"Strong city economies provide jobs and incomes to raise the living standards of citizens and to improve the stability and cohesion of communities. They boost the tax base to fund better public services and generate the resources to support household remittances and state transfers to poorer regions. Strong city economies also promote productivity growth and innovation, partly because they contain the shared services, infrastructure, institutions and social amenities to attract investment, enterprises and skills."

CHAPTER 2

The Economy of Cities

The Economy of Cities

The success of cities is crucial to national economic development and social well-being, which is why they are often described as engines of growth.[1] Strong city economies provide jobs and incomes to raise the living standards of citizens and to improve the stability and cohesion of communities. They boost the tax base to fund better public services and generate the resources to support household remittances and state transfers to poorer regions. Strong city economies also promote productivity growth and innovation, partly because they contain the shared services, infrastructure, institutions and social amenities to attract investment, enterprises and skills.

Resilience refers to the ability of city economies to recover from an external shock, such as recession or rising energy prices. Resilience is central to sustained economic performance of cities. Larger, more diverse city economies tend to be more resilient and less vulnerable than smaller, more specialised local economies. Resilience also refers to the capacity of city economies, and their associated infrastructure and institutions, to adapt successfully over time to changing conditions. This requires innovation, creativity and long-term commitment on the part of investors to avoid being locked into obsolete industries and technologies. Applying a resilience perspective helps to identify how local strategies can minimise the risks of stagnation and actively shape the long-term development of cities in more productive, inclusive and sustainable ways.

The chapter examines the extent and nature of economic changes since the creation of metropolitan government a decade ago. After examining the economic outcomes based on output, exports, imports, productivity and employment, the underlying drivers that influence these outcomes, namely innovation, skills, investment, specialisation and connectivity are discussed. The chapter assesses whether South African city economies have outperformed the rest of the country, and whether growth has helped to absorb unemployment. It also considers whether cities have been more or less resilient than other places to the recent recession.

The analysis is carried out at the scale of the nine largest municipalities in the country. Three main sources of data are used: the Quarterly Labour Force Survey (QLFS), the General Household Survey (GHS) and the Quantec Regional Database. The two government surveys (QLFS and GHS) are the most reliable sources of up-to-date statistics. They both involve face-to-face surveys of a stratified random sample of approximately 30 000 households. Consistent data is available, from 2002 to 2009 for the GHS and from 2002 to 2010 for the QLFS, to compare conditions in different areas. In some of the analysis, the sampling method and restricted size of the surveys means that cities have to be combined into groups, such as the Gauteng metros (Johannesburg, Tshwane and Ekurhuleni) and the secondary cities (Mangaung, Buffalo City and Msunduzi).

The analytical framework used in the chapter lends coherence to the data analysis. It recognises that cities are complex economic systems made up of multiple agents and institutions that interact through the exchange of goods, services, money, labour, technology and information. Cities evolve over time in response to internal dynamics (such as local competition and learning) and external forces and events (such as expanding or contracting global markets, the availability of credit and foreign direct investment). Complicated feedback loops make it difficult to disentangle the causes and effects of change. History exerts a strong influence on cities' sectoral structure, ownership patterns, and the size composition of enterprises. In other words, their development trajectories tend to be 'path dependent', which has a strong bearing on the extent to which growth is a shared and inclusive process.

"Strong city economies provide jobs and incomes to raise the living standards of citizens and to improve the stability and cohesion of communities."

Analytical framework: The productive city

The framework draws on ideas from contemporary spatial economics, including the themes of competitiveness and resilience, to explore the drivers of productive success for cities. It identifies the ways in which cities continually upgrade and extend their business environments to support firms that can withstand external competition and grow successfully to create jobs and raise incomes. The framework outlines a series of high-level, city-wide core indicators that measure essential economic outcomes related to sustained growth and development. These include productivity, employment and external trade. It also identifies a series of supporting indicators that measure the underlying determinants of economic change in cities, help to limit the risks of economic failure and provide the capabilities for effective adaptation. These include technology and innovation, industrial structure, business ownership and management, skills and capacity, and connectivity.

The competitive performance of a city can be defined as its ability to attract, retain and develop firms with a stable or rising share of wider markets while increasing the employment rate and living standards of local residents. City competitiveness cannot be measured directly, but only indirectly through its economic outcomes, such as growth in GDP per person (average incomes), or through the local capabilities or assets that underpin successful economic performance and limit vulnerability, such as the quality of skills, infrastructure or innovation. Figure 2.1 presents a simple framework to capture the various elements of urban competitiveness and their interrelationships.

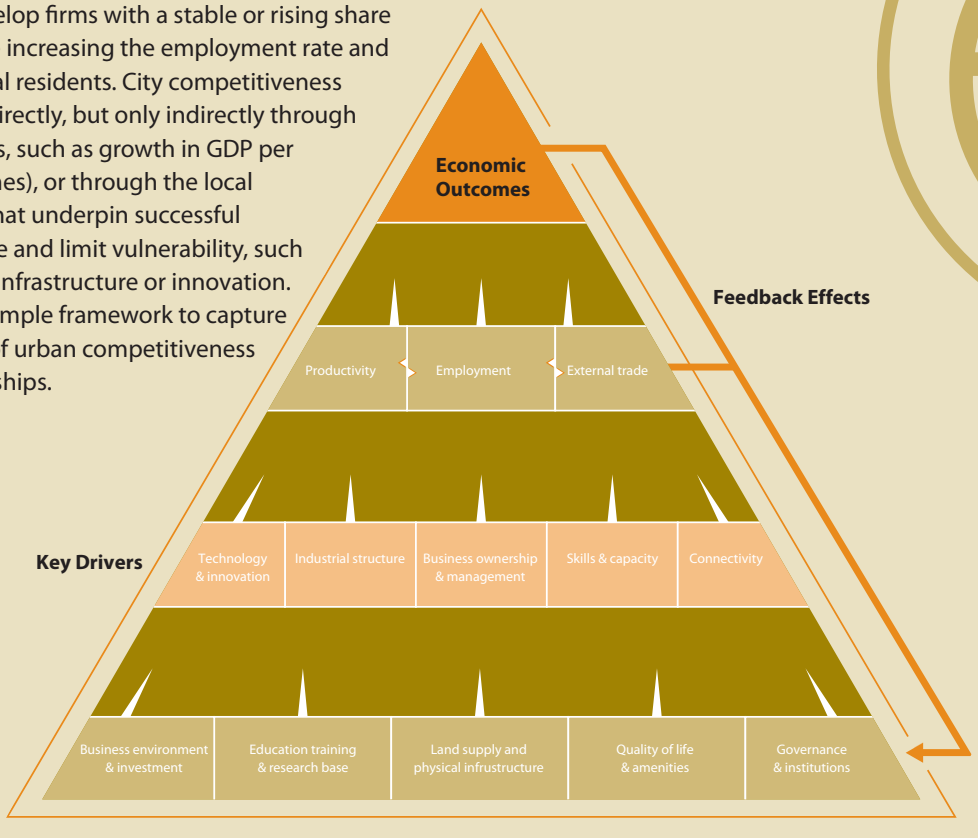

Figure 2.1 Urban competitiveness framework

Source: Derived from Parkinson, M et al.[2]

The framework recognises several economic advantages associated with city size.

- A large labour pool gives firms more flexibility to match their workforce with their changing business needs and gives workers more choice of employer and greater opportunities for career progression. A better match between employers and job-seekers reduces labour turnover and raises productivity.
- Large cities tend to give firms better physical and electronic connectivity to external markets, suppliers and collaborators because of the scale economies in infrastructure provision.
- Firms also benefit from a greater choice of local suppliers and service providers, including training organisations, financiers, marketing agencies and research centres.
- Firms can learn more from other firms and associated institutions where there is greater scope for sharing information. Geographical proximity and the density of economic agents enhance knowledge spillovers and networks.
- The scale, and diversity, of metropolitan economies facilitates dynamic adjustment to shifting technologies, markets and products without painful structural decline. This is important in a context of accelerating economic change and globalisation. Difficulties in predicting future patterns of trade and competition mean that flexibility to allow local economies to evolve and creativity to exploit new opportunities are important. A bigger pool of professionals, managers and technical staff enables more permutations of skills to be assembled and greater interaction among different economic functions.

Large cities can also have disadvantages. Increased demand for space and services can mean higher business costs, including property rents and labour costs. There may also be more congestion and excessive pressure on electricity supply and natural resources, such as water and air quality. Successful cities may attract high levels of in-migration, adding to competition for housing and public services. Overcrowded and unhealthy living conditions may be created if the supply of housing cannot keep pace, which can foster social tension and disorder. Therefore, careful urban planning and management are vital to facilitate the advantages and to minimise the disadvantages of agglomeration.

ECONOMIC OUTCOMES – CONDITIONS AND TRENDS

The essential outcomes of economic development are the levels of economic output, trade (exports and imports), productivity and employment. These outcomes help to shape city prosperity and welfare.

Economic output

Gross Value Added (GVA)[3] is an important measure of economic activity (or net economic output) at local or regional level. It can indicate the state of the local economy, including its size, rate of growth and average incomes, which makes useful comparison between different areas possible. GVA is also available for individual sectors and can be used to show the industrial composition of different areas.

Figure 2.2 shows the contribution of different regions to South Africa's total economic output for 2009.

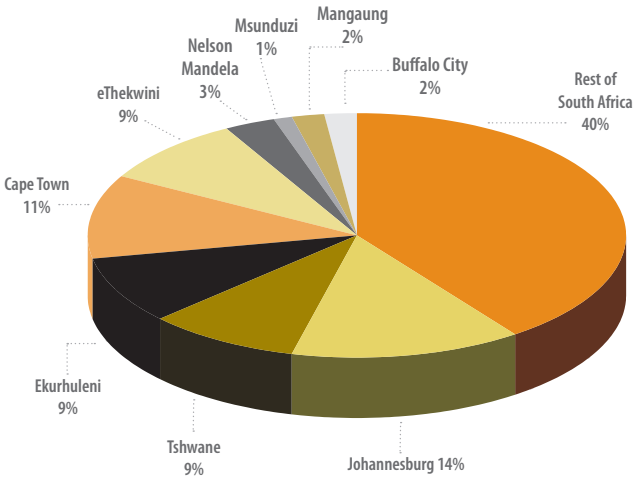

Figure 2.2 Share of total GVA in South Africa, 2009

Source: Quantec Regional Database [4]

The degree of geographical concentration of economic activity in the country is striking, as the nine SACN cities dominate the national economy, accounting for three-fifths (60%) of total output. The five largest metros (Johannesburg, Tshwane, Ekurhuleni, Cape Town, eThekwini) account for just over half (52%) of the national economy, while the three Gauteng metros together account for almost one third (32%) of national output.

Figure 2.3 shows the average rate of GVA growth of the nine SACN cities and the country as a whole from 2004–2009.

The level of spatial concentration of economic activity increased over the period. Five of the nine SACN cities outpaced the growth of the national economy. The two fastest-growing cities were in Gauteng, where the economies of Johannesburg and Tshwane grew over 1% per year faster than the national economy. Johannesburg had both the largest and the fastest growing economy in the country, while Nelson Mandela Bay was the only city economy to have performed poorly.

Figure 2.4 shows the GVA per person for 2009. GVA per person (or head of population) is a measure of average income in an area, and reflects the level of productivity and the employment rate.

The average incomes in all the metros are higher than in the country as a whole, suggesting that their economies are more productive than other parts of the country. The five largest of the nine SACN metros have higher average incomes than the rest, suggesting that size matters to economic performance. The two dominant Gauteng metros (Johannesburg and Tshwane) enjoy the highest average incomes, at nearly 70% higher than the national average.

Exports and imports

The level of trade between a city and other places is another indicator of its competitive position. Although data is not available for internal trade between cities and other places within the country, it is available for exports and imports to and from other countries. This is a potentially useful indicator of a city's international competitive position.

