# [Part Two]

M A I N   R E P O R T

**Chapter 1 is a broad survey of the major structural features of the Western Cape economy[1] and the prospects for further development. Its sectoral strengths, as well as its challenges, are laid out, serving as the foundation for the more detailed industrial policy analysis that follows. The international dynamics governing globalisation in this current era, including opportunities and threats, are briefly explained, and the region's insertion into the global economy is particularly highlighted.**

### 1.1 Structure

With a population of 4.6 million or 10% of the national populace, an area of about 10% (120 000 km) of South Africa, and a GDP share of 14%, the Western Cape falls into the middle range of the nine provinces. Based on the Western Cape's estimated per capita Gross Regional Product (GRP) of about R40 800 in 2004, and a countrywide per capita GDP of approximately R28 800, the Western Cape (together with Gauteng) is at the top of the provincial development range.

The Province's population increase is well above the national average (about 2.4% compared to the national average of 1.4%), signalling lower HIV/Aids mortality and a significant net population in-migration. Urbanisation is high at close to 90%, and the Western Cape rural areas do not have peasant agricultural settlements but well-established small towns.

The Western Cape is blessed with a solid, diversified resource base even though it has no minerals of significance and its water supply is under some threat. These resources relate to the topography, coastline, rivers and diversified vegetation of the region, its extraordinary natural attractions (ranging from Table Mountain and the Garden Route to the Cederberg and the Winelands area) and its moderate climate. It also includes its strategic location along east-west and north-south sea routes, with two world-class harbours (Cape Town and Saldanha).

The Western Cape's infrastructure is relatively well developed, compared to most of the other provinces, but as outlined later much less impressive when compared on a global scale. In addition deterioration and development gaps are becoming a serious concern for some sectors and places. Local education levels are on average much better than the national average, reflected in significantly higher literacy levels and grade 12 pass rates.

### 1.2 Sectoral Characteristics

Probably the most important characteristic of the Western Cape's economy and its economic development is the broad base and diversity of its more promising sub-sectors, industries or "niches". The four core sectors of the Western Cape's economy (agriculture, manufacturing, trade and financial, as well as business services) are each well diversified, reducing the risk of overdependence on any single industry. In addition the region has a well-developed and diversified tourism sector, and relatively strong and dynamic construction, fishing, professional services, higher education and transport sectors. While it lacks a significant mining sector, Saldanha has become a major export harbour for minerals and a downstream iron and steel industry.

The broad services sector accounts for more than two-thirds of the regional economy. Within this sector, business services are particularly important, comprising 27% of the regional economy – considerably higher than the 19% nationally. Manufacturing makes up 20% of the regional economy – similar to the national figure. Within manufacturing, the major activities are agro-processing, metals and engineering, oil and petro-chemicals and clothing and textiles. Agriculture (5.6%) and construction (3.4%) are also somewhat larger than the national average. Mining and quarrying (0.3%) is much lower than the national average (7.8%).

### 1.3 Size of Enterprise

The absence of large mines and capital-intensive mineral processing, as well as heavy industry complexes accentuates the dominance of small and medium-sized enterprises (SMEs) in the Western Cape's economy. As explained later, this dominance of SMEs in the regional economy also influences the role that falls upon Provincial Government in the stimulation and orientation of economic growth and transformation in the region.

### 1.4 Socio-economic Factors

The following factors have an important impact on the regional economy:

[1] In this chapter, much of the data is drawn from the PERO (2006).

- The particular location of the Western Cape within South Africa's spatial development framework (1 500 km away from the country's economic and metropolitan hub);
- its broad regional economic base; and
- the attractive living and working environment of the Western Cape.

Parallels to this locational impact on the structure of the regional economy can be found in countries like Canada (Vancouver as the far-western regional centre), Brazil (Rio de Janeiro, as opposed to the capital Brasilia, and the industrial centre Sao Paulo) and Turkey (Istanbul, as opposed to the capital Ankara).

