

Economic Analysis

6.1 COMMUNITY NEEDS ASSESSMENT

The following main community needs have been identified for the economic thematic area and can be prioritised as follows:

- Agricultural
- Employment
- SMME
- Tourism and Skills Development
- Shops/Retail
- Industry
- Manufacturing
- Resorts and Social Welfare

6.2 OVERVIEW

6.2.1 SUB-REGIONAL CONTEXT

The East London – King William’s Town area went through an era of industrial stagnation after World War II followed by a period of growth in the period from 1960 - 1991 as a result of state support. The decentralisation subsidies, particularly those linked with the apartheid government’s Bantustan policies, have since been discontinued and have been replaced with the Department of Trade and Industry’s industrial incentive scheme, which no longer places the region at a competitive advantage to the rest of the country.

Within the national economy of South Africa, the area of East London - King William’s Town including the industrialised townships of Berlin and Dimbaza, is now commonly regarded as a budding metropolitan corridor. In the national context this corridor is one of the poorest and economically least-developed metropolitan areas in South Africa, with relatively low salaries and skills and with high unemployment rates.

Within the Eastern Cape Province context, the East London – King William’s Town – Dimbaza corridor is noted as the second most important contributor to the Provincial Gross Geographic Product (GGP), after the Port Elizabeth – Uitenhage metropolitan area.

Within its regional context, East London is acknowledged to be the primary regional node and is presently the focus of regional services, commerce and industry. King William’s Town is a secondary regional service node.

With Bisho/King William’s Town being the seat of the provincial government of the Eastern Cape Province, the possibility exists to bring opportunities for a range of socio-economic development initiatives to the King William’s Town area. This could ensure that the area grows in importance and strength, and that impetus is added to the vision of a corridor of development stretching from the north-west to the south-east of the Buffalo City area.

6.2.2 LOCAL CONTEXT

Buffalo City poses several advantages in terms of its strategic location to national and world markets. The city’s location not only provides for industrialists’ increasing demand for export facilities in South Africa, but also supplies them with easy access to markets in the Americas, Europe, Australia and the Far East. Indications are that the port of East London can potentially serve 200 million people in the Indian Ocean littoral alone.

Buffalo City furthermore serves as one of the strategic gateways to the rest of South Africa and sub-Saharan Africa, with access provided by air, rail and road.

East London has developed from a small river-trading harbour town in the 1800s, into a city with a diverse economic base. Industrial activities operating in the city include motor vehicle manufacturing, clothing, textiles, household consumer goods and food processing, while agricultural production includes livestock, horticulture, pineapples, citrus, timber, mohair and wool. Motor vehicle and component manufacturing is the primary private employer of workers, along with the local and provincial government in the state sector.

King William’s Town has an economy that is quite diversified. The three most important service sectors, which are also the three largest sectors in the local economy, are trade (28% of GGP), financial services (25% of GGP) and government services (16% of GGP). The economic profile of KWT underlines the important service function of the town. The bulk of these service activities are located in the CBD. Consequently, the CBD provides an essential service function in a local as well as regional context.

Industrial activity in Buffalo City is located predominantly on the West Bank of East London and in fringe or outlying areas of the East London CBD and also at Wilsonia, Berlin, Zwelitsha, KWT and Dimbaza.

The majority of commercial and service industries are located in the central area of East London. The rapid expansion of the Vincent Park shopping centre has had a considerable impact on surrounding residential areas. The Mdantsane commercial centre is currently undergoing upgrading to meet demand. The CBD of King William's Town is suffering from a decline as many traditional businesses close down, owing to a shift in market patterns.

There is a shift in the commercial sector with a number of enterprises moving out of the East London CBD and being replaced by small and medium enterprises. This reflects a growing change in the character and economic base of Buffalo City.

There are a number of areas of concern within the Buffalo City industrial economy, such as the vulnerable textile and motor industries, which account for 67% of the city's industrial work force. Both textile and motor industries are considered to be declining industries and have become vulnerable to overseas competition with the government's signing of the General Agreement on Trade and Tariffs (GATT). The motor industry is struggling to remain competitive, while South Africa has lost its comparative advantage in textile production to Asian countries due to low productivity, outdated machinery and relatively high wages.

The sectors within East London with the highest growth potential are manufacturing, trade and accommodation, transport and communication and financial and business services.

Trade is also the most productive sector in the King William's Town economy, contributing 28% to GGP. Trade in KWT entails wholesale and commission trade; retail trade; repair of personal household goods; sale, maintenance and repair of motor vehicles and motor cycles; hotels; restaurants; bars and canteens; camping sites and other forms of short-stay accommodation.

