MANUFACTURING – GENERAL

1995 – ~~1997~~

Election honeymoon is over for manufacturers

eJ(BR) 4/1/96 (180)

By Audrey D'Angelo

Cape Town — Growth in manufacturing was still reasonably healthy, although it "has certainly been slowing down from the rather heady rates" after the election, Old Mutual economist Terence Moll said yesterday.

He told Business Report that manufacturing, sales and investment had boomed in the enthusiasm after the election in 1994.

Now growth was becoming more normal. In addition to this, there was the statistical effect of growth from a high base the previous year.

However, certain segments of manufacturing were vulnerable to competition from imports.

This applied to labour-intensive industries such as clothing, and was worrying because most of the jobs lost since 1989 had been in these industries.

Other sectors of manufacturing were growing. This highlighted the need for training in the skills required in today's marketplace, and for the encouragement of exports.

Moll said in these circumstances relocation to neighbouring countries where wages were lower must be attractive to manufacturers in labour-intensive industries.

But there were still a lot of good reasons for staying in South Africa. There were risks in relocating to a country with poor infrastructure and communications, and he said a weak government could make conditions unstable.

Manufacturers to cut staff

ARG 4/1/96

☐ *But survey suggests move temporary*

(180)

JOHN VILJOEN
Business Staff

NEARLY 40 percent of manufacturers plan to retrench workers in the first quarter of 1996 as the growth in sales tapers off, according to a report by Stellenbosch University's Bureau for Economic Research (BER) today.

But on a more optimistic note the BER said the slowdown appeared to be only temporary.

In its survey of manufacturing sector conditions in the fourth quarter of 1995, the BER said business confidence in the sector was high during the survey period.

Sales and orders were better than expected and significantly higher than the final quarter of 1994, a period of favourable business conditions.

This probably helped boost confidence, but manufacturers' experiences over the survey period suggested that the tempo of business activity was falling, a tendency that could persist in the first quarter of this year.

Orders and stocks of finished goods in the domestic market were on a level that would provide little stimulus for production growth, the BER said.

Some impetus could come from a combination of keener exports and low stocks of finished export goods.

Manufacturers planned to step-up the rate of production during the first quarter of this year, but intended retrenching workers and cutting down on factory working hours.

Efforts to improve efficiency and international competitiveness could explain this apparently contradictory result.

Close to 40 percent of manufacturers planned to retrench factory workers in the first quarter of 1996, the BER said. This indicated that many of the workers hired over the past year had been employed temporarily.

A noteworthy aspect of the fourth quarter was the fact that the improvement in business confidence was accompanied by a significant increase in actual or planned fixed investment. Expectations of import and export trade, as well as general business conditions, in 12 months were also improving.

The high level of confidence, together with manufacturers' attitude towards capital expenditure, suggested that not too much should be read into the current apparent slackening of demand growth in the domestic economy, the BER said.

The slowdown might be temporary and overall business conditions and outlook remained satisfactory, the BER said.

The real increase in fixed investment in machinery and equipment, which manufacturers planned in the coming 12 months, would hopefully translate into higher employment.

Builders see modest rise in growth

CT(BR) 5/1/96

By Maggie Rowley

Cape Town — Growth in total building activity would have to increase between 15 and 20 percent this year if the RDP was to be successful, according to the BMI building research strategy consulting unit.

According to its latest quarterly survey of the building industry, this growth exceeded expectations for the next 12 months for the emerging and formal sectors of the industry.

A net 70 percent of the emerging sector expect conditions to improve over the next 12 months, but this improvement is not expected to be more than 5 to 10 percent. But 64,3 percent of formal contractors expect building activity to pick up by less than 5 percent this year.

The unit said emerging and formal contractors expected the RDP's lack of visible delivery last year to continue this year. They had lost confidence because delivery had been disappointing, the unit said.

"Certainly it would appear that the established sector has written off RDP housing as a niche market at least for the foreseeable future and will concentrate their efforts in the other, more traditional building markets with a particular focus on townhouses and clusters."

There could, it said, be a return to popularity of high-rise flat developments in the metropolitan areas, sold on sectional title because of the fortress-type security offered by these developments.

"No doubt the crime wave has also contributed to the so-called security-enclave syndrome where middle- to upper-income suburbanites barricade themselves behind high walls in secluded and self-sufficient suburban islands a few street blocks in size.

"Clearly there is a commonly held view, across all respondent groups surveyed, that the next 12 months will not show significant progress with regard to delivery on the RDP housing programme and therefore for the building industry.

"The building industry is clearly adopting a wait-and-see attitude and is planning for fairly modest growth in activity in the other market segments of the industry."

Manufacturers report better business climate

(180) CT(BR) 5/1/96

By Audrey D'Angelo and Sapa

Cape Town — Business conditions were generally better than expected, the Bureau for Economic Research at Stellenbosch University said in a nationwide manufacturing survey undertaken during the fourth quarter of last year.

"The level of sales and order volumes was better than expected and significantly higher compared with a year ago," the bureau said.

However, the experience of manufacturers in the fourth quarter suggested the tempo of business activity was declining and this could persist.

