Volume Six, Number Four December 1972

THE RHODESIAN JOURNAL OF ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

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MANUFACTURING INDUSTRY AND EXPORT PROSPECTS

E. P. WHYTE

The tremendous growth of Rhodesian secondary industry over the past seven years has brought important benefits to our economy by way of increased levels of economic activity and employment. Industrial growth has also contributed to our development both by the saving of foreign currency through import substitution and by the earning of foreign currency by exports.

From being something of a stepchild of the economy, from a previous position when we had little protection against foreign imports with a small domestic base from which to compete with manufacturers in more developed countries, secondary industry has now reached a point where it accounts for the largest single sectoral share of our national income. Today it contributes as much as either Agriculture or Mining to the credit of Rhodesia's balance of payments. The very rapid growth of recent years has led to occasional complaints from the other sectors that Industry is given too large a share of scarce import allocations to their detriment, also that their own claims to foreign exchange have a degree of priority which is not always afforded sufficient recognition by Government.

As an industrialist, I could not, of course, be expected to accept this criticism, but I can do better than simply deny it. I believe it can be totally refuted, by pointing to the obvious and substantial benefits which have accrued as a result of the vigorous growth of the whole economy since 1967. I am convinced that Government's current policy of protecting industry, encouraging new import substitution projects, and using precious foreign exchange to allow industrialists to import machinery and raw materials for further expansion has already been fully vindicated. The wisdom of pursuing such a policy will, I am certain, become even more apparent over the next decade.

However, in addition to promoting growth via the domestic market it is essential for our successful development that we follow an outward looking strategy of export led industrial expansion. Let us briefly consider therefore the long term outlook for manufactured exports.

The more developed countries of the world, and especially those with the most sophisticated economies, such as America, Germany and Switzerland, for example, have already reached, or are rapidly reaching, a stage where they can no longer find the labour they need, either in numbers of quality, to cope with the demands of their labour intensive industries. As a result production costs are spiralling and their commercial sectors, hurt by escalating prices and bad deliveries, are looking for new sources of supply all over the world. What they require are quality goods at fair prices—sometimes even higher prices—than they are already paying, providing they can get guaranteed deliveries. No trader who has lost sales through lack of the right stock at the right time can ever recover his lost business. No manufacturer who has run out of raw material can ever replace his lost production.

Everywhere in Europe and America today complaints are heard from firms about non-delivery, late delivery, wrong delivery and substitute delivery. Product standards in every Western nation have dropped and continue to drop alarmingly. The old ethics of trading are no longer generally respected still less followed. At the same time demands are expanding rapidly, as the increasingly prosperous masses grow more voracious in their appetites for

consumer goods.

The result of this combination of circumstances is an opportunity for Rhodesia which is both fortuitous and enormous. But we need men of vision to see the tremendous prospects for our manufactured exports in the next decade and beyond.

Like every other country in the world we are also affected by the never ending inflationary spiral. But because of our special circumstances we are not as badly affected as others and our rate of internal inflation is far less than that of many another so called "free economy".

As a less developed country, our labour costs are in many cases lower than those of the developed nations. Sometimes this is offset by the lower productivity of our labour. A very serious effort must therefore be made to educate both employers and labour to appreciate that in general we are a very long way from achieving the most efficient use of our labour resources when we compare the productivity achieved per worker here with that attained in more sophisticated economies. At every opportunity our people, especially the young, must be made to understand that in the long term increases in wages depend upon increases in productivity. There is a growing tendency in the world for workers to demand ever higher wages without appreciating that increased overall productivity alone provides the profits from which higher wages can be paid. Regrettably, so many of our young people particularly expect good jobs at guaranteed minimum wages no matter what contribution they may or may not be able to make to the earnings from which both labour and capital are remunerated.

Our Trade Union leaders and industrial boards must do all that they can to expose the fallacy that wage increases can be awarded regardless of their effects upon profitability. They must fight for rewards based solely on merit. This is the only way to ensure that we get the right balance between the highest possible growth rate and the lowest practicable rate of inflation.

Despite the fact that there is so much room for improvement in our efficiency, however, we still have an advantage in wage costs which in all labour intensive production should enable us to compete in export markets. This should not be a mere temporary advantage because although our wages will continue to rise they should not, if we pursue the appropriate policies, increase so fast that we catch up with the levels prevailing in other countries where they also seem set on a course of continuous increase. We should not therefore be afraid to make plans to use this labour-cost edge against our competitors for the foreseeable future. Although there are sometimes disadvantages in the form of transport and distance problems to be overcome, both air and sea transport are becoming increasingly rapid and it is already possible for some Rhodesian manufacturers to give better deliveries and service to an overseas market, than can their counterparts actually producing in that market. However, to do this requires very high standards of organisation, especially where imported materials are used. There needs to be the most careful attention to logistical planning. There are often matters of great complexity which not every manufacturer is equipped to handle. It seems to me therefore that there is a place for the professional export Company which can handle the exports of several different manufacturers.

