

RURAL URBAN STUDIES UNIT



UNIVERSITY OF NATAL DURBAN

**INDUSTRIAL DECENTRALISATION:
EMPLOYMENT CREATION
AND
URBANISATION IN TRANSKEI**

by

NEIL D MULLER

DEVELOPMENT STUDIES UNIT

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Neil D Muller

Development Studies Unit

University of Natal

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The Rural Urban Studies Unit was founded in 1983 by the Human Sciences Research Council for the purpose of studying the dynamics of the links between the rural and urban areas of South Africa. It is situated at the University of Natal and works in close co-operation with the Development Studies Unit.

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1. INTRODUCTION.

The industrial decentralisation policy has been one of the most important elements of government policy aimed at development in the african 'reserves' over the past three decades. No aspect of the development of these areas can be understood in isolation from the overall dynamics of the South African political economy. In the case of industrial decentralisation in the Transkei, not only are the incentive packages determined by the central South African government, which directly pays half of all claims, but the final arbiter on the acceptability or otherwise of projects is the Trade and Industries Board in Pretoria. Accordingly, it is necessary to pay far more attention to the overall development of the policy in South Africa, than is the case with other sectors of the Transkei 'economy'.

After outlining the underlying theoretical justification for the policy and its apparent empirical relevance, this paper examines the degree to which industrial decentralisation in Transkei has contributed to economic growth and the elimination of poverty.

2. INDUSTRIAL DECENTRALISATION IN SOUTH AFRICA.

This section consists of four sub-sections, which respectively outline the growth pole model that underpins the industrial decentralisation policy; examine the relevance of the model to South Africa; describe the evolution of the policy; and evaluate the policy's performance to date.

2.1. The Growth Pole Model

Growth Pole theory, which provides the theoretical underpinning of the industrial decentralisation policy, contains both an interpretation of the spatial growth path, an ideal model of spatial development and a set of policy recommendations. The most important of these are (cf Dewar et al, 1984; Fair, 1982) :

- i) Although the initial distribution of economic activity across space is determined by various locational advantages such as proximity to raw materials, markets and transport infrastructure, once development reaches a certain stage, it tends to become self-reinforcing through the operation of agglomeration economies. Development is accordingly spatially polarised. Economic regions outside those having reached the threshold of self-augmenting development, not only fall behind relatively due to the operation of the agglomeration economies in the rapidly developing areas, but may also suffer from a net transfer of development resources to the growing areas, increasing the degree of spatial polarisation.
- ii) The tendencies towards spatial polarisation result in certain areas possessing an autonomous development capacity (cores) while others lag behind (peripheries). The space economy is thus characterised by a core-periphery structure.
- iii) At a certain point, tendencies towards spatial polarisation will be replaced by those promoting spatial integration and equality.

due to the combined effect of two mutually reinforcing trends. On the one hand, as the cores pass certain threshold levels of concentration, agglomeration advantages are outweighed by concentration diseconomies or congestion. On the other hand, peripheral regions gradually approach the threshold of autonomous development through the diffusion of innovations and other benefits.

- iv) Towns have a particularly important role to play in the process of spatial diffusion. It is postulated that urban areas serve as vital linkages in the development process as they incorporate services required for development in the surrounding hinterland. The greater the degree of regional development, the greater the required level of development in the regional town. Towns, and hence development potential, can be arranged according to an interlinked settlement hierarchy depending on the range of services and products available. The absence of settlements at different levels of the hierarchy will result in the failure of the diffusion process and militate against spatial re-integration and equality, and prolong spatial polarisation.
- v) A crucial role is attributed to **manufacturing as the leading economic sector.**
- vi) An **'ideal' path of spatial development** can be thus defined. In the initial stages the dominant feature will be spatial polarisation with development concentrating in core areas.

However, at a certain point, diffusion and overconcentration will combine to increase the relative attractiveness of the peripheral regions as investment areas, and spatial polarisation will be replaced by trends towards equalisation.

vii) Within this broad framework, it is possible to define a role for a state-led spatial policy where polarisation might be maintained past a socially and economically optimum point due to market and structural failures. As agglomeration economies and concentration diseconomies are external benefits and costs to firms, the state can encourage a more appropriate evaluation of locational advantages through aligning social costs and benefits to private ones through taking core enterprises and providing incentives for peripheral location. Similarly, where the diffusion process is disrupted by the absence of key elements of the settlement hierarchy, the state can aid in their formation through providing social and economic infrastructure.

viii) The success of a state decentralisation policy can thus be postulated as a function of three factors :

- a) **the evolution of economies of urbanisation**, such as backup financial and repair services, transportation networks, communications, social infrastructure and a local market on a scale sufficient to enable autonomous growth.
- b) **the attraction of a 'propulsive' industry** with sufficient growth potential and linkages to encourage location of related enterprises.

c) an appropriate incentive and taxation package.

2.2. The Apparent Relevance of the Model for South Africa.

Examination of the political economy of South Africa reveals three types of spatial regions; 'white' urban areas, of which the major metropolitan areas are dominant; 'white' rural areas; and the african reserves/homelands/national states. (Hattrass, 1981). It is possible to interpret the metropolitan areas as 'cores' and the homelands as the 'periphery'. (Fair, 1982). Examination of the overall trend in the distribution of production, as in Table 1, certainly supports the hypothesis that the space economy is featured by high levels of concentration and tendencies towards polarised development.

Table 1 : Production and Population Trends in the Homeland Periphery.