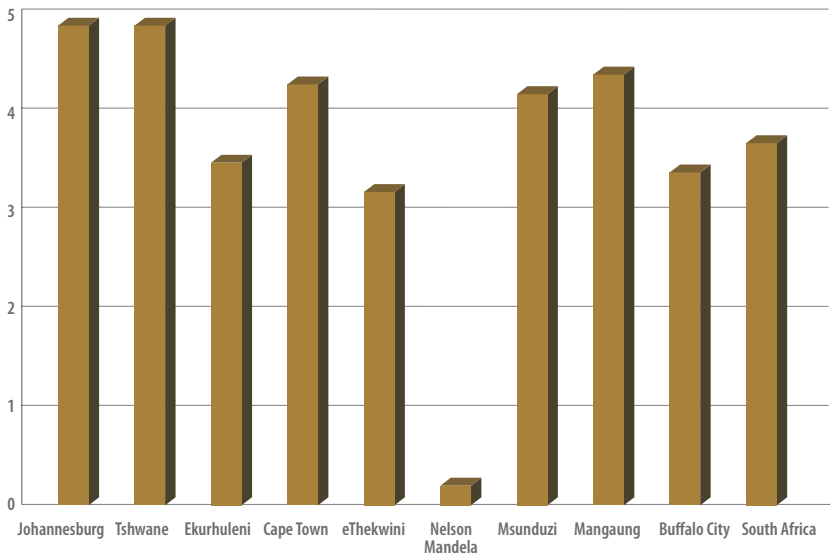

Figure 2.3 Average GVA growth rate, 2004–2009 (%)

Source: Quantec Regional Database [5]

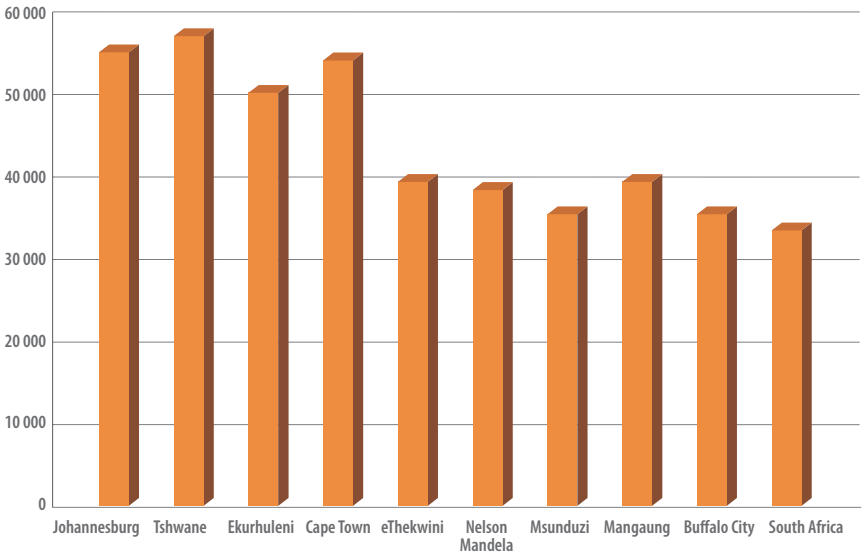

Figure 2.4 GVA per person, 2009 (Rands)

Source: Quantec Regional Database [6]

The Economy of Cities continued

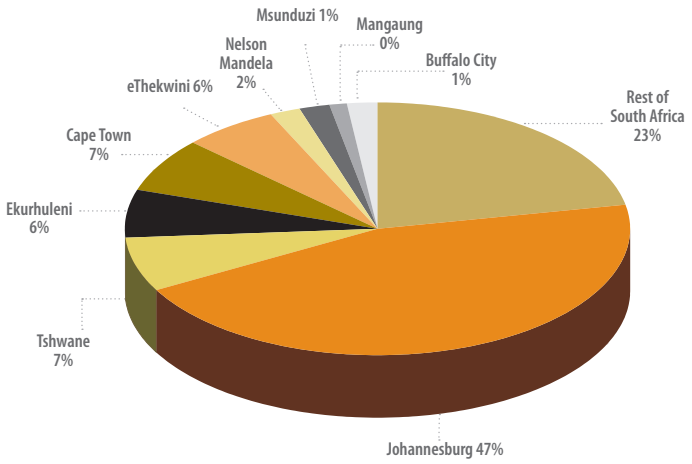

Figure 2.5 Share of total exports from South Africa, 2009

Source: Quantec Regional Database [7]

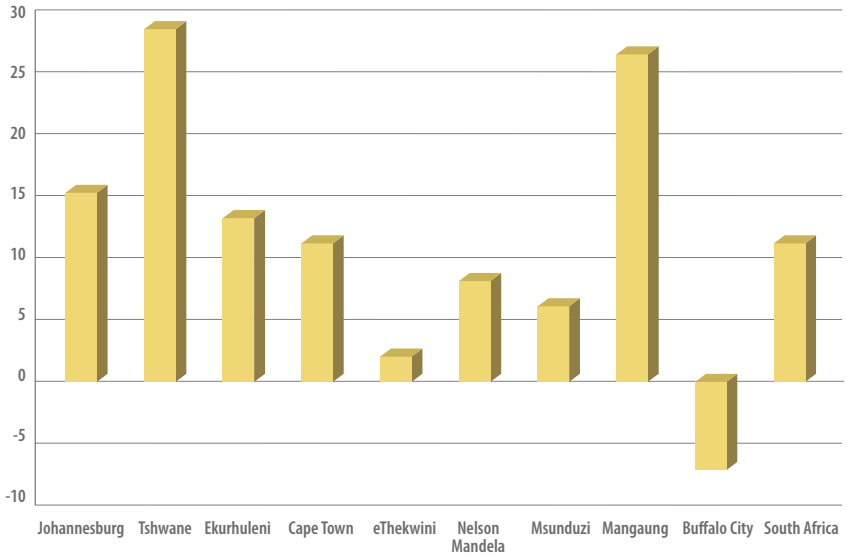

Figure 2.6 Average export growth rate, 2004–2009 (%)

Source: Quantec Regional Database [8]

"Four of the five largest SACN metros have higher average productivity than the country as a whole (22% higher on average)."

Figure 2.5 shows the share of total exports from South Africa for 2009.

The figure suggests that cities are the dominant source of exports for the country, accounting for 77% of the national total. Johannesburg appears to have been the most important source of exports by far, with nearly half of South Africa's total. The export contribution of the other cities is broadly in line with their share of economic output. However, it should be noted that export statistics may be recorded at the corporate head office rather than at the original establishment where the products, materials or services were produced. This may exaggerate the importance of the head office locations at the expense of other sites within the corporation. For example, Johannesburg's biggest export commodities are precious stones and metals, followed by mineral products, which reflects that many mining houses have their headquarters in the city. Further, the data does not show the role of international gateways or ports through which exports pass, such as eThekwini.

Trends in export performance provide an indication of a city's changing competitive position. Figure 2.6 shows the average export growth rate from 2004–2009.

The figure suggests there is some relationship between city size and export growth. The three Gauteng metros all exceeded the growth rate of national exports. Tshwane and Mangaung showed the strongest growth, albeit starting from a low base. Tshwane's biggest export commodities were minerals and base metals, suggesting an issue of head office reporting. Johannesburg showed relatively strong export growth compared with the rest of the country,

but from a large base. Export growth from eThekwini was surprisingly weak considering the significance of manufacturing in the city. Buffalo City was unusual in experiencing a fall in exports, which are dominated by motor vehicles – an export sector that has been volatile over the last decade.

Trends in import performance are less directly connected to a city's changing competitive position, as they may reflect strong local economic growth, by drawing in additional materials and components from abroad. Figure 2.7 shows the average import growth rate from 2004–2009.

The figure suggests no particular relationship between city size and import growth, although the strong rates of import growth in Johannesburg and Cape Town are notable. Johannesburg's biggest imports are machinery, electrical and electronic equipment, and mineral products (such as oil). Cape Town's biggest imports are mineral products.

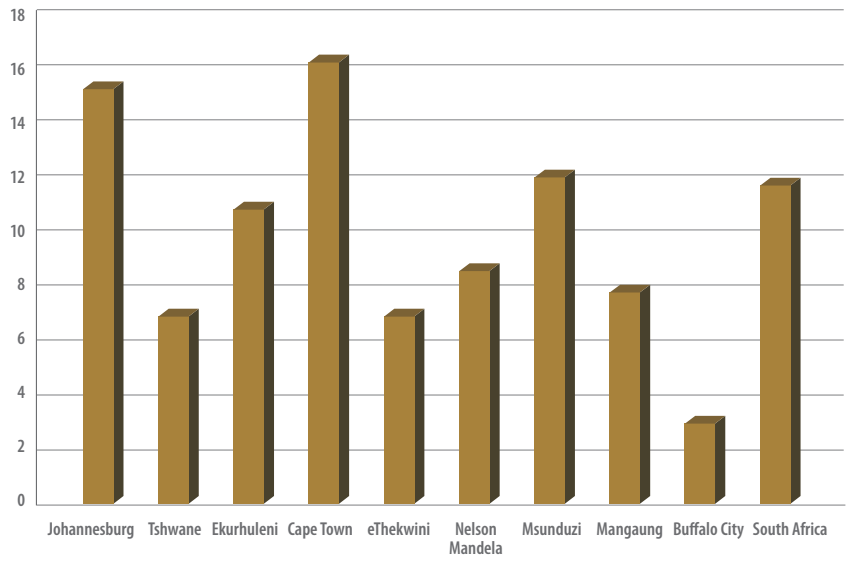

Figure 2.7 Average import growth rate, 2004–2009 (%)

Source: Quantec Regional Database [9]

Productivity

Productivity is a crucial determinant of long-term economic performance and average incomes. It reflects the value of goods and services, and the efficiency with which they are produced. GVA per employee is a measure of average labour productivity in an area. Figure 2.8 shows the labour productivity for 2009.

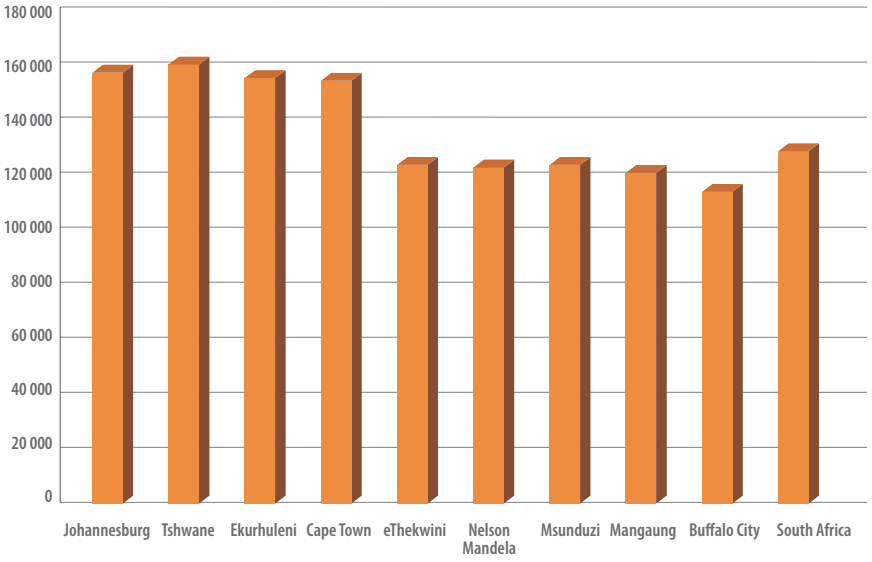

Figure 2.8 Labour productivity, 2009 (GVA/employment, Rands)

Source: Quantec Regional Database [10]

Four of the five largest SACN metros have higher average productivity than the country as a whole (22% higher on average), and higher productivity than the four smallest SACN cities (28% higher on average). This is a significant differential and clearly supports the argument that size matters to productivity.

"The employment rate in the metros has increased despite sizeable in-migration of job-seekers from elsewhere, who have added to the supply of labour."

Employment

The availability of employment is a key indicator of the state of the local economy, including the level of prosperity or the degree of poverty. The lack of paid work forces households to rely on transfers from other family members (remittances), or from the state in the form of pensions or other social grants. An indication of the state of the local economy is the proportion of households whose main source of income is derived from employment, compared with those that depend on social grants and remittances. Figure 2.9 shows this breakdown for different regions in 2002 and 2009.

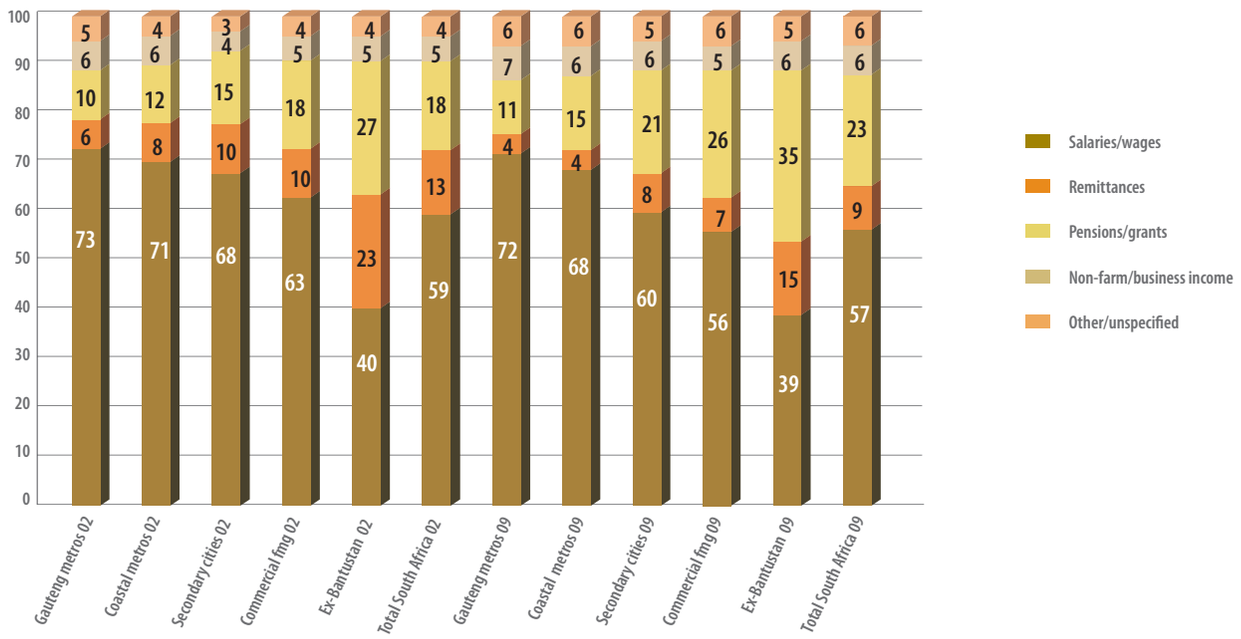

Figure 2.9 Main source of household income, 2002 and 2009[11] (%)

Source: Stats SA, 2002 [12] and 2009 [13]

Overall in South Africa, the proportion of households dependent on remittances declined from 13% to 9% between 2002 and 2009, and the proportion reliant on salaries/wages from work fell slightly from 59% to 57%. This was compensated for by the increasing importance of social grants – from 18% to 23% of households, which means that the state became the main source of income for 5% more households (one in 20) in 2009 than in 2002. While this has helped to reduce absolute poverty and compensate for the inability of the labour market to create enough jobs for the expanding workforce, it would be healthier and more sustainable if reliance on employment, not social grants, was growing.

