THE PROSPECTS FOR INDUSTRIALISATION IN THE NEW SOUTH AFRICA

by

PROFESSOR R.T. BELL

B.Com(Hons) (Rhodes), MA (Vanderbilt), PhD (Rhodes)

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PROFESSOR R.T. BELL

B.Com(Hons) (Rhodes), MA (Vanderbilt), PhD (Rhodes)

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Mr Vice-Chancellor, colleagues, ladies and gentlemen, Economics at Rhodes was pioneered by the historian W.M.Macmillan, who took up a lectureship in 1911 in the newly created dual Department of History and Economics. That the subject was initially taught in a Department of History and Economics was very fitting, as is the fact that it came to be, and still is, taught at Rhodes in a joint Department of Economics and Economic History. For, as Keynes pointed out, one of the things required of the economist is that he "study the present in the light of the past for the purposes of the future".

No one was to do more to establish economics as a major subject in various faculties at Rhodes, and to carry on Macmillan's pioneering research in the area of poverty, than Desmond Hobart Houghton. He was in charge of economics here from 1932 to the end of 1966. In 1954 he had been a prime mover in the establishment of the Institute of Social and Economic Research, and on his retirement from the Chair he took up the Directorship. Several generations of students and staff, including myself, were greatly influenced by his inspiring teaching and his personal values. Many of us owe much to him, and to his wife Betty. They are both fondly remembered.

I fear that the title of my lecture may have brought some of you here under false pretences. I shall not be engaging in crystal ball gazing into the future: rather, though my concern is with the future, my lecture will necessarily involve reflections on the past and present. I shall attempt to define the essential problems and some significant trends in manufacturing industry, and how these may be affected by the transition to a New South Africa.

Ernest Gellner[1] states: "Mankind is irreversibly committed to industrial society, and therefore to a society whose productive system is based on cumulative science and technology". Without this commitment, he argues, there is no prospect of the rapidly growing number of inhabitants of this planet achieving the kind of standard of living which some now take for granted, and to which the rest aspire. The aspirations of the people of South Africa are no different, and, as in the case of mankind in general, the realization of their aspirations depends on commitment to industrial society.

Sustained, long-term increases in the standard of living will depend on economic growth, especially the expansion of manufacturing industry. Achieving this, however, will be no easy task.

To assess our future prospects, we need to begin with an appraisal of our present position. Certainly our economic performance to date has been poor. As the first figure shows, the rate of increase of income per head of South Africa's population has declined greatly since the early 1970's, and become much more erratic. Our economic performance was particularly dismal in the 1980s. Between 1980 and 1989, the standard of living declined in five years out of nine, and is projected to decline by a further 2 per cent in 1990. It is lower now than at any time

PERCENT CHANGE IN PER CAPITA GNP
(1985 PRICES)

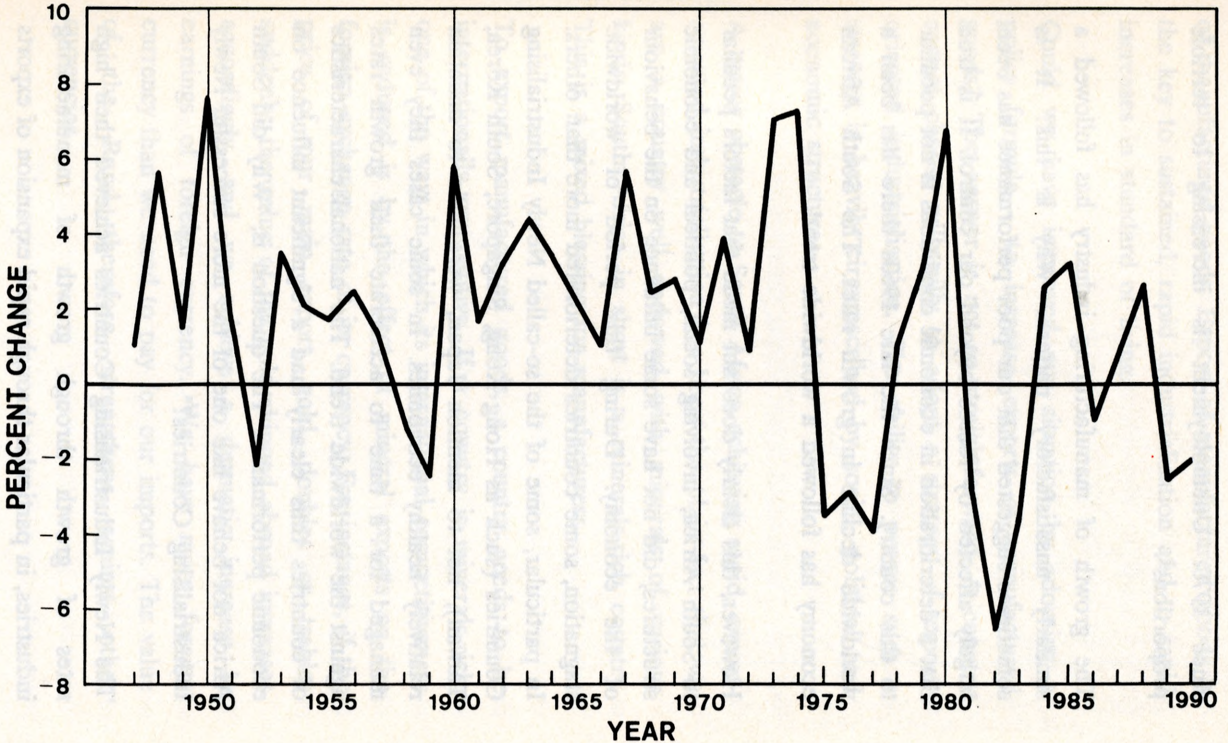


FIGURE 1

since 1970. Unemployment is increasing to terrible proportions[2].