YEAR	HOMELANDS		G.D.P.		SOUTH AFRICA		G.D.P.		HOMELANDS % RSA	
	G.D.P. (Rm)	POPULATION (000)	PER CAPITA (R)	G.D.P. (Rm)	POPULATION (000)	PER CAPITA (R)	GDP	POP	PER CAP	G.D.P.
1936	49	3 057	16	767	9 590	80	6,4	31,9	20,0	
1946	80	3 252	24	1 637	11 418	143	4,9	28,5	16,8	
1950	94	3 302	28	2 549	12 410	205	3,7	26,6	13,8	
1954	94	3 605	26	3 624	13 739	264	2,6	26,2	9,9	
1959	123	4 023	30	4 694	15 602	301	2,6	25,8	10,1	
1964	147	5 088	29	6 872	18 107	380	2,1	28,1	7,6	
1969	280	6 640	42	10 999	21 131	521	2,5	31,4	8,1	
1974	644	8 406	77	23 116	23 855	969	2,8	35,2	7,9	
1979	1 663	10 562	157	44 179	26 707	1 654	3,8	39,5	9,5	
1980	2 110	11 056	191	58 514	27 317	2 142	3,6	40,5	8,9	

Sources : Homeland GDP : Knight and Lenta, 1980 : table 2
: Benso, 1976 : table B.7.1.
: Benso, 1979 : table 6
: Benso, 1981 (a) and (b).
: RSA GDP : SA STATISTICS, 1982, tables 21.4. and 21.5
: Homeland Pop : Knight and Lenta, 1980 : table 2.
: Benso, 1976 : table 4.3.
: Simkins, 1983 : table 3.
: RSA pop : Muller, 1983 : table 3.

The process of spatial polarisation clearly worked against the areas that presently constitute the homelands as can be seen by their declining share of gross domestic production. Thus, in 1936 the homelands were responsible for generating 6,4% of South African Gross Domestic Product. By 1964, this share had fallen to 2,1% after which a gradual increase to the 1980 level of 3,6% occurred. However, due to the operation of the population influx and settlement policies followed since 1948, the share of the South African population contained in the homelands increased from 25,8% in 1959 to 40,5% in 1980. A direct result of the contrasting spatial population and production trends, has been the decline in per capita output in the homelands as a share of the South African average from 20,0% in 1936 to 8,9% in 1980.

The growth pole model contends that manufacturing is the key sector that underpins spatial biases in capital accumulation. This is seemingly supported by the data in Table 2, which details the spatial distribution of manufacturing enterprises between 1916/17 and 1976.

Table 2 : Shifts in the Spatial Distribution of Manufacturing Enterprises.

AREA	1916/7	1933/4	1945/6	1956/7	1965/6	1976
TOTAL NUMBER	5 305	8 530	11 351	12 168	12 727	15 461
<u>% TOTAL</u>						
W. CAPE	16,1	15,7	13,3	12,9	16,0	14,8
P.E.	3,4	2,7	2,9	4,2	3,6	5,4
DBN/PTN	6,9	7,4	8,2	9,7	10,7	11,4
PIW	18,9	29,1	31,2	42,4	43,7	45,1
MAIN MET.	45,3	54,9	55,6	69,2	74,0	76,7
REST OF SA	54,7	45,1	44,4	30,8	26,0	23,3

SOURCE : Pretorius *et al*, 1986 : Table 1.

With the exception of the Western Cape, all metropolitan areas increased their share of the manufacturing enterprises, during the period covered by Table 2. As a whole, the number of manufacturing enterprises in major metropolitan areas increased from 2 403 to 11 859, while those in the rest of South Africa barely increased at all, rising from 2 902 in 1916/17 to 3 602 in 1976.

2.3. The Evolution of the Industrial Decentralisation Policy.

The data given above, lucidly indicate spatial polarisation of both output and the distribution of manufacturing enterprises. However, as will be seen in section 2.4, growth pole theory requires not only polarisation, but that such polarisation is becoming economically irrational. Most commentators deny this second claim, arguing that during the deployment of the policy, economic factors were subordinated to the political imperatives of white supremacy. (Wellings, 1984). Evidence for the latter viewpoint is provided by an examination of the socio-political functions and evolution of the policy.

According to Wellings and Black (1984 : 13-14), the decentralisation policy served a number of socio-political functions. Firstly, it 'aimed at providing the economic base for the population distribution needed to retain ethnicity as the fundamental organising principle of society'. (Zille, 1984). Secondly, through decentralising growth to areas where there was no formal minimum wage or trades union organisation, it served to undermine urban forces of popular protest and labour organisation. Thirdly, it sought to provide an economic

base for a collaborative african class. Finally, it was designed to gain internal and international legitimacy for the separate development initiative.⁽¹⁾

The political considerations that underpinned the policy are also evident in its origins and evolution. Thus, while various commissions, dating from the 1930's raised the possibility of rural industrialisation, primarily as a means of solving the problems of **white** poverty, the major impetus for decentralisation to the homelands, derived from the changing dynamics of african settlement and migration around World War 2. Pretorius et al (1986 : 44) point out :

"The National Party gained power in 1948 during a time of rapid industrial growth and urbanisation, when economic interaction made it difficult for any South African government to justify continued black exclusion from political expression. Government policy was now aimed at providing the [political and economic] infrastructure to make the reserves the basis for an ethnically based policy of separate development, ultimately leading to political independence.."

In 1955, the report of the Tomlinson Commission (UG 61/1955) was published. Widely regarded as a blueprint for the new policy of Separate Development, it placed considerable emphasis on the industrialisation of areas inside and immediately adjacent to the homelands as a means of providing employment for the rural population that would have to be moved off the land if agricultural development was to occur. While its recommendations for industrialisation inside the homelands were rejected on the grounds that it would require

'white' capital and so contradict the policy of racial separation, 'border' industrialisation was accepted.

A two pronged strategy was initiated. On the one hand an incentive package was announced to promote decentralisation to 'white' towns on homeland borders, enabling africans to live in the homelands and work as border commuters. On the other, a Bantu Investment Corporation was set up in 1959 to promote homeland development - although its operations were largely concerned with the transfer of existing white owned commercial enterprises to africans.⁽²⁾

However, in the early stages, the policy was not successful and despite increases in incentives in 1964, the relocation of industry to border areas was minimal, suggesting that either the incentive package was poorly designed, and/or that agglomeration advantages in the major metropolitan areas far outweighed concentration disadvantages. This led to a further evolution of the policy. Under section 3 of the Physical Planning Act of 1967, direct controls on the expansion of african employment in key metropolitan areas were implemented to enforce the decentralisation of (african) labour intensive firms. Secondly, and conversely, under the Promotion of the Economic Development of the Homelands Act in 1968, white industrial capital was allowed into the reserves for the first time on an agency basis. (Dewar, D et al, 1984 : 3 - 7).