As far as socio-economic development indicators are concerned (e.g. the number of doctors, nurses and hospital beds per 10 000 of the population, access to water, electricity and communication services, etc.) the Western Cape ranks either highest or second highest after Gauteng. This also applies to skills levels of the labour force and, in the inverse, to unemployment levels. Yet, "relatively better off" does not imply that development issues related to these indicators are not serious in the Western Cape, or that they do not demand attention from both the public and the private sector.

The relatively well-off position of the Western Cape among South Africa's nine provinces can be linked to particular historical factors, which shaped the specific socio-demographic structure of the Western Cape. These forces, again, influence current trends with respect to net in-migration to the Western Cape from the Eastern Cape, and they also explain why the Western Cape receives a declining share of provincial transfers, most of which are directly linked to development needs.

### 1.5 Economic Growth

The Western Cape economy grew by an average of 4.1% in the period 1999-2004, and this increased to 5.3% in 2004/5 (PERO, 2006). For the period 1999-2003, economic growth in the Province (3.9% per annum) considerably exceeded that of the national economy (3.1% per annum) (PERO, 2005). This is largely due to the services sector – both because fast-growing services are over-represented in the region and because services grew faster in the region than they did nationally. This faster growth was particularly evident in internal trade and catering (reflecting tourism) and especially in financial and business services. By contrast, the manufacturing industry in the Western Cape grew at only half the rate of the national rate, 1.4% as compared to 2.8%. A number of manufacturing sectors of importance to the region saw overall declines – food and beverages; non-metallic minerals, clothing and textiles and wood, paper and publishing.

### 1.6 Employment

For a number of sectors, there is something of a disjuncture between growth in fixed capital formation and employment creation. This is particularly evident in petro-chemicals, transport and communications, and, most importantly, financial services. In these sectors, significant increases in capital investment were not accompanied by any net employment growth.

In the period 1999-2004, employment declined in almost all sectors – the major exceptions being automotive, retail and wholesale trade, and business and community services (PERO, 2005). Employment decline was particularly sharp in manufacturing at 3.2% per annum. Outside of the Western Cape, employment decline in manufacturing measured 0.8%. Employment in financial services grew by 1.1% per annum while output growth was 6.1% and investment growth 5%. Internal trade and catering and business services, and in manufacturing only transport equipment, contributed positively to both capital investment and employment.

The net result was that despite a healthy growth in investment spending of 4.2% per annum, aggregate employment in the Western Cape declined – by 0.4% per annum. In employment creation, the Western Cape performed poorly in comparison with the national.

Rising fixed investment accompanied by falling employment is a clear indication of capital deepening and labour substitution. This is a national phenomenon. But, with fixed investment rising significantly faster and employment declining significantly faster than for the country as a whole, the Western Cape has been particularly prone to capital deepening and labour displacement.

In line with the strong tendency to capital deepening, employment creation in the Western Cape is significantly skill-biased. In all sectors, even in the unskilled areas, the share of unskilled workers has tended to decline. Whereas unemployment has risen significantly for all other education levels, unemployment amongst those with tertiary education has declined since 1995 (Education Department, Western Cape 2004: Table 4).[2] Between 2000 and 2003, two-thirds of the jobs created accrued to those with a matric certificate or higher.

2 Other data suggest that while unemployment levels are considerably lower amongst those with tertiary education, in the period 2000-2003, the unemployment rate for those with tertiary education increased – from 4.3% to 7.3%. PERO (2005): 162.

The challenge for the Western Cape therefore is not solely to raise the rate of growth but also to seek to foster growth that takes a more labour demanding path and more especially demanding of unskilled and semi-skilled labour.

However, this is a very difficult challenge. Our researchers were able to identify only few productive sectors that hold promise for the direct creation of significant new unskilled and semi-skilled employment opportunities. Limitations in employment opportunities raise the importance of SME and entrepreneurial development, training and education to equip more people with the skills that can command employment, as well as interventions in other policy domains such as public works programmes.

