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Interfaces / Koppelvlakke

Economic outlook for the eighties, regional development strategy and industrial decentralization

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Address to The Institute of Credit Management in Southern Africa at East London, October 13, 1982

The present economic situation

The economic upswing that started in early 1978 produced a bumper growth rate of 7,8% in 1980, and peaked in the third quarter of 1981. The present downswing is therefore already some 12 months old, compared with the previous downswing that lasted 40 months and an average downturn of 15 months in the post-war period.

This downward phase still has some way to go as a number of obstacles to recovery will continue to prevail for some time.

- The international economic situation is not yet confidently improving. A revival of the major international economies must precede a meaningful revival of domestic growth. Moreover, the South African economy usually takes some time to respond to international trends.
- The balance of payments on current account has started improving, but the deficit is still uncomfortably large. This deficit will have to be reduced substantially further. In fact, no meaningful recovery can be expected before a surplus is restored. Stated differently, national spending first has to be brought within our country's production capabilities before another expansion phase can materialize.
- Long-term interest rates have eased materially while short-term rates have passed their peaks, but generally speaking interest rates are still high. The high interest rates can fundamentally be explained by insufficient savings in the economy and as savings are not expected to recover rapidly, interest rates will most likely remain at relatively high levels for some time to come.
- A serious obstacle is the high rate of inflation. Inflation reduces domestic spending power, causes hardships among the less well-off and distorts economic decisions. Moreover, South Africa's inflation rate has for some time now tended to exceed the rise in the level of prices of our major trading partners with obvious adverse implications for the international competitiveness of our exports.

Short- and medium-term economic outlook

In broad terms the following are the most likely developments:

- The economy now appears to be about halfway through the downward leg of the cycle. This implies that economic activity is likely to remain depressed for as long as the next 12 months. A cyclical low point is expected towards the end of 1983 and a next recovery is unlikely to gather pace before early in 1984. The growth in the real gross domestic product is forecast at less than 1% for 1983 which will fall short of this year's expected growth rate. In 1984 the growth of gross domestic product could accelerate again towards some 3% to peak at round 7% in 1986.
- The current account of the balance of payments will show another deficit for 1983 after a record deficit this year, but surpluses can be expected towards the end of next year. This view implies sluggish domestic expenditure and consequently declining imports for the next 12 months or so.
- Short-term domestic interest rates have passed their peak and are in a cyclical downward trend. This trend will become more pronounced from early 1983 onwards. By the end of 1983 the prime overdraft rate might well be down from the present 20% by some 5 percentage points. Long-term interest rates also seem to have peaked and have, in fact, showed surprisingly large declines already, but from now onwards for the next year or so these rates are unlikely to ease materially further. Thereafter the downward trend could become more pronounced again until 1985.
- I am unfortunately not optimistic regarding inflation. It appears that the rate of inflation (as measured by the year-on-year increase in the consumer price index) has peaked in the second quarter of 1982, but it is doubtful whether a substantial reduction is on the cards for the foreseeable future. Demand pull on prices will reduce over the next 12 months or so, but cost-push pressures are likely to remain prominent. Following last year's average rate of inflation of 15,2%, the forecast for 1982 is an average of around 15%. For 1983 a still uncomfortably high rate of around 12% is foreseen. The average inflation rate for the period 1984 - 86 is unlikely to be materially lower.

The longer-term economic outlook

South Africa is generally considered as having a relatively high longer-term growth potential. I support this assessment, for a number of reasons:

- The country has a wealth of raw materials. The prices of these commodities have not performed well on world markets in recent years, but the availability of vast quantities of industrial raw materials is undeniably a strong plus factor in the long run. Moreover, there is still considerable scope for beneficiating a considerable number of raw materials before exporting.
- South Africa has a substantial agricultural potential and is a net food exporter. This implies economic as well as socio-political benefits and could even provide international negotiating leverage.
- The Republic's energy situation is relatively favourable. Present indications are that the country could become a net exporter of energy by the middle of this decade.

