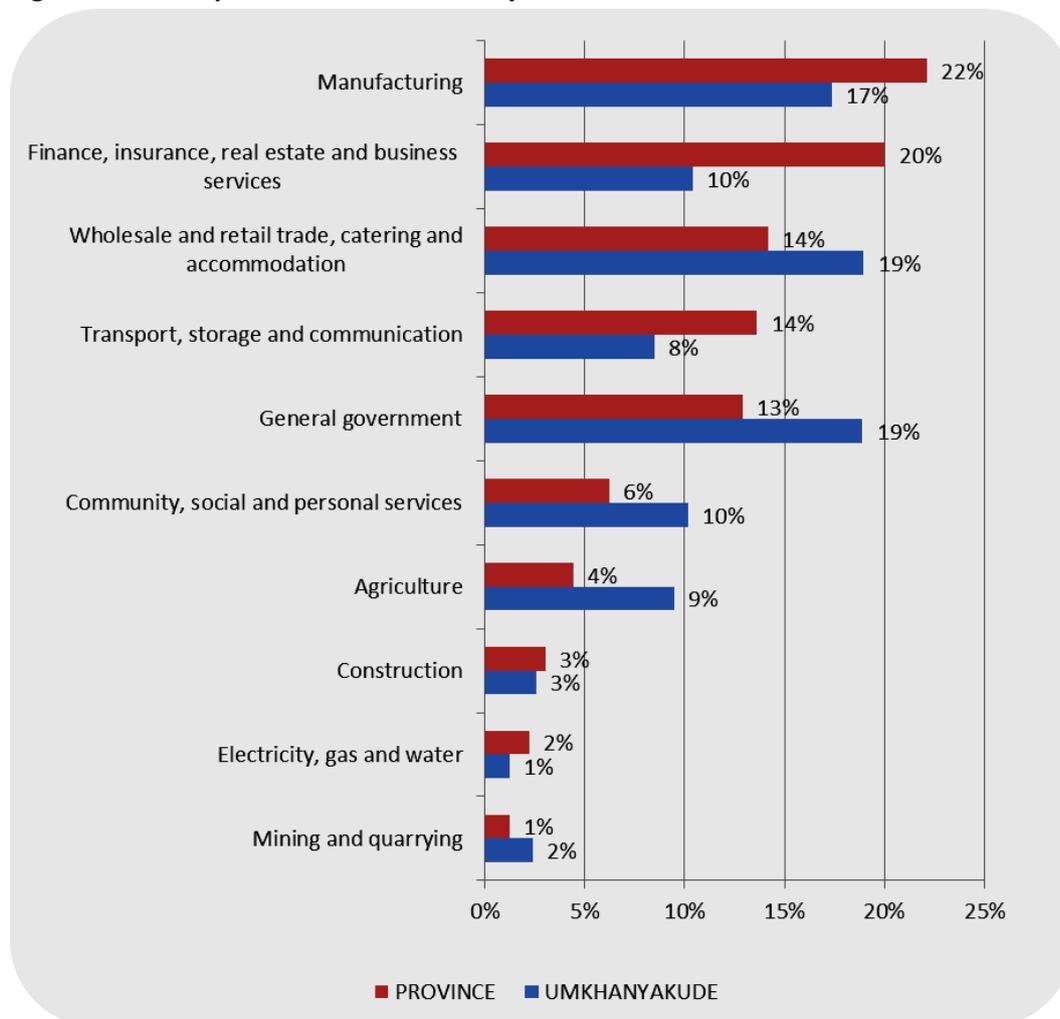
**Border Cave Archaeological site:** The border cave contains the oldest known remains of Homo sapiens in the World and is a major Archaeological site. This provides the district with one of the province's most unique historical tourist attractions.

## Sectoral Advantages

### Desktop Study

Umkhanyakude's sectoral economic breakdown shows features typical of an impoverished, rural district. Namely, the primary and basic service-related tertiary sectors are relatively more important in the district while a relatively undeveloped secondary sector is of lesser importance. In the primary sector, Agriculture is significantly more important to the local economy than it is to the provincial one. In the tertiary sector, General Government and Community Services contribute disproportionately to the local economy, revealing a strong dependence on the public sector. Also in the tertiary sector, the relative unimportance of finance and business services is an indicator of the fact that there are no large, highly developed towns in the district, wherein these services are most commonly found. It may also be an indicator of the lack of tertiary education which would enable the district's residents to participate in this high-skilled sector.

**Figure 6.1 – Comparison of GVA shares by main economic sector**



Source: *District Drivers Profile (2012)*

It is too simplistic to say that Umkhanyakude has a comparative advantage in Agriculture or Trade, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it

is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 6.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 6.1 – Positive Sectoral Location Quotients**

| <b>Sector</b>   | <b>Locational Quotient</b> |
|---|----------------------------|
| <b>Agriculture and Hunting</b>                            | 4.41                       |
| <b>Forestry and Logging</b>                               | 7.84                       |
| <b>Mining of coal and lignite</b>                         | 1.21                       |
| <b>Mining of gold and uranium ore</b>                     | 64.94                      |
| <b>Collection, purification and distribution of water</b> | 1.09                       |
| <b>Hotels and Restaurants</b>                             | 1.00                       |
| <b>Public administration and defence activities</b>       | 1.77                       |
| <b>Education</b>  | 2.63                       |
| <b>Health and social work</b>                             | 1.62                       |
| <b>Other service industries</b>                           | 2.09                       |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Umkhanyakude has significant comparative advantages in the primary sectors of Agriculture and Hunting; and Forestry and Logging. While it may seem that the mining of gold and uranium ore is a major comparative advantage of the district, this must be seen in the light of the very small size of this industry in the province, as well as in Umkhanyakude itself. This form of mining constitutes only 0.007% of the province’s GVA, and 0.44% of the district’s GVA. As such it cannot seriously be considered a major sectoral comparative advantage for the district. The importance of tourism as a comparative advantage in the district is likely to be underestimated by the location quotient as it looks principally at the formal hospitality industry, whereas camping and informal accommodation are major accommodation modes for tourists to the district. The lack of restaurants in the district is also likely to pull this figure down substantially.

Outside of these sectors the only other sector which can be considered as having a significant ‘comparative’ advantage is the public sector (general government and community services). For the purpose of this report, unless the public sector is generating significant positive private sector impacts as it is observed to do in Umkhanyakude, it cannot be regarded as a meaningful comparative advantage. Rather the strength of the public sector in a district, which is not an administrative capital, is more likely to act as a proxy for the level of underdevelopment and dependency on government in that district.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY                            | Industry                        |
|----|------------------------------------|---------------------------------|
| 1  | Senekal Boerdery                   | Agricultural Commodities        |
| 2  | Zululand Rhino Reserve             | Tourism and Hospitality         |
| 3  | Umfolozi Sugar Mill                | Sugar processing                |
| 4  | Umfolozi Sugar Planters Ltd        | Sugar cane farming              |
| 5  | Spar Kwangwanase                   | Retail                          |
| 6  | Jozini Tiger Lodge                 | Tourism and Hospitality         |
| 7  | Jock Morrison & Sons               | Retail                          |
| 8  | Mkuze Game Reserve                 | Tourism and Hospitality         |
| 9  | Ghost Mountain Inn                 | Tourism and Hospitality         |
| 10 | Mjindi Farms                       | Farming services                |
|    | <i>Phinda Private Game Reserve</i> | <i>Tourism and Hospitality</i>  |
|    | <i>Isimangaliso Wetland Park</i>   | <i>Conservation and Tourism</i> |

The major employers found by the District Drivers company survey, were located entirely in the Agricultural; Tourism and Retail sectors. Sugar cane production dominates formal Agricultural activity in the area. Retail companies are largely concentrated in service towns such as Hluhluwe; Mkuze and Mbazwana. Tourism companies, however, are spread throughout the district and primarily focus on large scale Game Viewing experiences but also include Fishing and Beach Tourism. In places such as St Lucia, tourism is the lifeblood of the retail industry. Conservation, both in terms of tourism and environmental management is also a major employer in the district with Ezemvelo KZN Wildlife being one of the biggest employers in the region.

The majority of job growth in the district is driven by the Retail and Services and Tourism industries. The expansion of Government and Social Services in the district is also a major source of new employment.

### *Findings of interview with Umhlosinga Development Agency*

The Umhlosinga Development Agency has been mandated by the District Municipality to undertake development planning for the district. The Agency pointed out the potential of the retail industry in the district as a possible export industry, on account of its proximity to Mozambique. Already, large numbers of Mozambicans do their shopping at Jozini or Mbazwana. With possible population growth in Southern Mozambique, and the lower prices of South African goods, the Agency felt that

the district has a comparative advantage in Retail and Services as an export industry. The Agency also felt, that major planned developments in Southern Mozambique could enhance the role of the R22 as a logistics corridor.

Tourism was identified as the district's primary economic driver and comparative advantage sector. It was noted that the district has 7 game reserves and a world heritage site. This said, however, the Agency felt that the tourism product of the district was poorly organised and coordinated, and needed better planning. The isolation of certain attractions has meant that the district has not always benefitted from the economies of scale it should benefit from considering its' vast tourism assets.

The Agency also pointed out that the untransformed nature of much of the district's land and the low levels of urban development provide the district with unique opportunities for the development of the Green economy, and in particular, renewable energy initiatives.

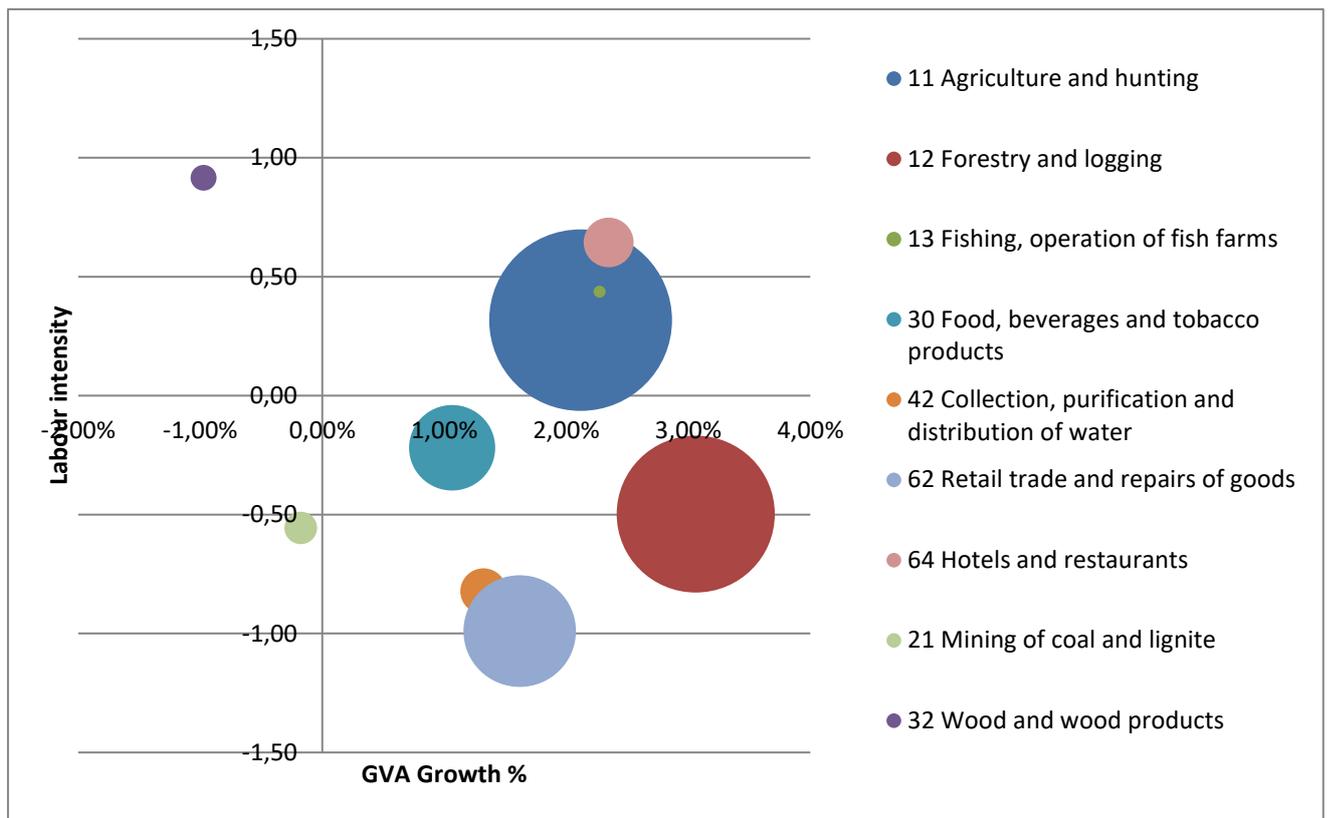
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 6.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 6.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 6.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 6.2 shows the importance of the Primary sector (Forestry and Agriculture) in the district. While Agriculture is a labour intensive industry in the district, Forestry is a relatively capital intensive industry. Tourism, as represented by the hospitality industry, is growing slowly but steadily and is the most labour intensive sector in the district. While the Retail Trade sector in the district is growing, it has, on average, not been a very labour intensive industry for the district. The district performs relatively badly at benefiting its' raw agricultural commodities, as evidenced by the small size and slow growth rates of the Food and Wood processing sectors.

While based on this analysis it may be tempting to suggest that the Agriculture and Forestry and Logging sectors should be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the Figure above, together with the previous analysis, Umkhanyakude's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- **Tourism:** Although relatively small, the tourism industry in the region is stable and, is in fact, expected to grow due to new marketing initiatives like the E3 Route, combining attractions in Swaziland; Mozambique and KwaZulu-Natal, as well as the R22 Lubombo Route. The nature of the district's comparative advantage in this sector, namely, the Isimangaliso World Heritage Site, is such that it is unlikely to lose this comparative advantage in the foreseeable future.

### ***Unstable or threatened comparative advantage***

- **Coal and Anthracite Mining** – In comparison to some of the other districts, coal mining is a relatively small industry in the district. The main reason for it receiving a positive location quotient is because eThekweni (where very little mining takes place) is biasing the provincial share of mining downward. Umkhanyakude District cannot currently compete with other districts in terms of mining potential. Mining growth in the district is also highly constrained by the protected status of large portions of the district.
- **Forestry and Logging** – Forestry plantations in the district have generally be concentrated around the Mtubatuba and St Lucia Area. The growing international recognition of the St Lucia estuarine system, and the desire to return the area to its original environmental status is a threat to the Forestry industry in the region. Already significant swathes of forestry plantations have been removed from the St Lucia surrounds. As the pressure on the estuary's water levels increases, so too will the calls for the removal of water thirsty plantations.

### ***High growth potential***

- **Agriculture and Hunting** – The district has a distinct comparative advantage in the growing of pineapples. Indeed, the Hluhluwe region is one of the country's largest regions for the growing of pineapples. The presence of Jozini Dam also provides the district with an advantage in terms of irrigation schemes. The Makhathini Flats is an area with largely undeveloped but significant agricultural potential.

## **Emerging**

- **Wholesale and Retail Trade as an export industry** – This sector is of growing importance for the district, and services a region beyond the country's borders. To the extent that this sector services an area beyond its borders, it is a major current and potential economic driver for the district.

## **Special Economic Zone or Industrial Hub Options**

The overwhelming sectoral comparative advantage of Umkhanyakude District is eco-tourism, however, the DTI have indicated that SEZ's will predominantly target the Manufacturing industry. This rules out tourism; retail and agriculture.

### ***Primary Option: Green Energy hub***

The district's natural comparative advantages have been traditionally applied to attracting tourists. There is an opportunity, however, for the district to leverage its ecological significance in the province, to promote the development of 'green' energy generation. The Umhlozinga Development Agency revealed that 4 sites have been identified for Wind Power developments. Additionally there has been talk for a long time of Hydro Power station at Jozini Dam. A green energy SEZ in the district would include power plants and distribution hubs.

- The district has the largest dam in the province
- The district is the greatest contributor to the province's eco-value, and its image is one that is synonymous with conservation and the environment
- The district is largely undeveloped and there are constraints to 'dirty' developments
- The district has an abundance of nature energy sources: water; sun and wind.

### ***Secondary Option: Agricultural Mechanisation Hub in Mkhuze***

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <i>Economic Opportunity</i>   | <b>Description</b>  | <b>Location</b>                                       | <b>Status</b>  |
|---|---|---|----------------|
| <ul style="list-style-type: none"> <li><b>Project</b></li> </ul>                            |   |   |                |
| <b>1. Expansion of international eco-based tourism</b>                                      |   |   |                |
| <ul style="list-style-type: none"> <li>Development of Route 22</li> </ul>                   | The development of a tourism route linking most of the Elephant Coast eco-attractions and forming a corridor with the attractions in Swaziland and Mozambique     | Hlabisa; Big Five False Bay; Umhlabuyalingana         | Implementation |
| <ul style="list-style-type: none"> <li>Development and upgrade of Mkhuze Airport</li> </ul> | An upgrade of the airport to attract an airline company to run scheduled flights; to act as a recreational airport and to be a training centre and flight school. | Mkhuze  | Planned        |
| <ul style="list-style-type: none"> <li>Game Ranching</li> </ul>                             | Develop areas for game ranching and community tourism   | Area west of Ndumo Reserve and the Mbangweni Corridor | Envisioned     |
| <ul style="list-style-type: none"> <li>Craft Hubs</li> </ul>                                | Development of five franchised and branded crafts hubs in the district  | Pelindaba; False Bay; Memorial Gate Mtubatuba; Jozini | Planned        |
| <ul style="list-style-type: none"> <li>Isimangaliso Infrastructure</li> </ul>               | Support for greater infrastructure development in and around the Park   | Isimangaliso Wetland Park                             | Planned        |
| <b>2. Town Development: Mkhuze</b>  |   |   |                |
| <ul style="list-style-type: none"> <li>Development of Mkhuze Town</li> </ul>                | This includes construction of middle class housing, retail and light industry development   | Mkhuze  | Planned        |
| <ul style="list-style-type: none"> <li>Jozini Value Adding Centre</li> </ul>                | N/A   | Jozini  | Exploratory    |
| <b>3. Energy provision</b>  |   |   |                |
| <ul style="list-style-type: none"> <li>Wind Energy</li> </ul>                               | Development of wind farms, 4 sites identified.  | Unknown   | Exploratory    |
| <ul style="list-style-type: none"> <li>Biofuel Production</li> </ul>                        | Biofuel extraction and processing plant.  | South of the Makhathini Flats Scheme                  | Envisioned     |
| <ul style="list-style-type: none"> <li>Jozini Hydro-power station</li> </ul>                | Development of a hydro-electricity power station at Jozini Dam  | Jozini Dam  | Envisioned     |

| <b>4. Enhance agricultural production</b> |  |                     |             |
|---|--|---------------------|-------------|
| • Makhathini Flats                        | Realise the potential of the Makhathini Flats through extension of the irrigation scheme and support for new farmers               | Makhathini Flats    | Exploratory |
| • Mbazwana Mushroom Project               | The project involves production, marketing & distribution, and skills & technology transfer for the production of oyster mushrooms | Mbazwana            | Planned     |
| • Goat farming project                    | N/A  | Umhlabuyalingana LM | Planned     |
| • Tembe Honey Pilot Project               | N/A  | Umhlabuyalingana LM | Planned     |
| <b>5. Mining expansion</b>                |  |                     |             |
| • Somkhele Expansion                      | The existing Somkhele mine is exploring other areas for possible operations  | Somkhele            | Exploratory |
| • Agricultural Development Agency         | To set up commercial farming outside of the current irrigation scheme  | Makhathini Flats    | Planned     |

## iLembe District Comparative Advantages

### Brief description of the District

iLembe District Municipality is located halfway up the eastern coastline of the province and is bordered by four KwaZulu-Natal districts. The District Municipality has the 8<sup>th</sup> largest population in the province, contributing just over 5% of the total population of KwaZulu-Natal. The district has experienced a negative population growth rate of -0.1% in the last 7 years. This may be as a result of out-migration to the eThekweni Metro. The iLembe economy is the 7<sup>th</sup> largest economy in the province and only contributes 3.8% of the province's GDP. However, in terms of GVA per capita as a measure of the prosperity of the population, the district fares better, ranking 5<sup>th</sup> in the province.

*Key spatial features of the iLembe District impacting on economic development include:*

- A 2009 assessment of post-1994 urban growth confirmed that comparatively KwaDukuza Municipality experienced the most significant urban growth in KwaZulu-Natal during the period, this growth was focussed around the towns of KwaDukuza (Stanger) and Ballito.
- iLembe is located on the eThekweni-Umhlathuze Corridor, a corridor which is viewed, in terms of the 2006 PSEDS, as a priority development corridor in KwaZulu-Natal. The N2 route, the major transport linkage on the east coast, stretches through iLembe, from north to south and forms the backbone of this Corridor.
- Transport routes linking the neighbouring uMswathi and Umvoti Municipality to the coast stretches through the area from west to east. The surfacing of the P100 in the early 2000s also provided Ndwedwe with an all-weather access route linking back to Verulam in eThekweni.
- The District includes four municipalities KwaDukuza (urbanised population and commercial agriculture), Mandeni (substantial urban areas, but with traditional settlement areas and agriculture), Maphumulo (substantially traditional settlement), and Ndwedwe (substantially traditional settlement with some commercial farming).
- Major formal commercial centres in the District includes KwaDukuza, Ballito and Mandeni / Sundumbili, with industrial activity in the District historically concentrated in Stanger and Isithebe in Mandeni as well as at the various sugar and paper mills.
- The rural nodes of the Ndwedwe and Maphumulo Municipalities are underdeveloped. Both the Ndwedwe and Maphumulo Villages have received regeneration planning attention in the past, but experienced limited implementation to date.
- Agriculture in the area is dominated by sugar cane production in the coastal strip and small cane farming activities in inland areas. In recent years the vegetable production capacity of the area has grown and tunnel farming has been promoted.

### Locational Advantages

***Located in the fast-growing region north of eThekweni:*** The northern region of eThekweni, especially the Umhlanga area, has experienced dramatic urban growth and development in the past decade. Increasingly North of Durban, stretching all the way up to Ballito, has become perceived as

the desired place to live. This push of upmarket, residential development northward emanates from increasingly constrained land availability in the rest of the Metro area in the face of high population growth, and has been further spurred on by the relocation of the international airport to the north of Durban (this point is discussed below). iLembe is currently benefitting from this spill-over of development, and is likely to continue to do so.