But it warned that competition from imports was "becoming stronger in key consumer goods industries."

The report said that while certain consumer goods industries, particularly clothing, footwear and leather goods, enjoyed a buoyant first half last year "conditions seemed to become somewhat tougher in the second half."

There was a slowing down in the rate of manufacturers' cost increases: "Lower increases in raw material unit purchase prices and labour unit costs were translated to lower unit selling prices, but profit positions are presumably improving," the report said.

Order volumes and stocks of finished goods on the domestic market in particular were on a level which would provide little stimulus for production growth, but some impetus could come from a combination of keener export order volumes and too low stocks of finished export goods.

The bureau said that despite an apparent lull in demand conditions, manufacturers expressed confidence in the long-term prospects of industry.

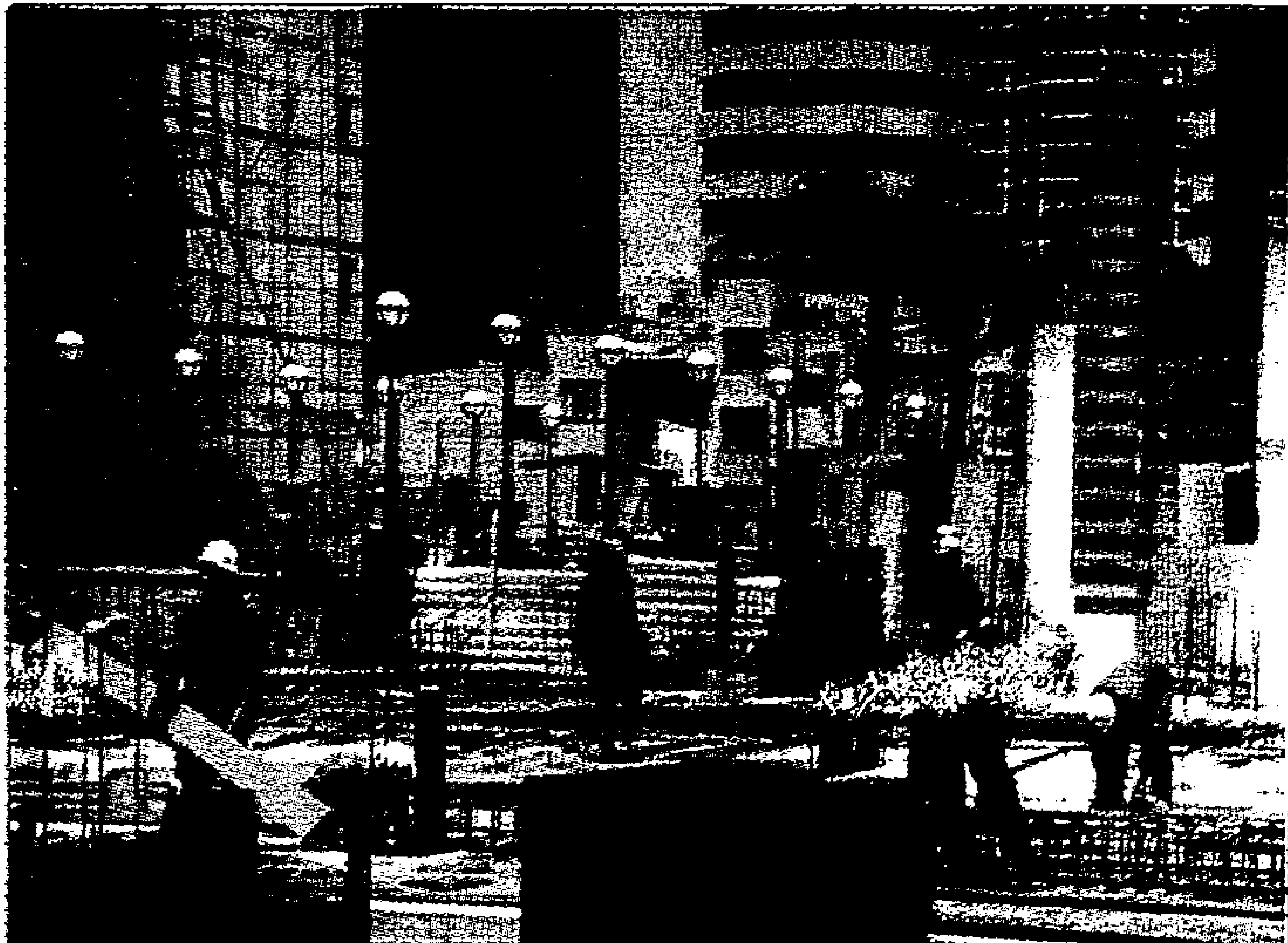
The report said the motor industry was a leading performer last year. "Its production volumes grew by 28 percent compared with a year ago. This industry has wide-ranging forward and backward linkages in the economy.

"Consumer goods industries which benefited from the growth in private consumption expenditure in the first half of 1995 included clothing (production volumes growing by 9 percent year on year), textiles (13 percent), footwear (15 percent), wood products (7,3 percent) and leather goods (10 percent)."

But production and order volumes declined in the clothing, footwear and leather industries in the fourth quarter, compared with a year ago.