The growth of manufacturing industry has followed a similarly unsatisfactory pattern. Why is this? It is sometimes suggested that our poor performance has been largely affected by forces beyond our control. It is true that a deterioration in economic conditions is not peculiar to this country. Since the late 1960s there has been a worldwide decline in growth rates. The South African economy has followed a worldwide trend.

However, this clearly does not mean that factors peculiar to South Africa, involving social, political and economic structures, did not have some influence on the behaviour of the economy. During this period of worldwide stagnation, some countries deteriorated more than others. In particular, some of the so-called Newly Industrialising Countries (such as Hong Kong, Singapore, South Korea, Taiwan), not to mention Japan, were able to maintain relatively healthy economies. In some cases they even managed for a time to accelerate their growth rates against the worldwide trend. The national characteristics of countries thus clearly had a significant influence on economic performance. The question is, "Why did South Africa not behave like one of the more successful Newly Industrialising Countries?"

The Newly Industrialising Countries achieved their high rates of growth through growth of manufacturing industries, in particular through rapid expansion of exports of manufactured goods. Export of manufactured goods is the key to sustained, rapid industrialisation and to rapid increases in standard of living.

Could we have improved our situation by adopting a policy formula - to increase exports of manufactured goods? The answer is not so straightforward. A country cannot choose willy-nilly to adopt a strategy of export-oriented industrialisation. The ability to pursue such a strategy is heavily circumscribed by social, political and economic structures.

A major obstacle to South Africa achieving rapid, export-oriented industrialisation has been the plain fact that we are a country well endowed with minerals of various kinds. South Africa in short is a minerals-rich country. This is a mixed blessing for manufacturers.

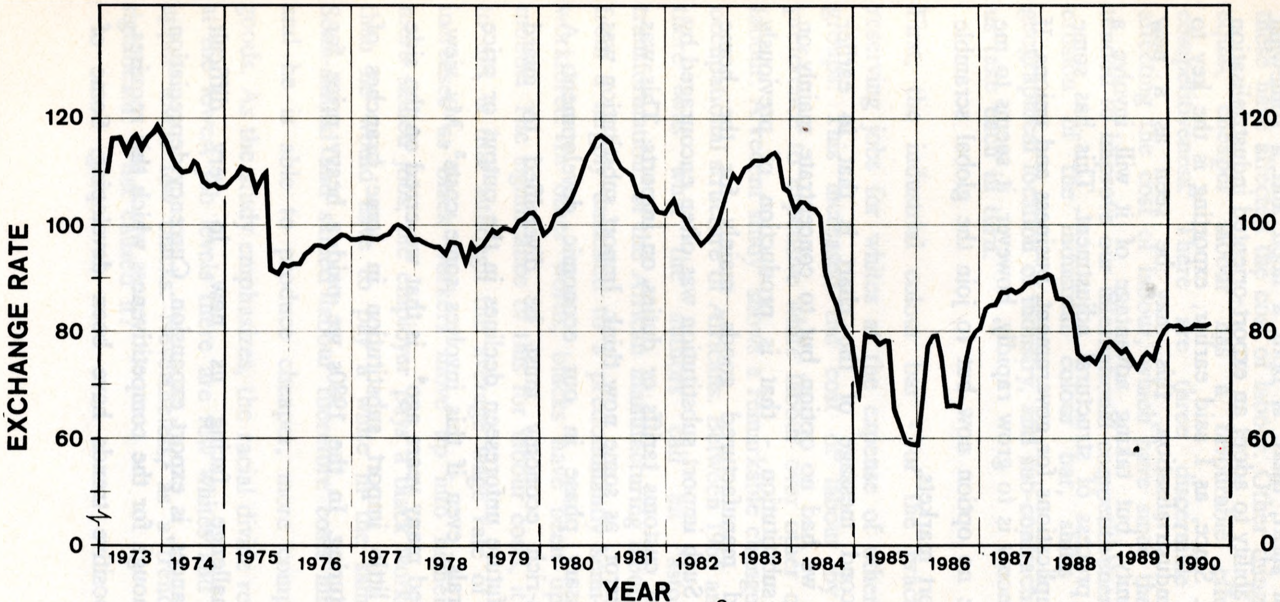
To export manufactured goods, a country needs to be internationally competitive. If a country is minerals-rich, one of the ways in which its international competitiveness is reduced is by the effect of mineral exports on the foreign exchange rate of its currency. For instance, if the price of our main export, gold, doubles or trebles suddenly, the value of the gold shipped abroad increases accordingly, and we achieve a dramatic increase in earnings of foreign currency. We have more foreign currency than we need to pay for our imports. The value of the Rand therefore strengthens against other currencies.

As everyone knows, when the Rand is strong, so that the price of a dollar or British pound at the bank is low, foreign travel is relatively inexpensive. Similarly a strong Rand makes foreign produced goods relatively cheap to us, and South African produced goods relatively more expensive both to us and to foreigners. An increase in the value of our mineral exports therefore is damaging to the ability of South African manufacturers to compete against foreign producers in domestic and export markets.