The effect of social grants was greatest in the rural areas. The state became the main source of income for more than a third of households in the former Bantustans in 2009, up from just over a quarter in 2002. It grew in importance mainly at the expense of remittances – either compensating households for shrinking transfers from relatives or reducing the pressure on relatives to remit funds home. In the commercial farming areas, social grants became more important mainly at the expense of income from employment, which declined from 63% to 56% of households. Overall, the rural areas seem to have been the main beneficiaries of the government's expansion of social grants over the last decade.

The level of employment was more stable in the metros, especially in Gauteng. In 2009 as many as 70% of households in the metros derived their main source of income from employment, compared with 13% from social grants and only 4% from remittances. The metro economies are clearly more self-sufficient and resilient than the rural economies, which rely heavily on public and private transfers from elsewhere. The economic gap between cities and rural areas also seems to have widened over the last decade.

The improvement in the labour market position of the metros compared with the rural areas is most apparent when the proportion of the working age population (WAP) in employment is analysed. The WAP is defined here as workers who fall within the age range of 15 to 64 years. Figure 2.10 shows the percentage of WAP employed in 2002 and 2009.

In 2009 between 53% and 56% of the WAP in the major metros were in employment, compared with only 29% in the former Bantustans and 47% in the commercial farming areas. This striking disparity could explain the strong rural–urban

migration flows. Furthermore, the gap has widened over the last decade, with the employment rate growing strongly in the major metros, but standing still in the former Bantustans. Interestingly, the employment rate in the metros has increased despite sizeable in-migration of job-seekers from elsewhere, who have added to the supply of labour. Among the metros, eThekwini experienced the biggest improvement in the employment rate between 2002 and 2009, followed by Gauteng. However, by international standards, levels of employment in South African cities are still low.[16]

In comparison, Figure 2.10 is more positive than Figure 2.9, as it shows that employment has generally increased. One explanation for the discrepancy in employment and income trends may be that many of the jobs created were not well paid. In addition, many of those obtaining jobs may be partners of people already in work, so that more people in work may not translate into more households gaining their main source of income from employment.

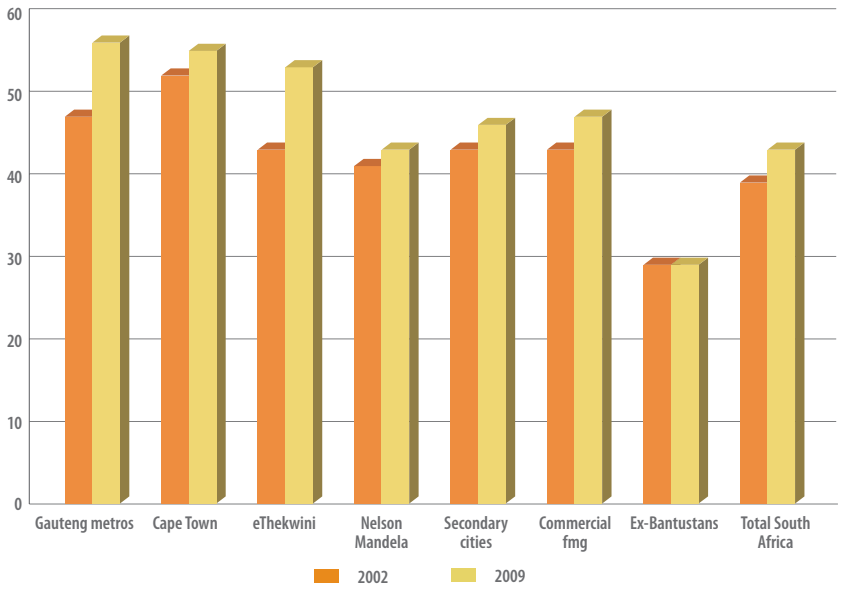

Figure 2.10 Percentage of employed 15–64 year olds, 2002 and 2009

Source: Stats SA, 2002 [14] and 2009 [15]

These labour market differences are confirmed by information on the type of employment available from the QFLS 2010. Figure 2.11 reflects the breakdown of the broad sectors of employment, namely the formal, informal and private household sectors.

Roughly four-fifths of workers in the metros are engaged in formal employment, compared with only 55% in the former Bantustans. One in three workers in the former Bantustans are in the informal economy, nearly three times as many as in the metros. This suggests that the informal economy is second best to the formal economy and chosen because of the lack of an alternative. Work in private households (domestic workers) does not vary nearly as much across the country.

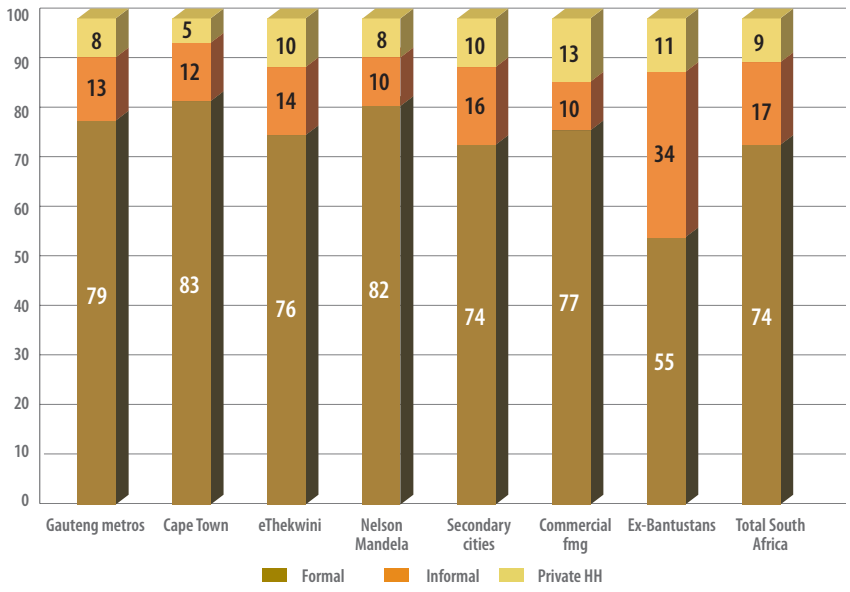

Figure 2.11 Broad sectors of employment, 2010 (%)

Source: Stats SA 2010 [17]

The informal economy

The informal economy comprises self-employment and more organised enterprises that are not directly taxed or regulated. There are different schools of thought about its role and character in South African cities, and about its economic value and potential. Evidence suggests that South Africa's informal economy is smaller than in many other cities in developing countries, particularly in Asia and the rest of Africa. Many elements of the informal economy are not considered to be productive or decent work because employment conditions are generally poor and incomes are low. These are typically flexible, labour-intensive operations with simple organisational and production structures and low levels of investment and technology, often concerned with replacing or filling gaps in the formal economy and with household survival. For example, informal retail enterprises provide goods that are unavailable in the formal sector (such as traditional medicines), in smaller quantities, or in locations where formal outlets are sparse (such as informal settlements). The minibus taxi sector is one of the largest and most visible forms of informality, employing approximately 180 000 people directly and 400 000 indirectly. Its growth is attributable to the dispersed form of South African cities, low levels of car ownership and the inadequacy of the public transport system.

The informal sector is best understood through its relationships with other parts of the economy and the state, rather than in isolation. Both the economy and the state can constrain the growth of informal enterprises, for example by squeezing them out through cost-cutting or by physically excluding traders from natural market places. The informal economy may add to the resilience of cities by providing livelihoods for people who cannot secure positions in the formal economy, and by meeting unmet needs for particular goods and services. Policymakers need to understand that the sector is here to stay for the foreseeable future because of the persistence of high unemployment. In the words of a recent Organisation for Economic Co-operation and Development report, 'the informal is normal, rather than exceptional. Growth has not reduced the proportion of people working informally'.[18] Many elements also warrant support both to improve the level of social protection for those involved and to increase their productivity. Policies should not assume that informal activity will automatically develop into formal activity over time. The public sector can perform three functions to improve informal livelihoods. These are:

- to protect well-located public spaces with high footfall for informal enterprises to trade;
- to provide basic public services such as water, electricity, education and affordable public transport to improve productivity; and
- to use public procurement powers to enable enterprises to compete for municipal contracts ranging from school catering to tree planting and environmental improvement.

Earnings also tend to be higher in the metros than in rural areas, suggesting that their economies are more productive. Figure 2.12 shows the proportion of employed people (formal and informal) earning under R1,000 a month in 2002 and 2009.

The proportion of workers earning under R1,000 was almost three times higher (26%) in non-metro areas than in the metros (9%) in 2009. Cape Town and eThekwini had the least number of people earning very low incomes, while the former Bantustans had the most. One qualification to add is that the cost of living is higher in cities because of housing and service costs, so a given level of income goes further in rural areas.

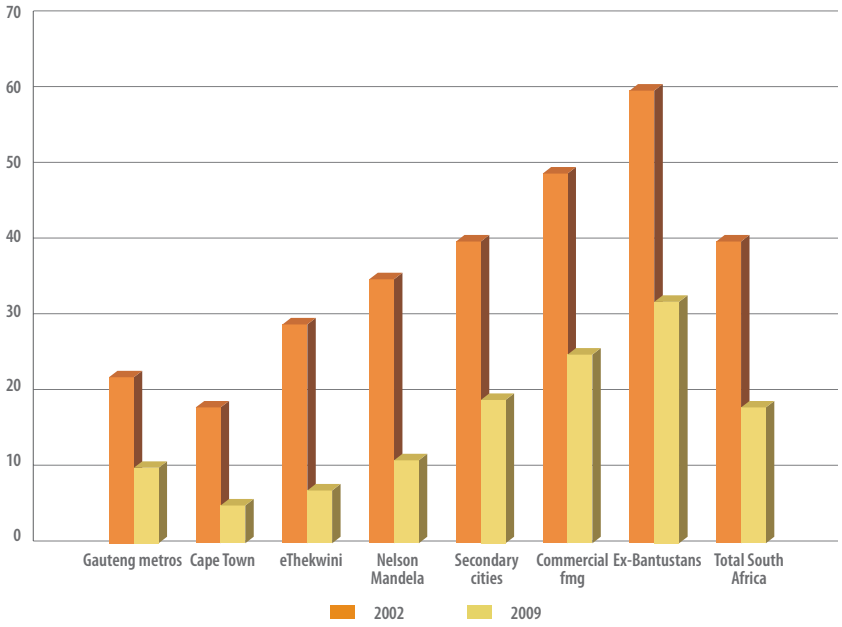

Figure 2.12 Percentage employed earning less than R1,000 per month, 2002 and 2009

Source: Stats SA, 2002 [19] and 2009 [20]

The changes between 2002 and 2009 are also notable. The proportion of workers earning under R1,000 a month fell sharply everywhere, mainly because of wage inflation. However, the increase in the cost of living did not mean that people were better off. There appears to have been a bigger reduction in the proportion of workers earning under R1,000 in metros than in rural areas: the proportion in the metros fell by nearly two-thirds (from 24% to 9%), while the proportion elsewhere fell by just over half (from 54% to 26%). The incidence of low earnings in rural areas may be another driver of rural-urban migration.

Youth employment

Only one in eight people aged 15–24 has a job in South Africa, compared with more than four times the proportion of adults (54%).[21] Young people experience far higher rates of unemployment than adults, partly because they have less work experience. Employers find it hard to judge the real capabilities and potential of school leavers on the basis of their academic qualifications alone. They tend to look for practical skills and experience above all. Employers regard young people as relatively high-risk recruits and prefer adults with a track record of work. Consequently, youth risk long-term detachment if they are not integrated into the world of work after leaving school. A lost generation represents a wasted resource, a social hazard and a burden on the state to provide social assistance. Young people are also more likely than adults to be among the working poor in informal jobs. Being forced into precarious livelihoods by intense poverty and a lack of social protection is a lost opportunity, since they might otherwise have attended school or college and acquired skills and competences that could raise their future productivity and earnings.

The recession

Approximately one million jobs were lost to the South African economy between late 2008 and early 2010. Little, if any, analysis of the impact of these job losses across the country has been done. In particular, no research has been conducted on the severity of this impact on the major cities in relation to the rest of the country. The severity of impact is a key aspect of economic resilience.

Figure 2.13 compares the employment status of the WAP of different areas between the peak of the economic cycle in the second quarter of 2008 and the second quarter of 2010.