### 1.7 Future Growth and Employment Prospects

At the time of writing there is considerable instability in financial markets and interest rates have recently risen by 0.5 of a percentage point. There are some expectations that interest rates will rise further in 2006/7, and that this may dampen growth. Although growth rates are expected to continue to be strong, any revisions on the growth forecasts are likely to be in a downward direction.

The impact on employment is uncertain. Any substantive employment gains will depend heavily on the rapidly expanding sectors. If these sectors continue to resort to capital deepening, overall employment gains will be very limited – well below the

**Table 1: [Summary of Western Cape's Economic Outlook] 2004/5–2007/8**

| | AVERAGE '99-'04 | 2004/05 | 2005/06 (FORECAST) | 2006/07 (FORECAST) | 2007/08 (FORECAST) | 2008/09 (FORECAST) |
|---|---|---|---|---|---|---|
| **GDPR (Rbn; current prices):** | **–** | **186,3** | **205,3** | **225,1** | **247,6** | **271,5** |
| Real GDPR % growth | 4,1 | 5,3 | 5,3 | 4,7 | 4,5 | 4,8 |
| Real GDFI % growth | 4,4 | 7,8 | 8,6 | 9,3 | 9,5 | 9,5 |
| GDPR deflator | 6,8 | 4,5 | 4,1 | 4,2 | 5,4 | 4,6 |
| CPI inflation | 5,5 | 3,4 | 3,8 | 3,5 | 5,2 | 4,6 |
| **GDPR by sector (real % change):** | | | | | | |
| Agriculture, forestry & fishing | 1,7 | 3,6 | 7,4 | 2,3 | 1,0 | 0,8 |
| Mining & quarrying | -4,5 | 1,6 | 2,5 | 2,4 | 0,9 | 1,1 |
| Manufacturing | 2,1 | 5,1 | 3,5 | 4,1 | 3,4 | 3,8 |
| Electricity, gas & water | 5,1 | 6,9 | 6,1 | 6,0 | 5,1 | 5,0 |
| Construction | 6,5 | 5,8 | 8,8 | 7,3 | 8,2 | 8,6 |
| Wholesale & retail trade | 7,2 | 9,2 | 7,0 | 5,0 | 4,6 | 5,3 |
| Transport & communication | 6,3 | 5,4 | 6,2 | 6,0 | 5,8 | 6,2 |
| Financial & business services | 6,1 | 5,2 | 4,9 | 4,7 | 4,9 | 5,2 |
| CSP services | 3,1 | 1,8 | 3,3 | 3,6 | 3,5 | 3,6 |
| General government | -0,2 | 1,7 | 4,4 | 4,0 | 3,9 | 3,6 |
| **Western Cape GDPR** | **4,3** | **5,3** | **5,3** | **4,7** | **4,5** | **4,8** |

*(Source: BER in PERO 2006:14)*

anticipated growth rate. Thus, even at the projected significantly higher growth rate, the prospects for any significant reduction in the unemployment rate look relatively poor.

### 1.8 Further Growth and Employment Opportunities

However, there are a number of significant opportunities for output and employment growth in the Western Cape. If it is able to capitalise on the opportunities presented, the province may significantly exceed projections. There are also a number of other sectors that have prospects of more limited expansion in output and employment. These are identified and discussed in Chapter 5. In addition, there are a number of areas and activities in which provincial policies can have a more indirect but broader systemic impact on output growth and employment. Finally, there are sectors where output and employment are under considerable threat and policy may help to retain capacity.

### 1.9 Some Factors Constraining the Western Cape's Economic Performance

Notwithstanding the comparative strengths and "above national average" performance of the Western Cape over the past two decades, important problems, limiting factors and potential threats cloud its socio-economic performance and future development path. A number of these are listed below to illustrate the range and seriousness of some of them.