- South Africa has a natural market in Africa — the potential of which is not nearly exploited optimally. (A major drawback, unfortunately, is these countries' shortage of foreign exchange to pay for imports).
- Despite certain disadvantages pertaining to fast population growth, a large and growing population can on balance be regarded as a potentially favourable long-term growth factor. This factor will assume more importance as Blacks are drawn further into the labour market which will occasion a sustained improvement in their standard of living.
- The availability and implementation of sophisticated technologies provide a strong base for future growth both by way of further import replacement and new exports.
- A developed infrastructure of roads, ports, power and water supply, communications and bulk transport services are essential for future growth. South Africa is very favourably positioned in this regard.
- The calibre of management and entrepreneurs in South Africa is second to none. This resource is one of the most telling in my prediction of a fast-developing, relatively competitive and efficient economy over the next decade or more.

South Africa's non-agricultural real domestic product grew at an annual average of 4,7% between 1946 and 1981. It is not impossible that this achievement will be repeated over the next decade. However, a number of restraining factors have come into play in recent years, and a slightly lower long-term growth rate is equally likely to materialize during the eighties.

- It is becoming increasingly clear that the economies of our major trading partners have entered a prolonged period of slower economic growth. I do not imply that they will remain in recession, but their longer-term average growth rates seem to have shifted to lower levels. A principal reason for this is the fact that the population growth rates in the major Western economies have declined substantially; some to zero levels. This brings about and at the same time renders sufficient a slower pace of growth. At the same time, the governments of the major industrial countries are showing much more resolve to contain economic excesses.
- It seems likely that in the economies of our trading partners inflation will be better contained during the next decade, compared with most of the past decade. A less inflationary international environment might remove some of the speculative attractions of our precious metals and minerals, but I am not so much concerned about this. More important is the potentially adverse impact on South Africa's international competitiveness if domestic inflation is not also materially reduced. Persistent efforts to reduce domestic inflation may thus become imperative calling for sustained restrictive policy action that might dim medium-term growth prospects. However, looking beyond a medium-term adjustment period, a better international inflation performance can only be beneficial to all the trading nations of the world economic community.

- South Africa has a serious shortage of skilled labour. We also have a vast reservoir of labour that can still be trained. The skills shortage is bound to limit the medium-term growth potential, and the longer we take to significantly enlarge the pool of skilled workers, the more severe this constraint will become.
- A shortage of capital, or inadequate domestic savings, could also inhibit growth. The underlying trend of savings in the South African economy is disturbing. In recent years the declining propensity to save has been somewhat disguised by the periodic gold bonanzas, but there is no escaping from the fact that the declining savings propensity blurs this country's longer-term growth prospects.

Altogether, the longer-term growth prospects imply that South Africa will continue to be an above-average performer in the international league. Putting figures on this statement suggests that the gross domestic product growth rate in the non-agricultural sectors will be somewhat lower in the eighties than the 4,7% per year achieved during the period 1946 – 81. It might not be too far off the mark to work on an average rate of about 4% for the remainder of the decade. This may sound on the low side and, indeed, a better performance will not be scoffed at in view particularly of our high population growth. But this growth prospect is nevertheless worthwhile striving and working for and its achievement will be accompanied by significant socio-economic improvements.

Die belangrikste aannames wat hierdie scenario onderlê

Die langer termyn ekonomiese siening berus op belangrike onderliggende aannames. Ek stip die belangrikstes aan.

