

THE RHODESIAN JOURNAL

of

ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), M. S. Brooks, M. L. Rule, P. J. Stanbridge
and P. Staub.

INDUSTRY IN RHODESIA

A TWO-DAY SYMPOSIUM

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INDUSTRY IN RHODESIA

The Rhodesian Economic Society held a two-day Symposium on Rhodesian industrialisation on June 11 and 12. Approximately 100 people (including speakers) attended what was the most ambitious project ever undertaken by the Society in its 20-year life. The Symposium was self-financing thanks to the kind donations made by Anglo-American (Rhodesia) and Rothmans of Pall Mall (Rhodesia) Ltd.

Eleven papers were read during the two days and the (amended) papers delivered on the first day of the Symposium plus the subsequent discussions are published in this edition of the Journal. The second day's proceedings will be published in the September edition, and it is hoped to publish a survey of the Symposium analysing the main trends and conclusions in the December edition.

INTRODUCTION

Welcoming the participants, the President of the Rhodesian Economic Society, Mr. Arthur Hunt said that the Symposium was timely for four reasons. First, for the first time in 1968, manufacturing industry had moved ahead of other sectors in its contribution to Gross Domestic Product. Industry was going to continue to develop and would be one of the most important growth factors in the future.

Second, Rhodesia had been operating a closed economy for 3½ years and it was a good moment to look back and see what lessons could be learned from this experience.

Third, the need to transform the subsistence sector into part of the modern cash economy vitally involved the manufacturing sector. Finally, increasing interest was being shown in closer economic co-operation in Southern Africa which had very far-reaching implications for secondary industry in Rhodesia.

THE RHODESIAN JOURNAL OF ECONOMICS

PAPER No. 1

The Hon. B. H. Mussett

Mr. Mussett was in business in Rhodesia for more than ten years before becoming a Cabinet Minister in 1965. He became Minister of Commerce and Industry at the beginning of 1966.

**GOVERNMENT'S INDUSTRIAL POLICY—ITS AIMS AND
OBJECTS IN PROMOTING THE DEVELOPMENT OF
SECONDARY INDUSTRY**

THE MINISTER OF COMMERCE AND INDUSTRY
THE HON. B. H. MUSSETT

The basic objective in the economic field of all Governments, but particularly of Governments of developing countries such as Rhodesia, is to achieve the maximum long term, rate of growth of the real wealth of the country. There are differences of opinion in the world today as to the best method of achieving this growth, and as to how the national wealth should be shared among the inhabitants of a country, but the aim of raising the standard of living of all citizens is common to all.

In Rhodesia, our economic philosophy favours the private enterprise, capitalistic system as against the centrally planned and controlled economy of socialism or communism. We believe that the greatest level of efficiency in production and distribution is achieved by free entrepreneurs who are motivated by the desire for profit. We do not attempt to plan the future course of the economy in more than broad outline because we believe that the alert merchant or industrialist will react more quickly to changing circumstances than any central planning machine and will extract the maximum benefit therefrom. Human nature being what it is, it is not practicable for Government merely to foster the conditions in which private enterprise can best operate and then keep out of the way; completely laissez-faire capitalism is a century or so out of date; and some degree of Governmental control is today accepted everywhere as necessary, but our tendency is to control as little as possible and to remove these controls if the need for them has passed.

It follows that Government does not as a general rule participate directly in the establishment of industry. In the few instances where it has done so, and here the establishment of the iron and steel industry and the spinning and weaving of cotton are examples which spring to mind, it has handed over to private enterprise at the first opportunity. I know that quite recently it was claimed that the activities of the Forestry Commission contravened this policy but I think State participation in forestry and the processing of forest products is widely accepted.

Political and Economic Stability

The foundation of Government's industrial policy therefore is the function of providing the climate for investment and development by private enterprise. This involves many things but first and foremost I would name political and economic stability. Here in Rhodesia we have seen the stultifying effects of political uncertainties and we know that unless businessmen have confidence in a country, confidence that the standards of good Government will be maintained, that Government will not forget that its first duty is to govern, to maintain order and the rule of law; then no amount of physical development or financial incentives will induce them to invest.