There is also a real need I feel, for the rationalisation of the product marketing of some industries, at least in so far as exports are concerned. The Rhodesian manufacturer is more often than not an owner/entrepeneur who is

too much of an individualist to work in harmony with a local competitor in a joint export venture. It might therefore be necessary for Government were to create the kind of climate which forces mergers, or at least co-operation in export endeavour, as the only means of assuring effective market penetration and continuing local survival. Harsh thoughts perhaps, but can we afford the luxury of softer and less effective alternatives?

From my own firsthand knowledge of the industrial situations in the United Kingdom, Europe, America and South Africa, I would say that we have far better labour and race relations than many countries. If this is accepted and if we make the maintenance of good labour and race relations one of our major economic objectives, the long term prospects for further rapid industrial growth can be seen to be extremely bright. This growth will come, can come, and must come in the main from export. I believe and have expounded that belief for over ten years, that Rhodesia can become a great manufacturing country supplying products to those very countries to which we once looked for our own consumer goods imports.

Industry already makes a very substantial contribution to export earnings. But Industry can and must be required to make an even bigger contribution in the future. We cannot expect either Agriculture, whose products are subject to restrictive trade barriers in so many countries, or Mining, which is based on a wasting asset, to provide the major part of the increased foreign exchange which we will need to sustain the high rates of economic growth upon which all of us depend for our continuing welfare.

The natural development towards a mature economy is generally characterised by an increasingly important manufacturing sector. This is the pattern that we must anticipate here and now that we are well on the way towards industrialisation, the establishment of yet more industries to process our minerals and foodstuffs into finished products is both logical and inevitable. The advantages in terms of foreign exchange earnings are obvious and substantial. We can earn far more from the export of copper wire than copper ingots, and far more from the export of a cotton dress than the same equivalent of raw cotton, always providing that the process of manufacture of the wire or dress results in a net saving in imports. Using Rhodesian labour this must surely be a practical proposition across a wide cross-section of our industry.

In the first few years after U.D.I. there were many, including many in industry who, no longer able to discern opportunities for quick profits without hard work or the exercise of business acumen, would say "How long can we go in taking in each other's washing?" Well we have done it for seven years and in my view we can go on doing it for another seventy. In the process we have set in train an industrial revolution which must be made to bring us to the point where increased earnings from the export of manufactures will enable us to achieve a favourable balance of payments.

This is a very much more positive outcome than may now be believed possible and undoubtedly there are still many who do not share my optimism. But there are many Rhodesian industrialists and some of our top civil servants too who are men of vision as well as of sound judgement. They understand that it is possible to take steps that will ensure the continuing rapid growth of industrial exports. Indeed, they are convinced that the objective is so important that such steps are both necessary and desirable.

However, while the opportunities are there and growing, they are not always immediately apparent and we have to face immense difficulties in first

finding them and then trying to take advantage of them. It is therefore not at all as some people imagine, with industrialists sitting pretty, making fortunes behind our protective import barriers, while Agriculture and Mining have the hard battle of selling in foreign markets. Industry has also to look outwards. To start exporting anywhere, even to our close neighbours in South Africa and the Portuguese territories, can be the most heartbreaking and expensive exercise. Usually there is absolutely no reward for the first two or three years. Buyers in the export markets, like buyers everywhere, are not easily convinced that Rhodesia can make what they want, or give the service they need and are not quick to try us, even though they have the requirements for alternative sources of supply described earlier. Their confidence has to be won and then kept and only those of us who are actually engaged in this field have any idea of the enormity of the task which those words "won and kept" entail. Exporting manufactured goods is, contrary to what might be thought elsewhere, also a tough business. It is no job for a faint heart and definitely not for a weak one.

There are some people too who see the role of industry in the future as more of an import saving sector than an export earner. Unfortunately, there are those who hold this narrow and sometimes selfish view even among my industrial colleagues. Great efforts have been made by Government to stimulate and encourage us all to export and incentives have been provided. But we are still not earning enough foreign exchange and we must therefore ask are pure incentives enough? Personally, I do not think so. They must be accompanied by actual penalties for lethargy and failure to make the effort to contribute something to the export cause. Here I will be treading on the sensitive toes of some of my friends in industry, but since we have not yet reached the ideal situation outlined earlier, we must face present realities which call for radical measures to force progress to the desired end.