***Proximity to King Shaka International Airport and Dube Trade Port:*** The relocation of the international airport to La Mercy, virtually on the border with iLembe, and only 20km from Ballito, has played no small role in stimulating residential and business development in the district, and should be considered a major comparative advantage of the district. Property developments in the Ballito area have taken advantage of this proximity by targeting wealthy corporates who want to live outside of the city but travel frequently. The Dube Trade Port also poses significant opportunities for the district in terms of the production of fresh produce for export.

***Primary Corridor linking the two Ports of Durban and Richards Bay:*** iLembe is located on the eThekweni-Mhlatuze Corridor, a corridor which is viewed, in terms of the 2006 PSEDS, as a priority development corridor in KwaZulu-Natal.

### Natural/geographic Advantages

***Land availability:*** iLembe has the right mix of available, flat land, and development demand, and will probably continue to be one of the fastest growing areas in the province.

***Relatively undeveloped but attractive coastline:*** While the coastline of iLembe is not undeveloped, it offers significantly more development opportunities than the South Coast or eThekweni which would be considered to be over-developed. On the other end of the scale, uThungulu's coastline (because of mining) is not really suitable for coastal development, and Umkhanyakude's coastline is entirely in a protected area. This, then, provides iLembe with a comparative advantage in attracting a major coastal resort development – described as a major strategy for the province in the Tourism Master Plan and PGDS.

### Infrastructural Advantages

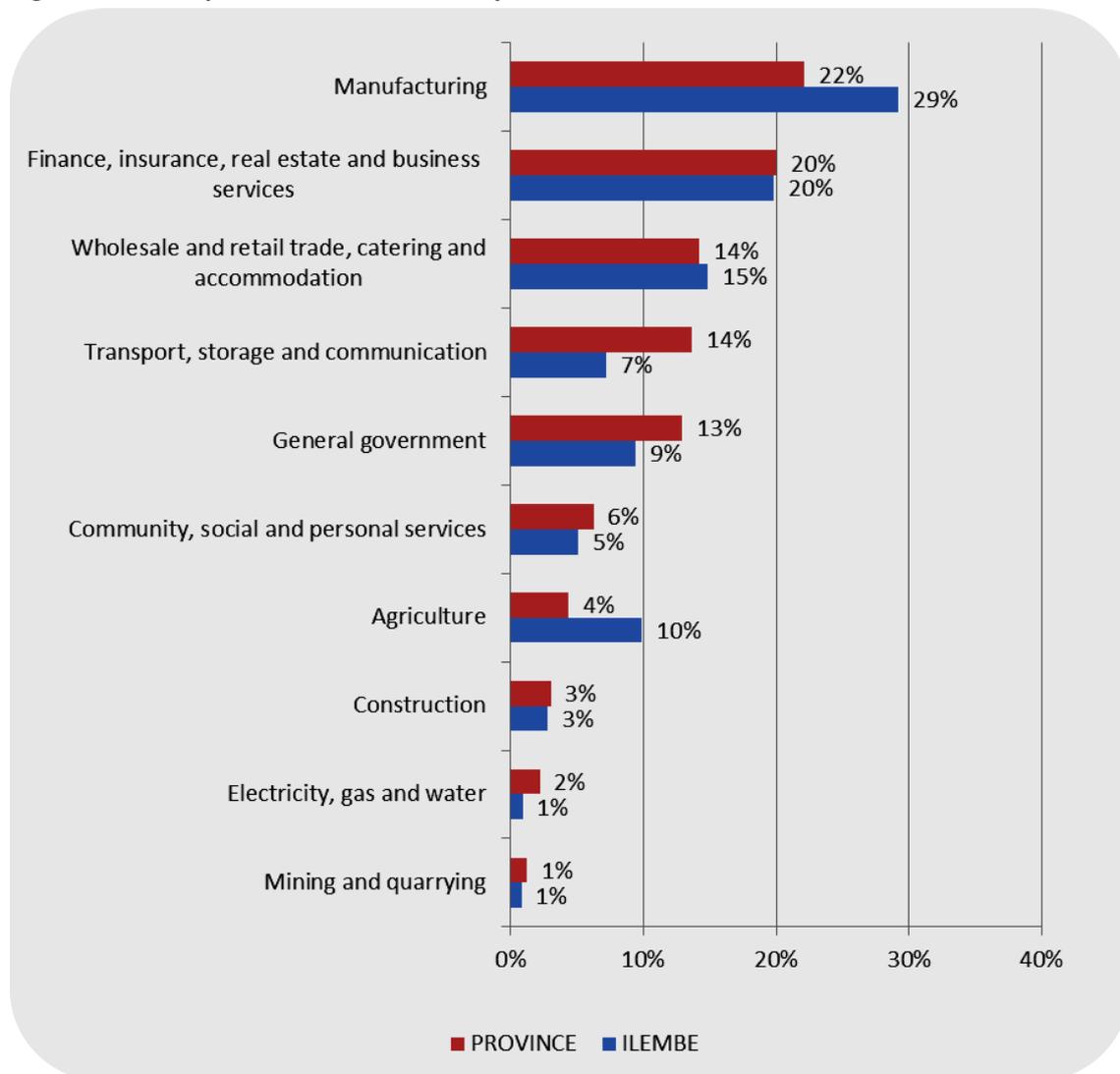
***The N2 highway:*** The N2 route, the major transport linkage on the east coast, stretches through iLembe, from north to south and forms the backbone of the Primary Durban-Richards Bay Corridor.

## Sectoral Advantages

### Desktop Study

As indicated in the Figure 7.1 below, manufacturing is very strong in iLembe District, contributing substantially more to the local economy than the sector does to the provincial economy. Agriculture, similarly, is a relatively more important sector in the district. Interestingly, however, General Government is not as important in iLembe as it is for the province as a whole. This may be indicative of degree of economic self-reliance by the district.

**Figure 7.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that iLembe has a comparative advantage in Manufacturing or Agriculture, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 7.1 below shows the detailed sectors which have a location

quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 7.1 – Positive Sectoral Location Quotients**

| Sector                                       | Locational Quotient |
|--|---------------------|
| Agriculture and Hunting                      | 3.71                |
| Food, beverages and tobacco products         | 4.37                |
| Wood and wood products                       | 2.13                |
| Furniture and other items NEC and recycling  | 1.70                |
| Electricity, gas, steam and hot water supply | 1.12                |
| Education                                    | 1.04                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that, while iLembe has a significant comparative advantage in Agriculture, its main comparative advantages lie in the secondary sector and in particular in the field of Agro-processing. In this respect, the district's largest comparative advantage lies in the Food Beverages and Tobacco Products industry, but the wood manufacturing industry is also a relatively strong comparative advantage. The remaining sectors in which the location quotients are between 1 and 1.5, may not have significant statistical variation from the provincial economy.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver's report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY  | Industry                |
|----|--|-------------------------|
| 1  | Hesto Harnesses                                | Harnesses               |
| 2  | Whirlpool SA                                   | Appliances              |
| 3  | Sappi Kraft (Pty) Ltd - Tugela Mill            | Paper and board         |
| 4  | Sappi Paper and Paper Packaging - Stanger Mill | Paper and pulp          |
| 5  | Sasko Stanger                                  | Bread and confectionary |
| 6  | Metso Minerals (South Africa) Pty Ltd          | Equipment manufacturing |
| 7  | De Grande Windows and Doors                    | Timber products         |
| 8  | Fairmont Zimbali Resort                        | Accommodation           |

|           |  |                    |
|-----------|--|--------------------|
| <b>9</b>  | Tongaat Huletts Sugar - Maidstone Mill | Sugar and related  |
| <b>10</b> | ITB Manufacturing                      | Plastic products   |
| <b>11</b> | Tongaat Huletts Darnall Mill           | Sugar and related  |
| <b>12</b> | Lufil Packaging (Pty) Ltd              | Packaging products |
| <b>13</b> | Renckens Spar                          | Retail             |
| <b>14</b> | Rapid Builders and Contractors cc      | Construction       |
| <b>15</b> | Evernu Plastics                        | Plastic products   |
| <b>16</b> | Lifestyle Superspar Ballito            | Retail             |
| <b>17</b> | Impact Engineering cc                  | Steel products     |
|           | <i>Nampak liquid</i>                   | <i>Packaging</i>   |

Agro-processing companies are well represented in the list of top employers in the district, with Sappi and Tongaat Huletts operating four major mills (paper and sugar) at various locations in the district, while Sasko has a major bakery in Stanger. The list of top employers, however, reveals a diversity of manufacturing in the district. Hesto Harnesses, with links to Toyota, is one of the major employers in the district and produces for the national and international markets illustrating that decentralised production can work. Similarly, plastic and packaging companies are strong employers within the district. The strength of the plastics and packaging industry in the district is perhaps not revealed by the location quotient method because the plastic industry is categorised together with chemical production for which there is no major company representation in the district. This may then hide the district's advantages in the manufacture of plastics and packaging products.

The presence of Whirlpool, De Grande, Lufil and Evernu Plastics in Isithebe, all employing a substantial number of people, still indicates the important of this industrial estate in the regional economy – one of the only industrial decentralisation points that has made an impact. The Fairmont Zimbali and the presence of major retailers on the list confirm the growth being experienced in the tertiary sector on the North Coast of KwaZulu-Natal.

The district drivers report identified smaller more dynamic companies in the Clothing and Textile; Food Processing and Chemical Product industries. The report also identified dynamic companies in the Retail Sector, Medical Services; Boutique Tourism Hospitality and Property Management industries. Although these companies are relatively small in comparison to the ones listed in the table above, they can be seen as significant drivers of economic growth in the region.

### *Findings of interview with iLembe DM*

The sectoral comparative advantages highlighted by the District Municipality largely agree with the findings of the location quotient and company analyses. The District Municipality certainly feel that manufacturing is a key driver and comparative advantage of the district, and point out that there was strong growth in the manufacturing sector in iLembe prior to the recession in 2009. While there are now a number of vacancies at Isithebe, the industrial estate remains an attractive venue to locate manufacturing businesses as it has the required infrastructure. The District Municipality also

revealed that there were a number of manufacturing developments planned for various locations in the district. This included talk of an industrial park in Compensation.

The District was quick to point out the opportunities for agro-processing linked to the export facility at Dube Trade Port. They believe that iLembe is well situated, both in terms of location (between two Ports and close to an international airport) and in terms of manufacturing capacity, to develop its comparative advantage in agro-processing.

The District Municipality also highlight the comparative advantage that the district specifically has for the development of KwaZulu-Natal's first upmarket beach resort. In general, the District believe that upmarket beach tourism is a key comparative advantage of the district.

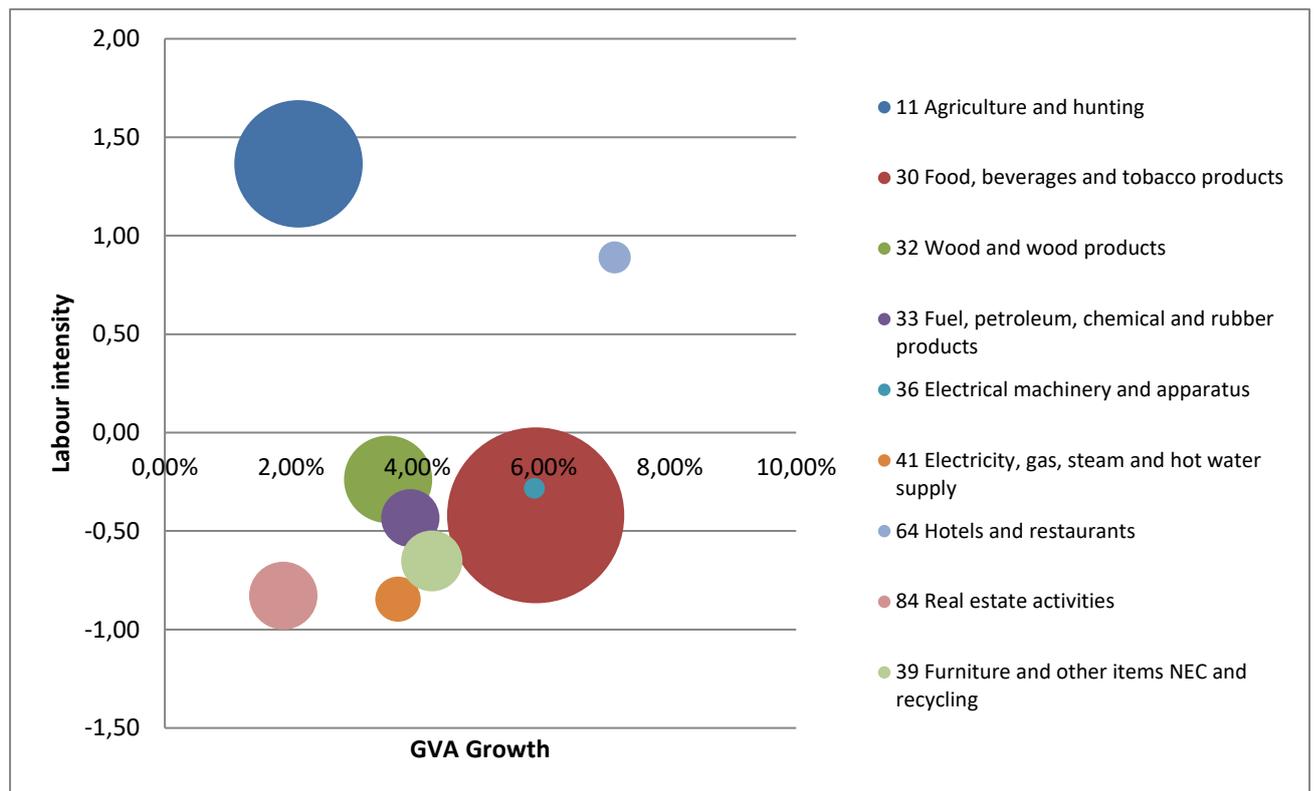
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Figure 7.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 7.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 7.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 7.2 shows Food processing is not only the largest sector in the economy but also one of the fastest growing. The largest labour intensive sector is Agriculture but this sector is experiencing slow growth. The majority of the district’s comparative advantage sectors are not labour intensive, with the exception of Hotels and Restaurants, but most of these sectors are growing at relatively strong rates. Wood and Wood Product; and Furniture manufacturing have grown at an average rate of about 4% over the past 10 years. The plastics and packaging companies probably account for the size of the Chemical and related products sector, but the identified smaller companies in the chemical industry may be driving growth in this sector. The real estate industry has been up and down (growing at 5.3% in 2006, and 4.9% in 2009; and declining by -4.3% in 2008) and hence the fairly sedate looking average growth in the sector.

While based on this analysis it may be tempting to suggest that Food Processing should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, iLembe's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- ***Wood processing*** – Wood processing in the district is centred around the two Sappi Mills. The district is one of the foremost areas in the province for the production of paper and related products. These mills draw their inputs from forestry plantations along the entire North Coast, and are not anticipated to close down anytime soon.
- ***Plastics and packaging*** – The plastics and packaging industry is well established in the district, being mainly concentrated around Isithebe Industrial Estate. Some prominent companies in this industry, such as Nampak, have long associations with the estate.

### ***Unstable or threatened***

- ***Agriculture and Hunting*** – This sector in the district faces similar problems to those experienced by the sector in Ugu District. The primary reliance, perhaps to an even greater degree in iLembe, on sugar cane, means that the future of Agriculture in the district is threatened. The demand for residential development is also leading to many sugar cane farms being converted to other land uses. This is compounded by the declining competitiveness of the industry in South Africa. As is the case with Ugu, the Agricultural Sector's future health in iLembe will depend on either reforms in the sugar cane industry (such as a move to ethanol production) or diversification of agricultural produce. In this respect the district has the advantage of being located near Dube Trade Port.

### ***High growth potential***

- ***Food beverages and tobacco processing*** – While this is an important and fast growing sector in the district economy, there is a large reliance on the sugar mills, which could be under threat for reasons described above. These mills need not, however, simply rely on the cane outputs of the district and can source cane from further afield. The sector, however, does not just rely on sugar processing with companies such as Sasko also being major employers in the district. A number of new smaller companies are also observed to be entering the market. In addition, the Dube Trade Port should be seen as creating further opportunities in terms of agro-processing of goods for export.

### ***Emerging***

- ***Beach resort tourism*** – Due to the limited availability and limited suitability of coastal land in other areas of the coastline, iLembe has a growing comparative advantage in upmarket Beach Resort Tourism. Major resort developments at Nonoti and Blythedale will increase this comparative advantage further.
- ***Upmarket property development*** – The district has taken, and continues to take advantage of the relocation of the airport and the push of development northward, by developing

upmarket residential estates. These developments, in turn, create opportunities for the Retail and Services industry. Continuing development is, however, subject to the constraints posed by insufficient water supply.

### **Special Economic Zone or Industrial Hub Options**

Isithebe Industrial estate is, in some ways, already a type of SEZ. While there are some vacancies at the estate at present, with a bit more support the estate could once again become a thriving industrial area. This said, Isithebe does not need to be designated as an SEZ as it has been doing alright without being designated as such. Rather other opportunities, identified below, should be explored.

#### ***Primary Option: Agro-processing export SEZ***

The District Municipality believes that its' comparative advantages in the Food Processing sector, together with its proximity to the Port of Durban and Dube Trade Port, is such that an Agro-processing SEZ or hub would be ideally located in iLembe. This hub will incorporate the whole value chain for final food products, including farming (using new tunnel farming techniques); processing; packaging; distribution and retail. The factors supporting this hub are as follows:

- The district has a comparative advantage in a well-established Food Processing sector
- The district is ideally located near Dube Trade Port
- The district is located between two international ports
- The district has existing manufacturing capacity in Isithebe
- The district has access to a very large local market (eThekweni)

#### ***Secondary Option: Green technology hub***

The District Municipality are very keen to capitalise on the movement toward green technology, by establishing a Green Technology Park, which specialises in green forms of production. Currently a Bio-diesel plant is being developed in Isithebe.

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Opportunity</b><br>• <b>Project</b>   | <b>Description</b>  | <b>Location</b>                 | <b>Status</b>   |
|--|---|---------------------------------|---|
| <b>1. City Building – Development of capacity for the future merging of Ballito and Stanger nodes</b>    |   |                                 |   |
| • Wewe Driefontein Mixed Use development   | Development of 620ha Driefontein-Wewe Flats Estate (Industrial, Agric & Housing)  | iLembe                          | Exploratory   |
| <b>2. Developing the Green Economy</b>   |   |                                 |   |
| • Green/Energy Park  | The development of a green innovation zone linked to sustainable energy generation  | Unspecified                     | Envisioned : Recommended in PGDS as a provincial strategy |
| • Bio diesel plant   | A plant that extracts and processes bio-diesel from the appropriate trees   | Isithebe, Mandeni               | Planned (Advanced)  |
| • De-salinisation plants   | Setting up plants that desalinate sea water for drinking purposes   | Nonoti/Blytedale, KwaDukuza     | Exploratory (Feasibility Study done)                      |
| <b>3. Production of final agricultural products for export – locate the entire value chain in iLembe</b> |   |                                 |   |
| • Tunnel farming initiatives   | Facilitates the production of tomatoes and various other agricultural produce   | Mandeni                         | Implementation  |
| • Development of an agricultural Special Economic Zone (SEZ)   | Setting up an agricultural produce SEZ in iLembe which looks to incorporate, primary production and secondary agro-processing and is linked to export markets via Dube Trade Port | Close to Dube Trade Port        | Envisioned  |
| <b>4. Expanding Manufacturing</b>  |   |                                 |   |
| • Industrial Park  | Development of a light industrial park  | Compensation/Northern KwaDukuza | Planned   |
| • Isithebe Revitalisation  | Re-attract light manufacturing businesses to Isithebe with a view to filling the current vacancies  | Isithebe, Mandeni               | Planned   |
| <b>5. Develop an international tourist attraction, exploiting the proximity to KIA</b>                   |   |                                 |   |
| • Blytedale/Nonoti Coastal Resort  | The development of a luxury (possibly 6-star) iconic and internationally recognisable resort along the iLembe coastline.  | Nonoti/Blytedale; KwaDukuza     | Advanced Planning (receiving IDC Funding)                 |

|  |   |                   |                |
|--|---|-------------------|----------------|
| • King Shaka Statue  | The construction of an internationally iconic attraction, in the form of a statue of King Shaka                   | Debated, Mandeni? | Envisioned     |
| • King Shaka Heritage Route  | The development of a route which would link places of interest relating to Shaka's life.                          | Mainly KwaDukuza  | Implementation |
| • Zimbali Lakes  | Development of 1150 units + Hotel resort + golf course and commercial   | Zimbali Estate    | Planned        |
| • Ballito ICC  | Development of a 4000 delegate convention centre with 198 room 3* or 4* hotel, office park and a 640 parking bays | Ballito           | Exploratory    |
| <b>6. Utilising ICT infrastructure to develop the knowledge economy in rural areas</b> |   |                   |                |
| • Launch of Seacom   | Undersea fibre optic cable on the north coast   | Throughout iLembe | Planned        |

## eThekwini Metropolitan Comparative Advantages

### Brief description of the District

eThekwini is the only metropolitan municipality in the province and is located in the south of the province on the eastern coastline, bordered by three other KwaZulu-Natal districts. eThekwini has the largest population in the province, contributing about a third of the total provincial population and recording an average population growth rate of 1.7% over the last 7 years. Bearing in mind its population size, it is not surprising that eThekwini has the province's largest economy. However, eThekwini's contribution to provincial GVA, at 53.3% is disproportionately high compared to its contribution to the provincial population. As a result, the metro's GVA per capita (R39,458) is also significantly higher than that of any other district. eThekwini metro is un-disputably the economic powerhouse of the province.