"Business confidence is lacking in these industries. In contrast, business conditions in the furniture industry appear to have turned for the better."

The future for heavy industries was bright, but these prospects were, however, also dependent on export demand, the bureau said.



BANKING THE BONUSES *LTA is expecting to receive three incentive bonuses as work on the R82 million contract for block E of Bank City in the Johannesburg city centre looks likely to be achieved ahead of schedule. This, the fourth phase of the project, is due for completion by May next year. The current value of work completed by LTA, which also constructed blocks A, B, C and D, is about R600 million*

Slight increase in jobs recorded in SA's manufacturing sector

(180) BD 9/1/96

John Dludlu

JOBS in SA's manufacturing sector recorded a marginal 0,8% increase, equivalent to 11 075 workers, between August 1994 and August 1995, latest figures from the Central Statistical Service (CSS) show.

However employment in the construction industry slipped 4,1% during the review period.

According to the CSS data, the growth trend in jobs occurred mainly in the clothing, paper, plastics and motor vehicle industries.

Employment in the clothing sector rose 8,8%, 6,5% in the paper industry, 14,1% in the plastics sector and 9,3% in the motor industry.

Economists canvassed attributed the growth trend to the general upturn in SA's economy.

Clothing Federation economist Paul Theron warned that the figures failed to take into account serious problems experienced in the clothing industry towards the end of last year.

"(Clothing) manufacturers came under pressure from retailers who were cutting back on orders in late October and early November because of the effects of illegal imports."

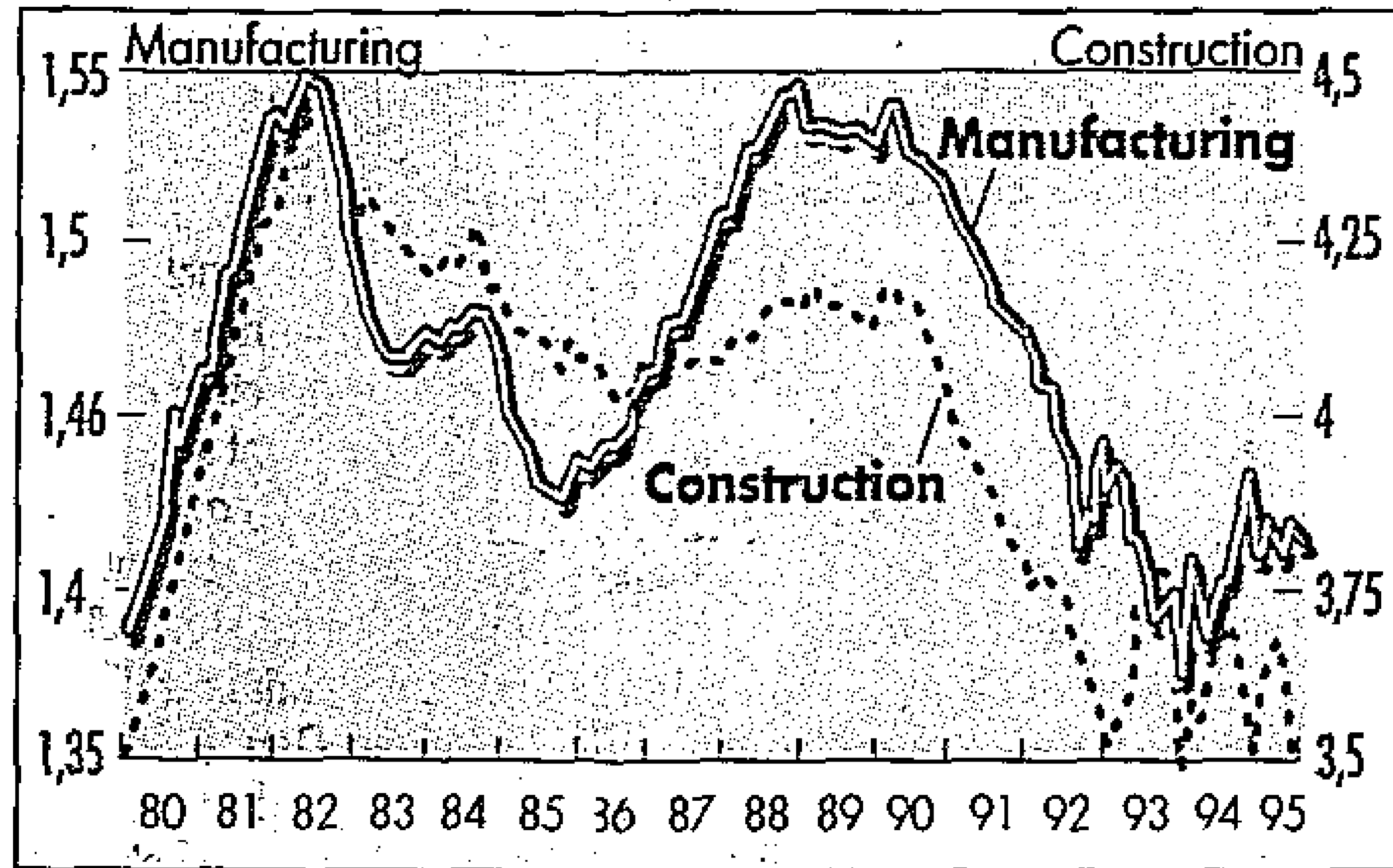
Theron asked if the CSS figures covered those companies operating in the former TBVC states — Bophuthatswana (now Northwest), Venda (now part of Northern Province), Ciskei and Transkei (both included in parts of the Eastern Cape) — as well as unregistered firms.