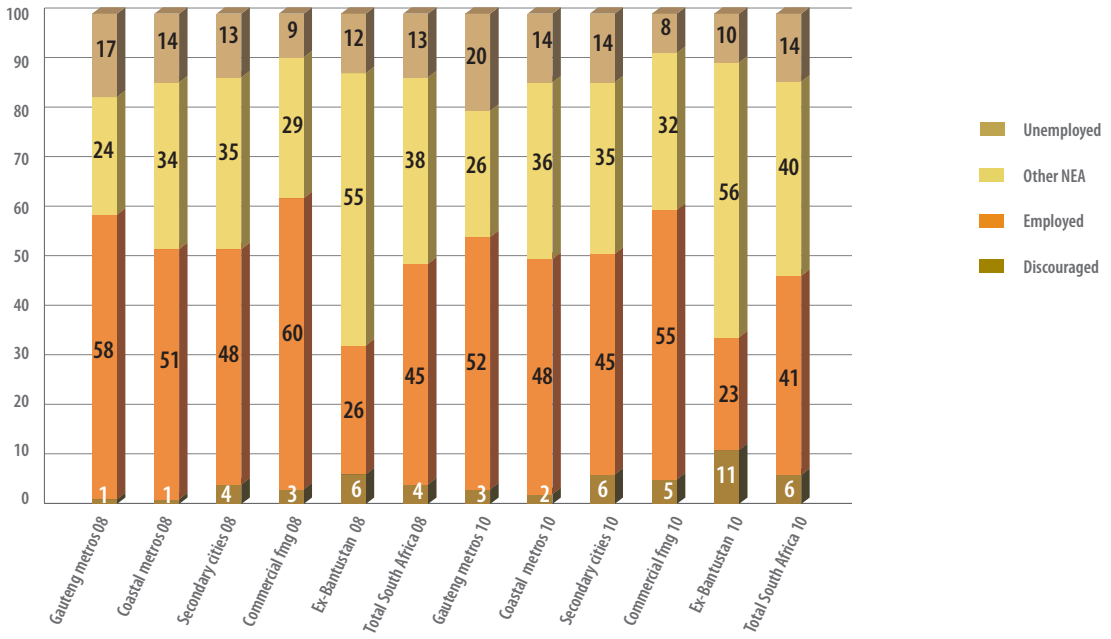

Figure 2.13 Employment status of WAP, 2008 and 2010[23] (%)

Source: Stats SA, 2008 [27] and 2010 [28]

The most important component is in red – the proportion of the WAP in employment (formal and informal). The employment rate in South Africa fell by 4%, from 45% to 41%. The biggest contraction was in the Gauteng metros, where the rate was 58% in 2010, down from 52% in 2008, while the commercial farming areas also experienced a larger contraction than the national average. In contrast, the coastal metros, secondary cities and former Bantustans experienced a smaller-than-average employment contraction. In all three cases, the employment rate fell by 3% from the original level. Despite the government's major infrastructure investment in Gauteng in recent years and the region's prominent role in hosting the 2010 FIFA World Cup™, it appears that the recession hit Gauteng harder than elsewhere. This finding is supported by the data on building plans approvals, particularly in Johannesburg and Tshwane.

Manufacturing was the most vulnerable industry to the recession as it was more exposed to international competition (as a result of cheap imports) and abroad (in export markets). Figure 2.14 shows the breakdown of broad industry categories for the formal sector in 2008 and 2010.

"Approximately one million jobs were lost to the South African economy between late 2008 and early 2010... Manufacturing was the most vulnerable industry to the recession."

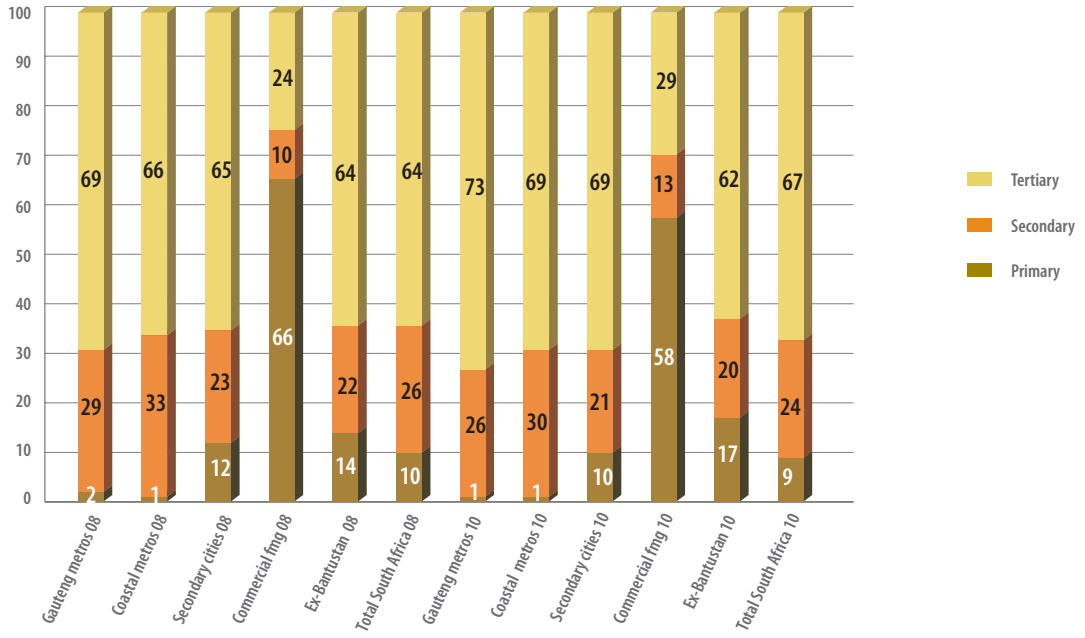

Figure 2.14 Broad industry categories – formal sector, 2008 and 2010[26] (%)

Source: Stats SA, 2008 [27] and 2010 [28]

All parts of the country experienced a decline in secondary (manufacturing and utilities) employment between 2008 and 2010, with the exception of the commercial farming areas.

Figure 2.15 shows the broad occupational categories for the formal sector in 2008 and 2010.

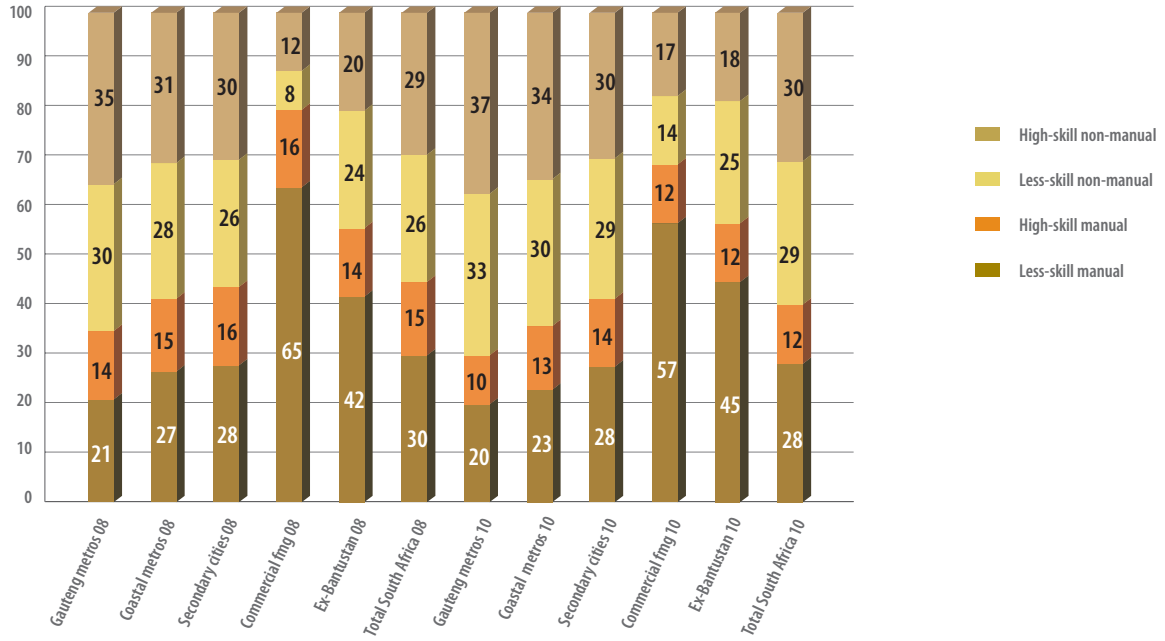

Figure 2.15 Broad occupational categories – formal sector, 2008 and 2010 [29] (%)

Source: Stats SA, 2008 [30] and 2010 [31]

Skilled manual workers (such as artisans) were the most vulnerable to the recession. They were affected in all parts of the country, especially Gauteng.

UNDERLYING DRIVERS AND DETERMINANTS

A range of underlying conditions or drivers influence the economic outcomes described above. There are complex two-way relationships at work that should caution against any simplistic attribution of primacy to one set of variables over another. Nevertheless, it may be possible to distinguish between more and less important influences on cities' economic performance. Five broad factors are considered: innovation and creativity, human capital, specialisation, connectivity, and investment.

Innovation and creativity

Innovation is vital for cities to adapt and strengthen their resilience to changes in markets and technology. It helps companies to build differential advantage that others cannot readily replicate, which limits direct head-to-head competition based on labour costs or government subsidies. Differentiation means providing something special or unique that is valued by customers, enabling products to be sold at premium prices. Innovation is supported by investment in science, technology and design. Specialised knowledge and expertise can also emerge through cumulative local learning, enabling the continuous upgrading of products and processes over time. Cities are favourable locations for producing new and improved goods and services because the density and proximity of economic agents facilitates information sharing, learning and creativity.

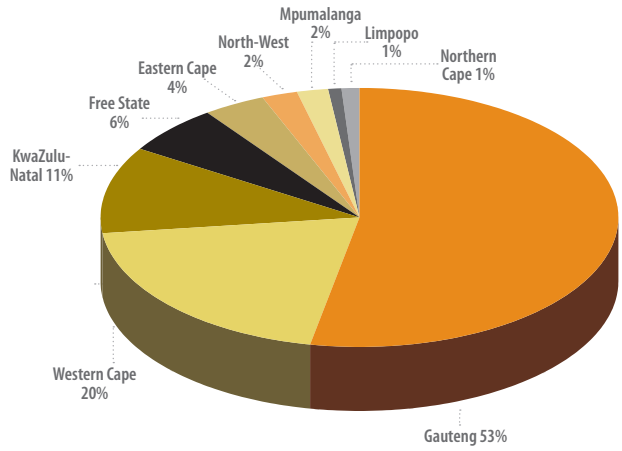

Figure 2.16 R&D investment, 2007/08 (% of national total)

Source: Quantec Regional Database [32]

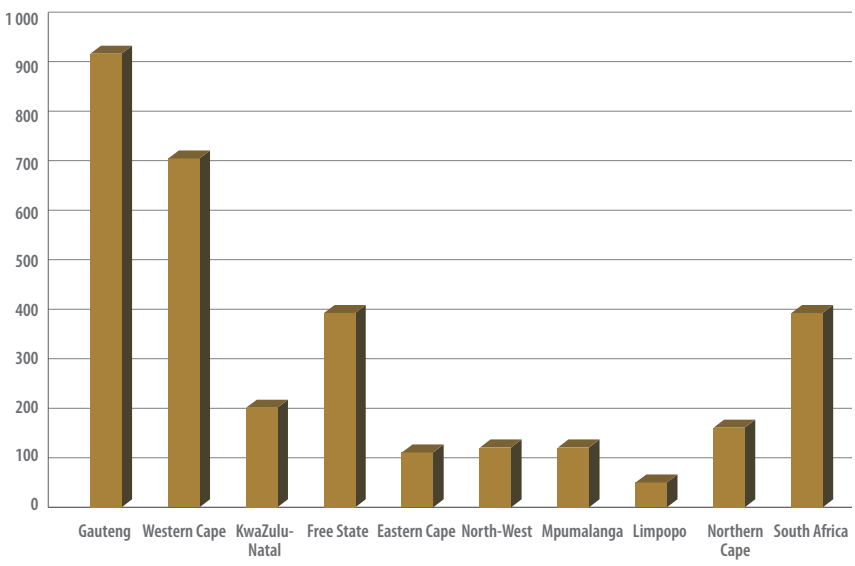

Figure 2.17 R&D investment per person, 2007/08 (Rands)

Source: Quantec Regional Database [33]

One of the common measures of innovation is investment in Research and Development (R&D). The level of spending on R&D can be used to compare the scale of innovative activity in different places. Unfortunately, the R&D investment data is only available for provinces rather than for metros and non-metros, which is shown in Figure 2.16 for 2007/08.

More than half of all R&D investment in South Africa occurs in Gauteng. Another 20% occurs in the Western Cape, followed by KwaZulu-Natal with 11%. The four provinces without any major cities (Limpopo, Northern Cape, Mpumalanga and North-West) have only 6% of the country's spending on R&D between them. Clearly, R&D investment is highly concentrated within the country, with a strong orientation towards the major metros that house the leading universities, research centres of major corporations and government and independent research institutes.

The intensity of innovation is another useful variable, measured by the level of spending on R&D in relation to an area's population. This indicates the ability and/or commitment of economic agents to fund innovation. Figure 2.17 shows the R&D investment per person for 2007/08.

The level of R&D investment per person is much higher in Gauteng and the Western Cape than anywhere else in the country. Spending on R&D per person in Gauteng is almost two-and-a-half times the national average, and nearly twice as much in the Western Cape. Apart from the Free State, the other provinces spend far less on R&D than the national average. From this evidence, R&D investment appears to be extremely concentrated within the country, with a strong orientation towards the major metros.

Human capital

In recent years, greater emphasis has been placed on the role of human skills and capabilities as drivers of economic development. It follows partly from arguments that labour is a dynamic resource enabling continuous improvements in productivity and value added through learning and ingenuity. A related argument is that intellectual resources (human intelligence, understanding and creativity) have become more important determinants of prosperity with the growing knowledge-intensity of many economies. The growing emphasis on human capital also reflects greater social and geographical mobility in the context of rising incomes, improved transport and communications, and more outsourcing and subcontracting of various business functions. Many cities aspire to more high-level occupations and fewer routine functions to safeguard their economic position.

One advantage of targeting key occupations or advanced skillsets is that they cut across industries and are therefore more generic and versatile resources for fostering sustained economic development. Examples include engineers, designers, scientists, project managers, accountants and marketing experts. In principle, they can be employed in different fields, thereby increasing the resilience and adaptive capacity of the local economy. It has also been suggested that in future cities may become less well known for what they produce, and much better known for who they employ, in other words their dominant occupations. This will reflect their position in the functional and locational hierarchies of corporations, and their ability to attract, retain and develop capable people.

The occupational structure in different parts of the country varies greatly. Figure 2.18 shows the breakdown of broad occupation categories for formal sector employment.