With political stability I linked economic stability and indeed this is of equal importance. The industrialist who wishes to establish himself or to expand wants to be assured that he will be able to enjoy the fruits of his enterprise and will not be subject to the vagaries of changing national economic philosophies—free enterprise being replaced by socialism, followed a few years later by a return to free enterprise—nationalisation, denationalisation, re-nationalisation. Nor will he be keen on investing in a country where political reasoning or lack of reasoning, invariably governs economic thought. I think we can safely say that here in Rhodesia we have political stability and that our business life is firmly linked to the economic discipline of free enterprise and competition.

Having established firm government and stable trading conditions, Government can then set about providing the infrastructure without which private sector development is unlikely to take place. In this field Rhodesia can count herself fortunate among developing countries since the efforts of successive Governments have provided an efficient network of communications—railways, roads, airways, postal services, telephones—adequate electric power and, in conjunction with local authorities, sufficient water supplies. Our urban amenities are attractive and while there are deficiencies in some areas such as African housing, strenuous efforts are being made to overcome these.

In the financial field we have what is, for a country of its size, a very sophisticated money market with a wealth of commercial banks, merchant banks, discount houses, financial institutions and development corporations. Government's monetary policy has been successful and the financial resources of the country have been efficiently mustered and put to work, while inflation has been controlled and kept within bounds to a degree that is exceptional in the world today. This has been done without any contortions of fiscal policy and the incidence of taxation has remained stable.

Protection

Government then has established the basic conditions of stability and a developed infrastructure without which no industrial policy would be necessary or effective. To a large extent the provision of these requirements for further development constituted Government's industrial policy until approximately the beginning of the present decade. Until then we had a very open economy, with a wide degree of free trade and little if any protection for local industry. In the closing years of the Federal era the difficulties faced by infant industries struggling to establish themselves against full competition from developed countries were understood and to some extent, met. The part which the growth of a healthy manufacturing sector could play in the development of the national economy was recognized and a policy of selective assistance designed to encourage those industries which seemed likely to make a net addition to the national income in real terms was instituted. This assistance was directed particularly towards those industries which—

- (a) would provide increased employment directly in the industry concerned, and indirectly in other industries;
- (b) would keep costs and prices down to the maximum extent;
- (c) would increase the proportion of domestic to external resources used in manufacturing industry and throughout the economy;
- (d) would specifically promote the development of vertical industries on an economic basis;
- (e) would be likely to become profitable within a relatively short period.

Prior to our Assumption of Independence the principal channels of direct assistance to industry were through the Customs and Excise Tariff and by tax concessions. Applications for assistance through the tariff were, and are, examined by the Industrial Tariff Committee of my Ministry which, having heard and received evidence from all interests known to be effected or who desire to be consulted makes recommendations to the Ministers of Finance and of Commerce and Industry. The assistance finally granted may take the form of—

- (a) increasing the tariff against competing imported articles;
- (b) reducing the customs or excise duty on materials used in manufacturing;
- (c) allowing a drawback of duty originally paid on materials contained in manufactured exports.

Before making a recommendation on tariff protection the Industrial Tariff Committee investigates, among other aspects—

- (a) the extra employment likely to be generated both directly and indirectly;
- (b) the use made of local materials, utilities and services and other factors of production;
- (c) the ability of the manufacturer to supply the local market and the acceptability of his product to the consumers;
- (d) the effect on consumer prices and on internal costs generally;
- (e) the distribution system employed;
- (f) any effect on Government revenue.

Similarly when considering rebates or suspensions of duty or the alteration of the tariff on materials used for manufacturing purposes the Committee takes into account considerations such as—

- (a) whether the parts or materials in question, or acceptable substitutes for them, are available locally in adequate quantity and quality and at reasonable prices;
- (b) whether a genuine industrial operation is involved and the local content in terms of labour and materials is significant in relation to the ex-factory cost of the finished product;
- (c) whether effective control of the concession can be maintained;
- (d) whether the value of the concession is reasonable in relation to the impact on Government revenue and the cost of administration.

Concessions granted are reviewed periodically and are normally withdrawn when acceptable local materials become available.

In the field of taxation, Government policy is aimed at maintaining a low and stable rate of income tax. There are substantial concessions for manufacturing industry, such as special initial allowances, investment allowances and wear and tear allowances, on buildings, plant and machinery. It has not been necessary to grant "tax holidays" in order to attract industrial investment, and, in fact, such concessions are not accepted as desirable incentives.