National Association for Automobile Manufacturers of SA (Naamsa), which represents most of SA's vehicle makers, said the figures reflected the good performance of the industry in terms of sales.

Naamsa executive director Nico Vermeulen said employment in the auto industry rose more than 4% to 39 059 in the first nine months of last year.

He expected the upward trend in employment in the industry to continue in the new year as expansion plans announced by motor vehicle manufacturers were implemented.

According to the CSS, employment in the food industry remained virtually unchanged, while fewer workers were employed in the textile (down 3,1%), metal products (down 1,8%), electrical machinery (down 2,9%) and furniture industries (down 6,5%).



CSS reports slight increase in new manufacturing jobs

(180) CT(BE) 9/1/96

STAFF WRITER

Johannesburg — More jobs created in the clothing, plastics and motor vehicle industries helped to lift total employment in South Africa's manufacturing sector by 0,8 percent or 11 075 jobs in August last year, compared with the previous August, according to figures released this week by the Central Statistical Service.

However, employment in the building construction sector dropped by 3 percent or 6 906 jobs, and in the civil engineering industry it dropped by 6 percent or 8 062 jobs.

The main manufacturing sectors where job opportunities grew were clothing, where employment grew by 9 percent; plastics, by 14 percent; paper, by 7 percent and motor vehicle industries, by 9 percent.

Employment in the food industry was almost unchanged.

Job opportunities dropped 3 percent in the textile industry; 4 percent in wood products; 2 percent in metal products; 3 percent in electrical machinery and 7 percent in the furniture industries.

The survey showed average salaries and wages in August in the manufacturing sector were R3 023 (at current prices) and in the construction sector, R1 701.

Within the average for the manufacturing sector, blacks earned an average R1 873 and whites R6 016 a month. In construction, blacks earned an average R1 180 a month and whites R4 902.

***RISING LEVELS** Despite the recent rains which filled dams and flooded towns, industry is expecting a large increase in Umgeni Water's tariffs*

Water price rise to hit industry

By Jon Beverley

Durban — Industrial water users in Durban are unhappy about the larger-than-inflation increase in the price of water, expected to come their way in March.

Umgeni Water, which supplies water in bulk for piping by municipalities, said this week it would be lifting the price by 12 percent from March 1 and there would be a 15 percent rise for inland areas.

In previous years, municipalities such as Durban, which buy water in bulk, have passed on Umgeni Water's increases to customers.

But the metro council still has to approve the controversial proposals for a new sliding scale tariff system and is expected to meet later this month to discuss the question.

The proposals could result in people who use more than 30kl a month being penalised with a heavier tariff.

Trevor Palmer, the financial director of Durban Water, said the proposals envisaged a "lifeline" tariff for disadvantaged sections of the community.

John Bryce, a director of the Durban Chamber of Commerce and Industry, said the increase would, especially if it was going to be much higher than the inflation rate, have a severe effect on heavy industries, such as brewing, paper, soft- drinks and textiles.

John Barton, the general manager of the paper division of Mondi, which makes about 500 000 tons of paper at its Merebank plant each year, said a 12 percent increase would have a "fairly serious" effect on prices. It took 20 tons of water to make one ton of paper, and while the company recycled a lot of water, the price rise would be felt.

Brian Allison, financial director of beverage and investment group Suncrush, said the rise would not have a serious effect on the company's cool-drink bottling operations — but obviously any price rise would have an effect on prices and profits.

Meanwhile, Umgeni Water's chief executive, Brian Walford, said the company was planning to spend R2,5 billion on infrastructure in the next five years, creating a network of supply points.

Last year it had put a supply levy on suburban users, which would be used to fund the supply programme for the rural areas. About 3 million people are without potable water supplies.

He pointed out that the increase had for many years been below the inflation rate, but Umgeni Water was increasingly having to cope with a finite resource and the costs of supplying all its areas was rising rapidly. Despite this, water in Durban still compared with the cheapest in the world, "which should be a big factor in attracting overseas investment".

Manuel (180) warns on subsidies

ARG 27/1/96

ALIDE DASNOIS
Business Editor

MINISTER of Trade and Industry Trevor Manuel has warned South African companies not to expect government help unless they are prepared to help themselves.

Speaking at the opening of new premises in Jet Park for castor manufacturer Tente, Mr Manuel said yesterday: "We must make a distinction between firms that recognise there are investments they have to make and risks they have to take.

"And when they are successful they can then invite government to come and celebrate their successes with them as opposed to coming cap in hand for protection or subsidies," the minister said.

Sources in his office said Mr Manuel was referring to requests from shipbuilding group Dorbyl for an R80-million subsidy.