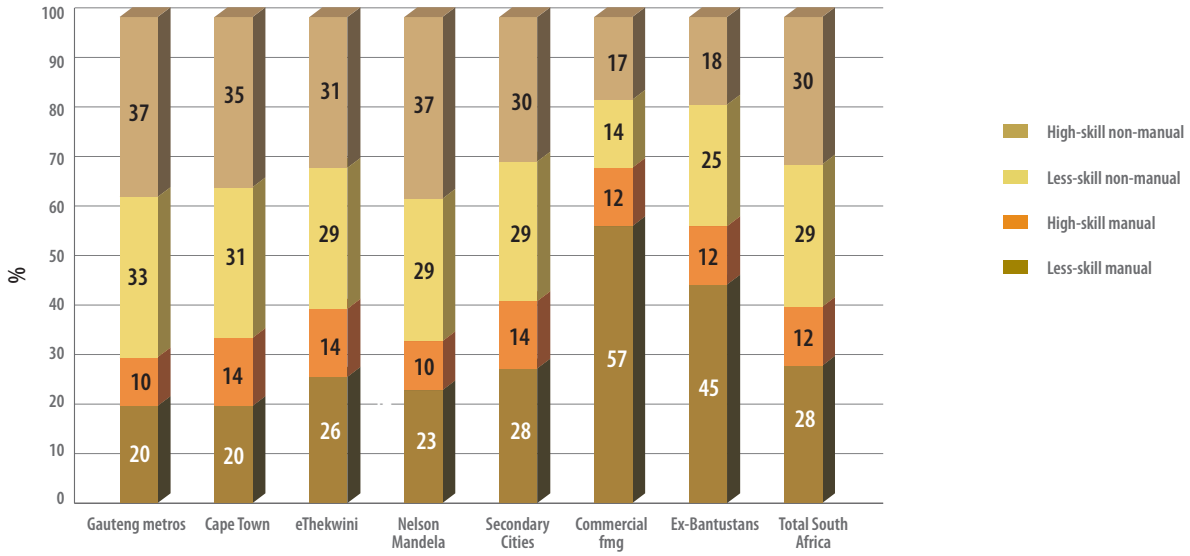

Figure 2.18 Broad occupation categories – formal sector employment, 2010[34]

Source: Stats SA, 2010 [35]

There are roughly twice as many non-manual (or white collar) jobs in the metros as manual (or blue collar) jobs – a proportion that is reversed in the rural areas. Within each of these categories, the emphasis is clearly on skilled non-manual jobs in the metros (such as managers, professionals and technical workers) and less-skilled manual jobs in the rural areas (such as farm workers and miners). The quality and remuneration of these jobs is related to their status.

This occupational pattern is also reflected in the educational qualifications of formal economy workers, a breakdown of which is shown in Figure 2.19.

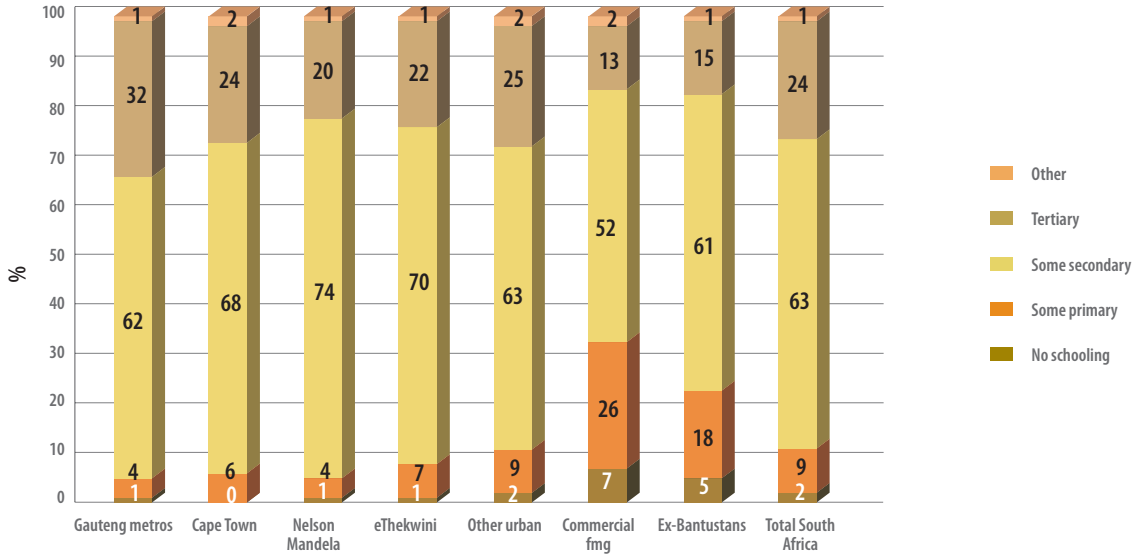

Figure 2.19 Educational achievement – formal sector, 2010[36]

Source: Stats SA, 2010 [37]

The workforce of the metros is generally more highly qualified than the workforce elsewhere. Nearly a third of the Gauteng metro workforce has a tertiary qualification, compared with about one in seven in the rural areas. A third of workers in the commercial farming areas have no secondary education, compared with about one in twenty in the metros.

The higher rate of employment (and better economic outcomes more generally) in the metros than elsewhere could perhaps be interpreted as the product of superior skills and qualifications. Figure 2.20 tests this proposition by controlling for the influence of education.

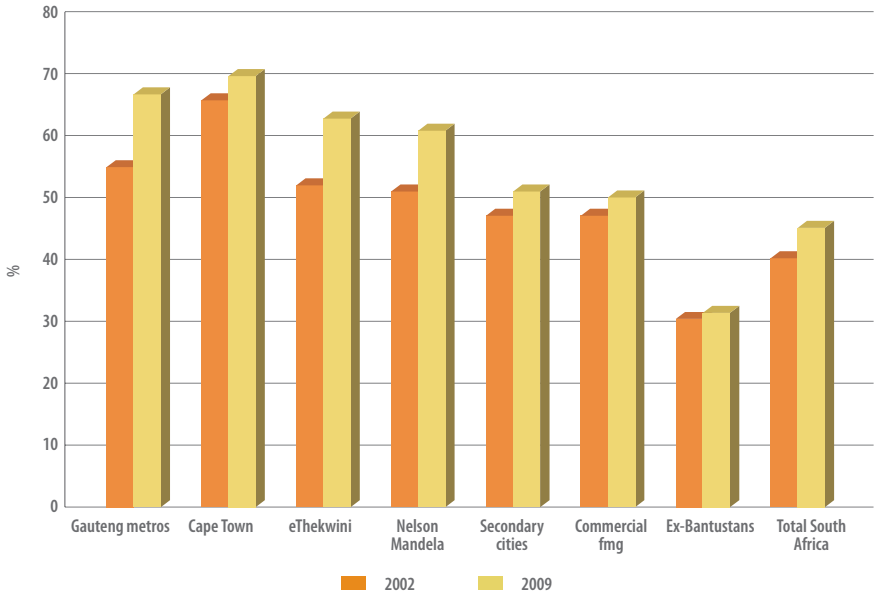

Figure 2.20 Percentage of employed 15–64 year olds with grade 12+

Source: Stats SA, 2002 [38] and 2009 [39]

The comparison is restricted to the employment rate of working age people with matric (grade 12 or higher qualifications). Their employment rates are higher across the board, indicating that education is important in affecting people's labour market position and employability. However, the employment rate of people with matric remains much higher in the metros than in the rural areas. The employment gap between the metros and the former Bantustans is even larger for people with matric than for all adults. It has also increased more strongly over the last decade. People with matric are more than twice as likely to have work in the metros than in the former Bantustans. The reason for the better employment outcomes in the cities appears to have more to do with their better performing economies than with the (educational) characteristics of the people living there. Skills are not a panacea for economic success.

Specialisation

There is considerable debate among economists about the relative merits of industrial specialisation and diversity in city economies. Specialisation permits concentrated effort and mutual learning among related firms. The scale and density of business collaborators and specialised support services (such as venture capital and suppliers of research and market intelligence) generates sector-specific competitive advantages. A complex web of inter-firm networks can emerge, enabling firms to compare, compete, collaborate and learn from each other. This can create a self-reinforcing dynamism that spurs innovation, attracts mobile capital and talent, and generates growth from within.[40] The location quotient is the usual measure of industrial specialisation.

There are two important risks of specialisation. Firstly, local economies become locked into particular technologies, products and markets that impede adjustment to altered economic circumstances, causing long-term decline. There are many examples of specialised former industrial cities around the world that struggled for many years to diversify and adapt to shifting global conditions. Secondly, specialised economies are more vulnerable to short-term instability associated with business cycles, external shocks and other fluctuations that periodically afflict particular industries. Specialisation may also be of little value to industries that do not involve dense networks and co-operation among constituent firms.

The sectoral composition of each city economy differs quite markedly. Figure 2.21 shows the share of output (GVA) in each industry for 2009 and can be used to compare the city economies with each other and with the national economy.

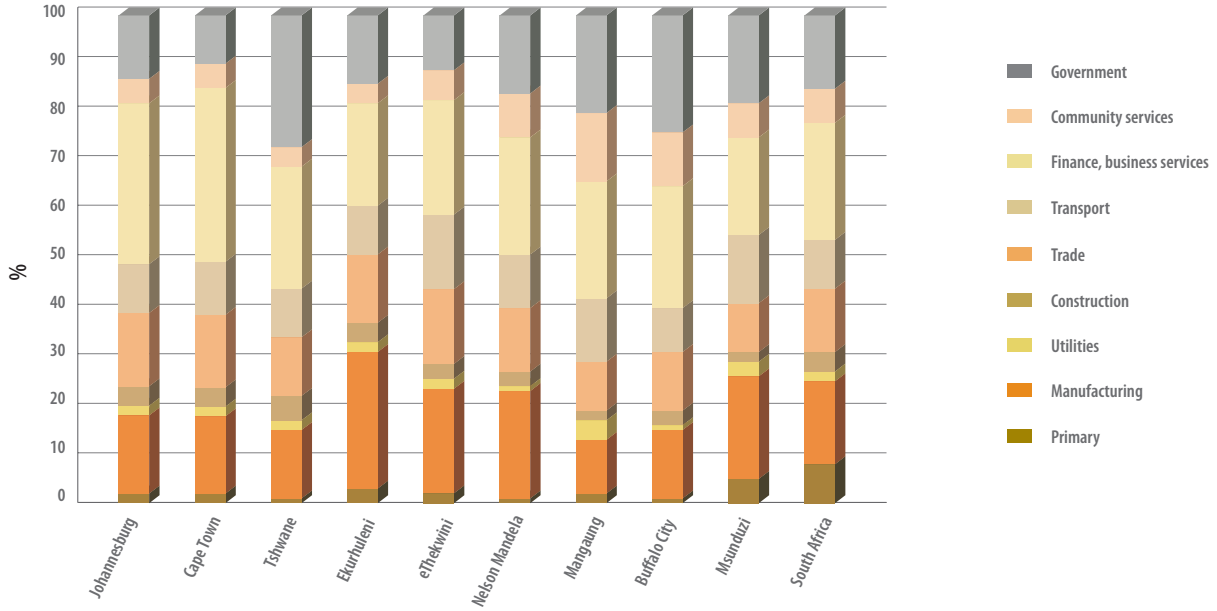

Figure 2.21 Share of GVA in each sector, 2009

Source: Quantec Regional Database [41]

Cape Town and Johannesburg have relatively large financial and business service sectors, which dominate their economic base and make them atypical of other local economies. Tshwane has a very large government sector, reflecting the presence of national and provincial departments and parastatals. Manufacturing is the most distinctive feature of the economic base of four other cities – Ekurhuleni, eThekwini, Nelson Mandela Bay and Msunduzi. Mangaung and Buffalo City have nothing quite so distinctive about their economic structures, except perhaps a slightly larger-than-average government sector. Apart from this, their economies are typical of the structure of the national economy, although with less agriculture and mining activity.

Compared with the national structure, it is noticeable that the government sector is relatively small in four of the five largest metros, indicating a lower dependence on direct public sector activity. Government activity is more prominent in Tshwane and above average in the four smaller cities. Transport, trade, construction and utilities do not vary much in size between the cities, indicating that these are predominantly locally-traded activities. Manufacturing and finance are more variable because at least part of these activities serve wider markets (hence they are defined as externally-traded or tradable activities).

The Economy of Cities continued

Figure 2.22 shows the share of employment in each industry.