This problem has plagued South African manufacturing industry. The second figure shows fluctuations in what is called the real effective exchange rate. For our purposes, it is sufficient to think of a rise in the index as reflecting a strengthening of the Rand, and therefore a deterioration in the competitiveness of South African manufacturers. A fall indicates a weakening of the Rand, and therefore an improvement in competitiveness. The sharp increases in the index in 1973-74 and 1979-80 largely reflect the soaring of the gold price in those years. The weakness of the Rand from mid-1984 on reflects, inter alia, the combined effect of a forty per cent decline in gold output over the past two decades, and continual downward pressure on the gold price.

This chart carries two significant messages. The first is a message for manufacturers for the present and future. We need to export a much larger volume and broader range of manufactured goods. So far as the exchange rate is concerned, our manufacturing has never before been so potentially competitive, for so long, as it has been since

MEAN MONTHLY REAL EFFECTIVE EXCHANGE RATE
(INDEX 1979 = 100)



Sources:

1. January 1973 to December 1978; based on unpublished data underlying REER 3 in Holden(1988), kindly provided by the author.
2. January 1979 to August 1990; unpublished data kindly supplied by the South African Reserve Bank.

FIGURE 2

1984. In short, there is both a need and a somewhat greater ability to adopt an export-oriented industrialisation strategy. Since, as I said earlier, exporting is the key to rapid industrialisation, this may be seen as a new opportunity; but taking advantage of it will involve a painful process of structural adjustment. This has some nasty implications for government, business and unions. If the economy is to grow rapidly, however, it seems to me we have no option now but to join the global scramble for export markets.

The second message of the chart is that in earlier decades we had no option but to concentrate mainly on import substitution - that is production of previously imported manufactured goods, mainly for the home market. Such import substitution was often encouraged by means of customs tariffs or duties on imports. This was not an error, as some now think. Import substitution was a necessary phase in our economic development. A minerals-rich economy must be diversified to guard against future unforeseen declines in the output or price of minerals, even if this involves some costs[3]. My view, first stated many years ago[4], is that we erred on the side of too little import substitution in some branches of manufacturing. In the 1980s we paid a heavy price for this.

The challenge facing us now, in very difficult circumstances, is export expansion. Currency depreciation is not enough for the competitiveness which this requires. Other positive trends have been developing. Some of these have affected the cost of labour. Other things being equal, cheaper labour has a favourable effect on competitiveness. There are three discernible trends affecting the cost of labour, which have since the 1960s tended to improve our international competitiveness - the erosion of the industrial colour bar, shifts in the geographical location of industry, and sub-contracting. Let us take each in turn.

First, the industrial colour bar - or the practice of reserving jobs for whites at the expense of other racial groups. This increased the cost of labour by giving preference to expensive white labour over other cheaper labour. A recent study[5] shows a remarkable change in the occupational structure of Africans. Between 1965 and 1985 there was what the authors call an "astonishing transformation" of the African manufacturing labour force from a largely unskilled to a predominantly semi-skilled workforce. In other words, blacks have been upwardly mobile. The significance of this for labour costs, it seems to me, is that although the average wage rate of blacks increases as black workers move up into higher-wage, more skilled jobs, the employer pays a black worker less than he would have to pay a white in the same job. Semi-skilled and skilled labour therefore costs him less, and he is able to produce cheaper, more competitive goods. As the study emphasizes, the racial divide remains: at the lowest job levels there are few whites and at the upper levels few blacks. Nevertheless, as a trend it is significant. What caused it?

There are various possible explanations, but in my view the only one consistent with the evidence is that the interests of employers in cheaper labour began to be asserted against the interests of white workers. In the face of intensified international competition, South African industry was under pressure to use cheaper black labour instead of more expensive white. Contrary to some views, it was economic adversity, rather than rapid growth, which undermined this particular aspect of apartheid. This trend was then reinforced politically by the Wiehahn Commission report of 1980 which made unification of the labour market official policy. It has had both political and economic results. On the one hand, it has improved the competitiveness of South African manufacturing industry; on the other it has contributed to the emergence of right wing political parties, which are largely supported by the threatened white labour force. But the fact remains that upward mobility of the black labour force must continue if we are to become a successful and egalitarian industrial society. This illustrates Gellner's contention that modern industrial society is not mobile because it is egalitarian, it is egalitarian because it is mobile.

The second significant trend which has been geared towards cheaper labour, is the regional restructuring of industry which has taken place in the past three decades. Significant changes in geographical location occurred in industries such as textiles, clothing and footwear, which depend for their international competitiveness on cheap, relatively unskilled labour. At first these industries shifted particularly to Durban-Pinetown and the Cape Peninsula, I believe, because of the availability of Indian and Coloured labour there. Compared to the largely white workforce in these industries in the Transvaal and Port Elizabeth (the largest footwear producer in the fifties and sixties), Indian and Coloured labour was relatively cheap as well as efficient. In the 1970s, there was a shift in these industries to the country's industrial periphery, that is, to centres of cheap black labour in or near the Bantustans. Essentially, in my view, what these geographical shifts did was facilitate the substitution of one racial group for another, and cheaper for more expensive labour, in the workforces of those industries in which labour costs are crucial.

The geographical shifts were, I believe, primarily a spontaneous response by manufacturers to market forces. They were a defensive reaction to recession and to fiercer international competition, rather than simply a response to financial inducements provided by the state, though these assisted the process. They contributed to lower production costs and thus helped to make the industries more competitive.