Dorbyl had asked the department for the subsidy to help finance a joint venture with German group Egon Oldendorff to build seven bulk carriers at its Durban yards. The Oldendorff deadline expired yesterday.

"Dorbyl was asking the government to provide more than its own contribution," ministerial spokesman Ismail Lagardien said.

"And if it made a profit, could the government get the taxpayers' money back?"

He said Dorbyl was running at a profit and should be prepared to take risks. The group had not presented a vision beyond the single contract with Oldendorff.

According to reports Dorbyl claimed the R800 million shipbuilding contract would have created 1 000 jobs directly.

New 'green' standards for manufacturers

(180)

Many companies will need to rethink procedures to protect the environment

Star 6/2/96

By Nikki Whitfield

To some, ISO 14 000 might sound complicated and confusing – a set of numbers and letters lumped together by superior brains – but you know they must mean something really important.

And important is exactly what ISO 14 000 is – it is set to alter drastically the lives of manufacturers as the global quest for a purer planet rages on.

Soon a sticker slapped on to a product proclaiming it to be "CFC-free, environment-friendly" will simply not be good enough.

Manufacturers will have to do a lot better. They will need to rethink the management of their business activities and alter their manufacturing procedures, and this could involve some expense.

Once the South African Bureau of Standards (SABS) has accepted ISO 14 000 as its guide to judging environmental management activities, every business in this country will need to start considering its standard-setting policies too.

Here is what it is:

ISO stands for the International Standards Organisation and 14 000 is the number given to the standard providing the guidelines, which will have a large impact on the activities of manufacturers, more than on the actual end product.

ISO 14 000 will provide a yardstick against which a company's activities are measured. The company will set goals for itself in such fields as reducing noise and air pollution, looking after its waste water treatment, limiting refuse and and sourcing its supplies of raw materials.

These requirements were spelled out by Dr Henri van Rensburg, a microbiologist and vice-president (chemical departments) of the SABS, and Martin Kellermann, SABS deputy president.

Van Rensburg led the South African delegation to the international committees responsible for the formulation of ISO 14 000.

"You may get a company which does a good job, but produces a product which is not really environmentally friendly," he said. "There are some products you can really do nothing about.

"Look at the tyres of a motor car – there's very little you can do with them when they are used."

Most manufacturers, however, can clean up their acts.

"From our perspective, compliance with ISO 14 000 will become something which will affect all companies in the future. It is the latest development to have the widest impact on activities which affect the environment."

An environmental management system standard (BS 7750) was first developed by the British, who, along with the Canadians, initiated the development of the ISO 14 000 documents.

Several major South African companies will be targeted this year to participate in an ISO 14 000 pilot certification scheme. By the end of 1997, the SABS hopes to declare a formal ISO 14 000 certification scheme.

ISO 14 000 will guide business activities

Not that local manufacturers are completely switched off when it comes to the environment. When the SABS published its own environmental management system document, SABS 0251, about two years ago, South African businesses participated.

"Because we had developed our own document, we could contribute to the deliberations of the international ISO technical committee," Kellermann said.

"But SABS 0251 is not an international document and we are keen to become a part of global standard-setting.

"When ISO 14 000 is published between the middle and the end of this year, we will adopt it and withdraw SABS 0251."

Van Rensburg said the ISO was also looking at setting standards for product labelling, chiefly out of concern for the consumer.

"A wide range of stake-holders will have an interest in this, not least the consumer, to whom a label is very important and highly visible. International standards for product labelling can also have an impact on exports and could unfortunately also be used as trade barriers for exportation.

"If you have an export product, the requirements set for labelling it as environmentally friendly could mean manufacturers will have to consider various requirements such as the sources of raw material, their impact on nature and the effect on water sources. This could lead to a company being unable to label a product environmentally friendly."

But Van Rensburg believes eco-friendliness can be carried too far. Eco-labelling requirements could become so complicated that they could restrict exports.

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But Van Rensburg believes eco-friendliness can be carried too far. Eco-labelling requirements could become so complicated that they could restrict exports.

SA's competitive edge comes from low technology products

BD 21/2/96 (180)

Adrienne Giliomee

MORE than 80% of the products in which SA had a competitive advantage were from low technology-type industries, the Industrial Development Corporation of SA (IDC) said yesterday.

GM Malcolm MacDonald said the revealed competitive advantage index showed that more than 90% of competitive products were from low or medium wage industries. He told the Frankel Pollak investment conference SA had few competitive products in the high-and-medium-technology or wage product categories.

These products would be the domain of countries in the investment or innovation-driven stages of economic development.

He said it was significant 73% of the competitive product types were natural resource-based.

MacDonald said the fact that only 10% of the competitive product types were labour intensive could be a deterrent factor in the development of sustainable competitive advantages in labour intensive type industries.

He said one of the new processes to enhance SA's international competitiveness was increasing general productivity and investing in enhanced capabilities for the factors of production, namely labour and capital.

"This supply-side approach is intended to quicken SA's evolutionary progress up the value chain towards competitiveness in more skills and technology-intensive products." This would allow SA to complete the transition from factor-driven to the investment-driven stage.