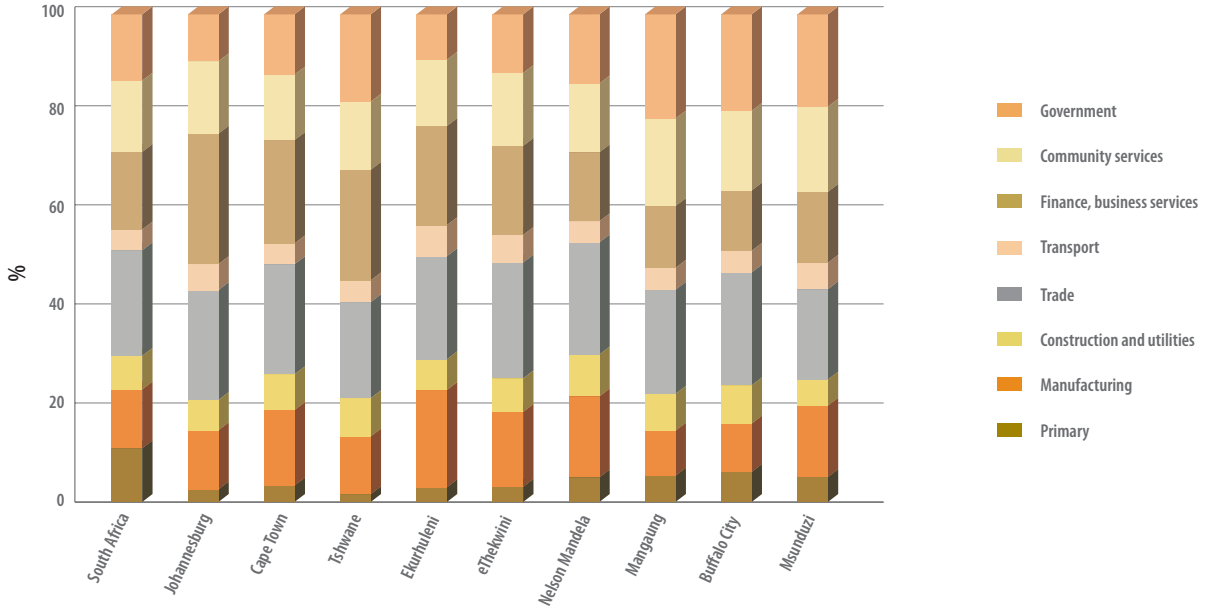

Figure 2.22 Share of employment in each sector, 2009

Source: Quantec Regional Database [42]

The breakdown is similar to the share of output, with a few exceptions. Cape Town has a smaller share of employment in financial and business service sectors than output, perhaps because these are relatively high-level functions (employing fewer workers than average). Tshwane has a smaller share of employment in the government sector than output, possibly for the same reason (there are more senior positions involved). Manufacturing remains particularly important in four cities – Ekurhuleni, eThekwini, Nelson Mandela Bay and Msunduzi – although its share of jobs is generally smaller than its share of output. Six of the nine SACN cities have more jobs in manufacturing than the country as a whole. All the metros, with the exception of Nelson Mandela Bay, have more jobs in finance and business services than South Africa as a whole.

The degree of specialisation can be examined more closely by disaggregating the sectoral analysis. Table 2.1 shows the location quotient per industrial sector in each city. A quotient of 1.0 means that a city has the same level of employment in that industry as the national average and a quotient of 1.5 means it is 50% above average. All the location quotients above 1.4 are highlighted in yellow for ease of identification. The broad sectors are shown in capitals in the right-hand column.

Table 2.1 Employment location quotients for South African cities, 2009

Jo'burg	Tshwane	Ekurhuleni	Cape Town	eThekwini	Nelson Mandela	Msunduzi	Mangaung	Buffalo City	
0.23	0.15	0.27	0.31	0.28	0.46	0.46	0.49	0.56	PRIMARY SECTOR
1.00	0.98	1.65	1.28	1.27	1.37	1.21	0.76	0.82	MANUFACTURING
0.62	0.67	1.10	1.00	0.91	0.68	0.94	0.63	0.66	Food and beverages
0.75	0.56	0.56	2.26	2.40	1.22	1.59	1.53	1.36	Textiles and clothing
1.19	0.67	1.21	1.47	1.21	0.57	1.52	0.49	0.33	Paper, publishing, printing
1.22	0.86	2.44	1.33	1.49	1.48	1.13	0.78	0.64	Chemicals, rubber, plastic
0.75	0.99	1.70	0.80	0.58	0.93	0.50	0.73	0.45	Other mineral products
1.08	0.90	2.57	1.06	0.95	0.85	1.55	0.62	0.44	Metal products, machinery
1.58	1.08	2.51	0.92	0.86	2.72	1.44	0.62	1.55	Electrical machinery
1.93	1.51	1.83	1.46	1.05	0.82	1.02	0.76	0.57	Radio, TV, instruments
0.78	2.57	1.49	0.95	1.57	5.44	0.68	0.46	2.21	Transport equipment
1.48	1.05	1.38	1.43	1.27	0.72	0.96	1.07	0.72	Furniture and other mfg
1.12	1.05	1.15	1.14	0.92	0.66	0.93	0.86	0.49	UTILITIES
0.88	1.15	0.90	1.06	1.00	1.29	0.77	1.12	1.19	CONSTRUCTION
1.13	1.12	1.01	1.05	1.07	1.00	1.07	1.11	1.09	TERTIARY SECTOR
1.03	0.90	1.00	1.01	1.10	1.08	0.87	0.98	1.09	Wholesale and retail trade
1.17	1.01	0.78	1.34	1.09	0.92	0.70	0.97	0.87	Catering and accommodation
1.16	0.89	1.55	0.98	1.39	0.94	1.29	0.99	1.02	Transport and storage
1.76	1.91	1.20	1.17	0.98	1.44	1.21	1.44	1.17	Communication
2.01	1.43	1.28	1.51	0.99	0.90	0.77	0.86	0.75	Finance and insurance
1.62	1.42	1.28	1.30	1.18	0.89	0.94	0.78	0.78	Business services
1.01	0.96	0.93	0.92	1.02	0.96	1.19	1.23	1.12	COMMUNITY AND PERSONAL SERVICES
0.71	1.32	0.69	0.91	0.89	1.04	1.40	1.58	1.46	GENERAL GOVERNMENT

Source: Quantec Regional Database [43]

Manufacturing employment shows the most variability between cities, whereas the tertiary sector shows the least. The level of general government employment varies surprisingly between cities. Johannesburg and Tshwane have strengths in finance and business services, along with communication. Johannesburg also has industrial strengths in electrical and electronic equipment and furniture, but surprisingly few jobs in the government sector. Tshwane has strengths in transport equipment (such as motor vehicle manufacturing). Ekurhuleni is predominantly a manufacturing centre, with a diverse industrial base, and its strengths in transport and storage probably reflect the presence of OR Tambo airport. Cape Town is a relatively strong financial centre, but it also has several manufacturing strengths, especially in clothing and textiles. The city of eThekwini is a more specialised manufacturing centre than some of the other cities, with strengths in clothing and textiles and transport equipment (such as motor vehicles and shipbuilding). Nelson Mandela Bay has a strong specialisation in motor vehicles, followed by electrical machinery, whereas Msunduzi has a fairly wide range of manufacturing strengths, none of which is very pronounced. The two cities with the fewest sectors with a location quotient above 1.4 are Mangaung and Buffalo City. Mangaung has the largest share of jobs in government, while Buffalo City has strengths in transport equipment (motor vehicles) and electrical machinery.

The pattern suggests no obvious relationship between specialisation and overall economic success. More specialised cities are not necessarily more or less successful than more diversified cities. For example, strengths in manufacturing do not translate directly into overall economic growth or decline for a city. Ekurhuleni does not perform noticeably better or worse than other cities. Nelson Mandela Bay is something of an exception in that its exceptional presence in motor vehicle manufacturing does not seem to have helped the city's overall economy, although it may of course have performed worse without the car industry. There is perhaps some relationship between financial and business services and overall prosperity, illustrated by Johannesburg, Tshwane and Cape Town. In contrast, Msunduzi, Mangaung and Buffalo City are all noticeably weak in financial and business services, but, interestingly, they are also particularly strong in government employment. This may be a consequence of economic weakness, in other words, they may have been compensated by the government for their low levels of employment.

Connectivity

Internal and external connectivity are important for economic efficiency and development. Good internal connectivity allows people and goods to move quickly, smoothly and cheaply across the city, adding to productivity and long-term growth. Congestion and other bottlenecks in the transport system add to the costs of businesses and workers, and undermine economic performance. A robust transport network also improves urban resilience by giving people a choice of transport mode and enabling adjustment from one form to another in response to problems, such as rising oil prices.

Good external connectivity provides domestic producers with access to international markets, suppliers and collaborators, and allows firms to benefit from the two-way movement of people, ideas and finance. Such links are vital for countries on the periphery of the major continental economies, such as South Africa. They enable cities to function as gateways or logistics hubs to the rest of the country and to neighbouring regions. Being open to external information and intelligence can also alert domestic firms and organisations to economic threats and sources of vulnerability, as well as new markets and other opportunities for securing development, such as tourism.

"Internal and external connectivity are important for economic efficiency and development. Good internal connectivity allows people and goods to move quickly, smoothly and cheaply across the city... Good external connectivity provides domestic producers with access to international markets, suppliers and collaborators."

Internal connectivity

One way of measuring internal connectivity is the comparative travel-to-work time for workers in different cities. Figure 2.23 shows the latest available data drawn from the 2003 National Household Travel Survey.[44] Information was not available for Mangaung, Msunduzi or Buffalo City.

The figure shows that commuting times are longer than the national average in four of the six metros, and more than 50% longer in Tshwane. There is bound to be a relationship between city size and commuting times, but an efficient transport system can moderate the effect, just as an inefficient network can exacerbate it. South African cities also suffer from the effects of peripheral township development. For example, many of Tshwane's workers live a long distance away in Soshanguwe, as shown in Chapter 3. The pattern revealed in the following figure is also consistent with the commuting time breakdown shown in Chapter 3, in which residents of Gauteng were found to have the longest commutes, followed by Cape Town and eThekwini.

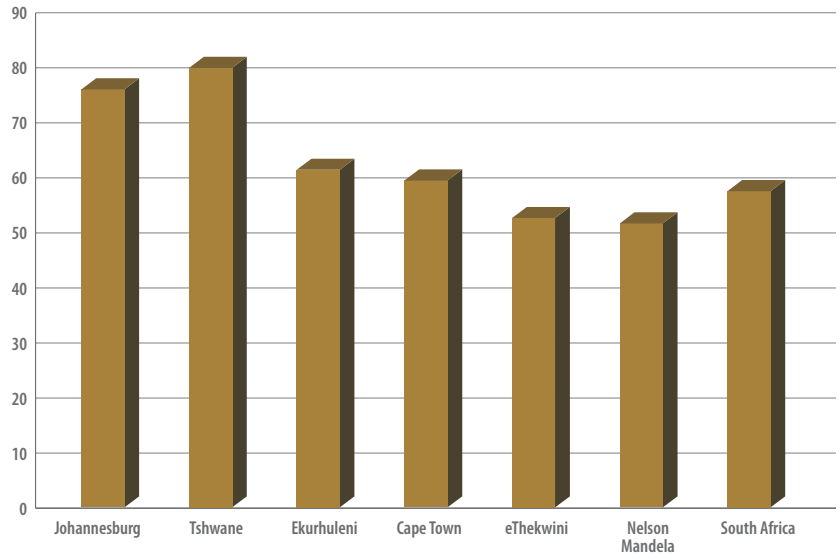

Figure 2.23 Average travel-to-work time (mins), 2003

Source: Stats SA, 2003 [45]

External connectivity

One way of measuring external connectivity is the number of destinations to which it is possible to fly from a city's airport. Figure 2.24 shows the number of destinations for the main airport of each city in early 2010.

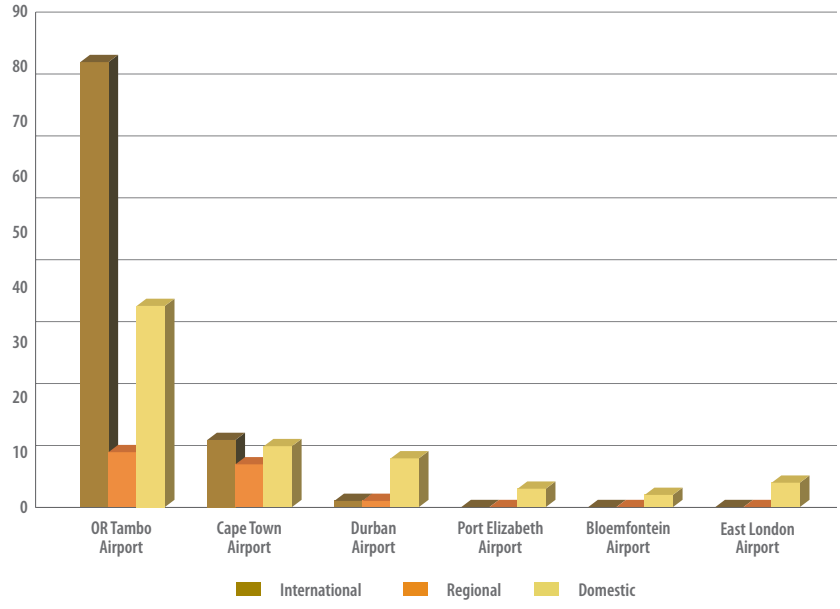

Figure 2.24 Number of airline destinations, 2010

Source: Airports Company of South Africa

OR Tambo airport gains major economies of scale from serving Johannesburg, Tshwane and Ekurhuleni, and is clearly the dominant airport in the country. Consequently, the Gauteng metros are far better connected to domestic and international destinations than elsewhere in the country. During 2010 King Shaka airport in eThekwini was opened in order to strengthen the city-region's international connections, and OR Tambo and Cape Town airports were enlarged and modernised in time for the 2010 FIFA World Cup™.