The third trend relevant to cheaper labour and hence to the competitiveness of South African manufacturing, is a worldwide tendency, which has emerged in the past couple of decades, to make increasing use of a system of sub-contracting, or outwork, in certain industries. This takes various forms, but the particular phenomenon with which I am concerned here involves a factory sub-contracting certain parts of the process of manufacture to small-scale producers in the informal or formal sector.

An example is the use of outwork in the footwear industry. Traditionally, in a shoe factory, after the leather uppers are cut, the operation of sewing together, or "closing", the uppers has been performed in the same factory. However, it has now become quite common abroad, as in the United Kingdom, for instance, for shoe factories to sub-contract out much of their closing to small scale producers[6]. This practice has recently begun to emerge here. It is as yet in an early and uncertain stage of development, and is the subject of research being undertaken by Helena Nicholls in my Department.

Outwork has certain advantages for manufacturers, and perhaps also for some kinds of workers, particularly in the stagnant, intensely competitive, and unstable economic conditions in which it has arisen. Its significance in the South African footwear industry is that, in as much as subcontracting cuts the labour costs of manufacturers, it is seen as a crucial part of a strategy to become more competitive in world markets.

We turn now to another factor influencing the competitiveness of manufacturing industry, an area in which we have also made some progress. In addition to the real exchange rate and the cost of labour, competitiveness is also affected by the type of production system used in industry.

Due to the astonishing success of Japanese industry, world-wide attention has been given to the adoption of Japanese-style production systems[7]. Some features of these systems are: emphasis on worker flexibility, to permit rotation between jobs; a system of "total quality control", making the avoidance of quality defects the responsibility of all production workers rather than specialist quality control inspectors; involvement of all workers in improving productivity; and the delivery of materials to the plant and the production line at the last possible moment before use, or "just-in-time", to reduce inventories and so save costs.

The evidence is clear that these systems are transferable to places outside Japan. Contrary to some early views, they are not dependent on Japanese culture, in that they do not depend on factors inherent in the Japanese character, the outlook associated with Zen Buddhism, and such like. Nor is association with Japanese companies necessary for their adoption.

Some progress has been made in applying Japanese production principles in South Africa, as for instance, in the motor vehicle industry. The extent of this is very uneven but the performance of the most productive, or "best-practice", South African assembly plant appears quite respectable by international standards. Obviously it cannot be compared with those plants in the major industrial countries which apply these systems, and, in addition, have high levels of automation and the advantages of large scale. But in relation to some Newly Industrialising countries applying these systems, and even some European plants, its performance seems creditable.

In a country such as South Africa there are social and economic limits to the application of the Japanese model. For instance, high literacy rates, like those of the Japanese, may be necessary for versatility and the involvement of all workers in quality control and productivity improvement, which is the system's aim. However, it seems that whatever the educational level may be, application of Japanese production methods can significantly improve performance. Overseas evidence suggests that production technique may be more important than education as a determinant of productivity. Given our present relatively low educational levels, it seems to me this is significant for South Africa.

Nonetheless there are other impediments to the adoption of Japanese systems in a country like South Africa. The systems have been aptly described as "lean" in that they involve low manning levels, due to high productivity and low absentee rates; few personnel and small factory space devoted to rectification of quality defects; and low inventories of materials and finished products. This is their strength, but also their weakness, because these same features make the Japanese systems "fragile", in that they depend on a collaborative relationship between management and workers.

The Japanese achieved this collaborative relationship partly through devices such as so-called "life-time" employment, and recruiting and promoting supervisors and managers from within the company. These practices made workers identify strongly with the long-term interests of the company, and so willing to assist in achieving higher productivity, without fear of losing their jobs. Life-time employment, however, probably depends heavily on the stability of the Japanese economy. In more unstable economic conditions, such as ours, employers are unwilling to relinquish the option of retrenching workers when markets collapse. Furthermore, where there are limits on the upward mobility of production workers within companies, as there have been for blacks in South Africa, a policy of promotion from within provides little incentive for more collaborative industrial relations. Labour disputes increase the danger of disrupting local supplies, and so are inimical to just-in-time inventory management.

The Japanese model in a country like South Africa, thus, can probably be pursued only with substantial adaptations to local conditions. Further progress in the adoption of Japanese or other modern production systems however, is essential if we are to compete in the 1990s[8].

Let us sum up the situation of manufacturing industry as we move towards the New South Africa. In addition to the exchange rate, some economic trends have made for greater international competitiveness, and have indeed been prompted by a desire for it - the erosion of the industrial colour bar, decentralisation of industry and, recently, sub-contracting, which have made for lower labour costs and hence cheaper, more competitive goods, and the adoption of modern production systems.

I come to deal more directly with the future. The state, business and unions have a crucial role to play in shaping the future of South African industry.

First, let us consider the state's trade and industrial policies. We need a policy to promote exports. This fact has not been lost on the government. They seem to favour two strategies, both misguided in my view.

The first is the so-called General Export Incentive Scheme, implemented in April this year[9]. With certain exceptions, all exports qualify for a subsidy in terms of the scheme. A basic problem is that the scheme is too unselective. The available financial resources are spread too thinly over too many exporting firms and industries at once. Many firms and industries who receive the subsidy would have exported anyway. Free gifts to such firms are wasteful of taxpayers' money. Not only is the scheme wasteful, we cannot afford it. The sum set aside has predictably turned out to be inadequate for the cash grants originally envisaged.

The second misguided strategy for increasing exports is to liberalize imports by cutting tariffs and removing other barriers to imports. The idea behind this is that freer access to imported goods used by domestic manufacturers in production, will reduce production costs and so make them more competitive in foreign markets. Also, there is a belief that if producers of goods currently protected are exposed to foreign competition, they will, via some kind of challenge-response mechanism become more efficient and competitive.

