6.1.3.3

For: The Sunday Independent (South Africa)

Growth Strategies for South Africa:
The Balance between the Internal Market and Exports

Vella Pillay and Charles Millward

The past few months have been marked by a renewed debate on the future of the economy and the strategies needed to move it forward towards what has become the new magic number of 6 percent economic growth by the year 1999.

This, perhaps, is in part explained by the seeming demise of the Reconstruction and Development Programme and its replacement by a promised "Framework for a National Growth and Development Strategy" by the government, and next, the more cohesive and clearly argued proposals of big business in the South African Foundation's "Growth for All" document. However, a careful reading of both documents does suggest that they are not all that in fundamental conflict with each other, either in terms of their analysis or the strategies designed to achieve an expansion of employment with growth rates of around 6 percent a year. The Foundation paper, as can be expected, emphasises tight macroeconomic policies, privatisation of public assets, deregulation, trade liberalisation, flexible labour markets, and above all else the orientation of the economy towards an export directed mission. The Government's draft is necessarily less specific; however, it too appears to give pride of place (in its employment strategy) to what it calls a "competitive economy", implying within the meaning of that term, what the Foundation also suggests in its document. For, at the heart of this seemingly common approach stands the belief that S.Africa's future critically depends on the construction of an internationally competitive manufacturing sector, and that this in turn calls for the lowering of tariffs, the privatisation of public assets as a basis for attracting new technology and the inflow of foreign direct investments and finally, the removal of exchange controls on capital movements.

The difficulty with this approach is not with its objective, namely an economy which is efficient and competitive but in the belief that this can only be achieved through the mechanisms of international trade and early exposure to the forces of foreign competition. For in truth, if our country were indeed to be so exposed, we would rapidly find ourselves devoid of whatever limited industrial capacity we presently possess and revert to a purely mineral and mining export economy. This is already apparent in the crisis facing our clothing industry following the precipitate lowering of our import tariffs by our government.

The issue here is the degree to which we are required to pursue policies of an "open" economy and of integration with the rest of the world, given our problems of heavy unemployment. And common sense would suggest the opposite to what is implied in the SA Foundation and draft government documents. Firstly, we are no longer living in the age of the late Herbert Frankel whose path-breaking analysis of "Capital; Investment in Africa" explained the development of the African economy in the heyday of colonialism and the development of the southern African mining industry. Secondly, the motivation of international investment flows have changed substantially - from control of raw material outputs to meet the dictates of the metropolitan economies to the supply of commodities to local markets. Today the larger and the more organised the domestic market the larger the flow of investible capital into that market. Thus the enormous capacity of the Chinese domestic market and its organisation through state-managed business corporations explain the massive infusions of international capital into that country through joint ventures in the past decade. We are witnessing that country transforming itself from a market for international investment ventures into a base for exports and more interestingly a source of investible capital abroad.

The Chinese case is by no means unique. The countries of East Asia, and now the Indian sub-continent and Malaysia, are moving out of the low growth area of 3-4 percent to 5-7 percent a year well into 6-7 percent area. In China the absorption of increasing areas of inland communities (who are surplus to agricultural needs) into industrial employment and the resulting generation of a continuously growing domestic market has been central to explaining China's economic growth rates of 10 per cent plus a year in the decade of the 1980s.

In China, as indeed in all the East and South Asian economies, a combination of trade protection, managed competition and a defined industrial policy represented the key components of a national strategy for not only technological development, but the basis for an education and training policy which the World Bank had to ultimately accept as constituting the "Asian Miracle".

It is of course difficult to replicate the Asian experience in our country. But difficulties apart, the lessons are self evident. We have a country rich in resources, in people and given a sense of patriotism and commitment, the generation of skills and the application of savings to the development of the economy. What we seem to lack is the the institutional capacity to implement a cohesive and clear-headed State-initiated industrialisation perspective such as we have seen in the Asian countries. The fact of the matter is that this approach is by no means unique in our country's experience: the apartheid regime since the early days of the 1950's have seen the most conscious and overt interventions in the economy with a purposeful plan to resolve the poor white problem, transform the black population into a permanently structured layer of cheap labour and mobilise savings in support of a peculiar apartheid form of industrial development. We can avoid that horror by generating an industrial development policy grounded in bringing the greater bulk of unemployed resources into the development process and expanding the capacity of our people as both consumers and producers.

Professor Trevor Bell of the University of Durban-Westville has correctly taken to task some of our policymakers who unthinkingly believe that import liberalisation constitutes a necessary process of economic reconstructuring. He holds that import liberalisation will in fact impede that process[1] and argues that within a dynamic process of macroeconomic stabilisation it is possible to bring about a material improvement in the performance of South African manufacturing industry.

April 8 1996

---

[1] Tevor Bell, 'Improving Manufacturing Performance in South Africa: A Contrary View', Transformation, No 28 1995.