*Key spatial features of the eThekwini Municipality impacting on economic development include:*

- The 2008 Economic Development Strategy (eThekwini 2008) states that “the spatial distribution of economic activity is skewed towards the Durban City Centre, the South Durban Basin, the Port of Durban and the Pinetown and New Germany areas”. It should maybe be added that over the past decade this has also shifted to the northern corridor.
- Historically the port, the airport and the location of major industries were the most significant spatial drivers of economic development. It is suggested that the South Durban Basin developed into an industrial node of national significance as a result of its location relative to the port and airport. Through effective place marketing the New Germany and Pinetown areas also developed strong industrial sectors. Over the past decade the only new industrial development of note in eThekwini was Riverhorse Valley and at present this caters primarily for the services and logistics sectors (as opposed to manufacturing industry).
- Historically the Durban CBD was the location of the retail and commercial sectors, but this has changed over the past 30 years with firstly decentralisation to the west of Durban, to Westville and Pinetown, and more recently, and more substantially, to the north of Durban. The shift towards the north is set to continue with major developments such as Cornubia, with the potential for delivering 20 000 plus residential units, in the development pipeline.
- The tourism sector is mainly concentrated along the coast stretching from Umgababa in the South to Umdloti in the North, with some emphasis in the past on the Valley of the 1000 Hills and more recently the establishment of the Inanda Tourism Route.

### Locational Advantages

***Anchor node for the N3 Durban-Gauteng Corridor:*** eThekwini is regarded as one of the two major nodes on the Durban-Gauteng Corridor, and as such is set to receive renewed focus and investment through the identification of this corridor as a presidential Strategic Integrated Project (SIP). eThekwini is also the primary economic node in the province and, to varying, degrees services and acts as an economic centre for all the other districts.

## Natural/geographic Advantages

**Durban's natural bay:** The geographical feature of the Bay of Durban was key to the city's early development as it provided the perfect location and shelter for a major Port on the east coast. The Bay, together with the overlooking Bluff remain the city's most distinctive landmarks and have enabled the city to become the country's preeminent 'beach city', providing safe swimming for tourists and a sheltered refuge for sailors.

## Infrastructural Advantages

As the major economic node in KwaZulu-Natal and as the location of the busiest port in Africa, eThekweni's infrastructure is highly advanced and, for the most part, far superior to anywhere else in the province. Mention here, however, is only made of the most important infrastructural comparative advantages of the metro.

**The T-junction of national routes:** eThekweni is at the head of a T-junction of the N2 and N3 national routes. This ensures that it is highly accessible from the North; South and West of the province. In addition these routes connect the metro to the Eastern Cape and Johannesburg. The secondary road network in the metro is equally as important to development, and in this regard the M3 and M4 are critical in connecting the various regions in the metro.

**International Airport (King Shaka and Dube Trade Port):** The presence of an international airport in eThekweni, is a major comparative advantage of the metro, as it connects the metro with the rest of South Africa and the rest of the world. The fact that the airport, since its relocation, is now a fully-fledged international airport is highly significant as it provides better opportunities for international businesses to locate to eThekweni, and it provides a vastly increased scope for foreign tourism. Dube Trade Port provides further opportunities for the province to develop its air freight export market. While the airport serves and benefits the whole province, there are undeniably certain benefits which can only be captured by eThekweni and perhaps the neighbouring iLembe district.

**The busiest Port in Africa:** The Port of Durban is commonly regarded as the busiest Port in Africa, and is the key supplier and exporting facility of not just Kwazulu-Natal but Gauteng as well. The presence of the Port provides significant comparative advantages for eThekweni in terms of attracting export industries and in terms of developing its' transport and logistics industries.

**Gas mainline to Gauteng:** The Port of Durban also enables the metro to be the entry point for gas and fuel into the country, through the Single Buoy Mooring off the seaside of the Bluff. This has led to the substantial development of the chemical, fuel and gasses industry in the metro.

## Human Capital Advantages

**Diversity of tertiary education institutions:** As is befitting of a large metro area, eThekweni has a large number of tertiary education institutions and draws students from across the province. Institutions such as the University of KwaZulu-Natal (including the medical school and teacher

training college); Durban University of Technology and Varsity College among others provide the metro with a comparative advantage in the production of a diverse and highly skilled labour force. Access to diversely skilled labour is a critical factor in attracting international company investments into the metro.

### **Institutional Advantages**

**Company head offices:** While uMgungundlovu is the public administration capital of the province, eThekweni firmly remains the business capital, and boasts the provincial and sometimes, national, head offices of a number of big companies. This clustering of head offices provides the metro with a comparative advantage in attracting further head offices, as companies look take advantage of economies of scale.

### **Cultural Advantages**

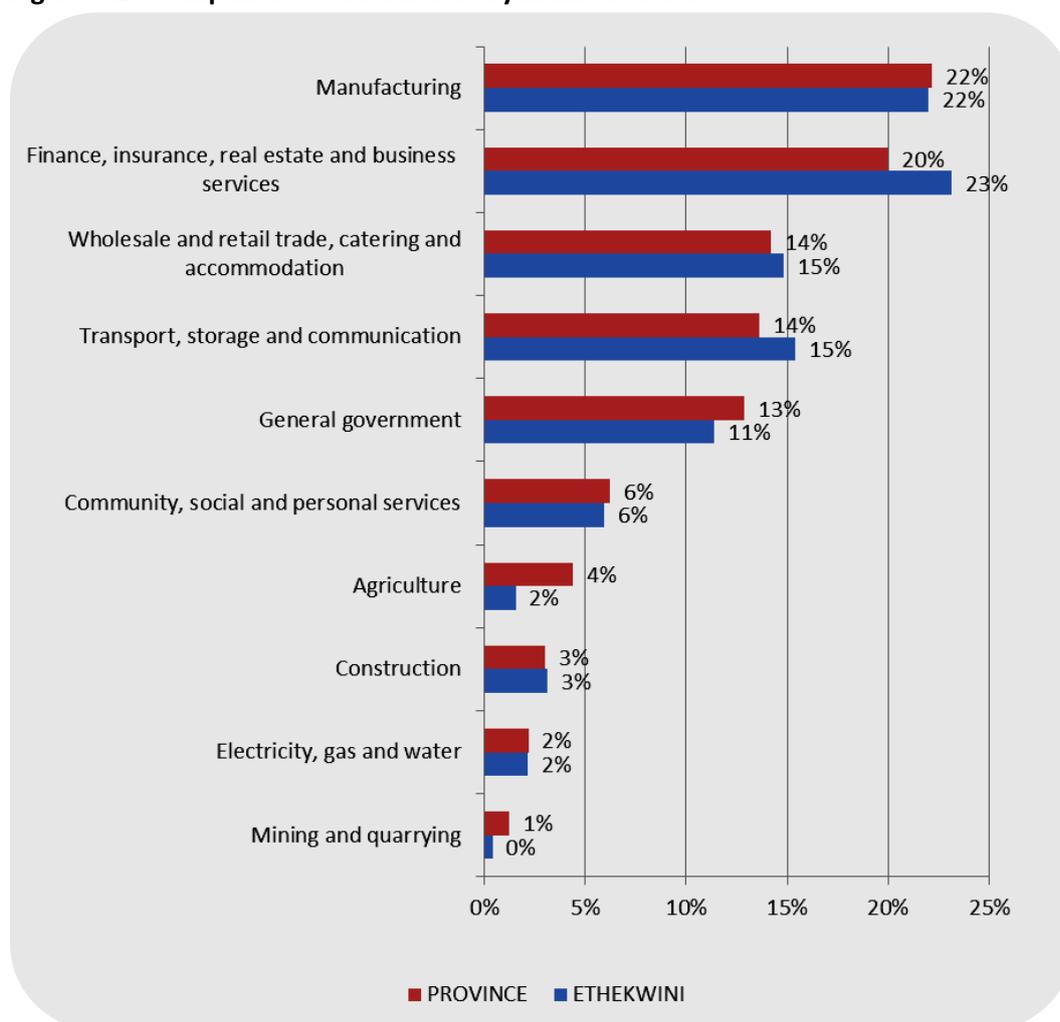
**Eclectic cultural diversity:** Durban is known as one of the most culturally diverse cities in the country and can claim to be a melting pot of Zulu; Indian and English cultures. Its high population of Indian people gives the metro a unique eastern flavour which can be considered advantageous in marketing the city as a tourist destination.

## Sectoral Advantages

### Desktop Study

Owing to the size of eThekweni's economy relative to the provincial economy, one would expect eThekweni's sectoral distribution to closely mirror the province's sectoral distribution. A quick perusal of Figure 8.1 reveals that this is largely the case, with not more than 3 percentage point differences in any of the sectors. The sectors which show the greatest degree of divergence are the Finance and Business Services; General Government and Agriculture sectors. The former sector is seemingly more established in eThekweni, while the latter two sectors (General Government and Agriculture) are less important to the metro economy. The lower relative importance of General Government and Agriculture, is indicative of a higher than average level of development compared to the rest of the province.

**Figure 8.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that eThekweni has a comparative advantage in Finance and Business Services, as this sector contains numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main

economic sectors shown in the figure above. Table 8.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 8.1 – Positive Sectoral Location Quotients**

| <b>Sector</b>   | <b>Locational Quotient</b> |
|---|----------------------------|
| <b>Fishing, operation of fish farms</b>                         | 1.28                       |
| <b>Textiles, clothing and leather goods</b>                     | 1.18                       |
| <b>Fuel, petroleum, chemical and rubber products</b>            | 1.18                       |
| <b>Electrical machinery and apparatus</b>                       | 1.18                       |
| <b>Electronic, sound/vision, medical &amp; other appliances</b> | 1.21                       |
| <b>Transport equipment</b>                                      | 1.36                       |
| <b>Furniture and other items NEC and recycling</b>              | 1.16                       |
| <b>Electricity, gas, steam and hot water supply</b>             | 1.08                       |
| <b>Collection, purification and distribution of water</b>       | 1.11                       |
| <b>Construction</b>   | 1.08                       |
| <b>Wholesale and commission trade</b>                           | 1.19                       |
| <b>Retail trade and repairs of goods</b>                        | 1.11                       |
| <b>Sale and repairs of motor vehicles, sale of fuel</b>         | 1.15                       |
| <b>Hotels and restaurants</b>                                   | 1.10                       |
| <b>Land and Water transport</b>                                 | 1.12                       |
| <b>Air transport and transport supporting activities</b>        | 1.33                       |
| <b>Post and telecommunication</b>                               | 1.19                       |
| <b>Finance and Insurance</b>                                    | 1.18                       |
| <b>Real estate activities</b>                                   | 1.07                       |
| <b>Other business activities</b>                                | 1.18                       |

*Source: Own calculations based on data from Global Insight*

It is in the context of analysing a large metro like eThekweni that the notion of comparative versus absolute advantage really comes to the fore. eThekweni has absolute advantages in a number of sectors and it may be argued that all of the absolute advantage sectors should be developed. Equitable spatial development in the context of resource scarcity, however, would instead posit that we should develop eThekweni's comparative advantage sectors. Identifying these comparative advantages is difficult, as eThekweni constitutes such a large part of the provincial economy that its' comparative advantages do not stand out as clearly as in other districts. This said its non-comparative advantages such as Forestry and Mining of Coal with location quotients of 0.12 and 0.03 respectively, are clearly revealed. However, while Agriculture would definitely not be considered a major comparative advantage sector in eThekweni, it still has the largest value Agricultural sector in the province. In other words eThekweni has an absolute but not a comparative advantage in the Agricultural sector.

On the other hand, standout comparative advantage sectors would seem to be in the manufacturing of Transport Equipment; the manufacturing of Electronic, Sound/vision, Medical & Other Appliances; and in Air Transport and Transport supporting activities. These comparative advantages correspond with those identified in the previous section which highlighted eThekwiní's infrastructural and transport advantages and its' highly skilled workforce. Determining the degree to which the rest of the sectors with location quotients over 1, are comparative advantage sectors, will be undertaken with the help of primary research in the subsequent sections.

### *A Company Perspective – Findings of the District Driver Report*

The District Driver's report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY   | Industry                   |
|----|---|----------------------------|
| 1  | Toyota  | Automotive                 |
| 2  | Sanyati Holdings Limited                                | Construction               |
| 3  | Corobrick   | Bricks and paving products |
| 4  | Grindrod Limited  | Logistics                  |
| 5  | Clover – Durban   | Dairy Products             |
| 6  | Defy – Durban   | Appliances                 |
| 7  | McCarthy Limited  | Automotive retail          |
| 8  | Mediterranean Shipping Company                          | Shipping                   |
| 9  | Stefanutti Stocks KZN                                   | Construction               |
| 10 | Altech UEC  | Electronic equipment       |
| 11 | ADT Security  | Security                   |
| 12 | Apollo Tyres  | Tyres                      |
| 13 | Sun Coast Casino  | Tourism and recreation     |
| 14 | Sibaya Casino and Entertainment Kingdom                 | Tourism and recreation     |
| 15 | uShaka Marine World                                     | Tourism and recreation     |
| 16 | Ikhayelihle Cleaning Services                           | Cleaning services          |
| 17 | GUD Filters   | Filters                    |
| 18 | Engen Petroleum   | Petroleum products         |
| 19 | Metair Group  | Automotive components      |
| 20 | Mondi Merebank  | Paper products             |
| 21 | Erbacon Investment Holdings Limited                     | Construction               |
| 22 | SAB Miller  | Beverages                  |
| 23 | Shell and BP South Africa Petroleum Refineries (SAPREF) | Petroleum Products         |
|    | <i>Unilever</i>   | General manufacturing      |
|    | <i>SAPPI SAICCOR</i>                                    | Wood and paper products    |

|                    |                |
|--------------------|----------------|
| <i>Assmang</i>     |                |
| <i>Safal Steel</i> | Steel Products |

The list of major employers in eThekweni is still dominated by manufacturing despite growth in the tourism, services and retail sectors. The findings of the location quotient analysis are confirmed by the presence of major companies in the Transport Equipment and Electronic Appliance manufacturing sectors. Toyota, Apollo Tyres and GUD Filters are key companies in the automotive sector, while Defy and Altech represent major companies in the Electronic Goods and Appliance sector. Altech UEC is a leading developer of digital technology and in 2011 confirmed its relationship with eThekweni with the opening up of its Mount Edgecombe facility.

Other manufacturing companies featuring on the list of major firms can be located in the petrochemical industry, led by the Engen and SAPREF refineries, with strong linkages into a major chemicals cluster; and in the Wood and paper products industry, led by Mondi and Sappi. Construction companies such as Stefanutti and Sanyati, also feature prominently in the metro but these companies, while based in eThekweni, undertake work all over the province. Despite not featuring in the list of sectors with a locational quotient over 1, Food and beverage production in the metro is strongly represented by Clover, Unilever and SAB Miller.

In the tertiary sector, major companies in the Transport and Logistics industry include shipping and freight companies such as MSC and Grindrod. Additionally, companies like ADT and Ikhayelihle are leaders in their respective service sectors. The role of tourism in the eThekweni Metro is also clear with Sun Coast Casino, Sibaya Casino and uShaka featuring on the list of major employers.

eThekweni Metro, as alluded to earlier, also contains a number of head offices for major provincial and national companies. These head offices, in so far as they are drivers of the entire provincial economy and not just eThekweni, were excluded from the above list.

The district drivers report identified smaller more dynamic companies in the Tourism (especially related to major events); Financial and Business Services (including IT); and Transport and Logistics sectors. Although these companies are relatively small in comparison to the ones listed in the table above, they can be seen as significant drivers of economic growth in the region.

### *Findings of interview with eThekweni Metro and the Durban Chamber of Commerce*

eThekweni Metro has a highly diverse economy, and both the Municipality and the Durban Chamber of Commerce mentioned a large number of sectors that eThekweni had advantages in. However, when pressed for those sectors which they believed the metro had specific comparative, as opposed to absolute, advantages in, the following sectors were agreed on: Transport and Logistics; Automotive Manufacturing; Oil and Chemicals; and Electronics.

Comparative advantages in the Transport and Logistics sector is simply an outworking of the metro's infrastructural endowments, namely, a major Port; an international airport; and national highways.

No other district in KwaZulu-Natal can match the Transport capacity of eThekweni, and as such the major Transport and logistics companies continue to be attracted to the metro. In addition to the Transport component of the sector, logistics, in the form of warehousing and distribution forms an integral and growing part of the economy, as evidenced in the on-going development of Riverhorse Valley. Automotive manufacturing in the district is driven by the Toyota Plant in the south Durban Basin, around which a substantial number of automotive component manufacturers have clustered. For some time, there have been plans to develop an auto-supply park in the South Durban Basin. The Municipality, however, believe that attracting another auto-manufacturer would be more catalytic to the development of this sector in the metro. In this respect there is concern over the uncertainty that the change from the MIDP to the APDP will create.

The Petro-chemical sector was highlighted by both the Municipality and the Chamber as a comparative advantage sector on account of the presence of the two major refineries and in terms of access to the Port and the gas mainline to Gauteng. Similarly, high-tech Electronics Manufacturing was regarded as a comparative advantage of the sector due to the current presence of these companies in the metro and on account of the availability of highly skilled graduates.

The Chamber highlighted the comparative advantage of the metro in terms of events tourism. While eThekweni may not be able to boast the eco-attractions of other areas of the province, its access to an international airport and the advanced development of its accommodation and conferencing industries, means that it is the foremost events destination in the province. This advantage is growing with each major international event (including the FIFA World Cup; COP17; Tourism Indaba and Top Gear festival) hosted by the metro.

The Municipality noted that the Finance and Business Services sector naturally tends toward the biggest cities and economic centres in a region and for this reason will always be a comparative advantage sector for eThekweni. It was also noted by the Municipality that the Clothing and Textiles sector is one of the largest employers in the metro.

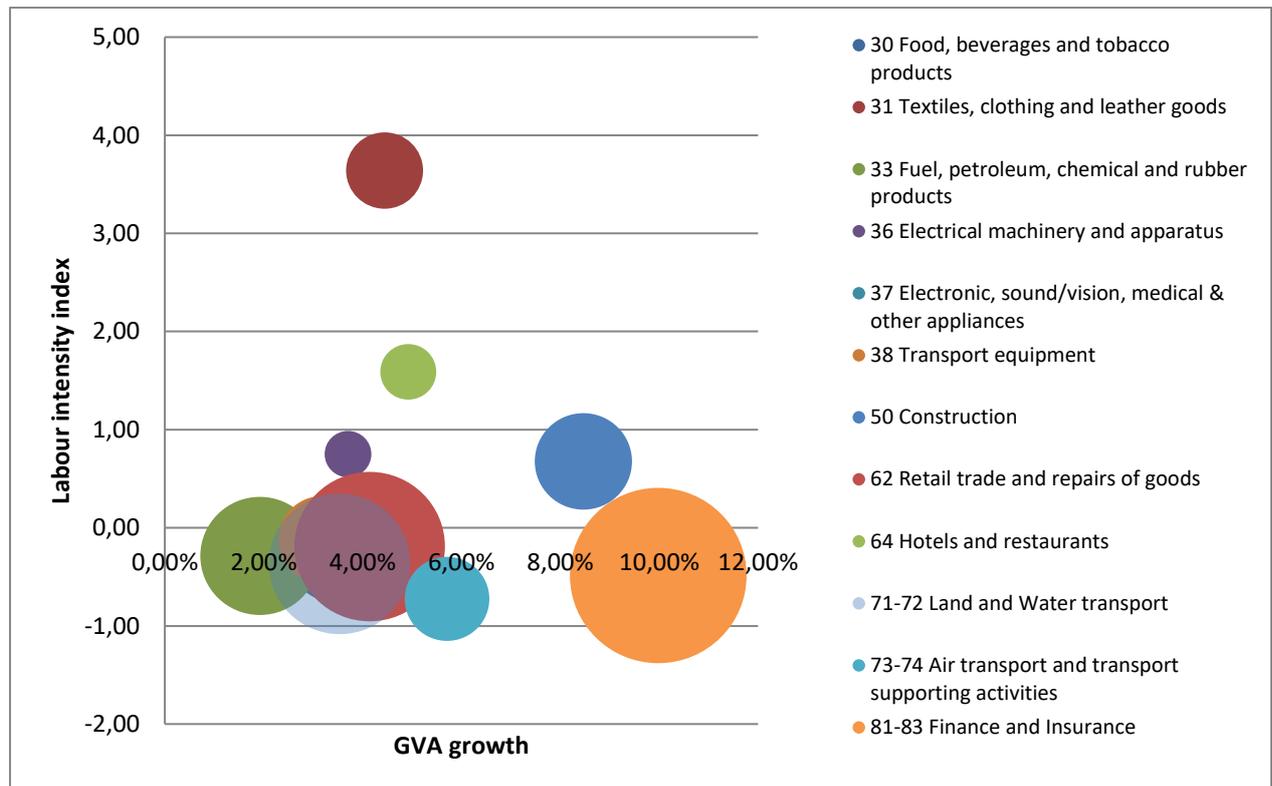
## A Dynamic Perspective

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 8.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 8.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 8.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 8.2 confirms eThekweni's status as the province's business centre, with Finance and Insurance being the largest and fastest growing sector in terms of value-added. This sector however is, on average, not labour intensive and its scope for substantial job creation remains limited. The construction industry, although a lot smaller according to value, has also experienced strong growth over the past ten years in the metro. This should be interpreted in the light of a concentration of construction companies in eThekweni, and a building and construction boom related to 2010 World Cup readiness. As expected, on account of its' infrastructural endowments, Transport and Logistics

related industries are prominent in the metro. This includes the manufacture of transport equipment. The most labour intensive industries are Clothing and Textiles and Hotels and Restaurants. Although the Petrochemical sector was identified as one of the comparative advantages of the metro, this sector is growing relatively slowly and is not labour intensive.

While based on this analysis it may be tempting to suggest that Finance and Insurance should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

### *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, eThekweni's comparative advantage sectors can be categorised as follows:

#### ***Existing or stable***

- ***Fuel and Petrochemical*** – As long as Durban possesses the two Fuel refineries, this sector will be a stable, if not fast growing, comparative advantage sector. However, significant growth in this sector could occur should national government decided to locate a proposed new refinery in Durban. The inclusion of a new liquid bulk terminal in the proposed Dig-out Port will serve to continue to provide comparative advantages for fuel and chemical companies located in Durban
- ***Automotive Manufacturing*** – The automotive industry is one of the most competitive manufacturing industries in South Africa. eThekweni is fortunate to have Toyota's major manufacturing plant in the South Durban Basin, and this is undoubtedly the driver of this industry within the metro. The expansion of this industry, however, is constrained by fierce competition from manufacturers based in the Eastern Cape and Gauteng; a lack of available land in the South Durban Basin; and the uncertainty around the ending of the MIDP scheme.
- ***Finance and Insurance*** – The growth in this sector in eThekweni is typical of that generally experienced in growing metro areas. eThekweni is the major Banking and Finance hub for the province, and growth in this sector will continue to match the growth of the metro. This said, however, eThekweni cannot currently compete with Cape Town or Gauteng with regard to this sector, and its impact will continue to remain localised.