- Complacency about past achievements and "satisfactory lifestyles" among the middle and higher socio-economic strata of society is a factor (sometimes) limiting initiatives and the tenacity to tackle the more fundamental issues.
- Short to medium-term implications of the currency. Short-term prospects suggest a depreciation, which may come to the aid of exporters after successive years of an appreciating rand.
- Stark, and increasing, income and wealth inequality in the region, which potentially threatens the social cohesion of society.
- A crime rate that exceeds the national average and is the highest among the provinces (Financial Mail, 16/06/2006:39)
- Relatively slow (visible) progress with black economic empowerment, especially with respect to the steadily rising share of the Western Cape African population.
- Sizeable net in-migration, with about two-thirds of the 50 000 net in-migrants per year coming from poor, rural communities in the Eastern Cape, and with the (currently still low) level of foreign African in-migration also accelerating.
- Steady annual out-migration of relatively well-skilled (young) people to the northern hub, as well as other centres of the country and overseas.
- A large and highly visible number of poor, unemployed and often destitute people, predominantly in or near the urban areas (in particular metropolitan Cape Town).
- Steadily increasing competition from other regions and centres of South Africa in areas where the Western Cape in the past had either a comparative advantage or was the first with projects or sectors (e.g. competition for the V & A Waterfront, for the hosting of world-class conferences, for export grapes, designer furniture, etc.).
- The challenge of quota removals and other global trade liberalisation measures on hitherto relatively protected local industries (such as clothing).
- An understandable reluctance at national and interprovincial levels to support or subsidise Western Cape developments, seeing that the region is comparatively so much better off than other developing regions (e.g. in the allocation of capital funds for infrastructure development or mega-projects).

These limiting factors have a major influence on shaping the future growth and unfolding of the Western Cape's sector structure. Some of the factors and forces can be addressed directly (e.g. bottlenecks developed in certain infrastructure segments) while others suggest a lower future presence of some sectors (e.g. clothing). A thorough understanding of these problems and underlying forces is critical for the shaping of effective sector strategies.

### 1.10 The Western Cape in the Global Economy

One of the most significant spatial dimensions of global growth is that coastal economies have tended to grow significantly faster than hinterland economies. This is true globally, for fast-growing Asia, and also for Africa. Coastal regions have grown far more rapidly in Africa than the hinterland, albeit at significantly slower rates than for coastal regions elsewhere (Collier and O'Connell 2005).

The principal factor underlying the enhanced economic performance of coastal regions is that their location allows for easier engagement in the global economy, particularly if, as in the case of the Western Cape, it sits astride established trading routes. Global trade and commerce have consistently expanded at much more rapid rates than growth in global GDP. Similarly, the growth in South Africa's exports significantly exceeds its growth in GDP. Much of the export growth in the Western Cape comes from the top three export categories – fruit, alcoholic beverages (wine) and iron and steel – the first two based on local inputs, while iron and steel is based on the beneficiation of inputs from outside of the Province. These three categories account for a little under half of all Western Cape exports.

While the rand's appreciation over the last few years considerably slowed export growth, the rand has depreciated significantly in the first half of 2006 (almost 20% against the $US). This will give renewed impetus to further export growth.

### 1.11 International Dimensions Impacting on Western Cape Industry

We have isolated a number of key dimensions impacting on the Western Cape economy:

- The global dispersion of production and the opportunities this offers to regions (such as the Western Cape) within developing countries.
- The increasing competitiveness demands created within the developing world, and the limits for regional development strategies based on purely manufact uring activities.
- The impact of China's entry into global trade on developing country prospects and the push towards downward spiralling of prices of manufactured goods.
- The global importance of knowledge-intensive processes as high rent yielding activities – implications for fostering specific knowledge activities/sectors, and attracting skilled high income earning and spending personnel into the Province
- The segmented nature of global tourism and the advantages the Western Cape has in facilitating the synergies between natural and cultural resources.
- The impact of globalisation on poverty and inequality

#### 1.11.1 The global dispersion of production - opportunities and constraints

From the perspective of developing countries this new era of globalisation – roughly the last three decades of the 20th century – is characterised by two processes. Firstly, a rapid expansion of global trade in manufactures and services fuelled by the systematic reduction in international barriers to trading; and secondly, a major shift in the global dispersion of industrial production towards locally owned and / or managed firms in developing countries, especially in respect of products with a high labour-intensive component. Manufactured exports grew rapidly from developing countries, accounting for more than 70 % of all their merchandise exports by 2000, as compared to 20 % in the 1970s and 1980s (UNCTAD, 2002:51). Even in sub-Saharan Africa, exports of manufactured products exceed agricultural exports. Throughout the developing world there has been a pervasive shift away from resource-based manufactures to low-tech manufactured products.

