

THE RHODESIAN JOURNAL

of

ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), J. A. C. Girdlestone, M. L. Rule, P. J. Stanbridge
and P. Staub.

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Address
**Industrial Development in
Rhodesia**

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Association of Rhodesian Industries.

INDUSTRIAL DEVELOPMENT IN RHODESIA¹

J. C. GRAYLIN

I would like to thank you very much for doing me the honour of asking me to address your lunchtime meeting. As you know I am going to talk to you about secondary industry in Rhodesia and I want, first of all, to deal with the historical aspect; then talk a little about Industry as it is today and then try to have a quick look into the future to see what directions it might take.

History

The Pioneer column which arrived in Salisbury in 1890 was the brain-child of Cecil John Rhodes and he was primarily interested in adding another little bit of red to the map of Africa. The people who comprised the column, however, and the people who came immediately afterwards were, by and large, miners, farmers, hunters and gentlemen of fortune. The Pioneers were granted by the Chartered Company the right to peg 15 gold claims each and were given title to a 3,000-acre farm.

I suppose that the pattern of settlement is roughly the same with all countries which are being opened up. It is the natural resources of the country which provide the original attraction and everything is done to facilitate expansion of these portions of the economy. The customs tariff of those times, therefore, provided for free entry, or entry at very low rates of duty, for all implements, plant and materials used by miners and farmers, and likewise for the requirements of their employees.

With the ability for foreign goods to flow in easily and cheaply, therefore, the desire for secondary industry to establish itself was not very great. One of the first industries to establish itself was the printing industry when the country's first newspaper made its appearance. The Controller of Customs mentions in 1905 that various industries were making steady progress. These industries were maize milling, baking, brewing, mineral water bottling and iron work. The natural resources of the country, of course, were also processed to a small extent. In 1912 a Creamery was opened in Gwelo and Bacon and Oil factories in Salisbury in 1912 and 1914 respectively. However, as the Report of the Directors of the Chartered Company stated in 1910 "Mining is, and is likely to remain, the premier industry in Rhodesia."

The first real fillip for secondary industry came during the 1914-1918 war when supplies from outside, especially from the United Kingdom, became very difficult to obtain, and secondary industry was fostered. But what could be done here was, by its very nature, limited because of the smallness of the local market. Industry prospered for the next few years, but towards the end of the 1920's the country was faced with serious problems posed by declining world prices for exports of primary products, and the fact that imported manufactured products were very much lower in price and could be purchased more cheaply than those produced here. The Government, therefore, decided in 1930 to follow the Report of Prof. Henry Clay, who expressed the view that secondary industry, being dependent on primary industry for its market, could only expand if the latter expanded. As, however, the expansion of the primary industries depended entirely on the exploitation of foreign markets this expansion would be undermined if production costs were raised at home. As a general

1. Address by the Hon. J. C. Graylin, C.M.G. to the Rhodesian National Affairs Association, Salisbury, October 31, 1969.

rule home-produced manufactured goods were more expensive than the ones that could be imported, so imported manufactures should be fostered. The Government, therefore, decided that no attempt should be made to promote industrial growth since this would impose a charge on primary industries greater than they would otherwise have to bear.

Two years later, in 1932, the Rhodesian Prime Minister, the Hon. H. V. Moffat, told the Imperial Conference in Ottawa "The Colony is a producer of primary products . . . and having no seaboard, it is not likely to become a manufacturing country, though a few secondary industries based mainly on local products for the local market and for export to surrounding territories have grown up." The Ottawa Agreement incorporated tariff concessions on industrial imports into Rhodesia in exchange for concessions on primary products exported by Rhodesia, and the official policy during the 1930's was not to give industry more than a modicum of encouragement for fear of the effects on production costs of primary commodities. I use the word "modicum" because inevitably industry was offered indirect benefits by the provision of ancillary services such as power, transport and communications and it received direct benefits from the system which was inaugurated of waiving or reducing duties payable on raw materials which were used in a process of manufacture. However, secondary industry was so small that no figures are available.

The first Census of Production was made in 1938. At that time the net output of secondary industry was about £2½ million per annum, 17,500 persons were employed, earning wages and salaries totalling about £1.25 million.