#### ***Unstable or threatened***

- ***Clothing and textiles*** – This sector is threatened in eThekweni for many of the same reasons it is threatened in the rest of the province, namely, high wage vis-à-vis low productivity.

#### ***High growth potential***

- ***Events tourism*** – eThekweni is increasingly becoming known as the events capital of the country. Recent success in hosting COP17; Top Gear and the Tourism Indaba, have grown the city's reputation as a prime venue for the hosting of international events and

conferences. In addition, the concentration of some of the country's most well-known sporting events within the metro and the fact that the city has a clearly defined sports precinct, has yielded the metro with a growing comparative advantage in events tourism. This is well supported by the development of the King Shaka International Airport.

- **Transport, Trade and logistics** – The identification of the N3 Durban-Free State – Gauteng Corridor as Strategic Integrated Plan 2, by the Presidential Infrastructure Coordinating Committee, lends impetus to the further development of eThekweni's Transport and Logistics industries. As the anchor of the corridor, the development of the Port of Durban's import and export capacity will receive prioritisation as will the development of the metro's logistics capabilities along the N3 route, particularly around Cato Ridge. eThekweni has the opportunity to become the premier destination for transport, trade and logistics companies.

### **Emerging**

- **Air Transport** – The development of the King Shaka International Airport and Dube Trade Port provides the metro with the opportunity to grow not just its provincial comparative advantage but also its national comparative advantage in the Air Transport sector. The Dube Trade Port has the capacity to become South Africa's airlift cargo hub, particularly if supporting agro-processing industries are adequately developed. Furthermore, the recent announcement that SA Express seek to use King Shaka International as a hub for flights into Southern Africa, is a boon toward attracting airline companies to locate at King Shaka.
- **Green Economy** – With the hosting of COP17 in Durban, it would seem intuitive that eThekweni is the national forerunner in the development of green technology. Investigations into establishing a green technology park in the metro are at a fairly advanced phase. The metro's manufacturing capacity and abundance of high quality tertiary institutions could pave the way for the large scale development of green manufacturing in the metro.

### **Special Economic Zone or Industrial Options**

eThekweni Municipality have identified a number of options for potential SEZs within the metro. Unlike in other districts these SEZ proposals tend to be concentrated around infrastructure (the Port and Air Port) rather than around a specific sector or industry. As such the type of businesses that could be accommodated in the SEZ could be quite varied. It may be possible that more than one SEZ is feasible for a large metro area like eThekweni, but in this paper we will maintain the approach applied to the other districts and identify one primary SEZ option and a secondary SEZ option. Of course, this is not to say that eThekweni in their own capacity cannot explore further options.

#### **Primary Option: Dube Trade Port Agro-processing and green manufacturing SEZ**

This SEZ will be developed around the Dube Trade Port facility in the north of the metro. Utilising the air cargo export capacity of the Trade Port, one of the focus industries of the SEZ will be the processing of agricultural products for export. The SEZ will also focus on 'green economy'

manufacturing, and the research and development of green technology. It is fitting that eThekweni, as the host of the landmark, COP17 Climate Change Conference, should develop the country's first dedicated green research and manufacturing zone. It is envisioned that this 'green manufacturing' would also spill over into the agro-processing industry, whereby 'green' production and processing techniques will be extensively used. The factors supporting this SEZ are as follows:

- Availability of land. This is one of the least developed areas in the metro.
- Access to an international airport providing businessmen with connectivity to the rest of the country and the world.
- The ability of Dube Trade Port to facilitate the export of perishable agricultural products.
- The concentration of Food and Beverage processing in eThekweni and in the neighbouring iLembe district.
- Horizontal and backward linkages with nearby industrial hubs (Isithebe; South Durban Basin) and burgeoning agricultural producers (Maphumulo; the area behind the airport)
- The 'Green' momentum and interest generated by the hosting of COP17 in Durban.

### ***Secondary Option: Petrochemical Hub in the South Durban Basin***

## **Economic Opportunities and Catalytic Projects**

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b>   | <b>Description</b>  | <b>Location</b>   | <b>Status</b>  |
|---|---|---|----------------|
| <ul style="list-style-type: none"> <li>• <b>Project</b></li> </ul>                                    |   |   |                |
| <b>1. Expansion of Trade and Logistics Capacity</b>   |   |   |                |
| <ul style="list-style-type: none"> <li>• New Dig-out Port</li> </ul>                                  | Development of a Dig-out Port to increase the increasingly constrained cargo and container handling capacity of the Port of Durban.                         | South Durban Basin, at the site of the old Durban International Airport   | Planned        |
| <ul style="list-style-type: none"> <li>• Dedicated Freight Route</li> </ul>                           | The development of a dedicated freight route into Durban as a means of easing congestion on the N3 and improving turnaround times.                          | Between PMB and Durban; running parallel to the existing N3 highway.      | Exploratory    |
| <ul style="list-style-type: none"> <li>• Air Freight at Dube Trade Port</li> </ul>                    | The continuing development of the capacity of Dube Trade Port to act as an air freight hub for the export of goods (especially perishables)                 | Dube Trade Port, La Mercy   | Implementation |
| <b>2. Enhancing the manufacturing industry in the metro</b>   |   |   |                |
| <ul style="list-style-type: none"> <li>• New Original Equipment Manufacturer for the metro</li> </ul> | Attracting a new OEM to locate in the metro and use the Port of Durban to export its final products.  | Anywhere, but South Durban Basin preferable                               | Envisioned     |
| <ul style="list-style-type: none"> <li>• New oil refinery</li> </ul>                                  | Convince national government to locate the planned new oil refinery development in eThekweni, so as to further stimulate the metro's petrochemical cluster. | South Durban Basin  | Envisioned     |
| <ul style="list-style-type: none"> <li>• Auto supply park</li> </ul>                                  | Development of an auto supply park which clusters the production of a diversity of vehicle components in a single location.                                 | South Durban Basin around the Toyota Plant                                | Exploratory    |
| <ul style="list-style-type: none"> <li>• Industrial development along N3 corridor</li> </ul>          | Stimulate the development of manufacturing activities and the location of manufacturing companies along the N3 corridor                                     | N3 between PMB and Durban, particularly around Cato Ridge and Hammarsdale | Exploratory    |

|  |  |  |   |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>• Technopolis</li> </ul>  | Development of a zone or hub focusing on the clustering and attraction of hi-tech electronic manufacturing and ICT companies.  | North of Durban, near the airport                | Envisioned                                      |
| <b>3. Increase international connectivity</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>• King Shaka International as a regional air passenger hub</li> </ul> | Promote the use of King Shaka International Airport as a regional flight hub for Southern and East Africa.   | King Shaka International, La Mercy               | Implementation (being undertaken by SA Express) |
| <ul style="list-style-type: none"> <li>• Aerotropolis</li> </ul>   | Long-term development of the Aerotropolis, airport city concept, with the clustering of residential and business development around the airport  | Around King Shaka International                  | Exploratory                                     |
| <ul style="list-style-type: none"> <li>• Dube Trade Port SEZ</li> </ul>                                      | The development of an SEZ focusing on Agro-processing for export, and on the development of Green Technology   | Dube Trade Port                                  | Exploratory                                     |
| <ul style="list-style-type: none"> <li>• Airport Rapid Rail Transport</li> </ul>                             | Develop fast-rail from KwaDukuza through Dube Trade Port/Airport, Gateway/Umhlanga, to Durban.   | Dube Trade Port; KwaDukuza; Durban               | Exploratory                                     |
| <ul style="list-style-type: none"> <li>• Cruise liner terminal</li> </ul>                                    | Development and construction of a dedicated Cruise Liner Terminal in the Port of Durban to attract new cruise liner companies to stop-over in the metro.   | Port of Durban                                   | Exploratory                                     |
| <b>4. Develop tourism product in eThekweni's interior regions</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>• Cultural tourism in Valley of a Thousand Hills</li> </ul>           | Freshen up the tourism product of the Valley of a Thousand Hills. Create a tourism route incorporating scenic traditional settlements such as Isithumba village with established attractions such PheZulu. | Valley of a Thousand Hills, KwaXimba             | Exploratory                                     |
| <ul style="list-style-type: none"> <li>• Link to Mkhambatini Game Reserve</li> </ul>                         | Create linkages between the game reserve being developed in Mkhambatini Municipality and the cultural tourism  | Valley of Thousand Hills corridor to Mkhambatini | Envisioned                                      |

|  |  |                                     |             |
|--|--|-------------------------------------|-------------|
|  | product in the Valley of a Thousand Hills.   |                                     |             |
| <b>5. Promote Durban as an events capital for South Africa</b> |  |                                     |             |
| • New tourist seasons  | Through the creation and promotion of new events outside of the typical tourism seasons, make eThekweni an all-year-round destination.   | Throughout eThekweni                | Envisioned  |
| • Modernise ICC  | Undertake an upgrade and modernisation of the Durban ICC, which takes it to the forefront of cutting edge 'smart' and 'green' conferencing technology.   | Durban CBD                          | Envisioned  |
| • Durban Film Studio   | Development of a Hollywood style, beachfront film studio   | Durban Beachfront                   | Exploratory |
| <b>6. Catalytic Property developments</b>                      |  |                                     |             |
| • Cornubia Development   | Large scale mixed-use development, containing low-middle income residential units; retail; business and recreational spaces.   | Inland of the N2, Umhlanga region   | Planned     |
| • Point Waterfront Development                                 | The development of the final phase of the point waterfront development, including a small craft harbour; hotels and retail outlets. Considered to be catalytic to the improvement of the metro's image and tourism appeal. | Point waterfront                    | Planned     |
| • Bluff Headlands  | Property maximisation & redevelopment on old military land   | Durban- Bluff                       | Exploratory |
| • Durban Harbour Bridge  | Development of an iconic Bridge linking the Point Waterfront with the Bluff.   | Durban Harbour                      | Envisioned  |
| <b>7. Developing the Green economy</b>                         |  |                                     |             |
| • Green Park<br>(could be incorporated in Dube SEZ)            | Development of a Green Park focusing on Green technology development and green manufacturing. With reduced rates for complying companies.  | In the northern region of the metro | Exploratory |

## uThungulu District Comparative Advantages

### Brief description of the District

uThungulu District Municipality is located along the north-eastern coastline of the province and is bordered by four KwaZulu-Natal districts. The District Municipality has the 3<sup>rd</sup> largest population in the province, contributing just over 8.7% of the total population of KwaZulu-Natal, but has experienced a relatively slow population growth rate of 0.5% in the last 7 years. uThungulu District Municipality is the third largest economy in the province contributing 7.6% of the province's GVA. In terms of GVA per capita, as a measure of prosperity, the district also ranks as the 3<sup>rd</sup> most prosperous district in KwaZulu-Natal.

*Key spatial features of the uThungulu District impacting on economic development include:*

- Commercial and industrial economic activity is concentrated along the coastal corridor, centred around Richards Bay and Empangeni. The draw card for this focus of economic activity is the Port of Richards Bay which specialises in bulk cargo.
- Richards Bay was originally established not only as a harbour, but as a focus of heavy industry which provides a base for downstream economic activity.
- The N2 along the coast is the primary transportation corridor in the district.
- In addition, there is an important secondary corridor (R66) from Gingindlovu through Eshowe and Melmoth past Ulundi and on to the Zululand District and Vryheid.
- Nkandla Municipality is highly impoverished and has been found by studies to have among the worst level of basic infrastructural provision in the country.
- Spatially, there are also large areas of communally held land under the jurisdiction of the Ingonyama Trust Board. The agricultural potential in these areas is largely underutilised.
- Most of the district's northern coastline from Richards Bay up to Cape St Lucia is being mined by Richards Bay Minerals and is of restricted access.

### Locational Advantages

**Primary Corridor linking the two Ports of Durban and Richards Bay:** uThungulu is located on the eThekweni-Mhlatuze Corridor, a corridor which is viewed, in terms of the 2006 PSEDS, as a priority development corridor in KwaZulu-Natal.

### Natural/geographic Advantages

**Concentration of indigenous forests in the district:** uThungulu District contains five of the six forest reserves controlled by KZN Wildlife in the province. These forests; Ongoye, Dlinza, Entumeni, Nkandla and Qudeni are very diverse. While Ongoye is a great example of "extremely rare scarp forest", Nkandla forest is "one of the most outstanding examples of surviving mist belt forest in South Africa". (KZN Wildlife, 2009) The uniqueness of these forests in KwaZulu-Natal, and the biodiversity existing in them presents the district with a unique eco-tourism comparative advantage.

## Infrastructural Advantages

**The N2 highway:** The N2 route, the major transport linkage on the east coast, stretches through uThungulu, from north to south and forms the backbone of the Primary Durban-Richards Bay Corridor.

**The Port of Richards Bay:** Developed in the mid-70s, the Port of Richards Bay is the largest and deepest Port in South Africa, with total land and water surfaces of 2 174 hectares and 1 443 hectares respectively. It is also the country's primary cargo handling Port, and has one of the largest coal terminals in the world. The relative abundance of unutilised land and water space at the Port, provides significant opportunity for the expansion of Port-related activities. The Port yields uThungulu a comparative advantage in attracting major exporting industries to the district.

## Resource Advantages

**Abundance of heavy minerals:** The coastal dunes of uThungulu are embedded with a wealth of heavy minerals, including: ilmenite; zircon; rutile and magnetite. This mineral wealth has attracted two large multi-national companies in the form of Exxaro Sands and Richards Bay Minerals who extract and process the minerals to yield outputs such as titanium and pig iron. These companies are among the province's largest exporters. Currently very little advanced beneficiation of these mineral outputs are undertaken in the district. There thus exists opportunities for the development of mineral beneficiation industries in the district.

## Institutional Advantages

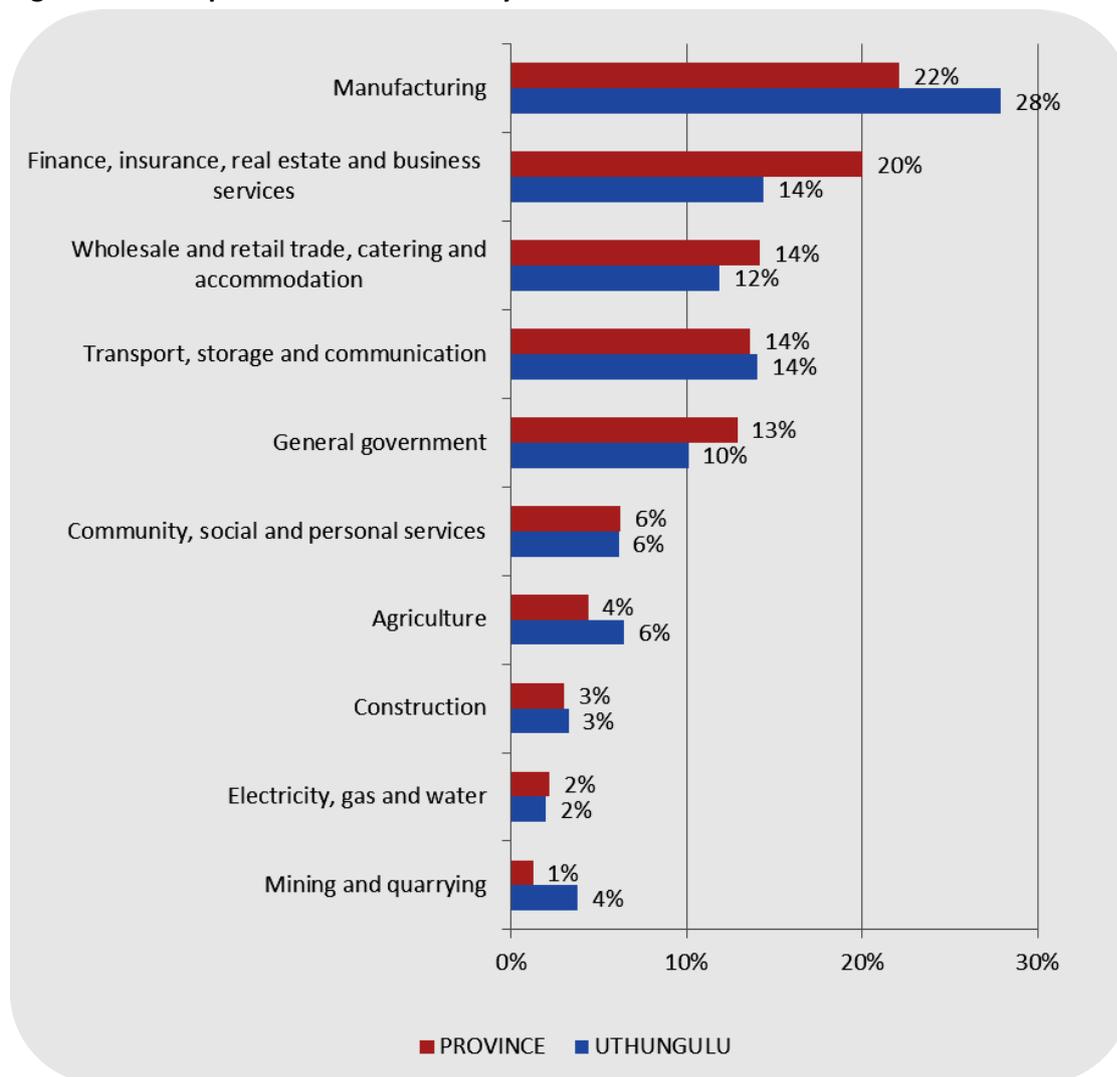
**The establishment of the Richards Bay IDZ:** The Richards Bay Industrial Development Zone is a designated geographical area for attracting major manufacturing companies and investment to the district and province at large. As the province's only operational IDZ, it is at the forefront of the provincial proposals for the designation of Special Economic Zones. The conversion of the existing IDZ into an SEZ, is anticipated to better capacitate the zone to attract major companies. Possessing a dedicated and incentivised zone for industrial development provides the district with a major comparative advantage in terms of developing its manufacturing capacity.

## Sectoral Advantages

### Desktop Study

As indicated in the Figure 9.1 below, manufacturing is very strong in uThungulu District, contributing substantially more to the local economy than the sector does to the provincial economy. The strength of the mining sector (heavy minerals in particular) in the district is also clearly depicted in the Figure, with this sector contributing four times more at a local level than it does at the provincial level. Finance and Insurance is of relatively lesser importance in the district as compared to the rest of the province and eThekweni and uMgungundlovu in particular.

**Figure 9.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that uThungulu has a comparative advantage in Manufacturing or Mining, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 9.1 below shows the detailed sectors which have a location

quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 9.1 – Positive Sectoral Location Quotients**

| Sector  | Locational Quotient |
|---|---------------------|
| Forestry and Logging                                  | 1.76                |
| Mining of coal and lignite                            | 5.89                |
| Mining of metal ores                                  | 9.77                |
| Other mining  | 8.42                |
| Food, beverages and tobacco products                  | 1.11                |
| Wood and wood products                                | 2.67                |
| Fuel, Petroleum and chemicals                         | 1.23                |
| Other non-metallic mineral products                   | 2.07                |
| Metal products and machinery and household appliances | 3.63                |
| Electronic, sound/vision, medical & other appliances  | 1.45                |
| Land and water transport                              | 1.14                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that uThungulu’s main comparative advantages lies in all forms of mining, although particularly in the mining of metal ores; and in the processing of minerals and the manufacture of metal products. Forestry and Logging and the related manufacturing of Wood and Wood products is also an, albeit less distinct, comparative advantage of the district. The remaining sectors in which the location quotients are between 1 and 1.5, may not have significant statistical variation from the provincial economy.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY               | Industry                |
|----|-----------------------|-------------------------|
| 1  | Bell Equipment        | Equipment manufacturing |
| 2  | Bayside Aluminium     | Aluminium products      |
| 3  | Exxaro KZN Sands      | Mineral mining          |
| 4  | BHP Billiton          | Aluminium products      |
| 5  | Richards Bay Minerals | Mineral mining          |

|           |                                       |                           |
|-----------|---------------------------------------|---------------------------|
| <b>6</b>  | Richards Bay Coal Terminal            | Trade and distribution    |
| <b>7</b>  | Ntingwe Tea Estate                    | Tea farming               |
| <b>8</b>  | Foskor                                | Chemical products         |
| <b>9</b>  | Mondi Packaging                       | Corrugated cardboard      |
| <b>10</b> | Tongaat Hulett - Amatikulu Mill       | Sugar and related         |
| <b>12</b> | Dynamic Fibre Mould                   | Egg boxes                 |
| <b>13</b> | Tata Steel KZN                        | Ferrochrome manufacturing |
|           | <i>Tongaat Hulett – Felixton Mill</i> | <i>Sugar and related</i>  |

In confirmation of the earlier location quotient findings, the largest employers in uThungulu are multi-national companies involved in the mining and manufacturing sectors. First stage beneficiation of metal, mineral and chemical products, represented by companies such as BHP Billiton, Tata Steel; Exxaro; Richards Bay Minerals and Foskor constitute the largest share of the manufacturing industry in uThungulu. However Bell Equipment is one of the largest individual employers in the district and is involved in more advanced value-adding manufacturing activities.

The agro-processing and wood processing sector is also strongly represented in the district by the Tongaat Hulett mills at Amatikulu and Felixton and the Mondi Packaging plant in Richards Bay. The distribution of major companies in uThungulu is highly concentrated around the heavy industrial areas of Mhlatuze and, aside from the mining companies which operate along most of the district's coastline, there are few major company employers in the rest of the district. The Ntingwe Tea Estate located in rural Nkandla Municipality is one exception, and claims to employ 800 people. Large scale forestry plantations operated by Mondi throughout the district also contribute toward employment in the district but are less labour intensive than commercial agriculture. Similarly citrus farms in the Nkwalini Valley and sugar cane farms along the N2 also provide significant employment, but the scale of this employment is relatively small compared to that generated by industry in Mhlatuze.

The district drivers report identified smaller more dynamic secondary-sector companies in the Packaging; Engineering and Transport and Storage industries. The report also identified dynamic companies in the Wholesale and Retail and Hospitality sectors (especially business tourism). Although the companies in these sectors are relatively small in comparison to the ones listed in the table above, they can be seen as significant drivers of economic growth in the region.