- 'n Internasionale ekonomiese oplewing sal in 1983 begin vorm aanneem, en verder in 1984 versnel om 'n hoogtepunt in 1985 te bereik. Internasionale inflasie sal in 1983 'n laagtepunt bereik en tot 'n piek in 1986 versnel. Teen hierdie agtergrond sal internasionale kommoditeitspryse vanaf 1983 begin verstewig om ook in 1986 'n piek te bereik. Die goudprys, wat nou in die omgewing van 'n laagtepunt verkeer, sal gedurende die volgende 12 maande meer rigting kry om in 1986/87 vlakke van ongeveer tweekeer die huidige te bereik.
- Die internasionale politieke situasie met betrekking tot Suid-Afrika sal deur groter antagonisme in buurstate en terroristebedrywighede in grensgebiede gekenmerk word. Ekonomiese en militêre realiteit sal egter hierdie druk op 'n relatiewe lae profiel hou. Die Westerse bondgenote sal aanhou om politieke en konstitusionele verandering in Suid-Afrika binne 'n raamwerk van konstruktiewe betrokkenheid te propageer.
- Binnelandse politieke ontwikkeling en konstitusionele hervorming sal waarskynlik veral die Swartes se politieke aspirasies nie ten volle bevredig nie. Teen die agtergrond van sterk swart politieke aspirasies te midde van talle tipiese ekonomiese probleme van die Derde Wêreld sal die regering poog om Swartes se deelname aan die Suider Afrikaanse markeconomie te vergemaklik en te vergroot.

Dit is juis hierdie laaste aspek wat ons na die belangrike aangeleentheid van streekontwikkelingstrategie en ekonomiese desentralisasie lei, wat Eerste Minister P.W. Botha so na aan die hart lê.

Die oogmerke van langer termyn ontwikkelingstrategie

Die verwantskap tussen ekonomiese ontwikkeling en die sosiale, politieke en veiligheidsituasie is vir Suid-Afrika van besondere belang. 'n Volgehoue, hoë vlak van ekonomiese ontwikkeling, gepaardgaande met aansienlike werkskepping, is onontbeerlik vir goeie binnelandse volkereverhoudinge, sosiale harmonie en nasionale veiligheid. Werkskepping moet dus besondere prioriteit ontvang. Daarom moet die ontwikkelingstrategie daardie soort ekonomiese ontwikkeling nastreef wat in 'n hoë mate werkgeleentheid skep.

As ons hierdie argument 'n stap verder neem, dan kom dit daarop neer dat ontwikkelingsbeleid en -strategie op 'n wyse geformuleer en geïmplementeer moet word wat die dinamiese groeikragte van die gesofistikeerde 'Eerste-wêreld'-nywerheidseconomie van Suid-Afrika doeltreffend na die minder ontwikkelde gebiede kanaliseer.

'n Langer termyn ekonomiese ontwikkelingstrategie vir Suider Afrika moet gevolglik op die volgende konsentreer:

- *Riglyne vir werkskepping*, deur veral ekonomiese groei aan te moedig; opleiding en heropleiding van arbeid prioriteit te gee; arbeidsmobiliteit te verhoog; arbeidsintensiewe produksie aan te moedig; kleinsake aan te moedig; die sogenaamde informele sektor uit te bou.
- *Riglyne vir die handhawing van 'n bevredigende ekonomiese groei* (wat die skepping van meer werkgeleenthede onderlê).
- *Riglyne vir 'n beter geografiese verspreiding van ekonomiese bedrywighede* deur veral ontwikkeling van die primêre sektor te stimuleer; ontwikkeling buite die metropolitaanse gebiede te stimuleer; nywerheidsontwikkeling oor 'n beperkte getal groeipunte te versprei; latente ondernemerstalent in onderontwikkelde gebiede en nie-blanke bevolkingsgroepe te ontwikkel.

As so 'n strategie grootliks slaag, sal 'n beter verspreiding van die groter inkomste of welvaart volg wat deur 'n dinamiese proses van mannekrantontwikkeling en geleentheidskepping daargestel word. Hierdie strewe is vervat in die regionale ontwikkelingsprogram wat in 1981 by die Goeie Hoop-beraad aangekondig is.

Elements of a strategy for regional development

Meaningful economic progress in the National States and border areas require a strategy consisting of the following elements.

- Modernizing agriculture as primary generator of employment and income and, in good time, as supplier of raw materials for industrial processing.
- Developing local initiative and an entrepreneurial class in the decentralized areas. Local businessmen will have to become prominent in expanding private business in

the developing regions to complement the contributions of outside investors.