Second World War

The next big fillip secondary industry received was during the second world war where once again things became difficult to import and in addition the establishment of the Royal Air Force Training Base in this country increased the demand. Between 1940 and 1949 the gross output on manufacturing industry increased six-fold. A Department of Commerce and Industry was established with its own Minister, and Government even went so far as to take the initiative in establishing industries, the two main ones of which were the Rhodesian Iron and Steel Commission and the Cotton Industry Board. However, towards the end of the 1940's, as a result of a Commission of Inquiry which the Government set up, once again the views were propounded and accepted by the Government that "the secondary industries of this Colony must, for the present, be regarded as truly of secondary importance".

The advent of Federation gave the next big impetus to the establishment of secondary industry in Southern Rhodesia because a very much larger market was established and as Southern Rhodesia had the nucleus of a second industrial complex, she became the natural centre for the industries which supplied the whole of the Federal market. Between 1955 and 1963 the value of the net output of secondary industry doubled itself to £60 million per annum. The attitude of the Federal Government was slightly more helpful than those of past Governments and its policy was to protect by means of the tariff, certain aspects of secondary industry.

On the dissolution of the Federation the Rhodesian Government adopted, more or less in toto the Federal Government's policy. But in 1964 they went

one further and talked of a “. . . vigorous policy of selective tariff protection as a major incentive to industrial development”. This was necessary to offset the anticipated adverse effects of the loss of part of secondary industry's markets. The net output of secondary industry slightly climbed in 1965 to a record net output of £76.5 million.

Import Control

With the advent of U.D.I. extraordinary measures had to be brought to combat the effects of sanctions and the country looked more and more to secondary industry, to meet those of its needs which it could not fulfil from imports, due either to sanctions or to the shortage of foreign exchange with which to buy them. A new policy for industry was clearly needed and this was announced by the Minister of Finance in 1967 when he said “If the decline in the gross domestic product is to be halted and economic growth resumed much more will have to be done than has already been done”. Government, therefore, said it would intensify its support for manufacturing industry. Assistance would be afforded by means of import control for selected industries for a specific period of time and greater protective use of the customs tariff. In special circumstances the securing of the local market for one or more producers for specified periods would be given.

Professional approval for this policy came from Prof. J. L. Sadie when he published “Planning for Economic Development of Rhodesia”. This is the first time that industry has really been fostered and helped as it needed to be fostered and helped by our Government and this is the first time a professional Economist had looked up on such help with approval.

And the policy of protection has paid off handsomely. We now produce in this country a great variety of well-made goods and the range of these products is increasing every day. We have amazed ourselves, I think, at what we have been able to do—in spite of sanctions and in spite of our small internal market.

The Years 1966-1968

The thing which strikes one immediately about the Rhodesian economy since 1965 is that the sectors making the major contributions to the national income have reacted in very different manners. For instance, due to the serious drought agriculture, both European and African, declined by 10% between those years. European agriculture's contribution to the gross domestic product fell by 24%, and this was due not only to the drought, but also to the difficult tobacco situation. The mining sector's contribution also fell by 8% between these three years.

But the two main reasons why our total gross domestic product increased by 5.5% over the three years, 1966-1968 inclusive, was because the manufacturing sector increased by 18.6% and the building and constructional sector by no less than 45.3%. The significant increase in the manufacturing industry's contribution to the gross domestic product resulted in us, for the first time in our history, making the largest single contribution to Rhodesia's national wealth. A fifth of the whole economic cake is now contributed by manufacturing industry. The consumption by industry of electrical energy rose a remarkable

54% over this period and industrial building plans passed in 1968 were approximately 80% above the levels prevailing in 1965. The number of Africans in employment in the manufacturing sector has risen by 20% between 1965 and 1968, and their total earnings rose by 27%. The number of Europeans, Asians and Coloureds employed in this sector has, over the same period, risen by 11% and their total earnings have also risen by 11%. It will thus be seen that industrial wages paid in the African sector are tending to rise, whereas what may be loosely termed as the "European" wages are static.

Yet one further indicator of industrial development during the three years since 1965 is contained in the official figures of the diversification of new projects approved by Government, which have actually commenced production. Over six hundred new projects had actually commenced production by the end of 1968.

1969

So far as the prospects of the economy for 1969 are concerned these were described as "most favourable" in the 1969 Economic Survey published in April this year. In July the Minister of Finance, in presenting his Budget Statement confirmed this optimism by saying "The economic indicators suggest a marked forward movement for the year". While there has been no further official comments on the likely trends of the economy during 1969, one hears via the grapevine that it is anticipated that there will be a real growth rate of our economy in 1969 of approximately 8% over the 1968 figure and most recently I have heard that even this significant increase may be too conservative.