The switch in orientation of trade policy from inward to outward orientation had been evidenced by putting tariffs inp place of non-tariff barriers and the introduction of the phased reduction in import tariffs.

"The changes in the environment will present the country with new opportunities such as those flowing from RDP-related areas, and expected increase in local demand, tourism, and the opening up of the African market."

SA's strengths included its mineral resources, a large pool of accessible labour, low cost electricity and advanced infrastructure.

'Manufacturing crucial for growth'

CT(BR) 28/11/96 (180)

By James Lamont

Johannesburg — Growth in the South African economy can only be achieved through the manufacturing sector, Frank Carlisle, the executive director of the Production Management Institute (PMI) of South Africa, said yesterday at the launch of the Manufacturing Africa '97 trade exhibition.

In an address to mark the launch of next year's exhibition, Carlisle said South Africa should concentrate on developing its manufacturing capabilities because other principal sectors of the economy, like mining and agriculture, "were not a source of growth for the South African economy".

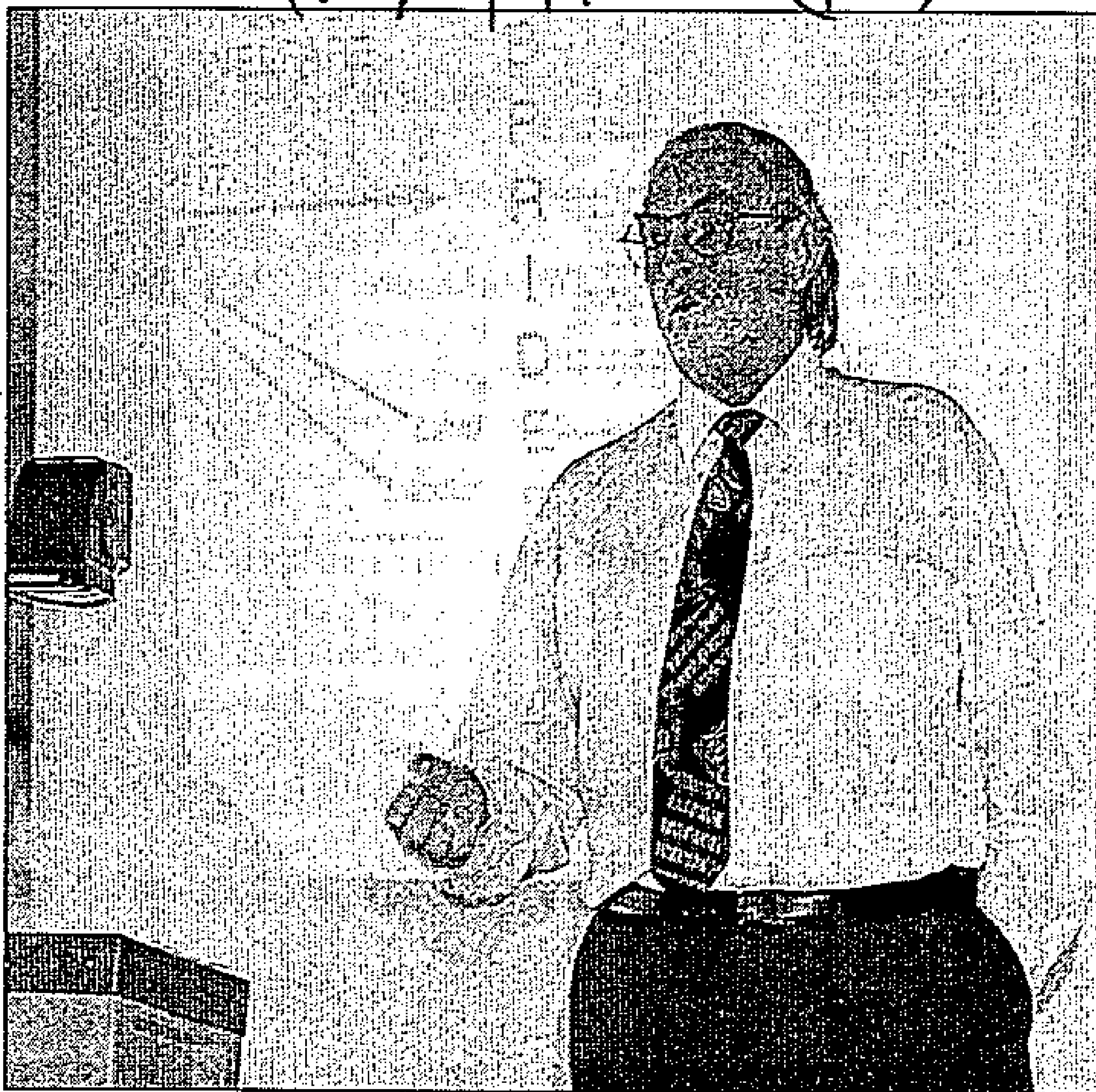
He said manufacturing, which accounted for 26 percent of gross domestic product (GDP), was the only sector that could take up the slack of an unemployment rate estimated at 45 percent, stabilise inflation and narrow wage differentials.