In 1971 and 1975 incentives were again increased. Yet, by 1982 despite the selective removal of job reservation and minimum wage legislation in the development points, an effective relocation of industrial

development had still not been achieved, and the Manual on the Promotion of Industrial Development as an Element of a Co-ordinated Regional Development Strategy for Southern Africa published in 1982, began with the statement that :

"Efforts to achieve a more equal distribution of secondary industry have not met with particular success, and it has become clear that a new approach to promote development in the less developed areas is required".

Various reasons have been advanced for the apparent failure of the decentralisation policy. (Dewar et al, 1984; Wellings, 1984; and Black, 1985). Firstly, rather than decentralising to border areas, metropolitan firms responded by substituting capital for labour, non-african for african labour, relocating to urban areas such as Durban-Pinetown where the regulations were inoperative, and, in the final instance, closed down.⁽³⁾ One estimate, based on applications for exemptions from the provisions of the Act, was that for every job created in a development point between 1968 and 1973 nearly ten metropolitan jobs were destroyed. little wonder that Black (1985 : 189) claims :

"While it is impossible to measure, with any degree of precision, the number of jobs foregone in areas not supported by incentives, all indications are that such employment losses are substantial...In this respect the most disasterous single policy has, without a doubt, been the Physical Planning Act."

Secondly, due to political pressure, not only were too many development points identified, but were often located in areas that offered very little prospect for the evolution of agglomeration

economies. Thirdly, and relatedly, the incentive package was unable to compensate for the advantages of urban location.

In 1982, a new policy was announced. Its major features were, firstly, a shift in the basis of allocating growth points away from homelands to eight identified 'development regions' which were allocated different weightings according to their perceived need for development. Secondly, the number of growth points at which incentives were to be paid was to be curtailed. Thirdly, direct controls on metropolitan expansion were to be replaced with indirect fiscal measures. In addition, the incentive policy was revised, the level of incentives increased, and the share of direct cash payments (as opposed to taxation relief) was raised. Finally, growth points were divided into four sub-types :

- a) **Deconcentration points** are 'adjacent or close to metropolitan areas towards which industrial growth could be channelled to lessen the pressure of overconcentration in the metropolitan areas'. (Manual, 1982 : 4)
- b) **Industrial Development Points** are 'points where alternative agglomeration advantages can be created to counterbalance the existing metropolises and thus create employment opportunities in the regions concerned'. (ibid, 7)
- c) **Other industrial points** are 'points where concessions have previously been granted, but which are not Deconcentration Points, Industrial Development Points or **ad hoc** cases'. (ibid,

12)

- d) Ad Hoc cases are 'those cases where the specific project and not the area is the deciding factor for the granting of incentives in one form or another'. (ibid, 13).

The distribution of these different growth points in 1984, is detailed in Table 3.

Table 3 : Declared Growth Points in 1984

Type/Location	'white' RSA	Self Governing National States	Independent National States	Total
I.D.P.'s	24	10	10	44
Deconcentration	7	3	2	12
Other Dev Point	48	10	-	58
Ad Hoc Cases	71	-	-	71
Total	150	23	12	185

Source : Black, 1985 : table 6.1

It is interesting that only 35 of the 185 growth points identified in table 3 are located outside of 'white' South Africa. Furthermore, 119 of the 150 growth points in the latter area are neither IDPs nor Deconcentration Points. Both of these factors indicate the political pressures to which the Decentralisation policy, as a means of redistributing manufacturing to the homelands, has been subject.

2.4. A Critical Evaluation of Decentralisation Policy.

A critical assumption of growth pole theory is that peripheral regions will inherently approach self-sustaining development and only a small

incentive nudge is required to push them over the threshold. If this is so, then one would expect an increasingly positive assessment of the potentials for decentralisation and a diminishing role to be played by incentives in locational decision-making. However, a number of studies, reviewed in this section, question the validity of such an assumption at the present stage of development of the South African political and spatial economy.

Wellings (1984) conducted a survey amongst metropolitan firms in Bloemfontein, Durban and East London which are relatively close to the respective peripheral regions of Lesotho, Kwa Zulu and Transkei. He found that metropolitan firms viewed the peripheral areas as subject to increasing local purchasing power, primarily due to the decentralisation of state functions to the 'national state' governments, and relatively little competition. Despite these seemingly favourable factors, the markets were regarded as relatively small and their growth prospects uncertain. Accordingly, he concluded (1984 : 38) that :

"it does not appear that location of capital in the form of offices and commercial outlets is as yet considered central to market strategy. Moreover, it is quite clear that the establishment of factories in these regions is not influenced significantly by evaluations of their potential as markets or suppliers of raw materials."

The periphery is also felt to be unattractive for direct industrial investment. Black (1985) surveyed a sample of industrialists in the major metropolitan areas. He asked them if they were considering any new investment, the type of area where such investment was planned,

and the perceived advantages of these areas. Of the total sample, only 36% were considering such investment over the next 5 years (i.e. 1984 - 1989). Of these, 40% (14% of the total sample) were considering other urban areas; 20% (7,1%) a deconcentration point; 36% (12,4%) an industrial development point; and 4% (1,4%) some other location.

The relative importance of the factors encouraging relocation identified by the metropolitan industrialists are detailed in Table 4.

Table 4 : Factors Encouraging Metropolitan Firms to Relocate, 1984. *

Reason/ Location	Other Urban	Deconcentration Point	Industrial Development Point
Availability of Unskilled Labour	3,0	10,4	24,5
" " Skilled "	10,9	7,7	0,0
" of Ancillary Services	3,0	2,6	0,0
Push Factors	3,0	0,0	3,0
Incentives	-	47,8	53,6
Proximity to Markets	46,8	18,5	8,7
Transport Costs	4,8	5,2	1,5
Geographical Suitability	15,8	2,6	8,7
Others	12,7	5,2	0,0
Total	100,0	100,0	100,0
Sample Size	28	14	26

Source : Black, 1985 : 182

* To obtain total reasons, Black weighted 'prime' reasons 2 and 'secondary' reasons 1. He then divided by the sample size to get relative importance indices. It is felt that it is easier to comprehend the figures by expressing each factor as a percentage of the total weighted answers.