The trouble with this is that exposure to foreign competition can just as easily kill off certain industries as spur them to greater heights of efficiency and competitiveness. There are in fact neither theoretical nor empirical grounds for believing in the challenge response mechanism[10] If the level of productivity is not high enough to start with, greater exposure to foreign competition will destroy productive capacity and jobs. Also, there is no guarantee that cutting tariffs will cause other industries to expand enough to absorb the labour made redundant in industries adversely affected by foreign competition. The traditional case for free trade depends on the assumption of full-employment, high mobility of labour between industries, and very quick adjustments. When these conditions do not hold - as they certainly do not in South Africa today - it breaks down[11]. We must therefore preserve as much of existing manufacturing employment as we can, while building up new production and employment capacity. Import liberalisation must be pursued with extreme caution and very selectively. We should ignore the widespread appeals for "across-the-board", indiscriminate tariff cuts.

What options are left for new policy-makers who will need to promote exports? In my view, an important option is sectoral targeting; that is, only a few branches or sectors of industry should be selected for special promotion at any one time. The developmental effort and available resources should be concentrated on these. Sectors should be selected on the basis of their potential competitive advantage, and the technological and other benefits they are likely to confer on other industries. To do this requires detailed studies of major individual sectors, and the formulation of measures tailored to the particular circumstances of each sector.

Furthermore, in promoting an individual branch or sector of industry, encouragement of production for the domestic market by means of import duties, and encouragement of exports, should not be seen as separate or conflicting strategies. In fact, they go hand in hand. An import duty does not simply raise the price of imports, as some think. It also encourages domestic firms to produce more of the protected item, thereby expanding the size of firms, and reducing production costs; it gives them larger profits which they can use to invest in the development of products for export markets, or to establish sales and service networks abroad, or simply to charge lower prices for their exports. Import duties can thus facilitate exporting. In turn, export expansion can increase an industry's ability to compete in the home market[12].

Import substitution and export promotion thus are not mutually exclusive, but complementary. Indeed, the decline of the real exchange rate has increased the competitiveness of domestic producers in both home and export markets, and production for both should be encouraged[13].

As experience elsewhere shows, used judiciously, sectoral targeting can have a powerful impact. In the single recent instance where the government has undertaken a detailed study of a major manufacturing sector, and implemented policy accordingly, the results have been very encouraging. I refer to the so-called Phase VI programme for the motor vehicle industry. It has various weaknesses in detail, and does not represent my ideal of sectoral targeting. Nevertheless the basic principles are sound, and, despite its defects, it is bringing considerable benefits[14].

The government has nevertheless seen fit to call a halt to sectoral programmes of this or any other kind. They say such programmes require civil service manpower, and are too expensive. The government department concerned has declared its intention to "cut down on spending and bureaucratization"[15] - false economy indeed.

Selectivity is crucial. Indeed, industrial policy in some countries has gone further, and has focused on individual firms with very successful results[16]. For instance, the Japanese government's encouragement of one company (Fujitsu FANUC) was largely responsible for the fact that Japan in the 1980s came to dominate the world's machine tools industry[17]. There seems to me an overwhelmingly strong case for tailoring policies to individual industries.

What difference could a fully democratic South Africa make in this area? The present doctrinaire application of free market principles will almost certainly go. In its absence, considerable opportunity exists for future improvement in industrial policy, provided the new government adopts a pragmatic approach[18].

The future role of the state, however, does not rest solely in the formulation of trade and industrial policy. The state affects our international political relations, and hence our international economic relations - particularly access to foreign markets and to foreign capital. This too has a bearing on our growth prospects.

First, foreign markets. The urgent need for export expansion has made the lifting of sanctions an increasingly important matter.

Some recent writing argues that trade sanctions, by forcing us into import substitution, had a major adverse impact on our industrial performance even before the mid-1980s[19]. I find this unconvincing. In my view, trade sanctions, particularly boycotts of our exports, have become a significant constraint only since the mid-1980s. Only since then has it become possible to contemplate seriously a shift toward export-oriented industrialisation.

The need, however, is not simply to remove the present boycotts of South African goods imposed by the United States and the European Community at the end of 1986. This would probably have a relatively small positive effect on our ability to pursue export-oriented industrialisation[20].

Rather, the lifting of these boycotts is a necessary first step towards achieving completely free access to the world's major markets, and possibly even preferential treatment. It is noteworthy that many of the successful exporting countries (such as Japan, South Korea, Taiwan and more recently the People's Republic of China) were able, mainly for political reasons, to gain especially favourable access to the US market. Political factors, as well as South Africa's pivotal role in the economic development of the whole southern African region, may enable us to do the same - as progress is made towards the New South Africa.

International political relations will also have some bearing on our ability to obtain foreign capital, which may be necessary to enable firms to expand and export. Foreign capital enters a country chiefly by means of either direct investment, by multinational corporations, or loans from foreign banks.

Let us take direct investment first. In the mid-1980s there was wholesale disinvestment by US multinationals, as a result of the political campaign abroad. With a change in our international political relations, will there be a resurgence of investment in manufacturing industry?

The willingness of foreigners to invest in future, in my view, will depend mainly on their assessment of the competitiveness and likely profitability of South African manufacturing. It is true that many of the multinationals which withdrew from South Africa in the mid-1980s did so for political rather than economic reasons. But we cannot infer from this that they would want to return here or that others would want to invest in the New South Africa for the first time. The volume of foreign direct investment will depend more on an improvement in economic fundamentals than on any improvement in international political relations.