"As a generator of growth in South Africa, manufacturing is far greater than all the rest," he said.

"To balance payments on the current account we have to look towards manufacturing — we have to export to pay for our imports," he said. He recommended that a broader manufacturing base would cut down South Africa's reliance on imports, which he estimated to be 22 percent of GDP.

He said people in South Africa, so long preoccupied with mining and agriculture, had lost sight of how much manufacturing accounted for in the economy.

He reserved a serious warning for management. Although South Africa had resources in manpower, capital and raw materials to expand manufacturing output, he said poor management had affected efficiency levels and competitiveness.



STERN WARNING *Frank Carlisle of the PMI*

PHOTO: JOHN WOODROOF

MANUFACTURING FIGURES

CAUSE TO WORRY?

Reserve Bank Governor Chris Stals said last week that, with about 85% of capacity now taken up, manufacturing will be hard pressed to maintain high growth.

Fourth-quarter 1995 GDP figures show that, after seasonally adjusted and annualised growth rates of 7%, 10% and 8,6% in the first three quarters, manufacturing actually declined by 2,8%. So is the deceleration a result of capacity constraints, or just a pause for breath?

Economist Kevin Lings says: "A lot of SA's spare capacity is not necessarily in those areas or regions experiencing high growth. In the hotel industry overall occupancy levels are below 50%, but hotel occupancy in the Western Cape is much higher."

UTILISATION OF PRODUCTION CAPACITY

Sector	Utilisation
Total manufacturing	82,9%
Basic iron & steel	94,2%
Industrial chemicals	88,1%
Paper	86,5%
Food	81,8%
Motor vehicles	80,4%

SOURCE: CSS AUGUST 1995

Food, iron, chemicals, motor vehicles and paper represent more than half of total manufactures. In each case at least half of the spare capacity exists because of insufficient demand. Lings attributes this to a mismatch between the nature or location of capacity and the type of goods demanded in that area or industry.

He believes manufacturing is pausing to consolidate. "The exceptional rate of growth we saw last year could not have been sustained indefinitely," he says.

Sacob economist Keith Lockwood says it is not easy to distinguish the results of the normal economic cycle from sectoral restructuring issues. Some manufacturing sectors have been contending with lowering tariffs, import competition and decreased import prices.

Frankel Pollak Vinderine economist Mike Brown reckons the interruption of manufacturing growth will be neither serious nor long-term. High levels of gross domestic fixed investment to relieve industry's capacity constraints will come, he says, when, after delays and doubts about tariff protection, the Saldanha Steel and Tongaat-Hulett aluminium projects start up. Plans for the motor, chemical and property industries are also going through.

Projects like Alusaf and Columbus, called "Section 37E projects" after the tax concession granted for export-orientated investment, make the figures difficult to read. They could have accounted for a large proportion of the increase in gross domestic fixed investment.

Until the right kind of new capacity begins to mature, what will be the effect on prices of operating near full-capacity? Though he recognises the possibility of upward pressure, Lings observes: "Rapid growth in import demand has created an awareness among manufacturers of competition from abroad. They are forced to be more cautious about increasing margins."

In the long run, the outlook seems optimistic. Fixed investment began unusually early in the cycle, stimulated by the Section 37E concession. Nedcor points out that, in the first three quarters of 1995, machinery was the fastest growing fixed-investment item, rising 20,3% year-on-year. A Sacob survey shows 70% of about 400 manufacturers planned to increase capacity over the next year.

In the short term, the recent windfalls of a higher gold price and heavy rain are expected to boost GDP figures. But for the longer term, a strong fixed-investment infrastructure is the thing to hope for. ■

Manufacturers cannot adapt to new era without govt help

(180) BD 1/3/96

DAVID SABLE

THE manufacturing environment in SA is being radically and very quickly redesigned under government's trade liberalisation policies.

Manufacturing companies have realised they can no longer rely on the principles and methods which have, for decades, brought success in the old, closed environment. Driven by self-preservation, they are adapting to the emerging, internationally integrated order.

The process is proving traumatic — for businesses and the people who work in them. Many of the weaker companies will not survive. Others have the potential to become powerhouses. If the process is successful, the resultant manufacturing base will be far stronger.

While government determines the shape of the new environment, it is also a crucial partner in implementing the process.

Its role, like that of a parent, must be to facilitate the process by introducing the appropriate incentives, and creating an enabling environment in which the nation's manufacturing companies are given every possible advantage and opportunity to succeed in a difficult time.

The implications for SA of the outcome of this process are profound. Given that 45% of the potential workforce is already unemployed, it could be the pivotal determinant of the success or failure of post-apartheid SA.

Manufacturers are committing billions of rands of shareholder capital to bold strategies which call for investment in new technology and human resource development. However, even the best of these strategies will be undermined if the new rules are ignored, and the environment is subject to redesign at any time. It is not sufficient for government to design the new operating environment and establish the rules — its responsibilities extend to stable management and enforcement.