There are a number of salient and instructive points to be made about Table 4 :

- i) By the time of the survey in 1984, the Physical Planning Act provisions had already been largely internalised by metropolitan

firms as can be seen by their relatively small contribution of push factors to the evaluation of locational decisions.

ii) Three factors - proximity to markets, geographical suitability, and the availability of ancillary services - are fairly direct indicators of the perceived agglomeration potential of the areas considered for new investment. While these factors are very important (65,6% of weighted reasons given) for other urban locations, they are much less important for deconcentration areas (26,3%) and industrial development points (17,4%).

iii) Conversely, incentives contributed more than half of the attraction of the industrial development points, and only slightly less for the deconcentration points.

These points seem to indicate a strong prima facie case that neither concentration diseconomies in the core, nor approaching agglomeration advantages in the periphery underpin locational decisions by metropolitan investment, and that the present spatial structure of industry is strongly dependent on continued payment of incentives.⁽⁴⁾

This conclusion is reinforced when the perceived disadvantages of relocation detailed in Table 5, are taken into account.

Table 5 : Perceived Disadvantages of Decentralised Locations - By Area of Survey.*

Problem	Umtata/ Butterworth	Isithebe	Metropol Survey	Deconcen. Points	Border Towns	Isolated White Towns	HomeLand I.D.P.'s
Labour	16,4	17,5	35,6	4,1	2,8	13,8	6,1
Skilled/mana- gerial Labour	13,4	14,8	23,2	25,5	29,7	12,4	9,1
Infrastructure/ Agglomeration.	13,8	14,0	6,7	34,5	29,7	26,2	31,8
Distance to markets/Suppliers.	13,2	12,0	22,3	22,8	27,0	36,6	30,3
Relocation Costs.	-	-	12,3	12,3	-	-	-
Bureaucracy	12,6	10,3	-	0,7	8,1	4,1	0,0
Political	10,5	8,2	-	-	-	-	-
Local Market Potential	7,9	8,6	-	-	-	-	-
Others	12,2	14,6	-	12,4	2,7	6,9	22,7
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Sources : Wellings and Black, 1984 : table 8 for columns 1 - 3.

Dewar et al, 1984 : table 17 for rest.

*Wellings and Black asked IDP respondents to rank each of the options according to the categories 'very important', 'marginally important', and unimportant and gave each response accordingly a weight of 3, 2, 1. The metropolitan respondents were given ten reasons and asked to rank the top four. These were then weighted accordingly with the most important factor receiving a weight of 4. Dewar et al asked respondents only to list their three most important disadvantages and gave them weights of 3, 2, 1. Their weighted answers were then transformed to give the percentage of the total.

While the differences in methodologies and weighting systems of the surveys used to construct Table 5 must be taken into account, their results are broadly comparable. The following points of interest emerge :

- i) Poor infrastructure, the absence of agglomeration economies, and marketing problems are crucial constraints in the growth points.
- ii) Problems with the cost and availability of managerial and skilled labour, an indirect indication of poorly developed social

infrastructure, are major issues.

iii) In view of the relatively high value attached to the availability of unskilled labour as a perceived advantage of these areas (table 4), it may seem paradoxical that labour problems are given a relatively high ranking. The reason for this is that while abundant, there are widespread complaints that the labour in these areas is of poor quality/trainability, and suffers from high absenteeism and turnover rates. Accordingly, despite the fact that average unskilled wages in the IDP's are only 35%-55% of the metropolitan average, when poor productivity is taken into account. In one survey, 23% of firms felt that the cost of labour was actually higher in the IDPs than in the metropolitan areas and a further 13% felt it to be the same. (Black, 1985 : 200).

It might be countered that the reason for the poor evaluation of the decentralisation points by metropolitan industrialists lies in ignorance or poor information rather than poor performance. However, the basic conclusion that the policy is not economically sound, is reinforced by an examination of the structure of industry in the growth points.

Dewar et al (1984 : 39) point out that self-sustaining growth will depend largely on the attraction of a 'propulsive' industrial base. They describe the growth process in the following way :

"Growth is generated by the innovating capacity of the

propulsive industry and by its backward and forward linkages [in the area]. Innovation and growth in the propulsive industry allow it to lower the cost of its products and this stimulates the growth of forward linked industries. Backward linked firms, in turn, benefit from increased production in response to growth in demand from the expanding propulsive industry. Other 'laterally' induced firms, the output of which depends on income generated by the propulsive industry and its backward and forward linked firms, also benefit".

It is clear that for this model to operate, the ideal firm should be rapidly growing with substantial forward and backward linkages within the growth point.

Examination of firms operating in different growth points, revealed only one example of a propulsive industry, and that has low local linkages. Furthermore, although 35% of firms were classified in the 'rapid growth' category, many of these were merely branch plants involved in simple last stage assembly operations. (Dewar *et al*, 1984). Similarly sobering data emerge from the consideration of forward and backward linkages as can be seen in Tables 6 and 7 on sources of inputs and sales.

Table 6 : Source of IDP Firm Inputs - Backward Linkages. (% Enterprises).

Source Area/Input Share	All	Most	Some	Little**	Total
Growth Centre	1,3	6,2	8,8	1,3	17,6
Local Metropolitan Area	20,0	7,5	22,5	7,5	57,5
Region*	5,0	10,0	6,2	3,8	25,0
Total	26,3	23,7	37,5	12,6	100,1***

Derived from : Dewar *et al*, 1984 : Table 10

* Within a radius of 300km. **less than 5%. ***Rounding error.

According to the data contained in Table 6, only 1,3% of enterprises

derive all their inputs from within the growth point, and only 17,6% obtain at least some of their inputs there. Even when the radius is expanded to 300km only 26,3% obtain all their inputs 'locally'. This indicates that only very low levels of backward linkages have been achieved, within the region.

The data contained in Table 7 indicate that a similar situation obtains for forward linkages.

Table 7 : Destination of Output - Forward Linkages. (% Enterprises).