The Economy of Cities continued

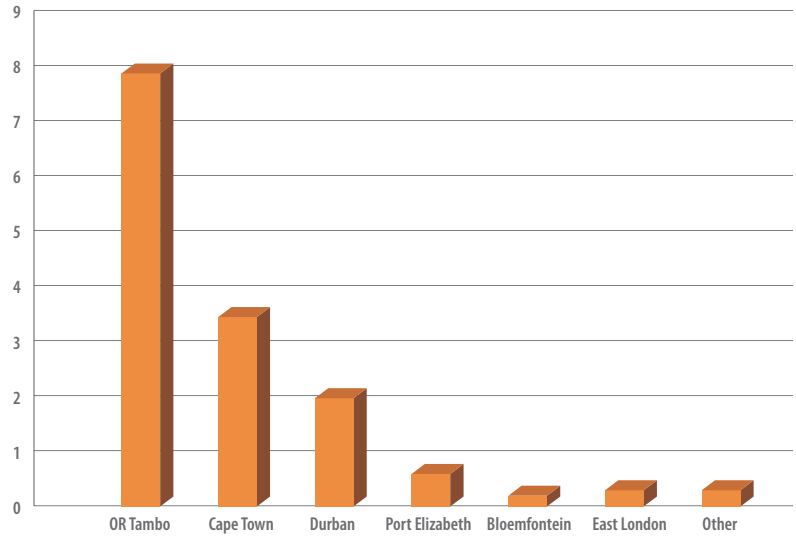

Figure 2.25 Airport passenger arrivals, 2009 (millions)

Source: Airports Company of South Africa

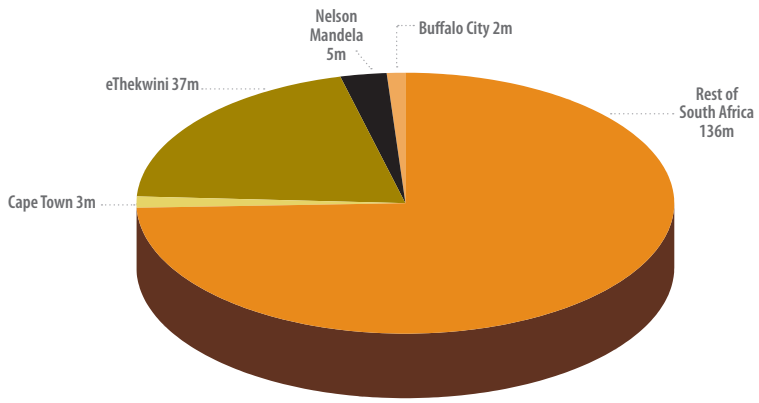

Figure 2.26 Cargo handled by sea ports (million metric tons), 2009

Source: Transnet SA

A slightly different picture emerges from the total number of passenger arrivals at each airport, represented by Figure 2.25.

OR Tambo is less dominant in relation to the other airports, as many of its destinations involve less frequent flights than those served by Cape Town and Durban.

Figure 2.26 provides a breakdown of the cargo handled by sea ports and shows quite a different pattern to Figure 2.25.

Sea ports are more important for bulky cargo such as imports and exports of raw materials, cars, clothing and electronic equipment. Almost 183 million metric tons of cargo passed through South African ports in 2009. Only about a quarter of South Africa's sea cargo passed through the city ports. The rest passed through other ports, such as Richards Bay and Saldanha. This cargo tends to be bulky minerals such as coal and iron ore. Durban harbour was by far the most important port in the country.

Electronic connectivity

Electronic connectivity is increasingly important to supplement, and in some cases replace, physical connectivity. It is internal (to the city) and external (domestic and international) and facilitates the flow of information, enabling firms and workers to access knowledge and intelligence. In the absence of reliable data for businesses, electronic connectivity can only be measured by the proportion of households with internet access. Chapter 3 shows that nearly a quarter of households in South Africa (23%) have at least one member who uses the internet either at home, work, a place of study or internet café. Internet use is highest in the Gauteng metros (39%), followed by the coastal metros (33%), secondary cities and commercial farming areas (both 19%), and former Bantustans (11%).

Investment

Investment in infrastructure, buildings, plants and equipment is a vitally important source of future economic growth. The availability of funds for investment may also reflect the success of past growth. This section considers current patterns and past trends in capital investment in public infrastructure and industrial, commercial and residential buildings. It reviews the comparative levels and patterns of investment in the nine municipalities and discusses the differential impact of the recession. In the absence of reliable data on all forms of private and public investment, a package of indicators is used.

Investment in buildings

The first indicator is the value of building plans approved, as notified by municipalities to Stats SA.[46] Buildings are vital to accommodate the activities of firms, organisations and households. Consequently, it is a useful measure of the physical expansion of economic and social activity. It is also a measure of modernisation and restructuring, as some buildings are intended to replace obsolete stock. The main drawback is that the data measures planned rather than actual investment.

Figure 2.27 provides a breakdown of the total value of building plans approved in the metros from 2004–2009.

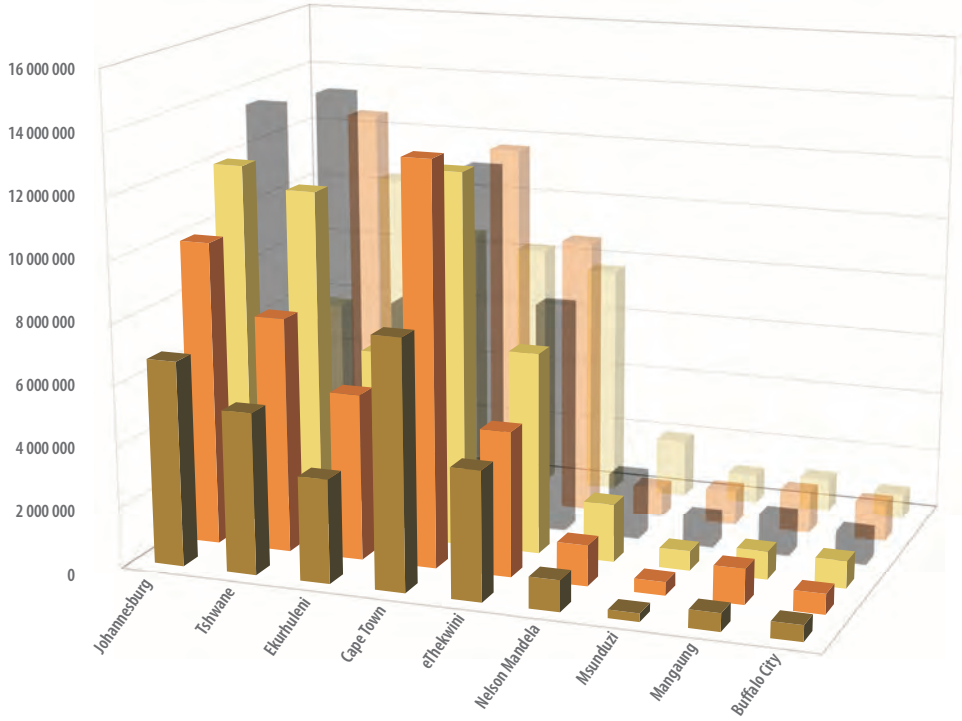

Figure 2.27 Total value of building plans approved, 2004–2009 (R'000)

Source: Stats SA [47]

	Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela	Msunduzi	Mangaung	Buffalo City
2004	6 758 570	5 329 029	3 429 960	8 212 144	4 260 252	1 033 088	278 880	598 639	538 310
2005	10 028 716	7 758 125	5 488 449	13 235 526	4 780 857	1 349 848	445 930	1 175 920	672 445
2006	12 052 113	11 367 655	6 238 757	12 356 919	6 668 953	1 922 103	652 224	933 785	907 862
2007	13 592 084	14 133 276	7 256 847	11 986 925	7 622 545	2 117 919	971 240	1 288 363	993 808
2008	5 523 384	12 990 257	9 940 925	12 139 072	9 217 389	984 005	1 159 200	1 382 738	1 259 148
2009	5 682 242	10 350 354	8 569 627	8 219 064	7 674 873	1 930 069	968 805	1 079 924	818 061

The dominance of building activity in the five major metros is clear. The level of building plans in the other four cities is a different order of magnitude. Overall, Cape Town had the highest value of building plans approved over the 2004–2009 period, followed by Tshwane and Johannesburg. Of the five major metros, eThekwini and Ekurhuleni appear to have been most resilient to the recession. Johannesburg seems to have been the most vulnerable, with a dramatic slowdown in activity after 2007.

Residential buildings

The second indicator is the value of residential building plans approved. This is a measure of household growth as well as economic prosperity. Figure 2.28 provides a breakdown of the total value of residential building plans approved in the metros from 2004–2009.

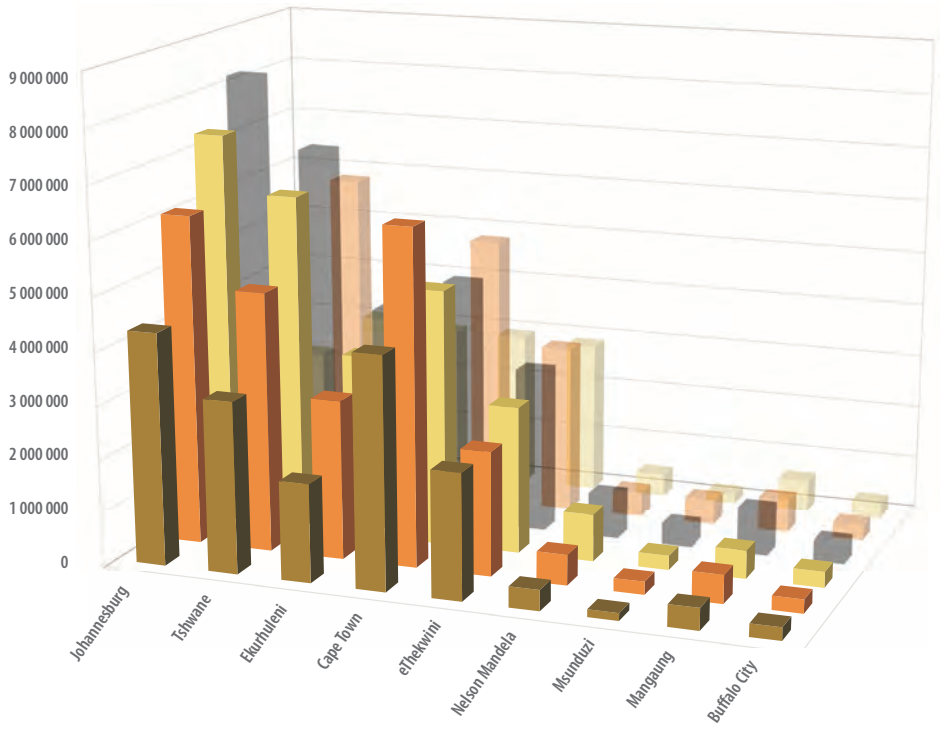

Figure 2.28 Total value of residential building plan approved, 2004–2009 (R'000)

Source: Stats SA [48]

	Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela	Msunduzi	Mangaung	Buffalo City
2004	4 340 031	3 214 331	1 844 255	4 324 132	2 355 070	390 888	142 134	413 979	245 248
2005	6 166 614	4 862 284	2 987 529	6 284 915	2 330 082	576 195	243 851	538 987	262 348
2006	7 382 923	6 335 936	3 444 097	4 814 290	2 759 561	889 583	273 310	535 223	301 707
2007	8 233 552	6 934 013	3 964 931	4 624 253	3 071 425	832 782	391 671	862 213	385 196
2008	2 535 578	6 093 081	4 095 795	5 109 051	3 156 630	478 837	480 875	633 143	283 877
2009	2 209 668	3 045 030	2 918 194	2 930 849	2 869 100	418 890	179 335	593 520	303 621

There is a striking difference between the nine cities. Johannesburg experienced strong growth in residential building activity from 2004–2007, followed by a remarkable slump. In contrast, eThekwini was far more stable over the period and resilient to the recession. Activity in Ekurhuleni and Tshwane grew steadily until 2008, whereas Cape Town was more volatile. Residential building activity in the remaining four cities was at a much lower level.

Commercial buildings

The third indicator is the value of commercial building plans approved. This is a measure of economic growth, particularly in the service sector. Figure 2.29 provides a breakdown of the total value of commercial building plans approved from 2004–2009.

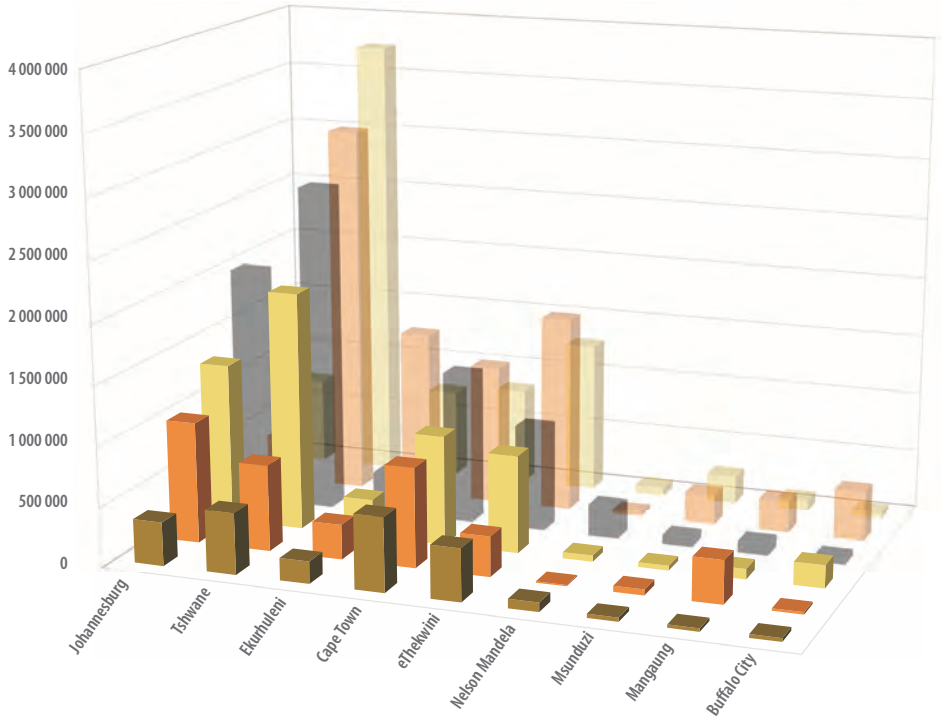

Figure 2.29 Total value of commercial building plans approved, 2004–2009 (R'000)

Source: Stats SA [49]

	Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela	Msunduzi	Mangaung	Buffalo City
2004	366 401	514 608	185 640	621 317	440 819	76 962	33 460	26 598	29 685
2005	1 017 594	724 866	293 305	838 718	338 420	10 388	49 966	365 075	19 710
2006	1 338 407	2 000 908	313 633	920 508	820 366	52 512	40 530	87 218	192 743
2007	1 999 754	2 747 783	345 973	1 277 370	881 700	269 203	74 392	97 709	49 823
2008	369 146	3 113 323	1 405 553	1 175 377	1 651 203	32 629	256 001	271 284	419 036
2009	725 589	3 735 744	738 129	810 984	1 270 866	69 437	235 168	94 700	49 552

Once again, there are substantial differences between the nine cities. Tshwane experienced the strongest growth in commercial building activity from 2004–2009, showing no sign of the economic downturn, which may be attributable to the sizeable role of the public sector in its local economy. Tshwane also had the largest total level of commercial building activity over the period, reflecting the importance of its service sector. Johannesburg experienced strong growth until 2007, followed by a major contraction. Cape Town and eThekwini experienced steady growth until 2008, followed by a more gradual slowdown. Ekurhuleni experienced a much smaller level of commercial building than the other four major metros, reflecting its largely industrial economy. Commercial building activity in the remaining four cities was patchy.