Buffalo City is faced with a shortage of industrial land for concentrated and extensive industrial development within a 10 km radius of the central business district. Apart from the 200 ha of undeveloped land available at the IDZ, all other well-located industrial areas are filled to capacity. There is a need to make funds available to service land for industrial and manufacturing purposes.

Approximately 390 ha of vacant industrial land is available in Berlin, but despite vigorous promotion, Berlin has proved to be an unattractive location for industrial investment. There is a current initiative under consideration which may result in 200 ha of land in Berlin being consolidated to establish an industrial park.

6.2.3 ECONOMIC INFRASTRUCTURE

6.2.3.1 The Harbour

The existing port of East London in the mouth of the Buffalo River has been operating since 1870. Since then, the harbour extended its services to include a turning basin, a graving dock, an automated grain elevator, as well as a container berthing and stacking yard. A feasibility study was completed in 1997 on options to develop the port. It is foreseen that the existing facilities, together with the expansion programme will adequately cater for the requirements of most investors. Given the location of the harbour next to the West Bank area, the expansion programme will increase the development potential of the IDZ, making it more competitive.

6.2.3.2 The Airport

The East London Airport, which is presently operated by the Airports Company SA, links internationally through airports in Cape Town, Durban and Johannesburg. The airport is located close to the East London CBD, as well as the West Bank IDZ. It was recently upgraded to handle A320 aircraft, but cannot accommodate 747-size aircraft owing to the length of the runway. The airport also includes a new departure lounge, 400m² of office space and new retail floor space.

There is sufficient land available for expansion of the airport runways. However, poor foundations will increase the costs needed for maintenance. Further expansion will also be very costly. These costs will only be justified once a critical mass of industrial and economic activity can be developed around the airport.

6.2.4 INCOME AND EMPLOYMENT

The labour force for the EL-KWT area in 1994 was estimated to be 285,000 people, of whom 56% were formally employed, 29% were unemployed and 15% were active in the informal sector. Outside of the labour force at least 70,000 people in the EL-KWT area are engaged in subsistence activities. Given the rapid rate of urbanisation and population growth, these numbers will have increased significantly. The socio-economic condition of the city is likely to further deteriorate as population growth continues to outstrip economic growth.

Statistics show that in the formal sector, the manufacturing sector provides the largest number of jobs, but only marginally more than the service sector. Buffalo City suffers from very high rates of unemployment, as shown in the table below. The city is also relatively poor, with 71% of the city's population earning less than the household subsistence level (±R1,500 per month).

TABLE 6.1 : Unemployment

AREA	UNEMPLOYED	EMPLOYED
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	(looking for work)	
KWT Rural	60%	40%
KWT Urban	34%	66%
EL Rural	47%	53%
EL Urban	36%	64%
Average	44%	56%

The Quality of Life Survey carried out in Buffalo City in 2001 shows that there are differences between men and women, and between different racial groups, when it comes to unemployment. Slightly more women than men have been unemployed for less than three years, but quite a few more men than women have been unemployed for between 3 and 5 years. About the same percentages of women and men have never been employed.

Among African and Asian unemployed people, about 20% have been unemployed for up to three years. Only 6% of White unemployed people fall into this category. The biggest single group of unemployed Coloured people are those who have been out of work for 6 to 10 years. Generally, social networks are very important in helping people to look for work, and this is particularly important for African people. One of the main problems of finding work is that people need more skills training and higher qualifications.

Furthermore, most people in Buffalo City are not satisfied with their incomes. Roughly 75% of the population say that they are either dissatisfied or very dissatisfied with their incomes and about 80% feel that they do not have enough money.

Taking all population groups into account, the biggest single item of expenditure is food. The majority of the people are not able to save money after they have paid for expenses.

6.2.5 TOURISM

Tourism is a fast-growing industry in many parts of the world. The sector as a whole shows a worldwide annual growth of 5% - 6%. South Africa has very good potential for development of the tourism sector and, within this context, the Eastern Cape must be seen as having a similar potential.

Buffalo City and its surrounding region, however, have a very limited tourism sector to date; nevertheless, there is certainly scope for expansion. The existing tourism and potential for development include a wide variety of activities, structures, natural and cultural resources etc. The landscape of the Amatole region varies from unexploited beaches to beautiful undulating hills and deep river valleys and mountains. The cultural heritage includes strong indigenous cultures like the Xhosa culture, as well as colonial cultures with English and German influences in the built environment. Many of the political leaders of today's South

Africa trace their background to this area, a fact that could be utilised as an attraction in the development of tourism products.