### *Findings of interview with uThungulu DM and the Zululand Chamber of Commerce*

The sectoral comparative advantages highlighted by the District Municipality and Chamber of Commerce largely agree with the findings of the location quotient and company analyses. Both the District Municipality and the Zululand Chamber of Commerce identified the established heavy-manufacturing industry, and the organised nature of businesses in this sector as the primary sectoral comparative advantage for the district. They also identified the Port as a key factor for attracting industry to Richards Bay, and noted the potential for expansion citing, the vast amount of available

land surrounding the Port. In respect to the Port, the Chamber strongly believed that there was too greater focus on Durban, and that the lack of a container terminal facility in Richards Bay was limiting the potential for the beneficiation of raw materials in the district.

The Chamber felt that uThungulu could have a potential comparative advantage in possessing a labour force with manufacturing and engineering related skills, but that the University of Zululand should offer courses which focus on developing these skill sets. The Richards Bay IDZ was also seen as a comparative advantage to attracting further manufacturing companies to the district. However, the District Municipality noted the environmental constraints currently limiting further industrial growth in the town of Richards Bay. In this respect, the District Municipality believe that the IDZ should designate additional land in the Nseleni area as part of the industrial zone.

Sand/dune mining was identified by the District Municipality as a comparative advantage of the district, and it was noted that Exxaro and RBM were trying to gain approval for mining rights at Fairbreeze and Port Dunford, respectively. This would secure the short-medium term future of mining in the district. Remaining in the primary sector, agriculture was believed by both the Chamber and District Municipality to have vastly unrealised potential. The possibility for the expansion fresh produce and essential oils farming was highlighted by the District. In regard to the latter uThungulu can be regarded as having a current comparative advantage in the production of essential oils in the province.

Finally, cultural tourism was highlighted by the Chamber as a comparative advantage of the district. This is because of the relatively recent launch of the Route 66: Zulu Culture and Heritage Route, which links cultural and heritage attractions with quaint accommodation options in Eshowe and Melmoth.

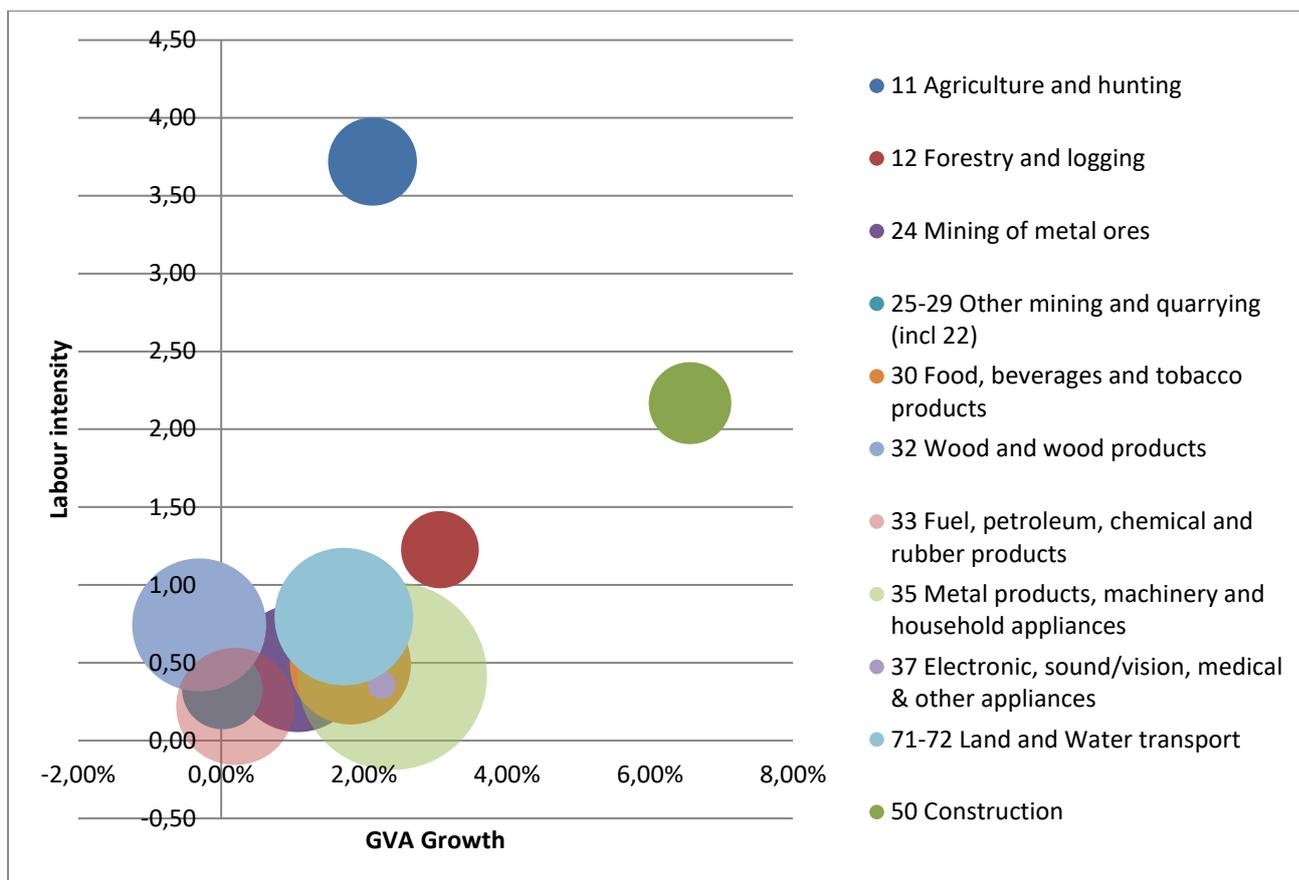
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 9.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 9.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 9.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 9.2 shows that the manufacture of Metal Products, Machinery and Household Appliances, is the largest contributor to GVA for the district. This industry, which is labour intensive, has experienced relatively slow economic growth of just over 2% over the past 10 years. Other large-value sectors which have experienced relatively slow but positive growth rates include the Mining of Metal ores; Food Processing and Land and Water Transport. This may be because these industries are already so well developed in the district, that their growth rate can only be dramatically raised by substantial new investments in these sectors. Agriculture is the most labour intensive industry in the district. While this, to some extent, reflects the employment role of Ntingwe Tea Estate, it also more than likely reflects the high degree of subsistence agriculture taking place on Ingonyama Trust Land.

The construction industry is the fastest growing industry within the district. While this may be on account of infrastructural upgrades at the Port, it may, as the Chamber suggests, point to an emerging comparative advantage in engineering and construction services in the district.

While based on this analysis it may be tempting to suggest that Metal and Machinery Manufacturing should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, uThungulu's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- ***Forestry and logging*** – After uMgungundlovu, uThungulu has the second largest forestry industry in the province, with extensive Mondi Plantations around Melmoth and Mtunzini. The outputs from these plantations are used as inputs at the Mondi Mill in Richards Bay, and this ensures a steady demand for timber in the district.
- ***Wood processing*** – Wood processing in the district is centred around the major Mondi Mill in Richards Bay. Growth in this industry is likely to remain stable but un-dramatic.

### ***Unstable or threatened***

- ***Mining of metal ores*** – Mining, by nature, is unsustainable and the mineral resources of the district are un-renewable. As such mining in the district has a limited lifespan. This said, there are enough untapped mineral deposits in the district to sustain mining operations for another 50 years. Vehement public opposition to the mining of new areas in the district, such as at Fairbreeze, however, threatens to significantly curtail the lifespan of the district's mining operations.

### ***High growth potential***

- ***Metal and Machinery Manufacture*** – Richards Bay has always been considered to be a 'heavy industry' town. As such the Municipality of Mhlathuze has seen a clustering of heavy industrial companies, particularly in the metal processing, smelting and machinery manufacturing industries. Conditional on the IDZ finding additional land with less severe environmental constraints and on the ability of the new SEZ programme to provide attractive incentives for businesses to locate in the zone, this sector should experience relatively strong growth in the future.
- ***Land and Water Transport*** – The 'Water' aspect of this sector, namely the Port and related maritime industry has significant potential in the district. The Port of Richards Bay, on account of its generous availability of land, offers some of the best opportunities in the country for the expansion of maritime activities. Growth opportunities in this sector exist in the areas of Ship Building and Repair; Cruise Tourism; Yachting and the possible development of a container terminal.

### ***Emerging***

- ***Construction and engineering*** – The construction industry is the fastest growing industry in the district. The District Drivers report, as well as the Zululand Chamber of Commerce recognise the potential of this sector to develop into a major comparative advantage sector for the district. This is largely on account of the demand for engineering and construction

work, whether in terms of maintenance or expansion, from both the large industrial companies and the Port of Richards Bay. Critical in developing this potential comparative advantage, is getting the University of Zululand to offer engineering and construction related courses.

## Special Economic Zone or Industrial Hub Options

### ***Primary Option: Richards Bay IDZ to become an SEZ***

The current Richards Bay IDZ is placed in a very favourable position as one of the almost certain KZN candidates for an SEZ due to the significant investment and work that has already taken place in its establishment as an IDZ. The fact that the RBIDZ has a specific area of operation and is already operational on the ground, very strongly supports this school of thought. The SEZ should continue to focus on the manufacture of metal and machinery products, while also attracting companies which will look to beneficiate some of the raw materials currently exported from the Port with very little value addition. The SEZ, however will have to include more land, with the preferred option being in the Nseleni area, on the inland side of the N2.

- Sunk investment in the IDZ
- Operational SEZ with a 50 year Master Plan
- Location near the largest and deepest Port in the country
- High concentration of heavy manufacturing industries in the municipality
- On the N2 Primary Corridor
- Good electricity supply

The compelling nature of the IDZ case to become an SEZ means that it is unnecessary to identify another SEZ or industrial hub option.

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| Project   | Description  | Location   | Status            |
|---|--|--|-------------------|
| <b>1. Improving Rail Infrastructure</b>   |  |  |                   |
| <ul style="list-style-type: none"> <li>Nkwalini Rail Branch Line</li> </ul>                                       | Re-opening and further developing the Nkwalini branch line to connect farmers in the valley to markets.                                  | Nkwalini; Umlalazi   | Exploratory       |
| <b>2. New Mining Developments</b>   |  |  |                   |
| <ul style="list-style-type: none"> <li>RBM and Exarro's mining applications</li> </ul>                            | RBM and Exarro are seeking to further there sand-mining operations in the district   | Mhlatuze; Umlalazi   | Exploratory       |
| <ul style="list-style-type: none"> <li>New mine near Melmoth</li> </ul>   | Coal Mining Operation  | Mthonjaneni  | Uknown            |
| <b>3. Beneficiation of Resources – attracting companies which will add value to locally sourced raw materials</b> |  |  |                   |
| <ul style="list-style-type: none"> <li>Improve the capacity of the IDZ</li> </ul>                                 | The IDZ currently only has one tenant and is constrained by land availability and lack of infrastructure                                 | Mhlatuze   | Planned           |
| <ul style="list-style-type: none"> <li>Development of Mbonambi zoned industrial area</li> </ul>                   | Development of an alternative heavy industry site, outside of the very polluted Richards Bay but still with strong links to the harbour. | Mbonambi Municipality                                      | Planned           |
| <ul style="list-style-type: none"> <li>Container Terminal</li> </ul>  | Develop a dedicated container terminal at the Port of Richards Bay with the aim to attracting value-add industries                       | Umhlatuze  | Envisioned        |
| <b>4. Extension of commercial agriculture to traditional areas</b>  |  |  |                   |
| <ul style="list-style-type: none"> <li>Essential oils project</li> </ul>  | Development of essential oils farming in traditional areas   | Nkandla, Mbonambi, Mthonjaneni and Umlalazi municipalities | Being implemented |
| <ul style="list-style-type: none"> <li>Fresh produce market</li> </ul>  |  |  |                   |
| <ul style="list-style-type: none"> <li>Bulk scheme from Goedetrouw Dam</li> </ul>                                 | To provide irrigation water to farming operations in the Nkwalini Valley   | Umlalazi, Nkandla, Mthonjaneni                             | Planned           |
| <b>5. Agro-processing</b>   |  |  |                   |
| <ul style="list-style-type: none"> <li>Refrigeration facility at Port of Richards Bay</li> </ul>                  | Development of refrigeration facility at the Port of Richards Bay to store fresh   | Umhlatuze  | Envisioned        |

|                                      |   |                          |  |
|--------------------------------------|---|--------------------------|--|
|                                      | produce farmed in the district  |                          |  |
| <b>6. Energy creation</b>            |   |                          |  |
| • Wind Power                         | Development of Wind Farms on community land in the district   | Unknown                  | Exploratory – Florida Enterprise possible investor |
| <b>7. Cultural tourism promotion</b> |   |                          |  |
| • Big five game reserve              | Development of big five game reserve  |                          | Envisioned   |
| • Route 66                           | Promotion and packaging of the Zulu Culture and Heritage Route (R66)  | Umlalazi; Mthonjaneni    | Implementation                                     |
| • KwaBulawayo Tourism Development    | Create a tourism attraction based on historical significance  | Bhekeshowe               | Implementation                                     |
| • Cruise Passenger Liner Terminal    | The development of a Premier Cruise Destination, to cover the destination Durban to Richards Bay to Maputo and back | Richards Bay             | Envisioned   |
| <b>8. Rural Development</b>          |   |                          |  |
| • Nkandla Smart Growth Centre        | Mixed use urban precinct development  | Nkandla and Umlalazi LMs | Planned  |

## uThukela District Comparative Advantages

### Brief description of the District

uThukela District Municipality is located in the interior western edge of the province and is bordered by districts in the Free State as well as by four KwaZulu-Natal districts; as. The District Municipality has the 6<sup>th</sup> largest population in the province, contributing just over 6.9% of the total population of KwaZulu-Natal, and has experienced a population growth rate of 1.3% in the last 7 years. uThukela District Municipality is the fourth largest economy in the province contributing 4.7% of the province's GVA. In terms of GVA per capita, as a measure of prosperity, the district ranks as the 6<sup>th</sup> most prosperous district in KwaZulu-Natal.

*Key spatial features of the uThukela District impacting on economic development include:*

- Ladysmith-Ezakheni (greater Ladysmith), Estcourt, Bergville and Winterton as the economic development nodes in the district with greater Ladysmith as the key economic development node.
- The N3 passes through the centre of the district slightly to the west of Estcourt and to the east of Ladysmith.
- The functional national rail route connects Gauteng, Newcastle and Ladysmith to Ethekwini.
- The majority of the formal urban settlement in the district is located in and around greater Ladysmith and to a lesser extent the smaller rural towns listed above.
- There are large areas of the district which are owned by the Ingonyama Trust Board which are under rural settlement and limited subsistence agriculture.
- The remainder of the land area in the district is under land reform (mainly subsistence) and commercial agriculture.
- The land use in the higher western areas of the district is extensive crop production in the form of wheat, maize, soya bean and livestock farming. In the lower hotter and dryer areas cultivation is limited by water availability and access top good soils. The result is that much of this land is used for livestock and limited cultivation.

### Locational Advantages

**Gateway to Gauteng:** The N3 Primary corridor runs straight through the middle of uThukela, and towns such as Ladysmith and Estcourt are located within minutes of the N3. This ensures that the district has excellent connectivity to both Johannesburg and Durban, and can be considered the province's primary gateway to Gauteng. This provides the district with the opportunity to capitalise on the planned industrial development of the route as identified in the Strategic Integrated Plans. It also ensures that the district has a constant flow of commuters and truck drivers passing through it, which certainly presents a range of tourism and logistics-related opportunities.

## Natural/geographic Advantages

**Northern and Central Drakensberg Escarpment:** A large portion of the district borders the Drakensberg World Heritage Site. As such the district contains some of the most popular regions for exploring the Drakensberg, these include the Champagne Valley; Cathedral Peak and Giants Castle. In addition the district can also boast easy access to the spectacular Amphitheatre and the 2<sup>nd</sup> highest waterfall in the world in the form of Tugela Falls. This yields the district with a significant eco-tourism comparative advantage.

**Headwaters of the Tugela River:** The Tugela River cascades down the Amphitheatre from its source at Mont Aux Sources and meanders through the district. The river which is synonymous with the district, fills the district's dams; is used for subsistence and commercial agriculture; offers excellent trout fishing and is a popular spot for river rafting and tubing.

## Infrastructural Advantages

**The N3 highway:** The N3 highway bisects the district and offers almost all of the district's major nodes with fast connectivity to either Gauteng or Durban.

**Dams:** The district has two major dams in the Tugela catchment in the form of Spioenkop and Woodstock dam. The latter dam has a hydro-electric power plant. Further plans for the development of the Ingula Hydro-Plant re-enforces the district's comparative advantage in the generation of hydro-electricity.

## Heritage Advantages

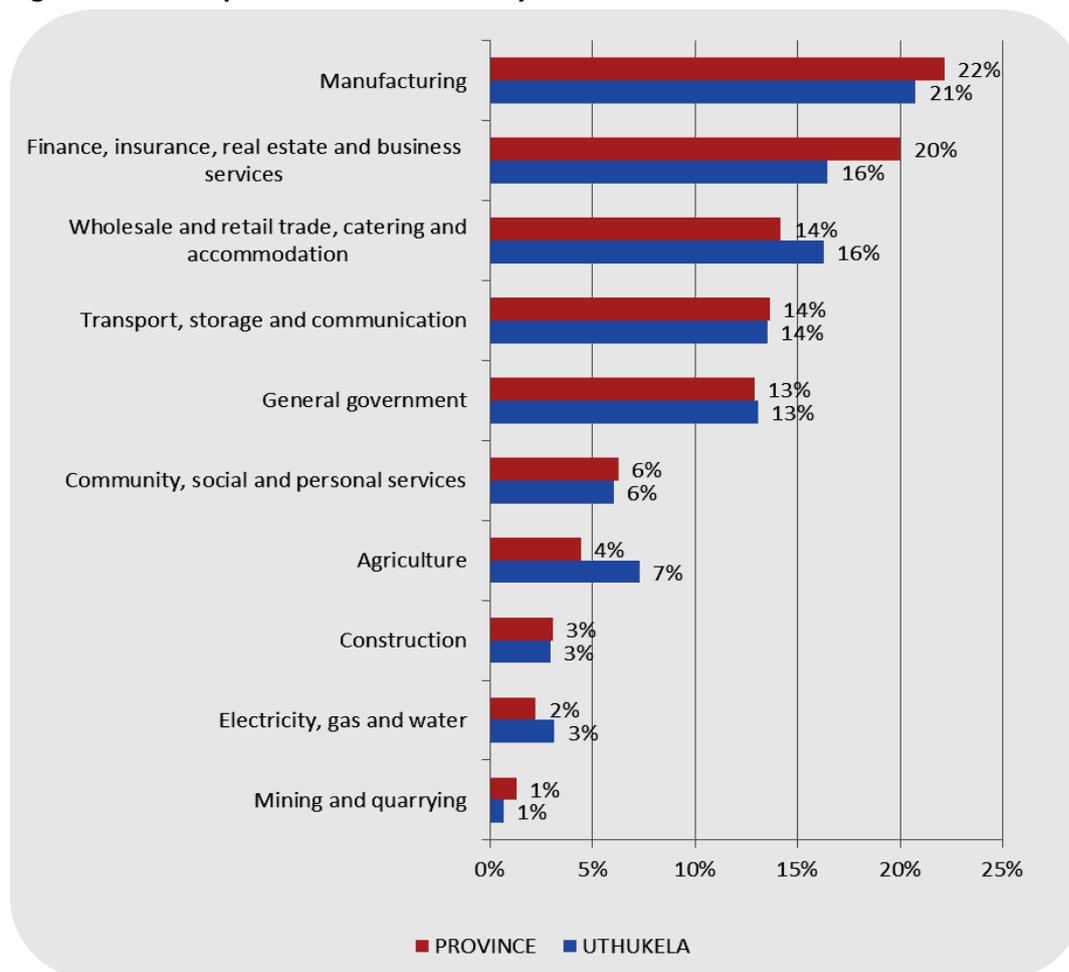
**Anglo-Boer War and Drakensberg heritage sites:** uThukela has a number of Anglo-Boer war battlefield sites, the most prominent of which is probably Spioenkop but also includes the site of the Battle of Colenso and the site of the Siege of Ladysmith. While these battlefield sites, with the exception of the former, may not be as well-known as some of those in Umzinyathi, the potential to link these historical heritage sites with the natural heritage sites in the Drakensberg (including rock-art painting), provides the district with the opportunity to offer unique and evocative tourism routes.

## Sectoral Advantages

### Desktop Study

As indicated in the Figure 10.1 below, while manufacturing is the district's largest sector, it contributes less to district GVA than it does to provincial GVA. Similarly Finance and Business is a relatively less important sector for the district than it is for the province. In contrast, Agriculture is of relatively greater importance for the district contributing 7% for the district as compared to 4% for the province. The Wholesale and Retail Trade sector also has a higher share in the district than it does for the province as a whole.

**Figure 10.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that uThukela has a comparative advantage in Agriculture or Trade, as these sectors contain numerous sub-sectors and industries and can be widely diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 10.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 10.1 – Positive Sectoral Location Quotients**

| Sector                              | Locational Quotient |
|-------------------------------------|---------------------|
| Agriculture and Hunting             | 2.98                |
| Forestry and Logging                | 1.06                |
| Mining of coal and lignite          | 1.48                |
| Clothing and textiles               | 1.85                |
| Other non-metallic mineral products | 1.17                |
| Electrical machinery and apparatus  | 1.98                |
| Electricity, gas and steam          | 1.27                |
| Land and water transport            | 1.28                |
| Public Administration               | 1.35                |
| Education                           | 1.83                |
| Health and Social Work              | 1.46                |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that uThukela’s economy is relatively diverse with few standout comparative advantage sectors. In the primary sector, Agriculture and Hunting is a comparative advantage of the district. This is a result of extensive crop production in the western areas of the district. In the secondary sector the location quotient method reveals slight comparative advantages in the manufacture of clothing and textiles as well as the manufacturing of electrical machinery. Electricity, gas and steam production reflect the district’s possession of a hydroelectric plant. While, in the tertiary sector, Land and Water Transport reflects the district’s location on the N3 Primary Corridor and its related logistics potential. The remaining sectors, in which the location quotients are between 1 and 1.2, may not have significant statistical variation from the provincial economy.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver’s report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY                | Industry                |
|----|------------------------|-------------------------|
| 1  | Masonite Estcourt Mill | Hardboard manufacturing |
| 2  | Defy Ezakheni          | Appliance manufacturing |
| 3  | Dunlop Tyres           | Tyre manufacturing      |
| 4  | Durban Overall         | Protective Clothing     |
| 5  | Nestlè                 | Beverages               |
| 6  | Eskort Ltd Food        | Meat products           |

|           |                            |                     |
|-----------|----------------------------|---------------------|
| <b>7</b>  | Bata Shoes                 | Footwear            |
| <b>8</b>  | Zorbatex Towelling         | Towel manufacturing |
| <b>9</b>  | Canvas & Tent              | Tent manufacturing  |
| <b>10</b> | Lasher Tools               | Hand tools          |
| <b>11</b> | Narrowtex Production Plant | Webbing             |
| <b>12</b> | Pick 'n Pay                | Retail              |
| <b>13</b> | Transvaal Bolt & Nuts      | Metal products      |
| <b>14</b> | Drakensberg Logistics      | Transport services  |

The list of major employers in uThukela is dominated by manufacturers, although in a variety of industries. A number of well-known national and international brands have manufacturing plants in the uThukela District, mainly located in Estcourt, Ladysmith and Ezakheni. Nine of the top 10 firms are household brand names. The existence of companies such as Durban Overall; Zorbatex Towelling; Canvas and Tent and Bata Shoes, confirms the location quotient findings that the district has a comparative advantage in the Clothing and Textiles sector. Similarly, the comparative advantage found in the Electrical Appliance Manufacturing sector is partly as a result of the presence of the Defy factory in Ezakheni. All of these companies, in both the Textiles and Electrical Manufacturing sectors, are located in the north of the district, principally around Ladysmith and the industrial estate of Ezakheni.