How badly do we need foreign direct investment anyway? Some estimates of our need for foreign capital to achieve high rates of growth are in my view gross exaggerations. In developing countries foreign direct investment has generally been a consequence, rather than a cause, of rapid industrialisation. Rapidly growing economies have in fact depended relatively little on foreign capital, compared to domestic savings[21]. Fundamentally competitive economies are able to generate enough savings of their own, and to convert them into foreign exchange by exporting. The irony is this; if we get the fundamentals right we shall need foreign capital relatively little[22], but it will come; if we don't, we shall need it desperately, but we won't get it.

International political relations will have a bigger part to play in the area of foreign loans, however. In September 1985, like numerous other developing countries before us, we had a foreign debt crisis. Foreign bankers refused to renew their loans to us, and terms of repayment had to be negotiated. The reasons for this, as in other developing countries, were fundamentally economic, and not due to sanctions. But political factors have made the resumption of foreign lending more difficult. Continued improvement in our international political relations, should further improve our access to foreign loans and facilitate the restructuring of manufacturing industry[23].

Apart from industrial and trade policy, and international political relations, there is a third area in which the state in a New South Africa could benefit manufacturing industry - black advancement.

If manufacturing industry is to grow much faster in future, the process of black upward mobility, touched on earlier, will have to be accelerated and carried much further up the occupational ladder. This is particularly so since we cannot depend as heavily on immigration as we have done traditionally.

In a political system in which blacks have considerably more power, the process of black advancement will accelerate for two reasons.

First, and perhaps most important in the short-term, there will be a marked changed in attitudes towards blacks as potential supervisors and managers[24].

Second, there is likely to be a substantial increase in expenditure on black education. The connection between educational expenditure and the output of skills required by the economy is a complex one, and excessive expenditure can have a negative effect on economic development[25]. Nevertheless, this should accelerate black advancement[26].

It perhaps goes without saying, that we need to preserve the present stock of skills. As Heribert Adam[27] points out, we cannot afford the mistakes made elsewhere of not retaining people whose skills are an important part of the wealth of South Africa.

I come now to the topical issue of future state policy relating to monopolies and to conglomerates, such as Anglo American. I confine myself to a few aspects of this, relevant to the competitiveness of manufacturing. However objectionable the concentration of economic power in conglomerates may seem on political grounds, in an economy such as ours conglomerates do have some positive benefits.

They have the advantage in a developing country, like South Africa, of conserving scarce entrepreneurial talent. In a conglomerate, able individuals are utilised to their full potential in large and varied activities.

Conglomerates are diversified, with investments in a wide range of companies. Diversification reduces risk, and so facilitates investment - an important consideration in an economy as unstable as ours.

Some concern has been expressed that the conglomerates, because of their economic power, will be able to frustrate future government attempts to plan particular sectors.

However, in some ways conglomerates may facilitate rather than hinder such planning. Sectoral planning is more difficult if government has to deal with a large number of individual, completely independent firms. Indeed, in Korea government has made constructive use of conglomerates, with interests in a number of sectors, to plan and implement sectoral programmes[28].

In connection with sectoral planning, too, it should be noted that though a conglomerate may control many companies, this does not necessarily mean that it has monopoly power in any individual industry. To take just one example, both Anglo American and Sanlam are represented in the motor vehicle industry, but they are in cutthroat competition with each other and with five other companies, including the market leader, Toyota. Thus, in recent South African experience, sectoral planning exercises in this industry are by no means dominated by the conglomerates[29].

We do not know at this stage whether in the New South Africa an attempt will be made to reduce the degree of economic concentration; nor what the effects would be of any such attempt. I believe, however, that the few points I have raised indicate that, at least from the point of view of industrialisation, much careful analysis is needed before decisions are taken.

However, the future of South African manufacturing industry depends not only on the state but on relations between business and trade unions. Industrial relations will play a crucial role.

Trade unions have a bearing on several of the specific trends described earlier: the location of factories in relatively non-unionized, low-wage areas; sub-contracting; and the adoption of modern production systems. At a larger level, the trade union movement will certainly influence the political and economic environment of business, with implications for our industrial future. I cannot even begin to consider these larger matters.

Let me single out just one question, the wage issue, which is clearly of fundamental importance to the future growth of manufacturing output and employment, and seems to me to illustrate the essence of our problems. Due to economic stagnation, real wage rates in manufacturing industry have in the past decade risen relatively slowly. Partly for this reason, wage rates in this country are not as high as we would like them to be, and trade unions are obviously concerned to raise them. From the manufacturers point of view, the problem is that our wage rates, though low, are not low enough compared to several other countries with whom we are directly or indirectly in competition. It is this that counts when we envisage the rapid, broadly-based expansion of manufactured exports, and of employment, which now seems to be essential.

Thus, contrary to recent opinion, it is by no means clear that we have a competitive advantage in industries like textiles, clothing and footwear, that rely heavily on cheap labour[30]. Even allowing for the lifting of sanctions, therefore, it seems very unlikely that a major part of the needed export expansion will come from these industries.

Even in some less labour-intensive industries, such as motor vehicle assembly, wages are by no means irrelevant. In this industry our wage rates are higher than in several Newly Industrialising Countries with similar or better levels of productivity, so that we do not have a labour cost advantage in this area either. It is thus, difficult at present to compete in export markets, except in more capital-intensive manufacturing activities - a major disadvantage for the rapid employment growth which we need[31].