From the suggestions I am going to put forward with this end in view, let me exclude first of all those industries which have no possible export potential. We must acknowledge that there are some who fall into this category although we need to be very strict in assessing which industries they are. After I have explained my proposals there may well be, I regret to say, a fair number who would for their own convenience wish to claim that they really belong within this group.

I suggest and I hope that the officials who are listening will at least examine the proposition sympathetically in the light of our very real need to expand our exports by all the means at our disposal, that it is vital to impose limitations, restrictions, or even penalties, upon those firms which could export, but fail to do so through sheer complacency, being fully content with their profits in the local market.

A very simple and effective method which would meet these requirements would be to reward the firm which increased its exports, by giving it an increase in its currency allocation for use for the importation of raw materials or plant and machinery to manufacture for the domestic market. The complacent potential exporter would not get any increase in currency allocation and would be compelled as a result to forgo any increase in domestic sales.

Every manufacturer wants a larger share of the local market. It is often essential for an exporter to have not only a sound domestic base for his exports, but to increase his home sales as his exports expand, to preserve a balance between export and domestic sales. This will give him a reasonable degree of insurance against unforeseen changes in the demand for his product in the

export markets, and enable him to offset what are often low rates of return—and sometimes even an initial loss—on exports, against more profitable domestic market sales. Thus many industrialists engaged in export desperately need increased currency allocations for manufacture for the local market. Under our present import allocation system with its limited foreign exchange allocations, however, every one is treated equally on the basis of past performance in the domestic market. There is very little hope of an industrialist getting any increase in his allocation for local market. What I am proposing is that the firm expanding its exports will as a direct reward for its efforts, be given the chance also to expand locally in some proportion to the increase in exports. This would immediately put the potential but non-performing exporter at a disadvantage, and make him think whether he can afford not to export, when his competitors who do so are thereby enabled to increase their share of the domestic market, at his expense.

Let us take as a hypothetical example a firm in the clothing industry. This is a sector of industry which has a universal opportunity to export, yet has certain members that cater only for the home trade.

Suppose Firm A receives import quotas of $100 000 for export and $50 000 for the local market. It exports $200 000 worth of clothing and sells $100 000 worth on the home market.

Firm B does not export. It also receives a $50 000 import allocation and sells products worth $100 000 on the home market.

The base year in both cases is taken as 1970 and for ease of calculation the imported content of the product is assumed to be a straight 50% of the selling price.

In 1971 and 1972 Firm A worked hard and increased its exports to $320 000 and $400 000 respectively. Its foreign currency allocation for exports would, under present arrangements, have been increased to $160 000 in 1971 and $200 000 in 1972. Firm B made no effort to export and sold none of its production outside the country.

Let us also assume that there has been no increase in currency allocations for the local market during this period. Each firm is still receiving an allocation of $50 000 for its domestic sales which on the basis of the above assumption remain at an individual $100 000 in both cases.

Now Firm A has borne the strain of the export battle. It is probably making a lower percentage gross profit although it has higher total sales than Firm B, which has had none of the heavy expenses, additional worries and difficulties in exporting of Firm A. To add insult to injury, Firm A knows that its return on capital employed is never likely to be as good as Firm B because the system ensures that sales can only be expanded in the relatively less and sometimes totally unprofitable, export market. While Firm A is sweating over its innumerable export problems and to some extent neglecting the local market because of the vital need to meet the much more stringent demands of its export clients, its competitor, Firm B, is able to tell local customers that they are unlikely to get any better treatment from Firm A which with its huge and "lucrative" export trade is not in any need of their business.

The facts of the matter are that Firm A has made a profit for Rhodesia in terms of foreign currency earnings. Indirectly and along with other exporters it has provided currency for the allocation to Firm B which while in a position to do so has made no contribution towards earning the foreign exchange which

is so important to our continuing growth. But Firm A has in the process gained relatively little and has had to suffer perhaps worsening relations with its customers at home.

In passing this latter judgement I am not, of course, overlooking the benefits accruing to Firm A from the new tax incentive which undoubtedly rewards manufacturers for their achievements in the export market. But its value in forcing a substantial increase in exports is, I think, limited. It is based on sales an increase in which must inevitably result in a decline in the overall ratio of profit to total sales or capital employed. Moreover, any rise in export sales which does take place under these conditions also increases the proportion of total sales in the more unpredictable export market and conversely decreases the proportion sold in the more reliable domestic market. Even on the assumption that gross profits increase as a result of any beneficial effects upon unit costs to which the higher volume of production gives rise, we cannot assume that investment to increase the capacity to export will necessarily follow. The rate of return is not high by comparison with other investment opportunities and manufacturers are precluded from making the kind of investment which would probably be their first choice and which would directly and indirectly increase their capacity to export. This is in the expansion of their domestic market activities.