Major companies in the south of the district, tend to be clustered around Estcourt and focus on agro-processing, including wood processing. In particular, Estcourt is a major centre for food processing in northern KwaZulu-Natal, with the likes of Nestle and Eskort Ltd Food being major employers in the region. Additionally the Masonite Mill in Estcourt, which processes wood to create hardboard is considered to be the district's largest employer. It is interesting to note that even in this relatively "industrialised" District a retailer features under the major employers. Drakensberg Logistics and Pick and Pay are the only non-manufacturing firms featuring under the major employers in the district. The presence of Drakensberg Logistics in the district attests to the district's strategic location on the N3 transportation corridor.

It is worth noting the lack of any major tourism companies on the list of top employers. While this may simply be a question of scale, as individual tourism establishments rarely employ more people than major manufacturing companies, the fact that the Hotels and Restaurants sector has a location quotient of less than 1, and is found to employ less than 2% of the district's workforce despite possessing a world heritage site, points to unutilised potential in the tourism sector.

The District Drivers Report identified newer, smaller and more dynamic companies contributing disproportionately to growth, located in the Services Sector (including medical services; social services and IT) as well as in the Trade Sector encompassing wholesale and retail trade outlets and tourism and hospitality establishments. In respect to the latter, new growth in the tourism industry in the district is largely driven by smaller boutique hotels and Spas.

### *Findings of interview with uThukela DM*

The uThukela District Municipality largely identified the same sectoral comparative advantages as the desktop and district drivers analyses have done, namely, Agriculture; Transport and Logistics; and Clothing and Textiles. In respect to the latter, the District pointed out that Bafana Bafana's world cup kit was made in the Peters area around Ladysmith. The District, however, also stressed the importance of the Tourism sector, both as it stands currently and as a potential future growth sector. With respect to this sector, the District are concerned that some established Drakensberg Hotels have recently closed down and, as such are cognisant of the need to reinvent and re-package the Drakensberg Tourism Product so as to increase tourist numbers and occupancy rates in the area. At the same time the District are trying to diversify their tourism offering by promoting their Battlefields Route and by developing other cultural tourism attractions which take advantage of the N3 corridor, such as the 'Bridge to Nowhere' Project.

In addition to the tourism sector, the District believe that Agriculture has the largest growth potential in the district and, in order to tap into this potential, are actively developing new farming projects in Weenen (vegetables) and across the district. The relative abundance of flowing water was perceived by the District, to be a comparative advantage both in terms of water distribution and hydroelectricity. The Ingula Pumped Storage Scheme, currently under construction, is a massive development for the district. When complete it will overtake the Drakensberg Pumped Storage Scheme also located in uThukela, as the province's largest power station. This development, together with the existing hydro plant, make uThukela the province's leading district in terms of renewable energy generation.

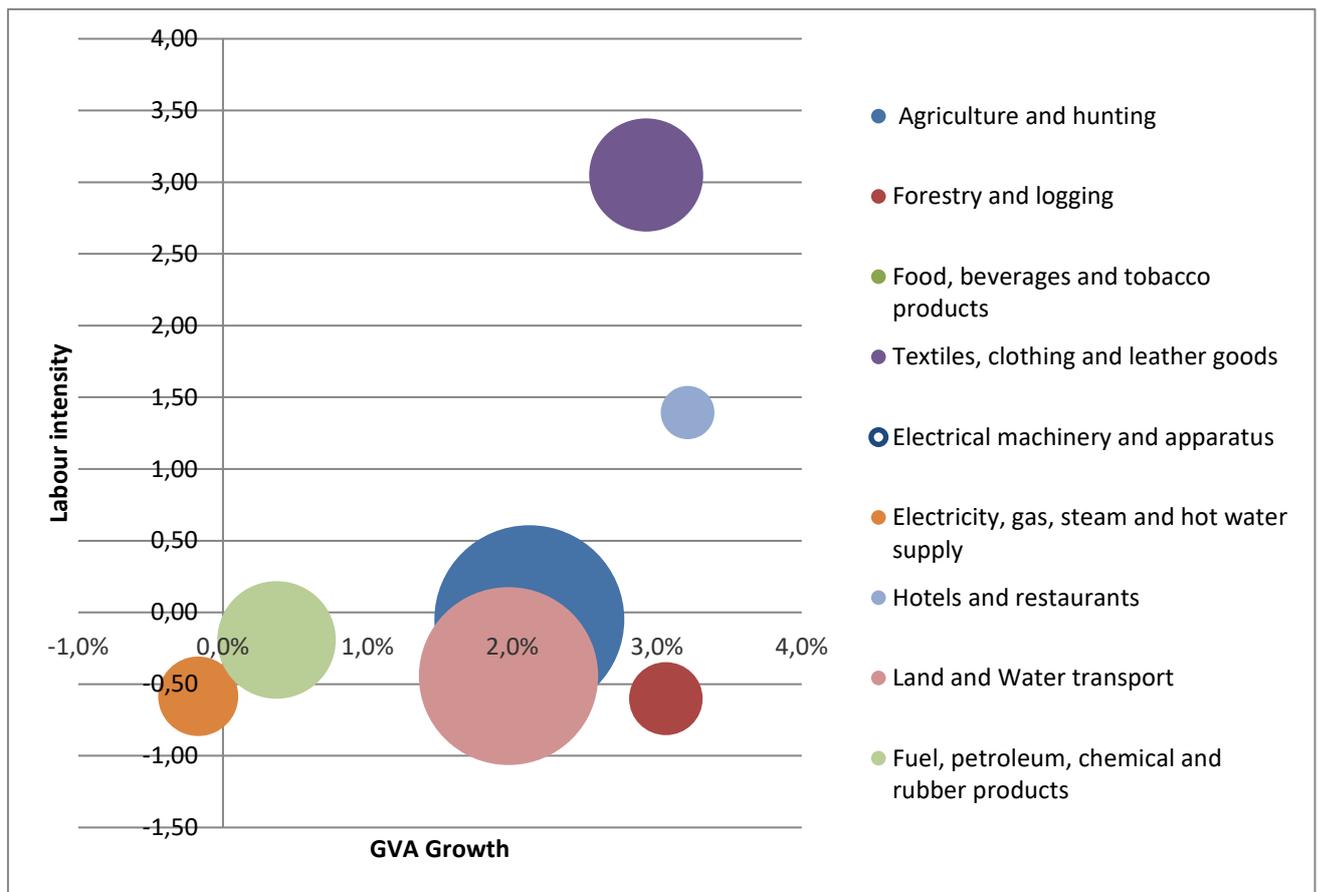
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 10.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 9.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 10.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 10.2 shows that Agriculture and Hunting is the largest productive sector in the uThukela economy and the second largest sector in total after Education. Land and Water Transport is also one of the largest and fastest growing sectors of the district economy. This most likely reflects the increasing importance of the N3 corridor and the potential for areas such as Van Reenen to act as Transport of Logistics hubs on this route. Large companies in Food and Beverage Manufacturing (Nestle; Eskort Ltd) and Petrochemical and Rubber Product Manufacturing (Dunlop) ensure that these are also prominent sectors in the district economy.

The two most labour intensive sectors are Clothing and Textiles, which, of the productive sectors, is the largest employer in the district, and Hotels and Restaurants. While Hotels and Restaurants is only one aspect of the tourism industry, it does act as a proxy for the performance of the industry in the district. With Hotels and Restaurants constituting less than 2% of the employed in the district, and growing at a very slow rate, it is clear that the potential of the World Heritage Status of the Drakensberg as a tourism attraction is being underutilised.

While based on this analysis it may be tempting to suggest that Agriculture should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## Categorisation of Sectoral Comparative Advantages

Based on the figure above, together with the previous analysis, uThukela's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- ***Land and Water Transport*** – This sector will continue to grow as the importance of the N3 Corridor increases. The identification of the N3 Corridor as a Strategic Integrated Project will usher in increased investment along the entire route, including the substantial uThukela section. Mitigating against dramatic growth in the Transport and Logistics sector in uThukela, however, is the fact that Harrismith has been identified as the location of a consolidated logistics hub on the route. While this may have some positive spin-offs for the district it precludes the development of a logistics hub in uThukela itself.
- ***Food and beverage processing (Pork products and chocolate drinks)*** – Although not revealed as a major comparative advantage by the location quotient method, this sector is nonetheless very important for the Estcourt region. Estcourt is one of the leading areas in the country for the production of processed pork products. Thus while, the sector as a whole may not be a comparative advantage sector for the district (particularly when compared to the Sugar Mills in other regions), meat processing, as a smaller sub-sector, is definitely a comparative advantage for the district. This also relates to the production of chocolate drinks by the Nestle factory in Estcourt.
- ***Agriculture and Hunting*** – Agriculture has grown strongly in the district over the past ten years and new projects to expand vegetable production and to develop tunnel farming initiatives, could see this sector continue to grow strongly. There is also currently a major Pecan Nut project being developed in the district. Harnessing the irrigation possibilities of the dams in the district could see the opening up of further fertile agricultural areas.

### ***Unstable or Threatened***

- ***Clothing and Textiles*** – While uThukela's clothing and textile industry is less vulnerable than Amajuba's clothing and textile industry, due to a greater representation of South African as opposed to Chinese owned companies, it still faces intense competition from other developing countries. However, specialised, niche manufacturing in this sector, by companies such as Canvass and Tent, can ease some of this competitive pressure.
- ***Tourism*** – Tourism was not found to be a sectoral comparative advantage of the district, despite the district's natural and geographical advantages. Furthermore this sector has seemingly under-performed of late, and occupancy rates have been declining, resulting in the closure of the iconic Little Switzerland Hotel. While the future of tourism in the district may be threatened, the negative factors are not without remedy and the potential of tourism in the district remains substantial. Current efforts at diversifying the tourism offering and providing more world-class attractions (such as a potential Cable Car up the Escarpment), are looking to turn the state of the tourism industry in the district around.

### **High growth potential**

- **Renewable energy generation** – The Ingula Pumped Storage Scheme, when complete, will enhance the capacity of the district to provide power to the national grid.

## **Special Economic Zone or Industrial Options**

### **Primary Option: Clothing and Textiles Hub**

uThukela has the third largest Clothing and Textiles Industry in the province, only behind eThekweni and uMgungundlovu. However, in terms of share of total district employment contribution, the Clothing and Textile sector in uThukela contributes more than it does in any other district. The hub would incorporate Ladysmith and Ezakeni and be diverse in its focus, incorporating all forms of textiles from canvass, towels and sheets to clothes.

- Halfway between Durban and Johannesburg, close to N3
- Ezakeni is an established industrial area incorporating clothing and textile companies
- There is a clustering of large and well-known clothing and textile companies around Ladysmith/Ezakeni
- The companies specialised in a broad range of clothing and textile manufacturing not just garments, for which there is extreme competition from the East

### **Secondary Option: Electronics Hub**

## **Economic Opportunities and Catalytic Projects**

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b><br>• <b>Project</b>   | Description  | Location                          | Status      |
|---|--|-----------------------------------|-------------|
| <b>1. Enhance uThukela's tourism product</b>      |  |                                   |             |
| • Cableway development                            | Develop a cableway which will take tourists to the top of the Northern Berg Escarpment                                     | Northern Berg                     | Exploratory |
| • Revive the Royal Natal Hotel                    | Construct and re-develop the derelict hotel in the Royal National Park   | Royal National Park               | Planned     |
| • Bridge to nowhere tourism hub                   | Development of a tourism hub including arts and craft retail and a tourism information office on the incomplete N3 bridge. | N3 Ladysmith                      | Planned     |
| • Bergville Hospitality School                    | Developments of a hospitality school run by an FET college.  | Bergville                         | Planned     |
| • uThukela Tourism Route                          | A tourism route incorporating both the Western Drakensberg attractions and the eastern inland battlefield attractions      | Throughout district               | Planned     |
| • Woodstock dam developments                      | Development of accommodation and recreational fishing on Woodstock Dam   | Woodstock Dam                     | Exploratory |
| • Drakensberg/Maloti transfrontier Park           | Establishment of transfrontier conservation area encompassing the Drakensberg in KZN; the Free State and Lesotho           | Drakensberg/Maloti Mountain Range | Planned     |
| • Cannibal Route                                  | Tourism development around cannibal caves  |                                   | Exploratory |
| <b>2. Exploiting agricultural potential</b>       |  |                                   |             |
| • Satellite Hub for Johannesburg Vegetable Market | Unspecified  | Unspecified                       | Exploratory |
| • Qedusizi Dam                                    | Construction and alteration of the Qedusizi Dam from a flood continuation facility to a storage dam                        | Ladysmith                         | Planned     |
| • Pecan Nut Project                               | 60ha of land adjoining the Klip River has  | Klip River                        | Planned     |

|   |   |             |             |
|---|---|-------------|-------------|
|   | been made available for a pecan nut project to benefit emerging farmers   |             |             |
| • Aloe and Berg Teat project                      | Unspecified   | Emnambithi  | Planned     |
| • Thukela Agricultural Hub                        | Proposed development of a high-value intensive farming zone for local and export markets  | Unspecified | Exploratory |
| <b>3. Develop textile industry</b>                |   |             |             |
| • Create a textile and rubber SEZ                 | Promote the clustering of textile and rubber producers and retailers  | Ladysmith   | Envisioned  |
| <b>4. Improvement of Transport Infrastructure</b> |   |             |             |
| • Logistics Hub (Trade Port)                      | To develop an Inland Cargo Terminal Container Handling Facility, Intermodal Exchange Point, Refuelling Depot, Warehousing, Storage, Clearing and Forwarding | Ladysmith   | Envisioned  |
| • Regional Aerodrome                              | Upgrading and lease of regional airport   | Ladysmith   | Envisioned  |

## Sisonke District Comparative Advantages

### Brief description of the District

Sisonke District Municipality is located in the south-western interior of the province and is bordered by the Eastern Cape and Lesotho as well three districts in KwaZulu-Natal. The District Municipality has the 9<sup>th</sup> largest population in the province, contributing just over 4.8% of the total population of KwaZulu-Natal, and has experienced a population growth rate of 1.3% in the last 7 years. Sisonke District Municipality is the second smallest economy in the province contributing just 2.3% of the province's GVA. In terms of GVA per capita, as a measure of prosperity, the district ranks as the 9<sup>th</sup> most prosperous district in KwaZulu-Natal.

*Key spatial features of the Sisonke District impacting on economic development include:*

- Ixopo, Underberg-Himeville, Creighton, Umzimkulu; Bulwer and Kokstad are the key economic development nodes in the district.
- The district is characterised by limited formal urban development the majority of which is located in the centres listed above. However, rural traditional areas of the district are characterised by large residential populations scattered throughout the district.
- Transportation routes linking these disparate nodes include the main road (R56) through from Msunduzi to the Eastern Cape via Ixopo and Kokstad. The other main road traversing the district is the (R617) which links Msunduzi to Bulwer, Underberg and Kokstad. There is a linkage route from the coast at Park Rynie to Ixopo and Bulwer.
- The main focal area for tourism in Sisonke is the Drakensberg from Bushmans Neck through to Sani Pass. Some adventure tourism is taking place along the major river systems (canoeing on the Umkomaas and Umzimkulu) and gravel roads (Sani to sea mountain bike challenge).
- Commercial agriculture is extensive throughout the district with the notable exception of Umzimkulu. Similarly subsistence agriculture is extensive with the exception of the Greater Kokstad municipality.
- The predominant crops produced in the municipalities closest to the Drakensberg include: livestock, maize, potatoes and deciduous fruit. In the lower lying areas of the district crops produced are similar to the above in addition to commercial timber and sugar cane.

### Locational Advantages

**Gateway to the Eastern Cape:** The N2 highway exits the province into the Eastern Cape at Brooks Nek just outside of Kokstad. This is the primary route connecting the Eastern and Western Cape with KwaZulu-Natal and experiences high traffic volumes comprised of tourists; business people and truckers. While the Greater Kokstad Municipality has seen relatively little development in its transport and logistics or even tourism industries despite being a gateway to the Eastern Cape (especially as compared to uThukela or Amajuba), there has been significant development in the retail and services sectors as Kokstad continues to grow as a primary service node for a vast area of

the Transkei. The fact that it is this sector, retail trade and services, and not transport or passing tourism that is most important for Sisonke may ensure that the proposed re-routing of the N2 through the Wild Coast will not have too great a negative impact on the district.

**Gateway to Lesotho (Sani Pass):** In contrast to the N2 into the Eastern Cape, which brings relatively little tourism benefit to the district, the Sani Pass route into Lesotho provides the district with significant tourism advantages. Sani Pass is the only formal route into Lesotho from the province and provides tourists with the opportunity to explore the Mountain Kingdom. The Pass, however, is also an attraction in its own right, offering a number of accommodation options and a variety of adventure activities. The limited development on the Lesotho side of the pass means that most tourists base themselves at hotels (such as Sani Pass Hotel) in Sisonke and drive into Lesotho as a day trip.

### Natural/geographic Advantages

**Southern Drakensberg Escarpment:** The district has access to the southern portion of the Drakensberg escarpment in the province, and as such has a comparative advantage in eco-tourism (especially mountain tourism) compared to most other districts. Where the district stands out compared to the two other 'Drakensberg districts', uThukela and uMgungundlovu, is in possessing Sani Pass and the town of Underberg. Underberg plays host to the annual Splashy Fen Music and is also the starting point for the popular Sani to Sea mountain biking event.

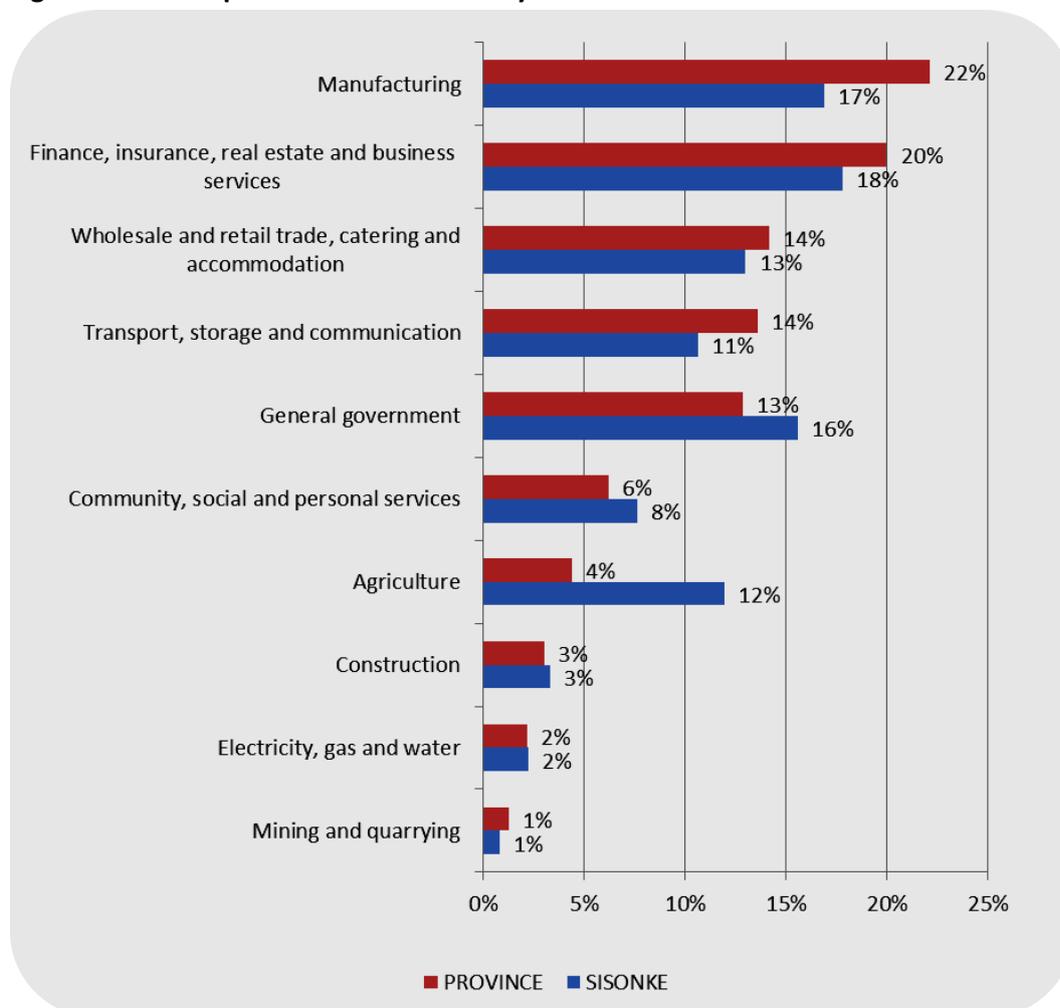
**Good agricultural land:** The combination of good climatic conditions and a relative abundance of water, flowing from the Drakensberg catchment areas, combine to make Sisonke a good area for agricultural production. Sisonke district is commonly considered to be the foremost dairy farming region in the province, but is also a major region for forestry and maize.