The prime reason for anticipating a high growth rate in 1969, which, if it does in fact exceed 8%, will be a record for the 1960's, is the recovery in agricultural output during the year. My own guess would be that manufacturing industry's contribution to the growth in the gross domestic product will be roughly the same as last year—that is something in the order of 12% to 14%. The plans passed for industrial buildings over the first eight months of this year have increased by 48% by comparison with the corresponding period last year. This, I think, is a good pointer to the continuing affluence of secondary industry in this country. Other pointers are that the number of Africans employed in industry increased by 8% during the first quarter of this year, compared with the same period last year, whilst the number of Europeans employed increased by 4.1%. It is understood that over one hundred expansion, diversification or new industrial projects had already come on stream during the first six months of this year and these will all add significantly to the level and tempo of industrial development.

Taking all these factors into consideration it seems that overall, over the whole of our economy, there will be a very substantial rate of economic growth this year. Indeed it is possible that the rate will be such that it will rival some of the high growth rates which we experienced in the middle of the 1950's.

Outlook for 1970

The likely rate of overall economic growth in 1970 is somewhat more difficult to predict. One of the main reasons for the substantial increase in the rate of growth for this year has been the turn around in agricultural output,

occasioned by the difference between a serious drought and an excellent growing season. This process is unlikely to repeat itself and agricultural output therefore must be expected to resume the slow rate of growth which has been a feature of this sector of the economy since 1965, unless new export markets can be developed for old products or new products produced to export to old and new markets. At a guess, therefore, I would say that in agriculture one would be unwise to expect more than a modest expansion, perhaps of the order of 5% over the level attained in 1969. So much, of course, depends on the weather.

So far as the manufacturing sector is concerned, the growth rate appears likely to be similar to that achieved this year and last year—that is somewhere between 10% and 14% in money terms. This latter prediction, however, is subject to the proviso that industry's requirements of foreign exchange are no more restrictive than they have been to date. Certainly the prospects of further industrial growth appear good, for on Government's own calculations the number of expansion or diversification schemes and new industrial projects for which approval has already been granted, number approximately one thousand and less than a hundred of these have been subsequently abandoned. It is estimated that these new projects represent a fixed capital investment which approaches £12 million and they are capable of generating total sales of something like £40 million per annum. The cumulative effects of these new projects, together with the output of existing industries must inevitably ensure that industry continues to maintain its present forward momentum, and it may even increase it.

However, although continuing industrial growth will make its contribution to overall economic growth, two factors must be borne in mind. The first of these is that while areas of import substitution no doubt remain and will continue to provide opportunities for further industrial development, they must inevitably become more capital intensive. In addition such possibilities will become fewer than they have been in the past, at least until the Rhodesian economy has expanded considerably beyond its present level of activity.

Secondly, industry's rate of growth will thus depend on the rate of growth of the rest of the economy for a great portion of its increase and with the limited facts and figures available to one it is difficult to assess this aspect with accuracy.

But there is another string to our expansion bow—exports. If we can increase our exports then this will give us growth—this will give us the chance of employing more of the 35,000 African school leavers who, each year, are looking for jobs.

It is thus obvious that we must not miss any opportunity to export because this will enable us to maintain our rate of growth, and it will at the same time enable us to obtain more foreign exchange with which to buy raw materials to process here and thus generate more growth.

In so far as the growth of the internal market is concerned, I would mention that *the* big growth point is the Tribal Trust Areas. At the moment the average maize yield in the African areas is about 2.7 bags per acre. The European areas average approximately 19 bags per acre. It will be seen that there is enormous room for improvement and when it is realised that the Africans cultivate 1.6

million acres of maize it will be apparent that a small improvement can bring large benefits. This aspect of jacking up the Tribal Trust Areas offers great rewards and it is one which we as a country must tackle energetically.

You will thus see that I am optimistic about the future of secondary industry in this country. It has become so big and so important to our economy as a whole that I cannot see the Government reverting in the future to a policy adopted in the past of allowing the importation into this country of foreign made goods on semi laissez faire lines. On the other hand there is a challenge to our industrialists to make sure that our home-produced products are comparable to the imported article pricewise, quality-wise and design-wise. I am sure that we in the manufacturing sector will rise to the occasion.



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