Firms in these (often, but not exclusively, middle income) developing countries are not simply engaging in trading of final product commodities as independent producers, but are locked into global value chains often producing components (semi-manufactured goods) for links further up the supply chain. In these global value chains the buyers or intermediate agents exercise enormous power over the characteristics of the sourcing arrangement: what is produced, how it is manufactured, where it is sourced from, and how much it is sold for. Competing on the basis of price is important, but so are a host of other factors such as quality, time to market, etc. Hence sourcing buyers constantly compare the operational efficiency of different competitor suppliers. This imposes the need for producers to continuously upgrade their operating performance in line with world-class manufacturing techniques and radically ratchet up their competitiveness.

A new layer of dynamic Asian economies (principally China and India) has emerged, impacting on the manufacturing sectors of other developing economies, especially Africa. These Asian economies have a cheap labour advantage but are also highly competent in production performance; hence their export drives are carving out a huge global terrain especially in lower end manufactured goods (e.g. clothing). A major reason has been their ability to not only meet the production standards dictated by the global value chain drivers, but also to continuously cut prices for low technology products, hence cutting other developing country producers' global market share. This has been reflected in a general global fall in prices of low-tech manufactured products since the 1990s (Kaplinsky 2005). Hence for developing country firms, competing globally simply on the basis of price is a very risky business indeed. Local manufacturers that wish to maintain some degree of domestic and export shares are having to radically upgrade their production capabilities, resulting in a concerted drive towards internalising manufacturing excellence principles and achieving world-class manufacturing standards.

The very rapid growth of China and India in recent years has also resulted in a major need for raw materials to fuel their economies. The consequent global boom in commodity prices had a significant impact on resource-based economies, especially those in Africa, providing major export opportunities. However, it also poses a major threat to industries (including those focused on the domestic market) in these countries. Although South Africa has benefited from this resource boom there is currently concern in government that these dynamics will lead to the hollowing out of the country's industrial base. This concern about an overdependency on commodity exports places a responsibility on the Western Cape government to develop policies that further diversify exports.

This global dispersion of production offers new export opportunities to manufacturers in the Western Cape, but only if they can meet the exacting technical requirements, operational parameters, and pricing structures specified by their global value chains. However, those firms who supply the domestic market have no room for complacency, for the other side of export opportunities is the threat of cheaper imports into the country wiping out domestic market share. This is most evident in the clothing and textile sectors, traditionally more oriented towards the domestic market, which are large employers of semi-skilled workers. The domestic upsurge in the economy may well provide numerous opportunities for stabilising employment but there is no room for local manufacturing to hide from international competition. The demands to strive for manufacturing excellence and upgrade to world-class manufacturing standards applies in all markets. Strategies to rapidly upgrade the operational performance of the firms to compete internationally are noted as an urgent provincial policy lever.

### 1.11.2 The global shift to knowledge-intensive activities

Within global value chains knowledge-intensive functions and activities are increasingly important – 'branding', 'marketing', 'design', 'research and product development', 'logistics', 'organising sourcing', 'managerial skills', 'financial services'. The further up the value chain or more knowledge-intensive (hence complex) the activities, or meeting specialist standards, or producing branded country of origin products, the greater the financial gains and wage income returns. Within value chains where the manufacturing process is relatively labour intensive and low-technology products are being produced (e.g. clothing, footwear) the highest income and rent yields revert to those who own and control brand names, design, marketing or those who control the organisational outsourcing and logistics functions.