## Sectoral Advantages

### Desktop Study

As indicated in the Figure 11.1, Sisonke's sectoral economic breakdown largely conforms to that of other rural and largely undeveloped parts of the province (Zululand; Umkhanyakude), wherein the General Government and Community Services Sector are of substantial greater importance to the district than they are for the province as a whole. While one would expect the contribution of the Agricultural sector in the district to be large, this sector is disproportionately large in Sisonke, contributing more than 3 times what the sector contributes at a provincial level. This is a reflection of the rural pattern of settlement but also attests to the strength of Agriculture in Sisonke. The poor performance of the Manufacturing and Finance sectors reflects the lack of urban economic centres in the district.

**Figure 11.1 - Comparison of GVA shares by main economic sector**



Source: District Drivers Profile (2012)

It is too simplistic to say that Sisonke has a comparative advantage in Agriculture or Community and Personal Services, as these sectors contain numerous sub-sectors and industries and can be widely

diverse. As such it is necessary to provide a more detailed breakdown of the sectors contained in the main economic sectors shown in the figure above. Table 11.1 below shows the detailed sectors which have a location quotient in excess of 1, which is to say are sectors that contribute more to the local economy than what they do to the provincial economy.

**Table 11.1 – Positive Sectoral Location Quotients**

| <b>Sector</b>                             | <b>Locational Quotient</b> |
|---|----------------------------|
| <b>Agriculture and Hunting</b>            | 5.85                       |
| <b>Forestry and Logging</b>               | 7.41                       |
| <b>Retail Trade and Repairs</b>           | 1.10                       |
| <b>Sale and Repairs of Motor Vehicles</b> | 1.01                       |
| <b>Hotels and Restaurants</b>             | 1.45                       |
| <b>Public Administration</b>              | 1.82                       |
| <b>Education</b>                          | 2.35                       |
| <b>Health and Social Work</b>             | 1.47                       |

*Source: Own calculations based on data from Global Insight*

Based on the location quotient method as a means for identifying comparative advantages, it is clear that Sisonke’s economy is heavily dependent on Agriculture and Hunting, as well as Forestry and Logging. In fact, Agriculture and Hunting constitutes a greater share of the district’s GVA, than it does in any of the other ten districts. In contrast the district appears to have no noticeable comparative advantages in the Manufacturing sector. In the tertiary sector, the Public Sector plays a large role. As in previous analyses of less developed districts, these cannot be considered particularly meaningful comparative advantages as they are not linked to productive use of resources and are more likely to reflect the level of state dependence by the district.

The comparative advantage, albeit slight, of Hotels and Restaurants, reflects the comparative advantage the district has in terms of Berg tourism, and captures a number of the established hotels in the Sani Pass and Garden Castle regions.

While location quotients can give us quite a good idea of comparative advantages for a district, it is necessary to supplement this form of secondary research with the level of insight and economic intelligence that only primary research can provide. To this end the following two sub-sections contain the findings of two primary data collection processes

### *A Company Perspective – Findings of the District Driver Report*

The District Driver's report (2012), which conducted a survey of the major companies in each district, identified the top company economic drivers for the district based on employment figures. These findings are presented in the table below.

| NO | COMPANY                                 | Industry                 |
|----|---|--------------------------|
| 1  | Singisi Forest Products                 | Logging                  |
| 2  | Woodburn Estates                        | Agricultural Commodities |
| 3  | Drakensberg Gardens (Gooderson Leisure) | Tourism and Hospitality  |
| 4  | SuperSparUmzumkhulu                     | Retail                   |
| 5  | Sutherland Seeds                        | Seeds                    |
| 6  | Sani Pass Hotel & Leisure               | Tourism and Hospitality  |
| 7  | Newlands Spar                           | Retail                   |
| 8  | Clover SA Kokstad                       | Dairy Products           |
| 9  | Herdstorm Farm                          | Agricultural Commodities |
| 10 | Creighton Cheese                        | Cheese Products          |

As alluded to by the location quotient analysis, the major companies in the district are clustered around the Agricultural; Tourism and Retail industries. The only notable manufacturing activities which occur in the district are in the area of dairy and wood processing, and are largely undertaken by the same companies which are originally involved in forestry and farming. This would suggest a high degree of vertical integration in the Sisonke economy, whereby companies control both the production of raw materials and the beneficiation of these inputs into a final product.

The relative importance of retail companies is a result of both the lack of a true manufacturing industry in the district, and the fact that dispersed settlement patterns afford limited market entry to only a few large scale retailers as opposed to numerous smaller retailers in various economic nodes. The Retail industry also plays an important role as a supplier to a large market in the Eastern Cape. The comparative advantage that the district has in Eco-tourism is reflected in the presence of two large and well-established Berg resorts being among the district's top employers.

If one were to add all the formal companies in Sisonke to the list above, this would still only reflect a small percentage of employment in the district. This is because the majority of employment is either found in the Public Sector or self-employed Agriculture. In respect to the latter, to be more specific, a large proportion of Agricultural employment can be found in small-scale and subsistence farming, especially in the Umzimkhulu Municipality.

### *Findings of interview with Sisonke Development Agency*

The meeting with the Sisonke Development Agency largely confirmed the findings of the Desktop and District Drivers Analyses. The Agency views Tourism and Agriculture as the principal comparative advantage sectors of the district. Tourism's comparative advantage stems from having access to the Drakensberg, but the Agency was also quick to point out the steam train tourism route which is unique to Sisonke, and which is currently planned for expansion. The importance of sporting events and music festivals was also highlighted as giving the district significant tourism exposure. At a more niche market level, it was noted that the district contains a number of Birding Hotspots playing home to numerous rare birds.

The Agency believes the district has major comparative advantages in agricultural production. This ranges from dairy farming to cash crops and essential oils. While the importance of the Forestry Industry is noted, the Agency feels that this sector is under threat, with a number of saw mills having recently closed down. As such the scope for growth in this sector is believed to be limited. In terms of Agro-processing, the Agency think there is substantial growth potential, and are actively engaging in a number of agro-processing initiatives aimed at catalysing that sector. While Dairy processing will continue to be the cornerstone of the industry, with both Nestle and Parmalat expressing interest in buying local dairy farms, the development of bio-fuel; animal feed and essential oil processing plants are being explored.

In addition to Agriculture, Agro-processing and Tourism, the Agency also identified the Construction; and Retail and Services industries as possible growth sectors for the district on account of the large-scale public investment going into the development of the district's main nodes. The development of diverse economic opportunities in the district is however, constrained by a number of factors pointed out by the Agency. These are, namely, poor connections to major economic nodes; the unavailability of land and uncertainty of land ownership; complete lack of tertiary institutions and limited business infrastructure. The Agency believes that addressing some of these constraints will have significant positive impacts for the district.

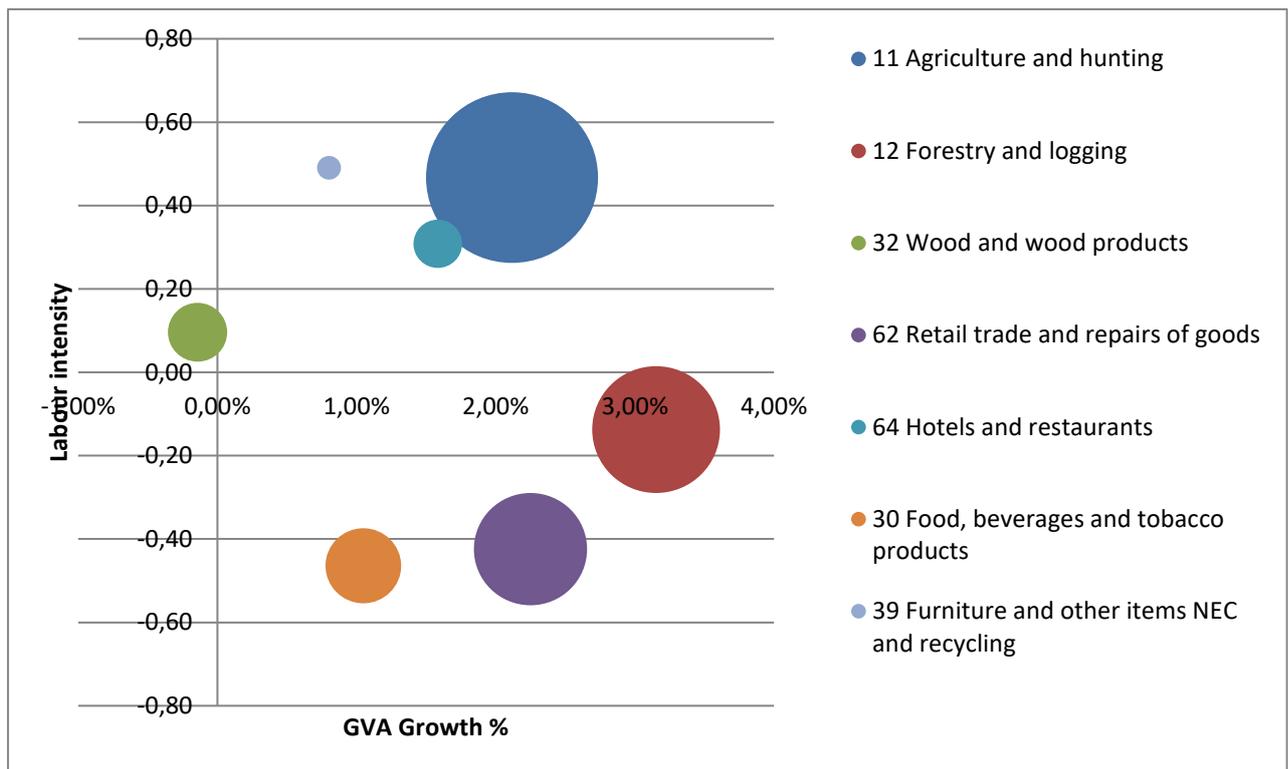
### *A Dynamic Perspective*

The location quotient approach as well as a company-based identification of comparative advantage is a relatively simplistic and static analysis because it is based on the sector's share of GVA at a given time, and therefore doesn't take into account growth or decline in the sector over time. Additionally the location quotient is based on output and not on employment, so it does not give us any insight into the importance of this sector from a labour perspective.

Figure 11.2 provides a more complex analysis of sectors with potential comparative advantages for the district. Three variables are reflected in Figure 9.2 and are described below:

- X-axis - Average GVA growth 2001-2010
- Y-axis - Average labour intensity 2001-2010 ((employment share ÷ GVA share) – 1)
- Size of bubble – GVA in constant prices 2010

**Figure 11.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Figure 11.2 clearly depicts the importance of the primary sector (Agriculture; and Forestry) to the district economy. Of the productive sectors (so excluding Education), these two sectors have the largest value in the district economy. However, while Forestry is capital intensive (albeit only slightly), Agriculture is labour intensive. Despite the strength and importance of the primary sector to the district, the downstream food and wood processing industries are relatively small and are averaging slow to inexistent economic growth. This is particularly the case in the area of wood processing, where the Furniture industry in the district is miniscule and the Wood Product industry is slowly retreating. This failure to add value to substantial raw resources underpins a high poverty rate in the district.

An added point of concern for the district is that a number of their larger industries are capital as opposed to labour intensive industries. ‘Hotels and Restaurants’ are an exception, contributing a greater share to the district’s employment total than to its’ GVA. Although the hospitality industry is a relatively small direct contributor to district employment, the impact of the industry must also be seen in the context of the indirect jobs that the industry creates in the much larger retail sector.

While based on this analysis it may be tempting to suggest that Agriculture should thus be the main focus of strategic development interventions for the district, it is necessary to synchronise all the various methods used to identify comparative advantages thus far, into a consolidated summary.

## *Categorisation of Sectoral Comparative Advantages*

Based on the figure above, together with the previous analysis, Sisonke's comparative advantage sectors can be categorised as follows:

### ***Existing or stable***

- ***Agriculture and Hunting*** – The district is renowned as having fertile agricultural land and a good climate for dairy farming. The district's intensive focus on expanding the agricultural industry, together with the traditional importance of this sector to the economy should ensure that this remains a comparative advantage sector of the district. The further development of the agro-processing industry should also sustain the demand for raw agro-products.
- ***Retail Trade and Services to Eastern Cape*** – The Greater Kokstad Municipality is the major retail and services node for a vast Eastern Cape hinterland. Barring major new town developments in the Eastern Cape, the Municipality will retain this status. Even the re-routing of the N2 through the Wild Coast, is unlikely to substantially negatively affect the role this municipality plays in the region.

### ***Unstable or Threatened***

- ***Forestry and Logging*** – The closure of a number of saw mills in the district reflect serious structural problems in this industry. These include a mismatch between the type of trees farmers are willing to grow and the type that are sought by saw mills. Uncertainty surrounding extensive land claims, also means that few farmers are willing to invest in planting trees which take long to mature.

### ***High growth potential***

- ***Agro-processing (especially Dairy)*** – While Food processing in general is not found to be a comparative advantage of the district, dairy processing certainly is. The district is the home of Clover SA, and a number of other companies utilising dairy are looking to get involved in the district. Other agro-processing opportunities such as bio-fuel; animal feed and essential oils are currently being explored. The district has the agricultural resources to supply these processes, thus creating the opportunity for an integrated value chain for agricultural products.
- ***Tourism*** – Sani Pass offers the district a number of unique tourism-related opportunities, which have yet to be fully capitalised on. The potential paving of this route would make the route more accessible and could provide the opportunity for further collaborative tourism developments between KwaZulu-Natal and Lesotho. Steam train tourism in the district, if marketed and targeted effectively, also has good growth potential.

## Special Economic Zone or Industrial Options

### ***Primary Option: Agro-Processing Hub (Dairy)***

The district has a significant comparative advantage in Dairy Production. This advantage should be fully exploited through the development of a hub which incorporates the entire dairy value chain, from farming and milking; to pasteurisation and processing; to packaging and distribution. A dairy hub by itself, however, may be somewhat limiting and other agro-processing industries should be included. The exact location of this hub is uncertain although Underberg region would be a strong contender.

- Established dairy processing industry
- Extensive dairy farming
- Good climate for dairy farming
- Potential new investments by dairy companies (Nestle; Parmalat)
- Planned agro-processing developments including bio-fuel; animal feed and essential oils processing plants

### ***Secondary Option: Furniture Manufacturing Hub***

## Economic Opportunities and Catalytic Projects

This section looks at some of the economic opportunities that exist in the district. These opportunities are, for the most part, linked to the comparative advantages (both sectoral and other) that the district possesses. In addition to the broad economic opportunities, catalytic projects are also identified for the district. This list of economic opportunities and catalytic projects are derived from face-to-face meetings with the district municipalities and, where relevant, Chambers of Commerce; as well as a scanning of district IDP documents. While not comprehensive, this list of economic opportunities and catalytic projects provides a good indication of some of the economic development options in the district.

| <b>Economic Opportunity</b><br>• <b>Project</b>              | <b>Description</b>   | <b>Location</b>                | <b>Status</b> |
|--|--|--------------------------------|---------------|
| <b>1. Diversification of Tourism Product</b>                 |  |                                |               |
| • Sisonke Cultural Village and Heritage Precinct             | Development of a cultural village with world class accommodation and conferencing facilities                 | uBuhlebezwe LM                 | Planned       |
| • Alan Paton Steam Train Tourism Route                       | Expansion of the steam train tourism route, including product development and marketing                      | Centred around Ixopo           | Exploratory   |
| • Tarring of Sani Pass                                       | The upgrade and tarring of the Sani Pass to enable 2×4 vehicles to easily access the pass                    | Sani Pass                      | Planned       |
| <b>2. Exploiting agricultural potential</b>                  |  |                                |               |
| • Clover Powder Milk Factory                                 | The development of a Powder Milk Factory by Clover   | Ingwe LM (Bulwer)              | Exploratory   |
| • Sisonke Hydroponic Farming Programme                       | Production of high-value off seasonal vegetables using hydroponic technology                                 | uBuhlebezwe and uMzimkhulu LMs | Planned       |
| • Citrus Fruit Production                                    | Expand peach plantations to 80,000 trees   | uMzimkhulu LM                  | Planned       |
| • Essential Oils Project                                     | Development of a 10,000ha essential oils plantation  | In all LMs                     | Planned       |
| • Sunflower Project  | Development of a 10,000ha sunflower plantation   | In all LMs                     | Planned       |
| • Maize Massification project                                | Development of 30,000ha of maize plantations   | In all LMs                     | Planned       |
| • Sisonke Farmers' Market                                    | N/A  | N/A                            | Planned       |
| <b>3. Development of Agro-processing within the district</b> |  |                                |               |
| • Animal Feeds Plant   | To establish an Animal Feeds Manufacturing Factory using maize, soya Bean and Essential Oils as inputs       | District Wide                  | Planned       |
| • Essential Oils Manufacturing Plant                         | Development of a plant involved in the processing of essential oils and its beneficiation into soap products | uMzimkhulu                     | Planned       |

|  |   |                          |             |
|--|---|--------------------------|-------------|
| • Saw Mills Revival Programme  | Downstream beneficiation of wood and the manufacturing of wood products     | District Wide            | Planned     |
| • Maize Milling Plants   | Development of Maize Milling Plants and Silos                               | Makhoba Tribal Authority | Planned     |
| • Canning Plant  | N/A   | N/A                      | Exploratory |
| • Bio-fuel Hub   | Development of bio-fuel extracting plant                                    | Ingwe LM                 | Exploratory |
| <b>4. Stimulating other manufacturing industries in the district</b> |   |                          |             |
| • Purpose-built Industrial parks                                     | To develop and establish purpose-built industrial parks within the district | GSK; NMZ and Ixopo       | Planned     |
| • Clothing and Textiles Revival                                      | Establishment of clothing and textile hubs in the district                  | All LMs                  | Planned     |
| <b>5. Infrastructural Development</b>                                |   |                          |             |
| • Rail Revival   | Revive the rail network in Sisonke  | District Wide            | Planned     |
| • Regional airport   | Development of a regional airport for Sisonke                               | Unspecified              | Envisioned  |
| • Bulwer Dam   | R2 billion development of dam in Bulwer                                     | Bulwer                   | Planned     |
| <b>6. Expansion of and Retail and Services sector</b>                |   |                          |             |
| • Kokstad Mall   | Development of a major mall at the N2 and R56 intersection                  | Kokstad                  | Envisioned  |
| • Ixopo Call Centre  | N/A   | Ixopo                    | Planned     |

## KwaZulu-Natal Comparative Advantages

Up to this point, this report has focused on identifying the economic comparative advantages of each district within KwaZulu-Natal. The rationale for using a district-centred approach, as opposed to a broader provincial approach, was to ensure that the status quo of concentrated economic development around established nodes is not simply perpetuated at the expense of marginalised communities in poorer districts. Strategic interventions by government in each district to stimulate local economic development, should be directed toward that district's existing and potential sectoral comparative advantages based on its' endowment of factors of production. However, thus far, this report has treated KwaZulu-Natal as an autonomous, self-contained economy, rather than as a regional economy which fits into a broader national economy. Relaxing this assumption has significant implications for the district comparative advantages which have been identified because, although, districts may possess certain comparative advantages in the provincial context, these advantages may disappear in the national one. While this does not, necessarily diminish the importance of developing these sectoral advantages in each district, priority should be given to those sectors in which the province is nationally competitive or has comparative advantages. As such, this section will undertake a similar analysis for KwaZulu-Natal, as compared to South Africa at large.

### Brief Description of KwaZulu-Natal

KwaZulu-Natal is the 3<sup>rd</sup> smallest South Africa province by land area, covering 93,378km<sup>2</sup> compared to 373,351km<sup>2</sup> by the largest province, the Northern Cape. The province is bordered by Swaziland; Lesotho and Mozambique; as well as the Free State; Eastern Cape; and Mpumalanga provinces. Despite the province's small size, it has the second largest population with just over 10.4 million inhabitants and is only narrowly behind Gauteng which has 10.7 million. The province has recorded an average population growth of 1.1% over the past 7 years. In terms of the provincial economy, the province contributes just over 16% to Gross Value Added, but nearly 19% of total employment in the country.

### Locational Advantage

***Bordered by three foreign countries:*** KwaZulu-Natal is bordered by the countries of Mozambique, Swaziland and Lesotho - the only other province bordered by as many foreign countries is Limpopo. This provides KwaZulu-Natal with direct access to export and foreign tourist markets. It also provides the province with excellent opportunities to collaborate in the development of cross-border tourism initiatives, as is evidenced in the Lebombo East 3 Route; and the Maloti-Drakensberg Trans-frontier Park.

***Closest South African coastal province to Gauteng (N3 Corridor):*** Of the four coastal provinces in South Africa, KwaZulu-Natal is located closest to the economic hub of the country in Gauteng. Historically this locational advantage has been one of the driving factors of the province's economic development. The N3 corridor linking Gauteng and the Free State with the Port of Durban has,

through the SIP programme, been earmarked as a Priority infrastructural and investment corridor. As such this strategic corridor will continue to grow as the industrial and logistics spine of South Africa.

### Natural/geographic Advantages

**The mild sub-tropical climate and warm sea water:** KwaZulu-Natal's mild sub-tropical climate provides it with comparative advantages in both Agriculture and Tourism. The nature of the province's climate allows it to grow certain agricultural products, which the relatively rain scarce regions of the country cannot, with the possible exception of Mpumalanga. These include bananas; citrus fruit; sugar cane; macadamia nuts and essential oils, as well as timber. The sub-tropical climate, together with the province's location on the East Coast of the country along which the warm Benguerra current flows, provides it with all-year-round warm sea water. It is for this reason, that KwaZulu-Natal is the country's top domestic beach destination. The mild winters in KwaZulu-Natal, also provide it with a comparative advantage in attracting pensioners from around the country to retire in the province.

**Two natural world heritage sites:** The province contains the country's highest mountain range (the Drakensberg –high berg) and Southern Africa's largest estuarine system (St Lucia Wetland), both of which have been declared world heritage sites. These two sites provide the province with significant comparative advantages in eco-tourism.

### Infrastructural Advantages

**Two large Ports:** The Ports of Richards Bay and Durban are the largest cargo handling and busiest ports in South Africa respectively. They provide the province with significant advantages in the area of trade and logistics, as well as in attracting exporting/importing companies to locate in the province.