- Developing public services such as education, government administration and police as these services also offer significant further employment opportunities.
- A continued and conscious effort to avoid further concentration in the existing and traditional metropolitan industrial complexes. There are a number of good arguments in favour of such a policy. However, the following must suffice in the interests of brevity:

More than 3 million Blacks live in the PWV-metropole which yields about 52% of the country's industrial production. Only about 5% of factory production takes place in the four development regions with the largest black populations viz. East London/King Williams Town/Queenstown; Richards Bay/Empangeni; Pietersburg/Seshego and Bloemfontein/Onverwacht. But the population of these four development regions number some 4¹/₂ – 5 million (i.e. 50% more than in the PWV-area). Black unemployment in the PWV-area is estimated at approximately 8%, but for the four regions it ranges between 25% and 40%. Decentralization undoubtedly represents a meaningful proposition to take jobs to the unemployed.

- Finding an appropriate technology for the 'informal' manufacturing sector in order to supply the market for basic manufactures in the National States.
- Application of labour-intensive construction methods, if possible, related to youth-employment programmes.

The challenges in the developing regions, in respect of employment creation, training and development of human talent are, however, so enormous that considerable additional investment and enterprise of the established business from outside these areas, in conjunction with the contribution of the appropriate public corporations, will continue to be required in these areas.

The present industrial decentralization policy and measures

The industrial Development Proposals tabled by Prime Minister P.W. Botha at the Good Hope Conference in November 1981, recognize that development needs and priorities, as well as locational disadvantages, differ from region to region. Hence a number of development regions have been identified (eight in all) by referring to the following criteria:

- the need for employment creation;
- the need for a better standard of living;
- the potential of a region.

Further screening of these development regions led to a sharper focus on the following subregions:

- *Metropolitan areas* (for example, Port Elizabeth/Uitenhage in the region Eastern Cape/Ciskei/Southern Transkei). In such areas the potential is most favourable for establishing industries because of established and well-developed markets and services (the so-called benefits of agglomeration).
- *Deconcentration points*, i.e. points adjacent to the major metropolitan industrial concentrations, to provide outlets for further expansion at the periphery of such

concentrations.

- *Industrial development points* in which meaningful markets and services could be developed relatively expeditiously and with a high potential to create employment in the area (i.e. Berlin, King Williamstown, East London, Queenstown, Butterworth, Umtata, Dimbaza and others).

Two sets of incentives are distinguished:

- Those aimed at compensating industrialists for certain long-term cost disadvantages pertaining to the region. Among these are rebates on rail rates and harbour dues, subsidized electricity tariffs, assistance with housing of key personnel, training rebates in cash.
- Those incentives aimed at alleviating short-term financing problems — cash flow tightness in particular. These incentives are now paid in cash instead of taking the form of tax rebates as was the case previously. The major items in this regard are interest rate and rental subsidies as well as cash reimbursement of relocation costs.

The new incentives are particularly favourable to the East London area. For example, the incentive package for establishing a capital-intensive venture improves by 40% whilst that for establishing a labour-intensive industry is better by almost 145%, compared with the previous incentive package.

Assessment of the challenge

If the improvement in the incentives strikes one as being spectacular, then the challenge facing us must be deemed a mammoth one. To simplify the exercise of demonstrating the immenseness of the challenge, we shall focus on the area East London/Southern Transkei/Ciskei — our host area for this conference.

It has been estimated that the number of black workseekers in the Transkei and Ciskei will increase by approximately 400 000 between 1980 and 1990. To accommodate a large percentage of this additional supply of labour in the area, considerable urbanization is essential. The total population of the region will have to urbanize at an annual compound rate of about 4% to support the required development of industry, commerce and services in East London, King Williams Town and the nearby towns/cities inside the National States. Such a pace of job-creating development in industry, commerce and services going hand in hand with rapid urbanization will require heavy investment.

In this regard it has been estimated that in industry alone 4000 new jobs per annum will have to be created if East London and its surrounding areas is to be transformed into a fairly industrialized society over the next 10–15 years. In fact, if only 50% (2000 jobs per annum) of this target is achieved, at a fixed investment of R25 000 per job, an average annual investment of R50 million is required in plant, equipment and other fixed assets.