Value chain transactions require sourcing arrangements involving obligational relationships. There is a major organisational / logistics function between the various chain links, ensuring adequate sourcing, meeting technical parameters and achieving chain competitiveness. Those firms who organise relationships (a knowledge-intensive function) are hence in an extremely good position to appropriate high rents and income.

This has impacted on the geographical location of these functions. There has also been a simultaneous reconcentration of these knowledge-intensive functions in the industrialised countries or in newly emerging middle-income countries or even regions within countries. Furthermore, middle-income developing countries who have acquired highly developed process manufacturing competence (a form of knowledge-intensive skills) are able to meet the technical demands of world-class manufacturing and compete not just on price and low wages. Moreover, there are other benefits to having control over and access to such knowledge-intensive intangible functions and activities, for knowledge-intensive intangibles create their own specific barriers to entry, thus reproducing the tendency to concentrate them in higher income countries and regions.

Industrial development is increasingly more dependent on the transmission and acquisition of appropriate knowledge. Information communication technology (ICT) is transforming business – enabling customers to access information about new products and suppliers, revolutionising distribution and supply chain management, and enabling a much tighter integration in the management of inputs and design to marketing and sales. Continuous innovation in design, manufacturing processes, and marketing has become the driving force of successful economies, and innovation requires accelerating knowledge intensity. Increasingly economists argue that countries specialising in technologically rich (i.e. based in knowledge-intensive) industries or labour-intensive industries, based on making available advanced levels of information technology (e.g. call centres), will experience faster growth than those that do not. This is particularly important for developing countries and regions unable to compete using cheap labour. International competitiveness is therefore increasingly based on the capacity to master information technology, to exploit all of the knowledge resources available, and to innovate.

Furthermore, in many instances where geographical regions or cities have managed to create a hub of knowledge creativity this has resulted in attracting high income skilled personnel, with potential spin-offs for economic growth and economic spillovers into rising demand for a myriad of labour-intensive services. In a major study of contemporary successful knowledge valuing cities, Kotkin and DeVol (2001:97) observe, "there are several basic premises that are critical for urban success in the digital age. Perhaps the most important regards lifestyle concerns. In the digital economy, where people want to live becomes the paramount concern. Thus, reducing crime, creating new arts districts, refurbishing historic structures, encouraging new restaurants and clubs have become primary economic development tools." Citing recent studies, they go on to conclude, "that investments in skill development are far more effective than traditional economic development incentives. If lifestyle factors lure new workers, training initiatives can go far in keeping employers in a particular geographic area."

The Western Cape has major advantages, insofar as it already exhibits a concentration of many of these knowledge-intensive characteristics, innovation activities and services. A significant number of highly skilled personnel have chosen to live there, and learning and innovation have become coupled with lifestyle choices. These processes should be encouraged and fostered as much as possible. The industrial policy implications for the Western Cape government are:

- encouraging knowledge-intensive functions within value chains, such as design, both in general and with respect to particular sectors;

- assisting management in industrial sectors, to acquire the operational knowledge to attain world-class manufacturing excellence in the production process through fostering clusters focused on continuous improvement and knowledge acquisition;

- facilitating the generic business management upgrading for SMMEs;

- encouraging stable representative sector stakeholder forums to ensure rapid communication between industry and provincial / local government;

- facilitating the widespread diffusion of ICT to allow enterprises and skilled self-employed individuals to achieve the knowledge-based productivities these can yield;

- supporting the expansion of the general 'call centre' business process outsourcing (BPO) industry in the Western Cape, as well as niche-oriented high quality services focused in specific knowledge-intensive areas (e.g. financial services), thus providing employment opportunities for large numbers of recently matriculated youth;

- finally, investigating how in some areas organisational / logistic functions have the potential to attract other activities that are labour absorbing, as in the servicing of oil / gas activities in Africa.