The Industrial Development Corporation

As part of the policy of affording positive support and encouragement to industry, the Industrial Development Corporation of Southern Rhodesia Limited was set up by Act of Parliament in 1963 to facilitate, promote, guide and assist in the financing of new and existing industries and industrial undertakings. Although financed largely by Government, the Corporation does have shareholders from the private sector and Government does not interfere with

its operations, which are controlled by a Board of Directors on which both public and private sectors are represented. It is required by its enabling Act to conduct its operations strictly in accordance with economic principles, irrespective of all other considerations whatsoever. It is not a helper of lame dogs which ought to be put down, though it certainly helps those which have a long and useful life before them. The main difference between the Industrial Development Corporation and the private sector development corporation is perhaps the fact that, since its principal shareholder is Government, the Corporation can afford to take a long view and to invest in projects which, although sound, will take a long time to come to fruition. In saying this I do not intend to denigrate the efforts of the private sector development corporations which are playing a most valuable part in our economic life. The Industrial Development Corporation commenced operations in 1964 and in a few short years has achieved remarkable success.

1964 also saw the establishment of the National Export Council, which has rendered valuable assistance to exporters of manufactured products. The terms of reference of the Council include the finding of markets for Rhodesia's products, the provision of advice and assistance for exporters and the initiation of, and participation in, trade promotion projects internally and abroad. The Government's external representatives and my Ministry work in close liaison with, and give assistance to, the Council, as well as assisting individual exporters.

Growing Importance of Manufacturing

The success of this positive policy prior to Independence is plain to see. Taking the average for 1964 as 100, the Volume Index of Manufacturing Production increased from 76.1 in 1959 to 107.8 in 1965. The increasing importance of manufacturing industry in Rhodesia's national life is also apparent from its contribution to the Gross Domestic Product which in 1959 was £41.8 million, or 15.8% of the Gross Domestic Product of £264.6 million and in 1965 was £66.6 million, which was 18.9% of the Gross Domestic Product of £352.1 million.

Despite these successes, the development of secondary industry in Rhodesia faced many problems—problems of the small domestic market, of our geographical position with its attendant transport distances affecting both import and export costs, and of competition from more developed countries whose larger markets support mass production techniques of manufacture. In the normal course, while external industry could continue to supply Rhodesia, there was a natural disinclination on the part of entrepreneurs to incur capital costs, new risks and possibly initially low profit margins by establishing new factories in Rhodesia to supply the domestic markets. It was also inevitable that purchasers were reluctant to change established buying habits and buy new and initially unfamiliar local manufactures.

Rhodesia's Declaration of Independence changed many things and, not least, the outlook for manufacturing industry. The imposition of sanctions against Rhodesia has been damaging in some ways, has retarded our progress in some directions and has created very many difficulties which have had to be overcome; but it provided numerous opportunities for secondary industry which our industrialists, accustomed to thinking for themselves in the competitive atmosphere of free enterprise, were not slow to grasp. I have no hesitation in declaring that our industrial progress in the last three years has been greater than would have been achieved in ten years of more normal circum-

stances. Rhodesia is now manufacturing commodities which, a few years ago, would have been thought beyond the bounds of possibility; items of heavy industrial plant, farming equipment and a wide range of consumer goods. Old buying habits have been broken and, although there have inevitably been initial complaints regarding quality and price, many brand names are establishing for themselves excellent reputations for value for money not only in Rhodesia but in export markets. The Volume Index of Manufacturing Production, after an initial set back in 1966, that year of many agonizing adjustments, reached a new height of 111.8 in 1968, while in the same year the share of manufacturing industry at £79.0 million rose to 20.3% of a Gross Domestic Product of £389.9 million. Again, the increases in the indices of wholesale and retail trade from 100 in 1965 to 121.9 and 111.4 respectively in 1968, despite the drop in imports, are indicative of the greater part which local products now play in domestic trade.