Destination/ Output Share	All	Most	Some	Little**	Total
Growth Centre	4,5	9,1	12,5	9,1	35,2
Local Metropolitan Area	3,4	10,2	12,5	3,4	29,5
Region*	8,0	13,6	12,5	1,1	35,2
Total	15,9	32,9	37,5	13,6	99,9***

Derived From : Dewar et al, 1984 : table 11

*Within a radius of 300km. **Less than 5%. ***Rounding error.

Only 4,5% of enterprises dispose of all their output within the growth point and fully 64,7% dispose of none of their output in the growth point. In addition to the poor local forward and backward linkages, the relatively low wages paid in these areas, combined with very high levels of consumer leakage, mean that the possibility of generating 'lateral' linkages is also highly circumscribed and the overall impact of this type of industrialisation on living standards in the area is fairly small. Furthermore, these limited benefits have been brought at the cost of massive state subsidies - Rm 600 in 1985/6 - and infrastructural development, which do not seem justified.

3. INDUSTRIALISATION AND DEVELOPMENT IN TRANSKEI.

An examination of the spatial history of the South African political economy, reveals that the periphery has been subject to an active process of underdevelopment. 'Core' interests have been dominant in controlling the development process in the periphery through biases in state revenue and expenditure patterns and the conversion of the 'reserves' into semi-proletarian labour exporting areas. The result of the combined policies of population settlement control and distorted, or blocked, development has been the characteristic features of rural stagnation and decline and dependence on migrant labour. In this context, it is important to establish the degree to which the decentralisation of industry, which has absorbed over Rm 300 in incentives since 1976, has contributed to the general development of Transkei, and, in particular, the alleviation of poverty. In this section the possible basis and constraints on industrialisation in the Transkei, as well as the performance of the policy to date, are examined.

3.1. Bases for Industrialisation in Transkei

A number of macro-economic factors seem to indicate the viability of industrialisation in Transkei. High levels of unemployment point to ample supplies of cheap labour. Transkei is centrally located on two key parts of the national roads transport network. Butterworth, its major industrial development point is linked by rail to East London which is only 120km away, facilitating export production. Growth in consumer expenditure over the last few years has been rapid averaging

22,1% per annum between 1979 and 1984. (Transkei Economic Review, 1986: Table 4). Furthermore, as Table 8 reveals, on average 81% of goods bought by consumers in Transkei are 'imported', which, when combined with ready access to the South African market, indicates that demand may not be a constraint.

Table 8 : The Import Component Of Consumer Expenditure By Type, 1984.

Type of Good	Total Expenditure (Rm)	% Imported
Food Products.	693,7	74
Alcohol, Sweets, Soft Drinks, Cigarettes	145,0	88
Clothing/Linen	198,2	90
H/Hold Equipment	268,7	92
Stationary, Medicines, Recreational Goods	70,4	79
H/Hold Fuel, Transport, Vehicles	167,9	91
Agricultural Inputs	14,8	100
Housing/Building	68,4	30
Total*	1 308,1	81

* Excludes Petrol which amounted to Rm 74 in 1984/5.

Source : Republic of Transkei, 1986.

In addition, incentives available to industrialists at the Industrial Development Points in Transkei, detailed in Table 9, are among the most generous in South Africa.

Table 9 : Incentives for Industrialisation at Transkei IDPs.

IDP	Transport Rebate (%)	7 Year Employment Incentive Wage Bill (%)	Max. Per Worker (R Per Month)	10 Year Rental/ Interest Concession (%)	Housing Subsidy (% Interest Rate)	Tender Price Pref. (%)
Butterworth	60	95	110	80	60	10
Ezibeleni	60	95	110	80	60	10
Umtata	60	95	110	80	60	10
Iltonjeni	50	95	105	70	50	10

Source : SECOSAF MANUAL, October 1985 : 18.

For all practical purposes, Transkei has only three IDP's; Umtata, Butterworth and Ezibeleni. Incentives in all three are the same consisting of subsidies of 60% on transport costs, up to 80% of the wage bill (or R 110 a worker per month), and allowances for housing, capital loans and rentals. In addition, labour costs are also subsidised through the payment of training concessions and industrialists are able to claim back 87,5% of training costs in cash.⁵ Although a 10% price preference is given on tenders, this does not seem to work in practice. Finally, all industrialists qualify for relocation allowances and an electricity concession.

Nevertheless, despite these broadly favourable indications, industrialisation in Transkei has had relatively limited impact on development.

3.2. Industrial Development in Transkei.

The evaluation of the contribution of industry to Transkeian development can be viewed in terms of its **product** contribution,

measured by its growth and share of GDP, and its employment and market or linkage contributions.

The growth and changing share of market sector manufacturing to GDP are detailed in Table 10.⁶

Table 10 : The Contribution of Market Manufacturing to GDP, 1970-1984.

Year	Value of Manufacturing Output at Current Factor Costs (R'000)	Real Value of Manufacturing Output at Factor Cost (R'000) 1975 = 100	%GDP	Annual Average Growth from Previous Period (% p.a.)	
				Current Prices	Real Prices
1970	2 660	4 169	3,0	-	-
1975	7 048	7 048	3,4	21,5	11,1
1980	39 799	22 704	7,0	41,4	26,4
1981	63 081	31 081	9,1	58,5	36,9
1982	99 983	43 171	11,8	58,5	38,9
1983	78 245	30 083	8,4	-21,7	-30,3
1984	92 232	31 761	7,2	17,9	5,6

Sources : Abedian, 1984 & 1986

Between 1970 and 1984, the contribution of manufacturing to Transkei's GDP increased from Rm 2,7 to Rm 92,2 at current prices, and from Rm 4,2 to Rm 31,8 at constant 1975 prices. As a share of GDP it increased from 3,0% in 1970 to 7,2% in 1984. The growth processes was very uneven. Thus, while the average real growth rate was 11,1% between 1970 and 1975, and 26,4% between 1975 and 1980, it declined to 8,0% between 1980 and 1984. Most of the growth in the latter period occurred between 1980 and 1981. Since 1982, when manufacturing contributed 11,8% to GDP, the real value of manufacturing output has declined, which is particularly disturbing in view of the increased incentive package announced in 1982.

The contribution of industrialisation to employment creation, can be assessed with the aid of Table 11, which compares the growth in manufacturing employment with the growth of the labour force and wage employment in Transkei between 1975 and 1985.