Industrial buildings

The fourth indicator is the value of industrial and warehousing building plans approved, which is a measure of economic growth, particularly in the manufacturing sector. Figure 2.30 shows additional differences between the nine SACN cities by providing a breakdown of the total value of industrial building plans approved from 2004–2009.

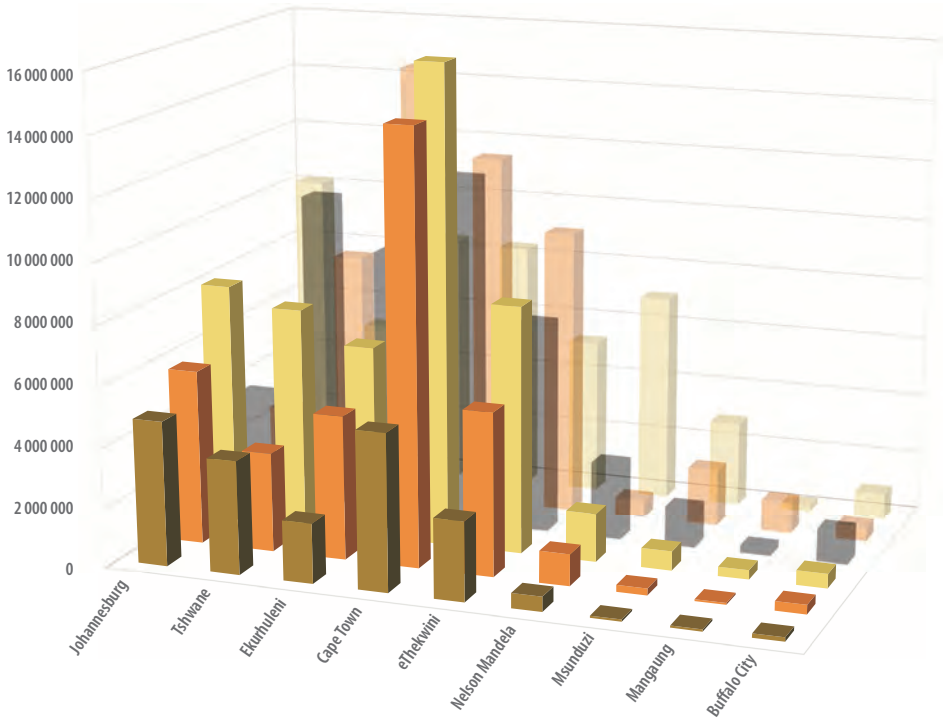

Figure 2.30 Total value of industrial building plans approved, 2004–2009 (R'000)

Source: Stats SA [50]

	Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela	Msunduzi	Mangaung	Buffalo City
2004	482 500	378 065	200 053	521 807	264 013	49 769	7 116	7 317	13 830
2005	582 990	331 768	481 598	1 434 314	543 968	106 257	23 219	6 425	31 048
2006	808 187	749 313	645 027	1 591 627	825 944	161 872	64 713	31 130	48 791
2007	376 395	1 074 113	902 975	1 174 924	711 836	257 526	133 369	23 572	110 529
2008	258 744	816 687	1 480 237	1 190 677	956 315	61 336	192 674	106 405	47 312
2009	1 015 107	517 168	845 323	833 999	524 177	700 355	285 341	19 754	88 642

Cape Town dominated in terms of the overall level of activity, followed by Ekurhuleni. The continued importance of manufacturing in Cape Town was noted earlier, although industrial building activity appears to have been declining since 2006. The overall pattern in Johannesburg was volatile and apparently not related to the wider economic situation. Nelson Mandela Bay and Msunduzi do not appear to have been affected by the recession either. The city of eThekwini experienced steady growth until 2008, followed by a slowdown. Industrial building activity in Mangaung and Buffalo City was patchy.

Public investment

The first indicator of public investment is the total spend per person by each municipality. This is the total budgeted capital and operating expenditure of each municipality divided by its resident population. It provides an indication of the comparative level of investment in the future prosperity of the city. It can be used in conjunction with the total property rates per person to indicate the strength of a city's existing economic base in the level of resources available to a municipality to spend on its population.

Figure 2.31 shows the municipal expenditure and rates base for 2009.

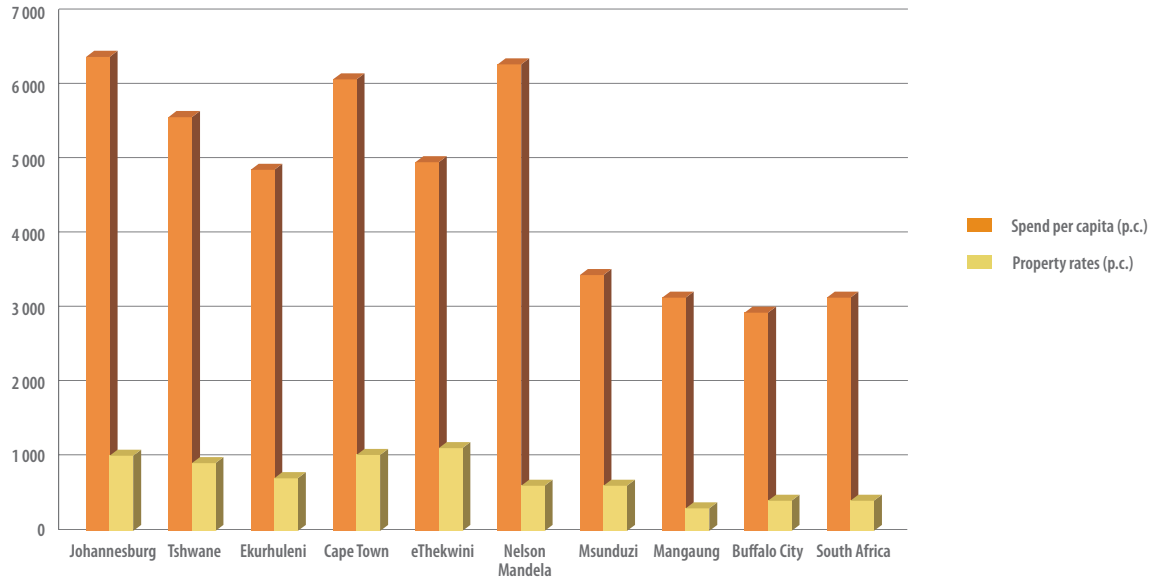

Figure 2.31 Municipal expenditure and rates base, 2009 (Rands)

Source: National Treasury Intergovernmental Finance Report

The metros all invest considerably more per person than the rest of the country. Their rates base is also far stronger, although considerably smaller than their total spending. This indicates a major requirement to borrow capital and a heavy reliance on government grants to make up the shortfall between expenditure and income. The city of eThekwini appears to be in the most robust position, with a relatively healthy level of rates income in relation to expenditure. Nelson Mandela Bay appears to have been relatively precarious, along with Mangaung. In contrast, Johannesburg and Cape Town have relatively high levels of investment and income and appear to be doing more than the other municipalities to position themselves for future growth.

A further indication of investment potential is the ability of a municipality to borrow in the capital market. This is given by its long-term credit rating, which shows its ability to repay debt and indicates the likelihood of default on debt repayment. The government encourages municipalities to borrow in order to invest in infrastructure. Table 2.2 reflects the municipal credit ratings.

Table 2.2 Municipal credit ratings, 2010

Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela
A	BBB+	AA-	AA-	AA-	A+

Source: Information from individual municipalities

Ekurhuleni, Cape Town and eThekwini had the highest credit ratings among the metros, and Tshwane had the lowest. The city of eThekwini's high credit rating is not surprising given its high level of rates income in relation to expenditure.

One of the factors influencing a municipality's credit rating is the average period it takes to collect outstanding debts (debtor collection period). It is arguable that the longer the collection period, the less robust the municipality's procedures and the less resilient it is financially, which may affect the confidence of investors in the city. In particular, financial institutions may be reluctant to lend to a municipality that is slow to collect outstanding debts. Table 2.3 reflects the debtor collection periods from 2007–2009.

Table 3 Debtor collection periods (in days), 2007–2009

	Johannesburg	Tshwane	Ekurhuleni	Cape Town	eThekwini	N Mandela
2007	60.60	118.10	59.20	81.30	78.10	98.80
2008	62.80	116.30	54.40	84.60	71.50	95.50
2009	61.60	122.50	52.90	97.50	77.20	111.90

Source: National Treasury, 2010 [51]

Tshwane's debt collection period was considerably longer than most of the other metros, which may explain its relatively poor credit rating. In contrast, Ekurhuleni had a relatively short (and improving) debt collection period, which may be one of the reasons for its good credit rating. Cape Town's debt collection period deteriorated the most over this period.

CONCLUSION

Economic conditions are generally better in the cities than in the rest of the country. This is reflected in the level and rate of growth in output, employment, income and productivity. Bearing in mind the significance of employment for household living standards, well-being and community cohesion, it is striking that the proportion of adults employed in the metros is roughly twice as high as in the former Bantustans. By international standards, however, levels of employment in South African cities are still very low.

City economies and municipalities are also more viable than the economies of other places in the country, as only 17% of all households in the metros derive their main source of income from social grants or remittances, compared with 50% in the former Bantustans. The economies of the three Gauteng metros and Cape Town appear to be stronger than eThekwini, which in turn seems stronger than the economies of Nelson Mandela Bay and the secondary cities.

City economies were better placed than the rest of the country a decade ago, and the gap has subsequently widened. Reasons for their improved performance seem to include higher levels of investment in R&D, higher levels of human capital, greater external connectivity and higher investment in physical capital (infrastructure and buildings). There is no obvious relationship between specialisation and economic success, although cities with large financial and business service sectors seem to have experienced higher overall prosperity.

Despite their stronger performance in the pre-recession period, cities seem to have been less resilient than other parts of the country during the 2008–2010 recession. Gauteng appears to have been most affected by the downturn. Its manufacturing sector proved to be highly vulnerable to the global crisis and manual workers were the worst affected by the redundancies. This shows that there is no room for complacency about the condition of South African city economies.

Looking ahead, much needs to be done to strengthen the productive capabilities of the metros and to spread the benefits of prosperity through more and better work. City municipalities must take the needs of their economies more seriously and encourage long-term growth and development. Improving the economic infrastructure will enhance the business environment and reduce bottlenecks, which will help companies to operate more efficiently and attract inward investment. Higher levels of investment in training and improvements in education will improve workforce productivity and earnings, and give the unemployed a better chance of securing work. Companies and industries with the ambition and capabilities to grow quickly need appropriate support. People who want to explore self-employment or establish a formal (or informal) business should be encouraged and assisted to do so.

A step change is required in local economic policy going beyond the improvised and generally small-scale projects of traditional local economic development. The economy deserves special attention as a cross-cutting priority relevant to most council departments, rather than as a stand-alone function of a single department. Municipalities should consider the impact of their main spending decisions and regulatory functions on enterprise and investment, in addition to the positive measures that may be taken to stimulate growth and development. They have a key role to play in shaping their local economies, both in terms of direct investment and as catalysts for development, by encouraging other stakeholders and building partnerships. Municipalities need to develop innovative financing models to bring in additional resources and make full use of their procurement powers to support local enterprise and employment. They need to experiment with new ways of improving the livelihoods of the poor, both through direct support to informal enterprises and by reducing regulatory burdens and red tape. Municipalities need to develop links with government parastatals and development finance institutions to support their local economies, and work with local universities to increase local access to specialised knowledge and expertise. Being more active on the economy requires a way of working that is different from the delivery of household services; a way that is more flexible, outward-looking and responsive to firms and investors.

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3 Gross value added (GVA) is a measure of net economic output of an area or region, in this case of cities.

4 Quantec Regional Database. http://www.quantec.co.za

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22 A discouraged work-seeker is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work. NEA = not economically active (persons aged 15–64 years who are neither employed nor unemployed in the reference week).

23 Please note that some column totals do not all add up to 100% due to rounding.

24 Stats SA, 2008, op. cit.

25 Stats SA, 2010, op cit.

26 Please note that some column totals do not all add up to 100% due to rounding.

27 Stats SA, 2008, op. cit.

28 Stats SA, 2010, op. cit.

29 Please note that some column totals do not all add up to 100% due to rounding.

30 Stats SA, 2008, op. cit.

31 Stats SA, 2010, op. cit.

32 Quantec Regional Database, op. cit.

33 Ibid.

34 Please note that some column totals do not all add up to 100% due to rounding.

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