The introduction of import control and the need to conserve our resources of foreign exchange introduced new factors into Government's industrial policy. We had to introduce a degree of control over industrial development and expansion which had hitherto been foreign to our economic philosophy. It is now necessary for any industrialist or prospective industrialist who requires an import allocation for plant or initial stocks of imported raw materials in order to establish a new manufacturing enterprise or to expand an existing one to make special application to my Ministry. These applications are considered by the Industrial Projects Committee of my Ministry, which includes representatives of the Treasury and the Reserve Bank of Rhodesia and which, where necessary, co-opts representatives of other Ministries which may be affected by particular projects. This Committee recommends to me the granting or refusal of import allocations for each project having considered—

- (a) the net foreign exchange benefit, including export markets and any recurrent import commitments;
- (b) the extent and conditions relating to any payments of royalties, rent, hire charges or similar undertakings;
- (c) the extent of any foreign investment in the project and the form thereof;
- (d) the profitability of the project and the benefit to the economy;
- (e) the adequacy of existing usable capacity in the same field;
- (f) the source of finance and the adequacy of financial arrangements;
- (g) the competence and technical knowledge of the management;
- (h) the ability to manufacture at competitive prices and to acceptable standards;
- (j) the additional direct and indirect employment likely to be generated;
- (k) the extent to which use will be made of, or markets created for, local raw materials, plant and services;
- (l) the effect on established distributive channels;
- (m) the infrastructure and other public sector requirements if any;
- (n) the effect on Government revenue.

Industrial project applications are usually dealt with on a "first come, first served" basis, but it is surprising how often two or more applications for similar projects from different sponsors arrive in the Ministry more or less simultaneously.

If, as is often the case, the domestic market is not large enough to support more than one project, it is necessary to compare the merits of the cases put forward by all applicants and to arrive at what can be a very difficult decision.

From its inception to the end of February, 1969, the Projects Committee considered something well over 1,300 applications; 866 of which were approved. Of these 62 are known to have been abandoned while 654 have commenced production, contributing in no small measure to the upsurge in industrial production to which I have referred.

Import Control

Import Control has provided Government with another method of affording protection to local industry. The mere fact of its imposition and the adjustments to import allocations which are made from time to time for balance of payments reasons, provide a substantial measure of protection but applications for protection by import control in specific instances are invited. Consideration of such applications has been added to the functions of the Industrial Tariff Committee which applies similar criteria to those used in tariff protection cases, in addition to considering the probable savings of foreign exchange which may be effected. With import control it is possible, of course, to achieve a complete shut-out of foreign goods, but this is usually done only when there is an adequate range and full competition in local production. Where domestic production is limited or there is little or no local competition, it is usual to allow at least some token imports to provide both competition and a standard of comparison.

I said at the beginning of this paper that we in Rhodesia pride ourselves on our devotion to the principles of free enterprise and competition. Import Control, which denies the consumer a choice, is contrary to our basic philosophy and Government has made it plain that it will not be retained for long when it is not needed to protect our balance of payments position in an economic war. However, it is not likely to disappear overnight. It will be phased out until only an essential minimum degree of control remains. I know there have been appeals from some industrialists for the retention of import control as the principal method of protection but the statement made by my colleague the Minister of Finance to Parliament on 9th February, 1967, remains the basic Government policy. He said:

“Assistance by the Government, will include protection by means of import control for selected industries for specified periods of time, greater use of the customs tariff and in special circumstances the securing of local markets for one or more producers for specified periods.

Cognizance will be taken of the need to secure the best return for the use of our resources and the need to protect the consuming public and export industries from excessive increases in prices.”

This policy recognises that the fine degree of regulation which it is possible to achieve by means of import control may be of value in assisting important industries to establish themselves and become viable. It is a policy of moderation. I believe that it would make no economic sense for Government to encourage the development of new industries which could survive only under the permanent umbrella of import control. It would not be in the national interest to permit the entrenchment of unsound and inefficient enterprises. It is the objective, then, to return to the use of the Customs Tariff as the major means of protection since it is Government's opinion that only by the use of this instrument can a suitable balance be struck which will ensure healthy development and, equally important, the conditions for encouraging and fostering two-way trade with the outside world and thus the sale of our exports

in world markets.

Although it will be many years before Rhodesia can be called an industrial country I have no doubt that that time will come. Already manufacturing industry is vying with agriculture for the position of making the largest contribution to our Gross Domestic Product and it already pays more in salaries and wages than any other sector of our economy. Government is committed to a policy of fostering and supporting the development of secondary industry with the object of providing greater employment opportunities for all Rhodesians and of making the best use of our resources, human and natural.