Table 11 : Employment By Sector - Selected Years 1975 - 1985.

Sector	1975	1980	1981	1982	1983	1984	1985
Labour Force	825 526 956 895 986 410 1 017 000 1 047 510 1 078 935 1 111 303						
Transkeian Wage Employment	81 349 179 465 176 458 181 122 185 570 186 108 187 683						
Manufacturing	8 160 23 308 25 240 28 230 29 165 29 796 30 766						
Manufacturing Employment as a Percentage of :							
Labour Force	1,0	2,4	2,6	2,8	2,8	2,8	2,8
Transkeian Wage Employment	10,0	13,0	14,3	15,6	15,7	16,0	16,4

Sources : Department of Interior, Labour Reports : Various Years.
Labour Force from Muller, 1983; Extrapolated at 3% per annum.

Between 1975 and 1985, the growth rate of employment in the manufacturing sector has been very rapid, averaging 14,2% per annum, totalling an estimated 30 766 persons in 1985. Despite this relatively rapid growth rate, manufacturing employment inside Transkei accounts for only 16,4% of local wage employment and 2,8% of the total labour supply. The average annual increase in manufacturing employment over the period of 2 261 workers is only about 10% of the annual increase in the labour supply. Like the output performance, there has been a marked decline in the rate of growth in employment. Thus while the annual average growth rate was 23,4% between 1975 and 1980, it declined to 5,7% between 1980 and 1985 and only 3,3% from 1984 to 1985.

Figures given in Table 11 must be approached with some caution as they

are estimates, and include both non-supported and small industries. While the growth in the latter two may be partly attributable to the activities of industries established under the decentralisation policy, a far better indication of the direct impact of the policy is provided by Table 12 which outlines employment growth in incentive receiving industries at the different growth points on 31 March from 1982 to 1986.

Table 12 : Employment at Incentive Receiving Industries by Growth Point, 1982 - 1986.

Growth Point	Labour Category	1982	1984	1985	1986
Butterworth	Wage Labour	5 482	7 270	8 637	11 028
	Salaried Worker	-	324	364	628
	Total	-	7 594	9 001	11 651
	No. Factories	27	34	37	37
Umtata	Wage Labour	230	430	592	1 449
	Salaried Worker	-	25	44	112
	Total	-	455	636	1 561
	No. Factories	6	7	12	21
Ezibeleni	Wage Labour	-	270	764	1 377
	Salaried Worker	-	12	19	38
	Total	-	282	783	1 415
	No. Factories	-	3	5	9
Other	Wage Labour	958	2 206	2 358	2 390
	Salaried Worker	-	81	103	105
	Total	-	2 287	2 461	2 495
	No. Factories	5	8	8	9
Total	Wage Labour	6 670	10 176	12 351	16 244
	Salaried Worker	-	442	530	878
	Total	-	10 618	12 881	17 122
	No. Factories	38	52	62	76

Source : T.D.C. Records

According to the figures in Table 12, considerable growth in total employment at the different growth points has occurred over the period covered by the table. Wage employment has more than doubled from 6

670 wage workers to 16 214. Considerable expansion has also occurred in the number of salaried workers from 442 in 1984 to 878 in 1986. However, despite this seemingly impressive job creation performance, the relatively small proportion of new workseekers that this covers, must continually be borne in mind.

Earnings data are of interest both because they indicate the potential for attracting laterally linked industries, and the contribution to household income. Table 13 outlines earnings by type of labour for the different growth points for the year ending on 31 March for the period 1982 to 1986.

Table 13 : Average Annual Earnings By Type of Labour and Growth Point, 1982 - 1986.

Growth Point	Type of Labour	1982	1984	1985	1986
Butterworth	Wage	1 217	1 437	1 427	1 523
	Salary	-	13 699	14 726	13 130
	Total	-	1 961	1 964	2 144
Umtata	Wage	1 481	1 755	1 628	1 585
	Salary	-	12 863	14 016	11 918
	Total	-	1 922	2 174	2 326
Ezibeleni	Wage	-	718	1 056	1 177
	Salary	-	11 109	16 606	12 646
	Total	-	1 172	1 441	1 485
Other	Wage	780	1 144	1 137	1 145
	Salary	-	16 865	15 797	15 954
	Total	-	1 704	1 751	1 768
Total	Wage	1 163	1 355	1 348	1 444
	Salary	-	14 033	14 815	13 292
	Total	-	1 883	1 902	2 051

Source : T.D.C. Records

There are a number of interesting aspects to Table 13. Firstly, in 1985/6 the average wage paid by the manufacturing sector was R 120,33

per month, while the average salary was R 1 107,67 per month. Not only is the absolute level of earnings for wage labour very low, but the large differential indicates that the structure of earnings contributes considerably to the very unequal income distribution in Transkei.⁽⁷⁾

Secondly, there are considerable variations between the different growth points in terms of average payment rates, with workers in Ezibeleni being the most poorly paid. Thirdly, if one assumes that all industries received R 110 per month per worker in wage incentives, i.e. R 1 320 per worker per annum, then incentives covered 62% of the wage bill in Butterworth, 57% in Umtata, 89% in Ezibeleni, 75% in the ad hoc industries, and 64% on average. Finally, although wages paid by manufacturing industries receiving incentives amounted to about Rm 35 in 1985/6, this figure accounts for about 1% of consumer expenditure in Transkei, indicating relatively little contribution to development through the local multiplier.

3.3. Constraints on Industrial Expansion in Transkei.

The general process of industrial expansion in Transkei has been set out in section 3.2. It was noted that while there had been a rapid increase in the product and employment contributions of the sector from 1975, since 1981 there has been very little progress. The impression that Transkei is not being viewed in a competitive light over the last few years is seemingly confirmed by data on applications and approvals over the period March 1982 to March 1986 outlined in

Tables 14 and 15.

Table 14 : New and Expanded Project Approvals For Year Ending March 1982 - 1986.