As this suggests, the need to increase competitiveness in order to join the global rat-race for exports is doubtless adding to the social and political stresses over the wage issue. Some now take it for granted that the New South Africa will bring a substantial improvement in capital/labour relations, but this particular source of industrial conflict will not go away. The present need for us to make the transition from import-substituting to export-oriented industrialisation is thus a fundamental obstacle to temperate industrial relations.

There is, however, an older and more fundamental obstacle to temperate industrial relations in this country. We have a distribution of income which is widely regarded as inequitable. Trade unions are obviously concerned to redress the balance.

How is this obstacle to be overcome? This brings me to the crucial question of the relationship between income distribution and economic growth. Clearly what we should like to have is a combination of faster economic growth and an improved distribution of income. Can we get it?

Some emphasize that growth depends on an improvement in the distribution of income. There is something to be said for this. Up to a point, in the New South Africa, increased government expenditure in such areas as black education, housing and health, could contribute to an improvement in the racial distribution of income and, at the same time, serve to promote growth. There are clearly limits, however, to the extent to which such increases in expenditure on their own are conducive to faster growth, particularly in the short-term.

Furthermore, increased government expenditure in these areas leaves largely untouched the enormous inequalities in the distribution of wealth - that is, in the ownership of income-earning assets - which are a major cause of black/white income inequality. Hence one of the appeals of nationalisation -if blacks as individuals cannot quickly acquire a significantly larger share of South Africa's wealth then the state must do so on their behalf. But whatever else may be said for this, it is unlikely to do much for economic growth.

What of the converse, that an improvement in the distribution of income depends on economic growth? There is truth in this too, but it needs to be carefully stated. Rapid economic growth can bring about an improvement in the racial distribution of income, but it is not sufficient on its own: in the period 1950 to 1970 there was no improvement in the racial distribution of income despite relatively rapid economic growth. Nor does slow economic growth preclude an improvement in the racial distribution of income: we have had slow growth since the early 1970s, yet the proportion of national income going to blacks has been increasing. We have never had the combination of rapid economic growth <u>and</u> improvement in the distribution of income.

This combination, however, has in fact been achieved in some successful East Asian countries. It has hinged on <u>sustained</u>, rapid growth of manufacturing output and employment, achieved largely through export expansion, exactly the kind of strategy which, whether we like it or not, now seems unavoidable if we are to grow rapidly. Rapid industrialisation permits the reallocation of workers from low productivity sectors of the economy (such as agriculture and large parts of the informal sector) to higher productivity jobs in manufacturing; and from low to high productivity manufacturing industries. Clearly, this automatically raises the average productivity of workers in the economy as a whole, and hence income per head. The more rapidly manufacturing grows, the faster this process of labour reallocation, and the faster the increase in income per capita. This seems to have been the principal reason for the spectacular growth of income per capita, and improved income distribution, in Korea[32].

To improve income distribution significantly, however, rapid reallocation of labour must be sustained over a long period. Though import substitution must play an important part, sustained rapid growth of manufacturing can only be achieved through export expansion. There are limits to rapid industrialisation based mainly on the domestic market. This was why we could not sustain our rapid industrial growth beyond the end of the 1960s.

In my view, then, in our present circumstances, sustained, rapid, export-oriented industrialisation is the only route to both accelerated economic growth and a significant improvement in the distribution of income. I do not believe there is any other way in which these two things can be got together[33]. This obviously does not preclude measures aimed more directly and primarily at redistributing income, and such measures must be adopted, but there is clearly a limit to the extent to which they will, on their own, be conducive to faster economic growth.

This brings us full circle: successful export-oriented industrialisation requires a competitive manufacturing sector, which depends inter alia on industrial relations. If income inequalities are an insuperable obstacle to good industrial relations, we are in a bind : for then we cannot get growth without a more equal distribution of income;

nor get a significantly better income distribution without growth.

But the achievement of decent and temperate industrial relation does not depend only on unions. It depends also on business and government, and their avoidance of confrontational attitudes, such as those reflected in the 1988 amendments to the Labour Relations Act. The fact that these amendments are now to be reversed, provides some hope that improved industrial relations can be achieved by political means, while the longer term goal of reducing income inequalities is being pursued. This must include gaining union input into and support for industrial policies.

Let me conclude. The future of manufacturing does not only depend on domestic conditions. Factors outside of our control, such as higher oil prices due to the crisis in the Persian Gulf, will impact on the entire world economy, and we shall not escape their effects. But, as noted at the outset, the effects of global forces on individual countries have in the past varied greatly, depending largely on domestic social and economic conditions.

Much therefore depends on ourselves[34]. We need to foster and accelerate existing positive trends. Sane and sensible positions are called for on the part of government, present and future, business and unions on matters affecting the future of manufacturing industry - including industrial and trade policies, educational and other government expenditure, economic concentration, and capital/labour relations. The process of transition to a New South Africa will probably contribute directly to more rapid industrialisation mainly in so far as it improves our international political relations, as it is already doing. However, the economically and politically difficult task of creating an internationally competitive, export-oriented manufacturing sector, capable of sustained, rapid growth, will remain.

For a deeply divided society, without anything like the sense of common purpose and social solidarity which has been a major factor in the success of Japan, this is a tall order[35]. It will require a great deal of Gellner's "irreversible commitment to industrial society", as great if not greater than the government's declared commitment to "irreversible political change". It remains to be seen if we have what it takes.