Prospects

It is in the greater use of our resources that I foresee the most exciting prospects. We are blessed with large deposits of high-grade chrome, most of which has up till now been exported as ore. However, two producers of ferro-alloys have shown the way and there is little doubt that the future lies in the beneficiation of our chrome ores into alloys and other products. We have abundant iron ore and all the necessary resources of limestone and coal for a thriving steel industry, while now the discovery of nickel, together with our chrome, opens up vistas of the manufacture of special steels. We have large deposits of high grade coal, which it is almost a crying shame to burn when coal is the foundation of so many chemical industries. And, talking of chemical industries, the establishment of the nitrogenous fertilizer factory at Que Que could be the start of a chemical engineering complex producing a whole range of useful commodities and raw materials for industry. Through such developments, manufacturing industry will make a significant short-term contribution to the growth of the national economy and, given fair opportunities for expansion, these industries could become significant growth points. All the requirements for industrial expansion are here and I have no doubt that as Rhodesia regains full access to world markets, our people will have the enterprise and initiative to exploit the opportunities offered.

There is no doubt that one of the factors which inhibits the development of secondary industry producing consumer goods in Rhodesia is the small size of our domestic market. Although we have a total population of some four and three-quarter millions—we shall have a more exact figure very shortly—in respect of most manufactured products this does not represent the size of the available domestic market. In a very real sense Rhodesia is two nations—the sophisticated, modern, money economy and the age-old, customary, subsistence economy which embraces the greater part of the population. Recently Professor Schumann of Stellenbosch University wrote in regard to South Africa:

“In a sense the ‘dualistic economy’ of the Republic may be compared with the ‘dualistic world economy’, in which the high productivity and low reproductivity of the ‘have countries’ as compared with the low productivity and high reproductivity of the ‘have not countries’ forms perhaps the most serious dilemma and challenge of our time.”*

This, of course, is even more applicable to Rhodesia than to South Africa and the task of increasing the productivity of the Tribal Trust Lands and bringing the mass of people who live there into the money economy is the greatest economic challenge facing us today. These people represent a great national

resource, at present largely unused. Any increase in their productivity, any surplus production which reaches the market brings about new purchasing power—new markets for manufactured goods. These developments will take time and are, therefore, long-term policy. They could, however, transform Rhodesia into a truly industrial country, able to market a wide range of its manufactures, not only in Africa but to other parts of the world. The development of the Tribal Trust Lands then is certainly part of Government's industrial policy. Improvement of agricultural methods is the first and obvious way of increasing productivity, but it cannot be the only way.

The American Economist Ragner Nurkse† has pointed out that in the subsistence economy you have a number of people working the family lands, some of whom contribute virtually nothing yet subsist on a share of the family's real income. This is disguised unemployment and although we cannot point to any one person and say that he is in disguised unemployment, the fact remains that, even with unchanging techniques of agriculture, a considerable part of the population engaged in agriculture could be removed without this leading to a reduction of output. In technical terms, the marginal productivity of labour over a wide range is zero.

It is with the aim of bringing into useful work, this large untapped reservoir of labour that we must develop industry, not only in the urban areas as we have done up to now but in a limited way in the Tribal Trust Lands themselves. The first steps towards this have already been taken with the establishment last year of the Tribal Trust Land Development Corporation which has the object, *inter alia*, of doing this. It will be a long and difficult task which must be carried out in a carefully controlled manner if we are to avoid conflict with established industry, and to begin with will comprise the encouragement of rural industry—almost cottage industry—serving the surrounding local market.

We in Government are well aware of the complexity of the problems which face us in the task of developing industry in Rhodesia. We have no doubt of the vast potential for manufacturing industry and we believe the policies we are following will lead to its ultimate realisation. I am sure that this Symposium will add to our knowledge and contribute to our understanding of what must be done in this field.

* c.f. Schumann, C. G. W., "Economic Growth and Prosperity of South Africa—a Comparison with Other Countries". *Standard Bank Review*, April, 1969.

† Nurkse, R. *Problems of Capital Formation in Underdeveloped Countries*, Chap. II.



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