	1982/3	1983/4	1984/5	1985/6
New Projects	30	28	14	10
Expansions	4	5	9	14
Not Coming	14	9	1	-
Failed/Concessions Withdrawn	2	2	0	-
Operating	18	19*	12*	-
Investment Approved (Rm)**	47,5	58,6	26,9	-
Actual Investment (Rm)	17,0	30,4	10,3	-
Jobs Approved	5 678	5 022	2 645	-
Actual Jobs	2 050	2 283	1 768	-
Investment Per Job :				
Approved (R)**	8 367	11 664	10 172	
Actual (R)	8 274	13 319	5 800	

*Excludes pending claims and those still being negotiated.

**The meaning of this figure is not too clear. It represents more than the actual direct investment in plant, machinery, buildings and working capital. Up to one sixth may be the projected value of debtors.

Source : T.D.C Records

According to the figures contained in Table 14 on approved projects, the number of new project approvals showed a marked decline from 30 in the year ending in March 1983 to 10 in 1986. Conversely, the number of approved applications for expansions increased from 4 to 14, indicating perhaps that presently existing firms are either coming to the end of their initial incentive package terms, or that they wish to take advantage of the new incentives. The impact on actually operating firms was offset to some degree by the decline in the number of firms failing to take up their approved applications. The especially large gap between new applications and operating firms in 1982/3 probably reflects increased inquiries following the marketing campaign after

the new incentives were announced in April 1982. Nevertheless, the decline in actual investment from Rm 17,0 in 1982/3 to Rm 10,3 in 1984/5 is disturbing. One potentially significant trend is the decline in the actual cost per new job over the period, from R 8 274 to R 5 800 before inflation is taken into account.

Data on approved and operating projects by area of investor's origin, contained in table 15 indicate a declining interest by investors from outside the Republic of South Africa. Thus while 13 out of 34 approvals (38,2%) were from the RSA in 1982/3, this figure had increased to 13 out of 24 (54,2%) in 1985/6.

Table 15 : Source of Approved and Operating Project Applications 1982/3-1985/6.

Origin	1982/3		1983/4		1984/5		1985/6	
	App	Op	App	Op	App	Op	App	Op
R.S.A.	13	10	19	10	15	7	13	-
Other R.S.A.	2	1	1	1	0	0	0	-
Transkei	3	3	6	4	3	0	1	-
S.East Asia	11	2	6	3	4	3	6	-
Europe	4	2	1	1	1	1	4	-
U.S.A.	1	0	0	0	0	0	0	-
Total	34	18	33	19	23	11	24	-

Source : T.D.C. Records.

Given the relatively favourable incentives available to industrialists operating in Transkei, this poor performance requires explanation in terms of a number of factors :

- i) **Land tenure** is possibly one of the most crucial issues. In Transkei, land cannot be held under free-hold by non-citizens or companies. One industrialist in Queendustria noted⁽⁸⁾ :

"We could have established at Ezibeleni, but at that moment we couldn't own the property ourselves. It could never be our own property, so that's why we came here."

Not only does this reduce the security of investment, but precludes industrialists from investing money in buildings and housing. In March 1985, it was estimated that T.D.C., which is forced to erect these buildings and then let them at subsidised rentals, had about Rm 50 tied up in industrial buildings and Rm 20 in housing. The opportunity cost of this capital is enormous and the then Corporate Planner claimed that 'This single item is the most serious single constraint on industrial development'. (Jones, 1985).

- ii) **Political instability**, both internally and regionally, is an important factor. While Transkei has traditionally been viewed as relatively stable, especially when compared to its neighbour, Ciskei, this impression has changed over the last few years. Internal disturbances such as on the University Campus in Umtata, the assassinations of a deputy cabinet minister and a student leader, and rural violence are more prevalent. Of more direct concern to investors, there is suspicion of administrative arbitrariness. Examples cited are the (suspended) Licencing Control Bill aimed at immediate Transkeianisation in the Commercial Sector, and the dismissal of the T.D.C top echelon while a Commission of Inquiry was sitting. This uncertainty is clearly revealed in an interview conducted with an industrialist in Queendustria, who had wanted to start a joint operation with a

Transkeian in Ezibeleni :

"We offered a Transkeian 1/3 of the company but he said no, he wanted more. He wanted the controlling share. We couldn't do that. Somewhere there must be control. While we are not Transkeians how could we protect our investment there?... You can lose it any day for they can tell you, I want to do it my way now. Your money would stay. That was the danger of the whole thing".

iii) Changes in **regional political arrangements** are also a cause for some concern. Examining the rationale behind the declaration of at least 2 of Transkei's four Industrial Development Points (IDPs), reveals some of the political motivations that underpin and often negate the decentralisation policy. A growth point has been declared at Mtonjeni in Eastern Pondoland. This is unlikely ever to materialise as it is very isolated, has no access roads, and is not even located near an existing town. Its declaration was sought partly to appease a very hostile area of Transkei, scene of furious rebellions in the 1960's, and partly as a means of getting infrastructure into the area, which has little chance of being obtained if it is not linked to 'productive' activity. (off-record conversation with planning officials in Umtata). The Ezibeleni IDP is even more dubious as it is located right on the border of Transkei, and less than 3km from the Queendustria IDP in South Africa. In this context, Dewar et al (1984 : 78) make the poignant point :

"A major problem is the underlying political motivation of decentralisation policy. Pressure has been exerted from regionally based political and economic groups to create more decentralisation points and this has weakened the overall effectiveness of any one point. Moreover there is a tendency to use the system as an attempt to diffuse rising political tension in an area (as in the case of Ciskei). Both these factors lend a degree of

unpredictability to the economic climate in decentralisation points and must inevitably affect confidence and thus their long term performance."

There are also indications that changes within Region D, such as the proliferation of growth points, and especially the upgrading of East London's status, have worked against Transkei.

- iv) **Poor communications infrastructure** is an oft noted complaint. The performance of the postal system is very uneven with letters sent from Butterworth to Umtata often taking weeks to cover 120km, and sometimes not arriving at all. In Ezibeleni, one industrialist described the communications network as 'putrid' and indicated the problems that the absence of a telex facility caused for him as follows :

"You find that we've got an office in Johannesburg where the order gets given to our sales agent from a customer. They in turn phone them to us. And you know how communication is from one person to the next, it gets a bit distorted. You end up sending out the wrong thing, or wrong colour, or someone wanted a slight change. Bang, the stuff comes back and we have to pay an extra 20% cartage cost, or whatever".