Notes

1. Gellner (1983:39). Thanks are due to Graham Neame of the Department of History, University of the Witwatersrand, for introducing me to Gellner's work.

2.See, for instance, Sunday Times, September 30, 1990.

3.See Lewis (1989). In earlier decades, with a flourishing minerals-exporting sector, we were in a position to afford the costs of import-substituting industrialisation.

4.Bell 1975. See also Du Plessis 1973, Bell 1989, 1990.

5.Hindson and Crankshaw (1990).

6.Rubery and Wilkinson (1981).

7. There is a problem in diagnosing the sources of the Japanese achievement. (Vernon 1990). It is difficult to know to what extent it has depended on Japan's overall industrial and financial structure, on the nature of relations between Japanese manufacturers and their suppliers, and the organisation of production. To limit discussion we focus on the last of these, Japanese production systems.

8.Because of their partial independence of education, it may well be true, as a recent World Bank (1989) report states, that they "offer the most cost effective and rapid way for Sub-Saharan Africa to improve its competitiveness quickly".

9.I am grateful to my colleague Greg Farrell for providing me with information on this scheme.

10.Martin (1978).

11.See, for instance, Robinson (1966) and Blinder (1988).

12.Tariffs raise prices in the domestic market and so tend to reduce the incentive to export. However, this can be neutralised by simultaneous export subsidies of various kinds, or, in some cases, simply by compelling producers to export in return for protection in the domestic market - that is by imposing what are called export performance requirements (Rodrik 1987).

13.There is evidence for several countries, including Korea, that rapid import substitution and rapid export expansion go together in the same industry. (Westphal 1981; Nishimuzu and Robinson 1984: 198; Pack and Westphal 1986).

14.The problems of this industry lie elsewhere, e.g. in the excessive number of assemblers relative to market size, and very unfavourable macroeconomic conditions.

15.Financial Mail, April 27, 1990, p.28.

16.As one writer puts it, "it is not industrial policies but companies that compete internationally within an industry". (Collis 1987:8).

17.Collis (1987: 25-26). I do not suggest that we should necessarily intervene at this level, though I would not rule it out.

18. However, the Korean and Japanese cases show that success depends on political conditions, particularly a close working relationship between government and business. (Rhee, Ross-Larson and Pursell, 1984, ch. 3).

19.Becker and Pollard (1990).

20.The only manufactured goods directly affected by them are iron and steel, clothing and textiles.

21.Riedel (1987).

22.This clearly does not mean that we will not need foreign technology, but this can often be obtained separately, through licensing arrangements.

23. The New South Africa might also see an increase in the bargaining strength of the state vis-a-vis foreign governments and foreign business. Beleaguered governments, such as ours have been for some years, tread very warily, for fear of alienating their few foreign friends. In short, their bargaining position is weakened. This can reduce their autonomy in various areas vital to the national economic interest, such as industrial policy and the terms on which foreign companies participate in the economy.

24.See Gellner 1987:93-95 for an interesting sidelight on the sociology of this process.

25.I am indebted to my colleague Andrew Donaldson for discussion of these points.

26.The question of the kind of education needed I leave to the educationalists. Suffice it to say that I incline to Gellner's insistence on generic, or general, education rather than specialized vocational training. Given the need for innovation and hence mobility in industrial society, general education engenders flexibility and versatility. Training specific to most jobs is relatively easily acquired later, often on-the-job. Education should also be standardized to facilitate "communication between strangers" in the workplace.

27.Adam (1987:116).

28.These conglomerates, because of their extensive international networks, have been particularly useful in implementing export targets. The Korean case suggests that, in some circumstances at least, conglomerates may be a national economic asset rather than a liability.

29.Nor is monopoly necessarily a bad thing for industrialisation. The smaller a country's home market, the fewer the number of producers of efficient size it can support. Even economically large countries including the U.S. are now seeing the need to relax their anti-monopolies legislation to enable industry to cope more effectively with foreign competition. (Vernon 1990:100).

30.For instance, our wage rates in the clothing industry are considerably higher than in several East Asian countries, particularly Communist China, one of the most successful exporters to the US in the 1980s. (Mody and Wheeler 1987). This and the present state of our textiles industry (Business Day September 28, p. 10) underline the difficulties in such industries.

31.At present the bulk of our manufactured exports are from capital-intensive, natural resource based industries, such as food products, iron and steel, and basic chemicals. Export expansion will probably depend to a significant extent on diversification into new products of this kind, and on processing further "downstream" of such products.

32.See Chenery (1983) and Pack (1988). Korea's high growth rates have evidently not been due primarily, as many suppose, to exceptionally rapid rates of growth of productivity in individual branches of manufacturing industry.

33.In particular, I do not believe that "inward-industrialisation", now being espoused, in different versions, by both the economic right and left, can achieve this.

34. Some would have us believe that high interest rates, and a lowering of government expenditure, inflation rates, and corporate tax rates are the key to future success. This is not so and I have therefore not discussed such matters. High interest rates are a symptom of our problems, not a cure for them: they will neither raise domestic savings nor facilitate the investment necessary for the creation of a competitive manufacturing sector. Government expenditure cuts, likewise, are a sign of our poverty, not a remedy for it. Low inflation is not fundamental to rapid growth: low inflation countries have not grown faster than high inflation countries. (e.g. Bruno and Sachs 1985: 5).The case for lower corporate tax rates is more complex, and needs consideration at greater length: it is clear however that other factors must be favourable to profitability for a firm to benefit from lower tax rates.

35.Dore (1986:7).

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