### 1.11.3 Globalisation and tourism

Globalisation has also produced a massive movement of people across national boundaries. Leaving aside work migrants, its most far-reaching expression is to be found in the rapid growth of global tourism. Between 1990 and 2001, global tourists doubled from 325 million to 688 million, and the value of earnings from tourism rose from US$256 billion to US$426 billion (Kaplinsky 2005). International and domestic tourism combined is estimated to generate up to 10% of the world's GDP and international tourism is the world's largest export earner. Globally international tourism outstripped exports of petroleum products, motor vehicles, telecommunications equipment, textiles or any other product or service. Travel and tourism are also important job creators, employing an estimated 100 million people globally. Globally, employment in tourism is growing one and a half times faster than in any other industrial sector – mostly in SME-sized, family-owned enterprises. (WTO, 2003)

Globalisation has focused attention on competitiveness, as destination countries fight for market share, whilst tourists have become more sophisticated in their destination choice and expectations of a more complex "tourist product". The structure and operation of the global industry consists of tour operators, travel agents and transport services selling integrated "packages" to tourists, containing complex linkages to various tourist activities. The more diversified a destination's portfolio of tourism products, services and experiences, the greater its ability to attract different tourist segments. This portfolio includes the natural resources, heritage and culture available, plus created resources such as infrastructure, and special events. In surveying the literature, Dwyer and Kim (2003:381) point out that, "the heritage and culture of a destination, its history, institutions, customs, architectural features, cuisine, traditions, artwork, music, handicrafts, dance, etc., provides a basic and powerful attracting force for the prospective visitor."

Two recent tourism studies of Africa show this: "Clearly tourists to Africa are not solely interested in sun, sea and beach holidays, but are travelling to experience Africa's culture, wildlife and diversity." (Naude and Saayman, 2004:18). Whilst a recent KZN Tourism (2004) survey revealed that, apart from the usual visits to bars, restaurants and beaches, 81% of air borne tourists visited a shopping mall, 60% a craft market, 59% a game reserve, 54% a nature reserve / park, 36% an art gallery or cultural museum, and 33% a wine farm.

The availability of Internet and IT tools play an increasingly important role, both for the visitor and tourist business. Availability of Internet access in Africa plays an increasingly important role for international tourists' destination choice (Naude and Saayman, 2004). Furthermore, in respect of tourist enterprises, "the new IT tools enable smaller players, to compete on an equal footing with larger players thereby increasing their competitiveness." (Dwyer and Kim, 2003:397).

Finally a major development governing destination competitiveness and sustainability is establishing broad community participation, effective coordination and support between all stakeholders. These tourism forums enable the many parts of the industry to work together, compete more effectively, design and implement public consultation so as to ensure that stakeholders are involved in making tourism-related decisions. (Dwyer and Kim, 2003)

It is for this reason our strategy proposals for the Western Cape emphasise the importance of leveraging this sector's ability to create a holistic tourist 'experience'. The region has a unique ability in this respect if it facilitates the synergies between the tourist market and the complementary craft, film, heritage, cultural and creative sectors in the Province. The department of economic development and tourism can play a significant role in encouraging and facilitating this linkage.

#### 11.1.4 Poverty, inequality and strategies for global participation

Having outlined the growing importance of the global economy for the development of the Western Cape, it is important to stress that deeper engagement in the global economy is not without its costs and pitfalls.

Deeper engagement in the global economy does not necessarily increase employment opportunities or reduce poverty and inequality. Simply participating in price-based global markets – and hence continually faced with having to reduce prices through lowering wages – or participating in the wrong markets and being forced out by more competitive countries can result in a deepening of poverty. The clothing sector's recent experience is indicative. What is critical is how countries and regions participate in the global economy. The policy issue is therefore not whether to participate in globalisation but rather how to do so in a way that produces sustainable income growth and spreads the gains throughout income groups. The policy challenge is devising appropriate strategy levers such that firms and sectors do not rely on low wages as the basis for a competitive position but rather seek to leverage the region's capacities in dynamic knowledge-intensive activities. This will be critical to safeguarding and enhancing employment.