Tourism activities in the area have to take place in a wider geographic context including the entire Amatole region. Many actors, private and public, are involved in the tourism arena and a systematic approach and organisation must be applied in order to exploit synergies and maximise the effects of all initiatives.

Tourism can be seen as a system based upon integration and interaction between attractions, services, transportation, promotion and information. The specific study on tourism has identified a number of weaknesses as well as strengths within these components of the system. The natural as well as the cultural environment, particularly the Xhosa culture, as described above can be turned into a great resource. The knowledge and awareness of the attractions must, however, be improved and spread and the care for the cultural and natural environment has to be reinforced.

Services in the form of accommodation, restaurants and other activities are there, but need in some respects to be improved. Inappropriate transport facilities and infrastructure seem to hamper tourism development as well as inadequate information and marketing arrangements. Background data and statistics are scarce, which severely affects the understanding and awareness of the economic potential of the tourism industry specifically at the regional and local level. As a consequence the promotional activities are at risk of being misdirected or not fully effective.

6.3 KEY FINDINGS

The key findings within the economic context can be summarised in the following weaknesses and threats, strengths and opportunities.

6.3.1 WEAKNESSES AND THREATS

There are a number of weaknesses that affect Buffalo City's economic climate and development. Generally HIV/AIDS is placing a burden on the economy, and is along with poverty a threat to South Africa and Buffalo City's future sustainability.

Buffalo City has a poor image due to high crime rates and poor enforcement of laws – the general perception is that Buffalo City is unsafe. The growth of crime rates will make South Africa and Buffalo City vulnerable to loss of investment opportunities and decreased tourism.

The city lacks an economic vision and the cost of doing business in Buffalo City is perceived to be very high, especially in comparison to Port Elizabeth. There has

been a lack of commitment from national government to Local Economic Development in the Buffalo City area.

The economy is hindered by low skills and education levels and the socio-economic condition of the city is likely to further deteriorate as population growth continues to outstrip economic growth. A threat is that the school curriculum is not skills-orientated.

Much of the city's population live in marginalised peripheral areas, which have poor infrastructure and services, a weak economic base, high levels of unemployment, and a distant location from the city centre. Often the city's poor are exposed to huge transportation costs, totally disproportionate to their general expenditure on food, shelter and other basic needs. This has critical implications on their ability to find work, access economic information or run a micro-business.

Generally, a weak consumer market due to weak local demand and high transportation costs to the major national markets hinders businesses.

6.3.2 STRENGTHS AND OPPORTUNITIES

King William's Town is the provincial capital of the Eastern Cape with the provincial government administration located in Bisho.

Buffalo City's tertiary sector (especially the service sector) has experienced growth since the 1980s. There is potential for continued growth in this sector as East London grows in its importance as a regional centre. The automotive industry is promoting the establishment of supporting industries in South Africa and the East London area. This might also give opportunities for KWT.

An opportunity lies in the creation of an local economic development (LED) Unit to improve economic planning, communication and linkages. The creation of public private partnerships (PPPs) is another incentive that would unlock benefits and opportunities.

Areas with potential that need to be utilised to a greater degree are the production of agricultural and forestry products, the use of the rail system and the road system for transporting goods, and the general exporting of goods. The revitalization of the CBD and the creation Business Improvement Districts (programmes aimed at rejuvenating CBDs) and the IDZ also should be seen as economic development opportunities.

On a nation-wide basis the Comprehensive Trade, Development and Co-operation Agreement with the European Union creates opportunities for e.g. increased export of goods and services and exchange of technical know-how, student exchange, financial support and inward investment.

A similar agreement favouring South Africa as a trading partner exists with the US, and the Africa Growth and Opportunities Act recently passed in the United States has further created significant opportunities, the latter being particularly relevant to the rejuvenation of the textile industry.

Tourism is a strength, with 11,000 tourists visiting Buffalo City in the peak holiday season. Buffalo City is particularly well-suited to local tourism, eco-tourism and historical tourism related to the anti-apartheid struggle. However, the potential of tourism needs to be further developed.

The natural resources and the unique culture and history of the Xhosa people and the colonial period with especially its German and British historical influences, are together with wildlife extraordinary resources for increased tourism. Important aspects in order to increase tourism are the upgrading of the beachfront and the creation of a venue for an informal market.

The base of tertiary educational institutions in Buffalo City is very good, including four technical colleges, three technikons, a Teachers Centre and two satellite campuses, namely Fort Hare University in King William's Town and Rhodes University in East London. A Mega University with an estimated 10 000 students is proposed for Buffalo City.