Working capital needs usually approximate 60c per R1 fixed investment, i.e. another R30 million per annum. Furthermore, the development of townships and other housing and the provision of commercial and technical services, i.e. the development of the non-industrial sectors, is likely

to require about R5 for each R1 fixed investment. This amounts to an average annual fixed investment outside industry of approximately R250 million (at 1981 prices). Altogether then an annual fixed investment of about R300 million is required, which over a period of 10 years amount to roughly R3000 million (at 1981 prices) to create 20 000 new jobs in industry (i.e. 2000 per annum) in the East London area. Additional working capital requirements could amount to another R300 million over a ten-year period. In addition, new employment opportunities will also be created in the tertiary sector and services activities that will accompany the industrial development.

A successful implementation of the new decentralization policy as part of the strategy for regional development will unquestionably require enormous additional investment in Southern Africa, as is clearly shown by the example. Such investment will have to come from entrepreneurs in the Republic of South Africa and overseas, from businessmen inside the regions; from the Industrial Development Corporation and the national development corporations, the Small Business Development Corporation, the (to be announced) Development Bank for Southern Africa and the private banking system.

The development bank for Southern Africa and other institutions

Little is officially known about the Development Bank. It seems likely though that the bank

- will be a development aid institution for less-developed countries in Southern Africa;
- will have to have a capital base which over time will have to be comparable to the assets of the larger South African commercial banks;
- is likely to be funded by:
 - share capital provided by the member countries;
 - bond issues and other long-term borrowings;
 - development funds made available by the government of the Republic of South Africa.

The private banking sector's role can be substantially enhanced under the present decentralization measures, as banks can now assess and grant loans for regional development on a purely commercial basis.

The Small Business Development Corporation (SBDC), which is a joint public/private sector venture, certainly also has a role to play. All governments of Southern Africa agree that the development of small businesses and of the informal sector must make a major contribution to job creation. The scope of the SBDC will become clearer as it moves further along its own learning curve and as the pattern of involvement of different governments and institutions in the regional development strategy assumes greater clarity.

Die kans op sukses

Tans is die kans op sukses moeilik kwantifiseerbaar. Wat ons wel kan sê, is dat die desentralisasiepoging tot op hede nog nie naastenby die sukses behaal het wat sowel politici as sakemanne sou wou hê nie.

Die filosofie en benadering van die huidige desentralisasiebeleid en -maatreëls, sowel as die uitgangspunt waarop dit berus en die breë konteks waarbinne dit ontplooi word, is

egter wesenlik anders as die vorige bedeling. So ook is die aard van die aansporings, wat baie meer sin vir die beleggersakeman as vantevore maak.

Daar moet dus 'n heelwat groter kans vir die huidige desentralisasiebeleid wees om beter resultate te behaal. Dit is egter gebiedend noodsaaklik dat die Ontwikkelingsbank gestalte kry en begin funksioneer. Verder sal die politieke dialoog binne die raamwerk van 'n konstellasie van Suider-Afrikaanse state intens en gereeld moet voortgaan. Bo alles sal daar 'n geloof by al die moontlike betrokkenes geskep moet word dat dit hier werklik om 'n langtermynstrategie gaan wat gereeld weer geëvalueer en, waar nodig, aangepas sal word en wat terselfdertyd ook met die Republiek van Suid-Afrika se ontwikkelingsstrategie ingefaseer is.

Koördinasie van besluite, uitsprake en optrede in hierdie verband deur alle betrokke regeringsleiers is absoluut noodsaaklik vir goeie resultate. Die investeringsbesluite wat geneem sal word, skep betrokkenheid en het te doen met risiko's wat oor betreklik lang termyne strek. Om 'n hoë persentasie van daardie besluite positief te laat uitdraai, sal die streeksontwikkelingsstrategie en die nywerheidsdesentralisasiebeleid altyd die hoogste mate van geloofwaardigheid moet hê; en dit sal boonop 'n sigbare geloofwaardigheid moet wees.