**Newest international airport in South Africa, and purpose build air freight facility:** King Shaka International Airport is the fastest growing airport in South Africa, while the Dube Trade Port is unique in its specialised focus on air freight. Together this airport precinct has been custom designed with growth in mind, which yields it with a comparative advantage in terms of airport-related developments in the country.

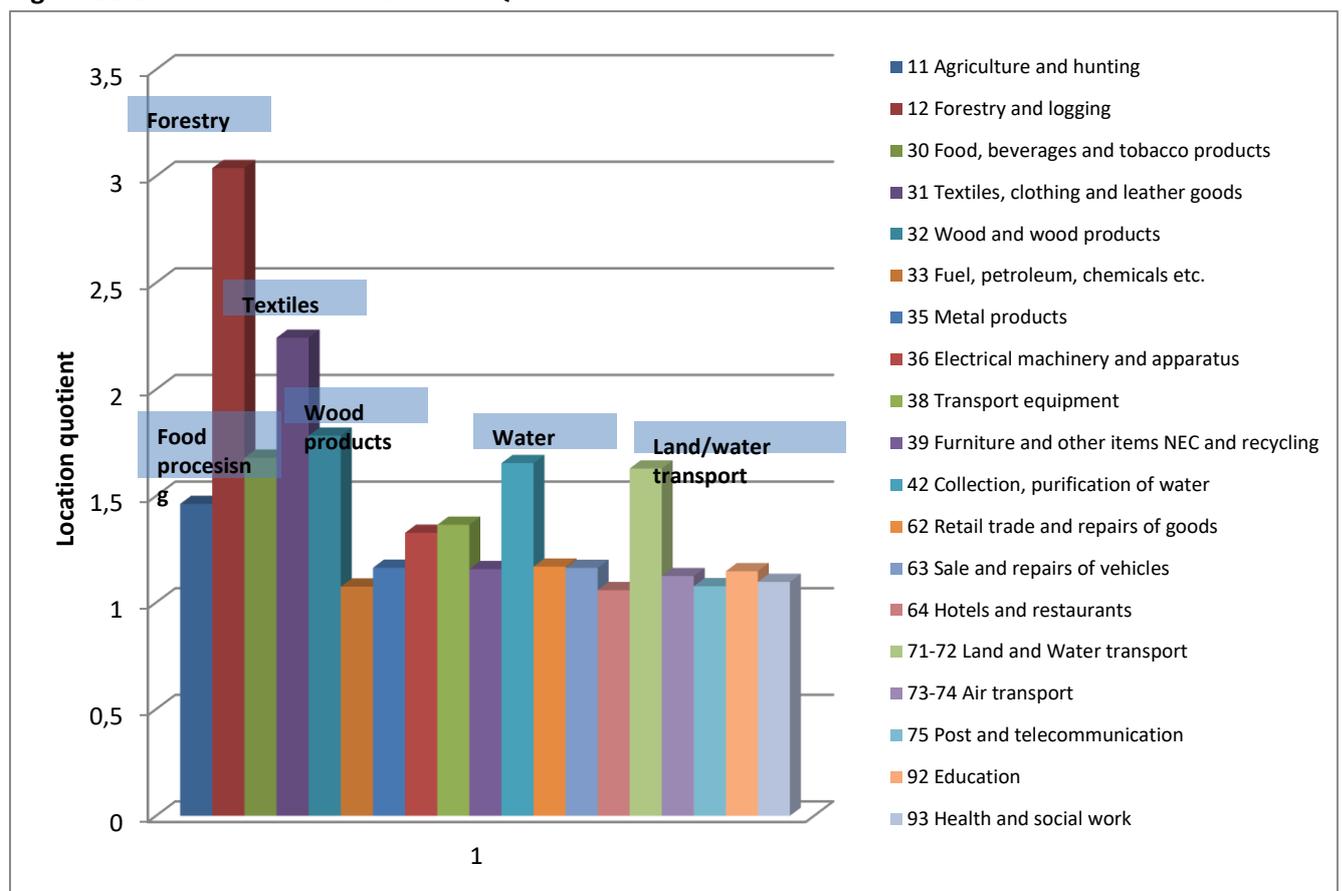
**Subterranean infrastructure (Fuel and Gas mainline; Seacom cable):** The province is the entry point for imported oil and gas into the country. This takes place at the Single Bay Mooring (SBM) off Durban's Bluff promontory. The presence of the SBM and the accompanying subterranean pipeline to Gauteng has provided the province with a comparative advantage which has seen the extensive development of the petrochemical industry in the South Durban Basin. Similarly the Seacom cable which surfaces at Mtunzini, provides the eastern portion of the country with broadband internet access. This also provides the province with a potential comparative advantage in terms of fast internet access for a number of otherwise isolated communities.

## Cultural/Heritage Advantages

**The Zulu Kingdom:** KwaZulu-Natal can rightfully claim to be the traditional home and birthplace of the Zulu people. The international renown of the Zulu nation, through historical figures such as Shaka and famous battles such as Isandlawana, has made the 'Zulu' brand a major tourism asset. Therefore, the fact that the province is home to Shaka and all subsequent Zulu kings including the reigning monarch, provides the province with a significant cultural tourism comparative advantage.

## KwaZulu-Natal Comparative Advantage Sectors

**Figure 12.1 - Positive Sectoral Location Quotients**



Source: Own calculations based on data from Global Insight

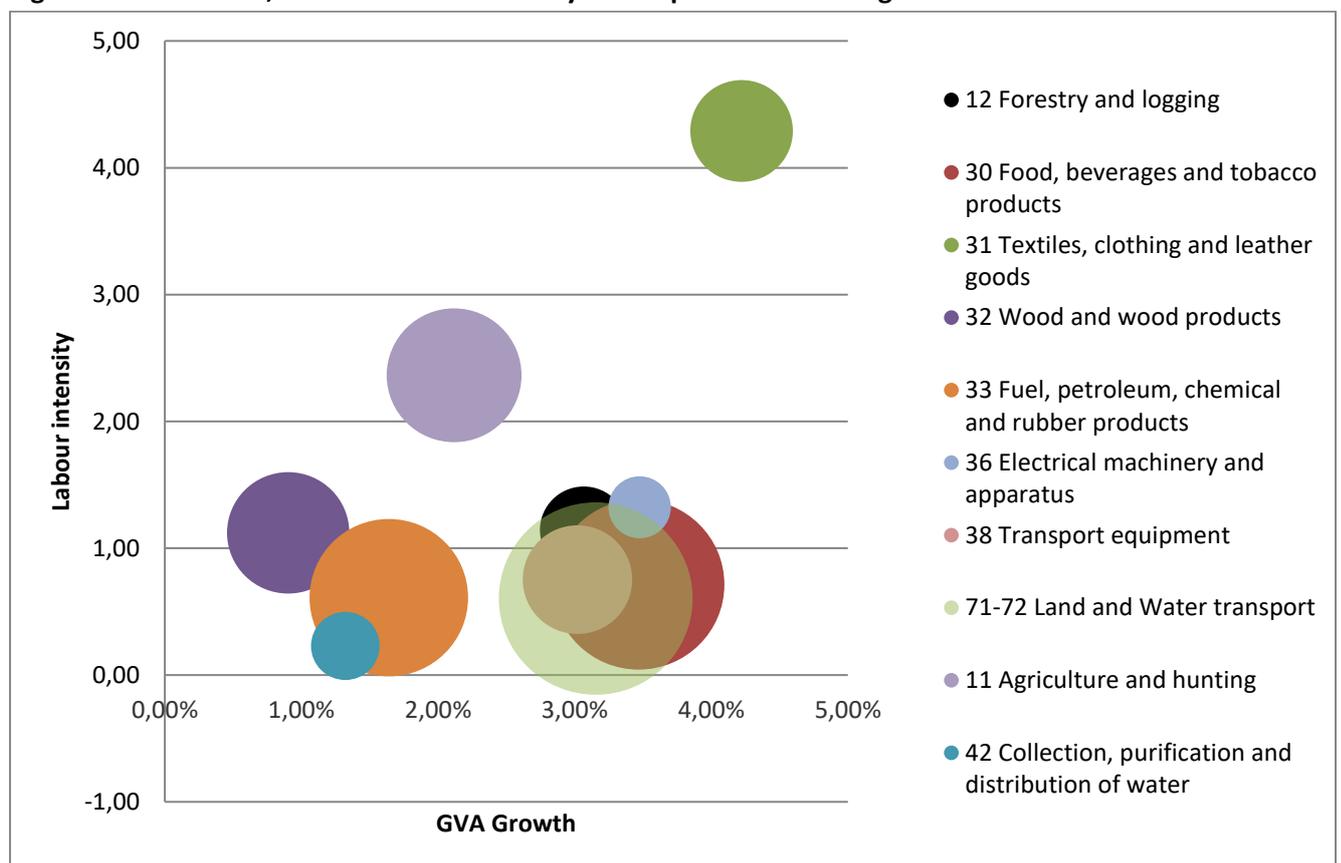
Figure 12.1 above, depicts the sectors which have a location quotient in excess of 1, which is to say that they contribute proportionally more to the provincial economy than they do to the national economy. While, on the basis of this analysis, KwaZulu-Natal is found to have a measure of comparative advantage in a number of sectors, there are a handful of standout sectors which have location quotients in excess of 1.5. In the primary sector, forestry is revealed to be the province's strongest comparative advantage sector, contributing almost three times as much to provincial GVA as it does to national GVA. It is, however, in the secondary sector and manufacturing in particular that the province really seems to have a substantial comparative advantage. KwaZulu-Natal is generally considered the country's most industrialised province and manufacturing constitutes a higher percentage of GVA in KwaZulu-Natal than it does in any other province. A number of

manufacturing industries perform strongly in the province, but the industries in which the province has the highest level of comparative advantage in are in the Food and Beverage Processing; Wood Processing and Clothing and Textile industries.

Water collection; purification and distribution also has a high location quotient and is probably reflective of the province being located in the Drakensberg watershed, and receiving higher rainfall on average than a number of the more arid provinces in the country. Finally, the Land and Water Transport sector is predictably a strong comparative advantage for the province. This can be attributed to the direct impact of the two Ports on maritime transport; and the indirect impact that the two Ports have in terms of the transport of goods to or from the Port and the logistics related to the movement of these goods.

### A Dynamic Perspective

**Figure 12.2 – Growth, size and labour intensity of comparative advantage sectors**



Source: Own calculations based on data from Global Insight

Of KwaZulu-Natal’s comparative advantage sectors, its largest value productive sector is Land and Water Transport. This sector is labour intensive and has been growing at roughly 3% on average over the last ten years. Food and Beverage Manufacturing, which is also one of the province’s largest sectors, grew slightly faster and was more labour intensive than Land and Water Transport. The most labour intensive sector, however, is Clothing and Textiles, which contributes four times as

much to employment as it does to GVA in the province. The sector has also been the province's fastest growing over the past 10 years.

Based on the figure above, together with the previous analysis, KwaZulu-Natal's comparative advantage sectors can be categorised as follows:

#### ***Existing or stable***

- ***Forestry and Wood Product Manufacturing*** – The province constitutes 47% of the total value of the Forestry Industry in the country and 28% of the total value of the Wood Product Manufacturing industry. The combination of the upstream (primary) industry and downstream industry (wood and paper processing by the likes of Mondi and Sappi), provides this broad industry with a stable pattern of demand and supply ensuring that it is relatively unlikely that the province will lose its comparative advantage in this sector in the immediate future.
- ***Land and Water Transport*** – KwaZulu-Natal, on account of the Port of Durban and Richards Bay, is already the country's trade hub. As such, associated transport and logistics services in the province will continue to play a critical role in the provincial as well as the national economy. While the threats of development at the Port of Ngqura and the possibility of the development of a logistics hub in Harrismith may potentially diminish the influence of the province in this sector, other developments such as the new Dig-out Port in Durban and the renewed focus on the N3 as a major investment corridor will balance these out and ensure that this sector remains a strong comparative advantage of the province.
- ***Heavy Manufacturing (Petrochemicals; Metals; Electrical Machinery)*** - KwaZulu-Natal is the location for a number of heavy manufacturing companies. These companies undoubtedly choose KwaZulu-Natal on account of its excellent infrastructure (gas and fuel mainline; access to electricity) as well as to be strategically located near one of the province's major ports. Major heavy industrial centres in the province include eThekweni; Newcastle and Richards Bay. The location advantages for heavy industry in these areas ensure that KwaZulu-Natal's comparative advantage in these sectors is likely to continue to remain strong.

#### ***Unstable or Threatened***

- ***Clothing and Textiles*** – The province has one of the largest Clothing and Textile industries in the country, contributing over 35% of the total national value of this sector. While the sector would appear to be growing, interviews with local economic development practitioners has suggested that this industry is under major threat. In particular, disinvestment is already being observed in Newcastle. The factors causing this are a mix of adverse labour market conditions for investors and cheap products from overseas. The province needs to closely monitor this sector and crafts interventions which will ensure that this sector remains a large employer in the province.
- ***Agriculture and Hunting*** – While there are regions in the province in which this sector shows great potential and opportunity for growth, the long-term trend in the province has seen a decline in employment levels in this sector. There are a range of factors which have

underpinned this decline with the most notable being: drought; competing land uses such as residential developments; uncertainty around land reform and a waning interest of the youth in this sector. The province needs to be innovative in its approach to resuscitating this sector. This may necessitate exploring new production possibilities such as essential oils and tea, while also carefully investigating the potential for ethanol production as a means of sustaining sugar cane farming in the province.

### ***High growth potential***

- ***Food and beverage processing*** – The province’s share of the national value of this sector is 26% and is reflective of the established food processing companies such as Unilever; SAB Miller; Nestle; Eskort; Rainbow Chickens; Tongaat Hulett’s etc., which are located in the province. Though the industry in the province is reliant on a relatively volatile agricultural sector (a point which will be discussed subsequently), it is aided by being close to the air and sea ports. The Dube Trade Port development and the potential for an agro-processing cluster around it, provides significant scope for growth.
- ***Tourism*** – KwaZulu-Natal has traditionally been the province’s top domestic tourism destination. The mixture of temperate weather all-year-round and warm sea water means that KwaZulu-Natal will always perform well in the area of domestic beach tourism. The province’s foreign tourism performance, however, is way below its potential. If the province can more ruthlessly market its unique cultural and eco-tourism attractions, there is no reason that the province should not perform at least as well as Gauteng or the Western Cape. Critical in this regard is the attraction of more direct international flights to King Shaka Airport. SA Express’s recent launching of Southern African flights from and to King Shaka is a promising development in attaining this objective.

### ***Emerging***

- ***Air Transport*** – The development of the King Shaka International Airport and Dube Trade Port, has provided the province with a host of new opportunities linked to the Air Transport Industry. Passenger arrivals at King Shaka are the fastest growing in South Africa, this attests to the growing importance of this industry within the province. Furthermore, the recent announcement that SA Express seek to use King Shaka International as a hub for flights into Southern Africa, is a boon toward attracting airline companies to locate at King Shaka. From an air freight perspective, the Dube Trade Port has the capacity to become South Africa’s airlift cargo hub, particularly if supporting agro-processing industries are adequately developed.
- ***Green economy and renewable energy*** – The COP17 conference in Durban provided significant momentum in the area of ‘green economy’ research. As a result the Department of Economic Development has just finalised a provincial ‘Green Strategy’ and many district and local municipalities have followed suit. This certainly lays the policy and institutional foundation for green economy developments, while a growing research capacity in this field at the province’s universities and in private consultancies provides for a human capital skills advantage in this sector. In terms of renewable energy development, the province is aided by the fact that there are vast spaces of untransformed land, which could be sustainably

used for Wind Power or Hydro Power energy generation in particular. In summary the province has the right mix of institutional support; skills and expertise; and natural conditions to be the country's forerunner in the field of green economy developments.

- **ICT** – While the province struggles to compete with Gauteng in the ICT industry, it has one critical advantage in this sector, namely, the Seacom cable which enters the country at Mtunzini. This infrastructural advantage provides the opportunity to widely distribute broadband capacity across the province, including to relatively marginalised areas. In so doing, the province should look to start developing ICT incubators which take advantage of broadband access. Currently the Department of Economic Development and Tourism is working on an ICT and Broadband Roll Out Strategy which will look to create a comparative advantage for the province in this growing sector.

## Summary and Conclusions

This report has identified comparative advantage sectors for each district. These sectors should be seen as priority sectors for local economic development interventions by provincial government. Investment in these comparative advantage sectors should yield the highest return on public sector investment within each district. The preceding analysis for the province as a whole, however, draws the district level analysis into a wider national context, in which the province has its own set of unique comparative advantages. Reconciling the comparative advantage analysis of the province and those undertaken for each district provides an indication of what and where the sectoral priorities of the province, as a whole, should be. While all of the comparative advantage sectors of each district should receive attention, those which correspond with a comparative advantage of the province at a national level should receive special focus and investment.

The findings of this report are summarised in the diagrams below. The comparative advantages of each district are listed and those corresponding with the province's comparative advantages are highlighted in red. In addition potential sectoral industrial hubs are identified for each district based on that district's unique comparative advantages.

## Amajuba

### KEY SECTORS:

**Metal Manufacturing**

Coal Mining

**Textiles and Clothing**

### EMERGING

Wholesale and retail trade

**Chemical manufacturing**

### HUBS:

Primary - Metal Beneficiation (Newcastle)

Secondary - Textiles & Clothing (Madadeni)

## Ugu

### KEY SECTORS:

**Forestry and Timber production**

Agriculture –sugar cane; macadamia nuts

**Domestic Beach Tourism**

Quarrying

Furniture production

Telecommunication

**Food processing**

### HUBS:

Primary - Furniture Manufacturing in Harding and/or Marburg

Secondary - Perishable goods processing

## UMgungundlovu

### KEY SECTORS:

Agriculture: vegetables; chicken

**Forestry and logging**

**Leather and Footwear production**

Public Administration

**Collection and purification of water**

### HUBS:

Primary - Leather and Footwear

Secondary - Agro-processing Hub (focus on vegetables; crops and dairy)

## Zululand

### KEY SECTORS:

Livestock farming – Nguni cattle

**Forestry and logging**

Coal mining

**Cultural (Zulu) tourism**

### HUBS:

Primary - Meat and hide processing

Secondary - Coal and anthracite beneficiation

## Umzinyathi

### KEY SECTORS:

Coal mining

Battle fields tourism

Skins processing

### HUBS:

Primary - Coal and anthracite beneficiation

Secondary -Meat and hide processing

## Umkhanyakude

### KEY SECTORS:

Agriculture: pineapples; sugar cane

**Eco-tourism: Isimangaliso**

### EMERGING

Wholesale and retail trade to Mozambique

### HUBS:

Primary - Agricultural mechanization

Secondary - Renewable energy hub

|   |   |   |
|---|---|---|
| <h2 style="text-align: center;">Ilembe</h2> <p><b>KEY SECTORS:</b><br/> Agriculture – sugar cane<br/> <b>Agro-processing</b><br/> <b>Wood processing</b><br/> Plastics and packaging</p> <p><b>EMERGING</b><br/> Property development and real estate<br/> Beach resort tourism</p> <p><b>HUBS:</b><br/> Primary - Agro-processing for export<br/> Secondary - Green technology hub</p> | <h2 style="text-align: center;">Ethekwini</h2> <p><b>KEY SECTORS:</b><br/> <b>Chemical Manufacturing</b><br/> <b>Transport and logistics</b><br/> Automotive manufacture<br/> Electronics<br/> Finance and insurance<br/> Event tourism</p> <p><b>EMERGING</b><br/> <b>Green economy</b><br/> <b>Air transport</b></p> <p><b>HUBS:</b><br/> Primary - Agroprocessing and green Hub at Dube Trade Port<br/> Secondary - Petro chemical hub in South Durban Basin</p> | <h2 style="text-align: center;">Uthungulu</h2> <p><b>KEY SECTORS:</b><br/> <b>Forestry and logging</b><br/> <b>Wood products manufacturing</b><br/> <b>Water Transport</b><br/> Mineral mining<br/> <b>Metal manufacturing</b><br/> <b>Non-metallic heavy manufacturing</b></p> <p><b>EMERGING</b><br/> Construction and engineering</p> <p><b>HUBS:</b><br/> Primary - Richards Bay IDZ (heavy industry)</p> |
|---|---|---|

|   |   |
|---|---|
| <h2 style="text-align: center;">Sisonke</h2> <p><b>KEY SECTORS:</b><br/> Agriculture – dairy farming<br/> <b>Agro-processing – dairy</b><br/> <b>Forestry</b><br/> <b>Wood products</b><br/> Eco-tourism</p> <p><b>HUBS:</b><br/> Primary - Dairy processing<br/> Secondary - Wood processing</p> | <h2 style="text-align: center;">Uthukela</h2> <p><b>KEY SECTORS:</b><br/> Agriculture: Crop farming<br/> <b>Land and Water Transport</b><br/> <b>Clothing and textiles</b><br/> <b>Food processing: Pork products</b><br/> <b>Eco-tourism: Drakensberg</b></p> <p><b>HUBS:</b><br/> Primary - Clothing and textile hub in Ezakeni<br/> Secondary: Food processing hub Estcurt</p> |
|---|---|

The diversity of the provincial economy is clear from the preceding list of comparative advantages for the districts. Not all of these comparative advantages can be realized in an SEZ or industrial strategy program for the province because a number of district comparative advantages are located in the primary or tertiary sector. Furthermore economies of scale dictate that too many SEZs in the province may simply be counterproductive to their success and impact.

In order to reconcile the desire for spatial equity and the reality of concentrated industrial capacity, a value chain and backward linkages approach must be adopted whereby proposed SEZs are intentionally linked to the comparative advantages of outlying areas in the province. This approach would incorporate the idea of numerous feeder industrial hubs supporting a designated SEZ. Additionally, these industrial hubs and the SEZ itself need to have strong backward linkages to the primary sector, with designated production and supply areas, thereby incorporating the entire value chain of product development into a holistic spatial industrial strategy for the province.

### **Way Forward –Revision of PSEDS**

Whether a district’s comparative advantages are exploited in an SEZ or not, does not detract from the need to strategically support and stimulate these comparative advantages through relevant and innovative interventions in the district economies. These interventions per district will form a critical part of the revised PSEDS. Together with cross-cutting provincial strategies as articulated in a nodal and a corridor analysis, these interventions will provide the province with a set of spatial spending priorities which will contribute toward the goal of achieving more equitable economic development in the province.

## List of References

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