- v) The lack of **adequate backup services** is also keenly felt as the following example shows :

"We've got a compressor here that broke down. It took us a week and a half to get it repaired. Someone had to come down from the Reef to do it, and when he got here, he found he didn't have all the spares so he had to come down again. So, in the meantime, we had to hire an outside compressor at R90 a day".

- vi) Despite the abundance of labour and the low wage rate, many industrialists complain about its **quality and high turnover rate**

which increase the cost of training and reduce productivity.

vii) Perhaps the single most important long run constraint, however, is the increasing **fiscal burden** of the incentive programme. Table 16 reveals that between 1977/8 and 1984/5 the actual expenditure on industrial incentives increased dramatically from R 498 619 to Rm 28,8 and the incentive paid per worker from R 93 to R 2 238. Although 50% of this amount comes directly from the South African treasury, the other half must be paid by the Transkei and this could be reallocated to other projects that may have a higher developmental impact.⁽⁹⁾

Table 16 : Incentives Paid to Industry 1976/7 to 1986/7.

Year	Total Paid (R)	Incentive Per Worker (R)
1976/7	8 221	-
1977/8	498 619	94
1978/9	840 759	140
1979/80	2 209 186	303
1980/1	3 934 154	443
1981/2	4 036 285	414
1982/3	11 756 022	1 020
1983/4	35 745 058	2 913
1984/5	28 829 524	2 238
1985/6*	30 000 000	--
1986/7*	40 000 000	--

*Budgeted figures

Sources : Transkei Auditor General's Reports, Various Years
Budget Estimates, 1985/6 and 1986/7

4. CONCLUSION.

The public costs of the industrial decentralisation policy in Transkei have been massive. Between 1976 and 1985 T.D.C had Rm 191 invested in

industry as loans and buildings, most of it yielding below market rates of return. About Rm 300 has been spent on incentives (including the South African share at historical cost). In addition large amounts have been spent on infrastructural development. In return, Transkei has an industrial sector that has about 30 000 jobs. Most are very low paying and are highly subsidised. The sector has few local linkages and there is large scale leakage of what income has been created. In conclusion, it is perhaps sufficient to quote from a critical evaluation of the Butterworth Industrial Development Point (Dewar, et al, 1984b) :

"An enormous industrial area has been laid out and fully serviced in the (somewhat naive) hope of massive short term growth occurring : rail spurs truncate in the veld; roads are gradually being taken over by vegetation: water and waste disposal pipes lie deteriorating under the soil surface. (p86)...[It] has failed to achieve a condition of self-sustaining growth, and is unlikely to do so within the foreseeable future. Further, it has had very little positive impact on its immediate hinterland or on the Transkeian region as a whole; indeed, if anything, its impact has been negative in terms of the opportunity costs foregone in other potential areas of investment... (p.93).

Finally, :

"The issue of regional development cannot be seen in isolation from the shortage of development capital available and the real difficulties facing developmental projects in peripheral regions. Indeed, the objective of regional planning must be the achievement of maximum developmental benefits with available capital. (p.93)

NOTES

- 1) In discussing the international political functions of the homelands policy, Giliomee (1985 : 48), quotes one of the conditions for international acceptability of Separate Development set down by Hammaskjold in a discussion with Verwoerd as the compilation of 'a plan for radical economic development providing for industries and economic growth within the Bantu territory'.
- 2) In 1965 the policy was expanded to include white areas that suffered from lagging growth and unemployment. As it developed this dimension of the policy has taken on increasing importance.
- 3) Black (1985 : 191) found in his metropolitan survey of the South African manufacturing sector that 25% (42% in the PWV) had been affected by the Physical Planning Act. The most frequent single response (31%) had been the substitution of capital for labour. Only 18% had relocated part of their activities.
- 4) In this context, it is interesting to take note of Black's (1985 :197) findings as to why firms who had considered decentralisation decided against it. Again, expressing the number of weighted answers for each factor, we find 21,2% of the reasons consisted of distance from the market, 9,8% distance from suppliers, 6,4% distance from related industries, and 7,5% lack of infrastructure and services at the proposed relocation area.

- 5) In principle the decision to assist in industrial training is necessary in a context where much of the labour has no industrial experience. However, there are a number of problems with Transkei's system that open it up to sharp business practices. Firstly, in South Africa, training concession are paid only for courses conducted by registered training schools off the premises of the industrialists. In Transkei, industrialists conduct the training themselves. Although each aspect of training requires that a course be registered and a training area be set aside, there is little stopping an industrialist using workers directly on the production line and claiming training costs. One area that is especially contentious is the payment of the industrialist for 'wastage' that arises from training. As no objective standards have been set on how much wastage is 'normal' for training, the system is open to abuse as industrialists may add their 'normal' industrial wastage and claim it as 'training'. In addition, the system does not discriminate between more wasteful and more efficient trainers, imposing these costs on the state. Finally, the cash payment of training costs, as opposed to their tax deductibility provides little incentive for industrialists to increase efficiency towards profitability.
- 6) Estimates are also made of non-marketed 'manufacturing' for Transkei. These largely consist of the value of beer brewing and are not taken into account in the discussion.
- 7) The most recent urban Household Subsistence estimates available are for 1983/4. They ranged from an estimate of R 208 to R 296

per month. (Transkei Profile, Number 1 : table 5.2). Allowing an average annual inflation rate of 15% per annum would make these R 275 and R 391 per month respectively for 1985/6. The monthly average wage paid during this period by incentive receiving industries equalled 44% and 31% of these amounts respectively, indicating the very small contribution made by these wages to poverty elimination in Transkei.

- 8) Quotations in this section of the views of Industrialists are taken from interviews conducted by the author in Ezibleni and Queendustria in February and March 1986. It was agreed at the time that the identity of the interviewees would not be revealed although complete transcripts are held by the author.
- 9) The position is not helped by the fact that most industrial undertakings run at a loss and pay little tax. In 1981/2 total company tax paid in Transkei (including non-industrial undertakings) was Rm 0,65 compared with industrial decentralisation incentives of Rm 4,0. (Nattrass, 1983).

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