Surely it would be more equitable and stimulate exports tremendously if there was an automatic reward of additional foreign currency for domestic expansion which was related to the increase in export performance?

I would suggest that serious consideration be given to allowing a proportion, say 15% of the *increase* in export sales, to be added to the successful export performer's currency allocation for the local market. The firm that has export potential but which will not export—or not increase its exports—will get no increase in allocation for the domestic market until it does. I have outlined how such a scheme might work in practice in the attachment to my paper.

I would further suggest that if this kind of incentive does not produce the necessary results the non-exporter might actually be penalised by having his local market allocation reduced, with the exporter getting the benefit of the enforced "saving" according to the arrangements I have outlined.

While these proposals will be met with horror and indignation in some quarters, I would remind you of the example of Britain as an extreme alternative. There it has generally been more profitable and easier to sell in the domestic market and there are literally thousands of firms which could export, and have incentives to do so, but are quite disinterested to make the effort. I know this from bitter experience of trying to sell for them and buy from them, for the past 25 years, and in making this comment I am excluding entirely the effects of sanctions restrictions on their activities.

This same complacency can be found among some of our firms in Rhodesia. Nothing but the stick will move them no matter how attractive the carrot dangled before them may be. How tough we are in introducing measures to achieve our objective depends of course upon how important we think it is. But I cannot believe that any responsible person can be so unconcerned about our balance of payments position, present or future, as to regard as unnecessary all possible measures to achieve the increased foreign exchange earnings upon which our rate of development depends.

Finally, I would like to suggest that industrial exports might also be

boosted by making low cost development finance available to established and proven exporters. Here I am thinking of internal funds which could be lent to the sound industrialist exporter at say 2½% or 3% interest per annum. This would give him an added advantage over foreign competitors who are paying anything from 8% to 12% in many developed countries today. This might require a radical rethink of our present financial arrangements—but why not?

What real benefits are there for the country if our traditionally conservative rules governing the operations of our financial institutions force them (in the name of security) to invest vast sums of money in non-productive buildings and pay vastly inflated prices for land and property, while the economic growth which we need to provide employment for all our people takes second place? If we are serious about the need to expand as fast as we can and to earn the foreign currency that this expansion requires, is it not time for Government to consider channelling a higher proportion of our financial risk capital into industrial and export development.

Jameson Avenue may look very impressive and be very prestigious, but are all those grand buildings either necessary or desirable against the stark reality of our vital need to invest our scarce resources in activity which will increase productive, particularly foreign exchange earning, capacity? Surely the number of Building Society and Bank branches in Rhodesia is out of all proportion to the service needs of our society. In more enlightened countries, a city equal in size to say Salisbury with four commercial banks would not have more than four bank buildings. How many have our bankers been forced to erect, with money which could be far more productively employed in the national interest? The number of expensive buildings erected by Building Societies is even worse. This is not the fault of our Bankers or Building Societies, but a direct result of the laws under which they must operate. If we consider the inflationary effects on property values that our present policy actually encourages then the case for change is even stronger.

The cost of money is a vital factor in development as is also its availability at the right time. If our financial system cannot provide cheap capital for industrial expansion based on export, perhaps we have a need for a quasi Government body, such as TILCOR, which would take risks in the development of exports and provide the long term low cost funds to the numerous struggling export minded industrialists, both established and potential, to assist them to expand.

If we act boldly and with purpose, manufacturing industry in Rhodesia has an unlimited future. Its export prospects which are already good can only improve. I do not overlook the very considerable difficulties which exist and remain to be overcome but the Pioneer spirit still beats strongly in many Rhodesian hearts. We are not a people who should see mountains only as an impenetrable barrier. Rather we should view them as obstacles which have to be climbed. And in the challenge of overcoming them lies our chance to thrive and prosper.

EXAMPLE OF PROPOSED EXPORT INCENTIVE SCHEME BASED ON AN INCREASE IN FOREIGN EXCHANGE ALLOCATION FOR THE DOMESTIC MARKET OF 15% OF THE INCREASE IN EXPORT SALES

FIRM A

	Allocation for Exports	*Export Sales*	*Increase in Exports*	*Basic Allocation for Local Market*	*Local Market Growth Incentive (15% of Exports)*	*Total Allocation for Local Market*	*Local Sales*
1970	100 000	200 000	Nil	50 000	Nil	50 000	100 000
1971	160 000	320 000	120 000	50 000	18 000	68 000	136 000
1972	200 000	400 000	80 000	68 000	12 000	80 000	160 000

BENEFIT TO THE ECONOMY

	Total Foreign Currency Allocation	*Export Sales*	*Net Foreign Currency gain*
1970	150 000	200 000	50 000
1971	228 000	320 000	92 000
1972	280 000	400 000	120 000

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