While most SA manufacturing companies are rising to the challenges posed by government's reforms of the trade environment, it is failing to discharge its intrinsic obligations and responsibilities: it is failing to create an enabling environment by failing to manage the system and enforce the rules (customs and dumping) and deliver supply-side measures. And it is sabotaging the very process it has initiated by implementing a series of ad hoc modifications (bilateral trade deals) which have not been sufficiently openly debated. It is failing to give the manufacturing base the opportunity to succeed.

Consider, for example, government's trade initiative with China.

The trade and industry department recently announced its proposal to establish a voluntary export restraint agreement with the Peoples Republic of China, and sent two officials to that country for "non-binding discussions".

Under such an agreement (to avoid the alternative of the imposition by SA of punitive tariffs), China offered to voluntarily restrict its own exports to SA, and monitor its own compliance with the quotas. SA customs would have no responsibility at all for the control of — or authority over — the agreement.

Experienced, battle-hardened business people are sceptical that China will comply with the quotas.

Trade and industry spokesman Ismael Lagardien says China has been reliable in upholding agreements. And the department's Kate Kuper says that SA allegations of dumping have been vigorously contested by the Chinese and are extremely hard to prove.

The facts, however, do not support Lagardien's statement, and make a mockery of China's denials of dumping.

London's Financial Times reported on December 14 last year that from July 1994 to June last year more anti-dumping actions — 27 — were brought against China than any other country in the world by the EU, the US and others.

The US magazine Business Week reported on February 12 this year that US Trade Representative Mickey Kantor was threatening to slap more than $1bn in sanctions on Chinese imports for Beijing's failure to halt copyright rip-offs.

In support of Kantor's position, Business Week quotes a senior Clinton administration official as saying: "If you aren't serious about enforcing basic trade agreements, (why) would China think that you are serious about enforcing other commitments?"

In any event, even if the central Chinese government wanted to comply with a voluntary export restraint agreement with SA (and the evidence suggests it does not), China is such a vast country with so many enormous and economically autonomous trading regions that an attempt to centrally limit exports would be farcical.

As a sweetener, China also offered to grant SA exports better access to its own markets. While there is undoubtedly some potential for SA exports to China, given that the US trade deficit with China is expected to hit a record $40bn this year, SA is unlikely to fare better.

The trade and industry department publicly undertook that no binding agreement would be clinched during its visit to China and that, on its return, the matter would be thoroughly debated with all interested parties.

Immediately following her return to SA, however, Kuper was quoted as saying that the agreement was an "incredibly significant" achievement. Reports said that "notes" had been exchanged between the two governments and that the signing of an agreement was now a mere formality.

Following her trip to China, Kuper has said government is not out to protect SA industry without good reason and sufficient evidence. Lagardien makes a veiled threat by stating that many other countries have taken a tough stand (against their own industries) by not assisting industries facing external competitive pressures and forcing them to adjust or close.

However, the US and the EU, for example, do not share trade and industry's approach. The Financial Times says the EU and US between them have no less than 485 anti-subsidy measures in force to shield their manufacturers from dumping.

From July 1994 to June last year the EU initiated 37 anti-dumping investigations, followed by the US with 30, Mexico with 18 and Brazil with 12. In contrast to these annual figures, the cumulative total of anti-dumping investigations initiated in SA is approximately 45 to 50.

Sadly, the comprehension of the harsh realities of international trade displayed by these countries seems to be absent in SA. So too does the realisation that the destruction of parts of a nation's manufacturing base is almost irreversible.

Government has re-designed the environment and set the new rules, and SA's manufacturing companies will either adapt or certainly die. The importance to SA of a successful economic restructuring simply cannot be overemphasised and, if they are to succeed, rather than being treated as adversaries, SA companies must have the full and unconditional support of the trade and industry department, customs and excise and government as a whole.

□ **Sable is a director of Gregory Knitting Mills and Frame group Holdings.**

EARLY VIEW

Business divided on support policy

John Dludlu

(180) BD 1/3/96

THE business constituency at the National Economic, Development and Labour Council was divided over the nature of support measures for firms to enhance their global competitiveness, business convenor at Nedlac's trade and industry chamber Stef Naude conceded yesterday.

Naude said a document on the private sector's response to the debate on supply-side measures was rejected last week since "not everyone was happy" with the proposal. A new document was being drafted and would be assessed by Business SA's economic policy committee before its approval as a business position.

Naude said although there was broad agreement that a stable macroeconomic policy environment — characterised by lower tax rates — would be good for business, this option seemed difficult to achieve in the short-term.

One camp felt targeted investment incentives were a viable option. However, there was no agreement on whether such measures should be cash- or tax-based.

Naude doubted if business's response would be ready for next week's sitting of the chamber.

INTERNATIONAL COMPETITIVENESS

A LONG ROAD AHEAD

SA has little chance of being one of the booming economies of tomorrow. The main criteria for this, says the Union Bank of Switzerland publication, *International Finance* are:

- A high rate of domestic savings;
- The creation and adoption of new technology, stable prices, low government consumption; and
- A competitive foreign exchange rate.

SA is barely mentioned in the article. But, judging by speakers at last week's Frankel Pollak investment conference, it is unlikely to shape up.

The bank uses per capita GDP as the single measure of competitiveness. The US's achievement on that score counts as 100. All other countries score less.

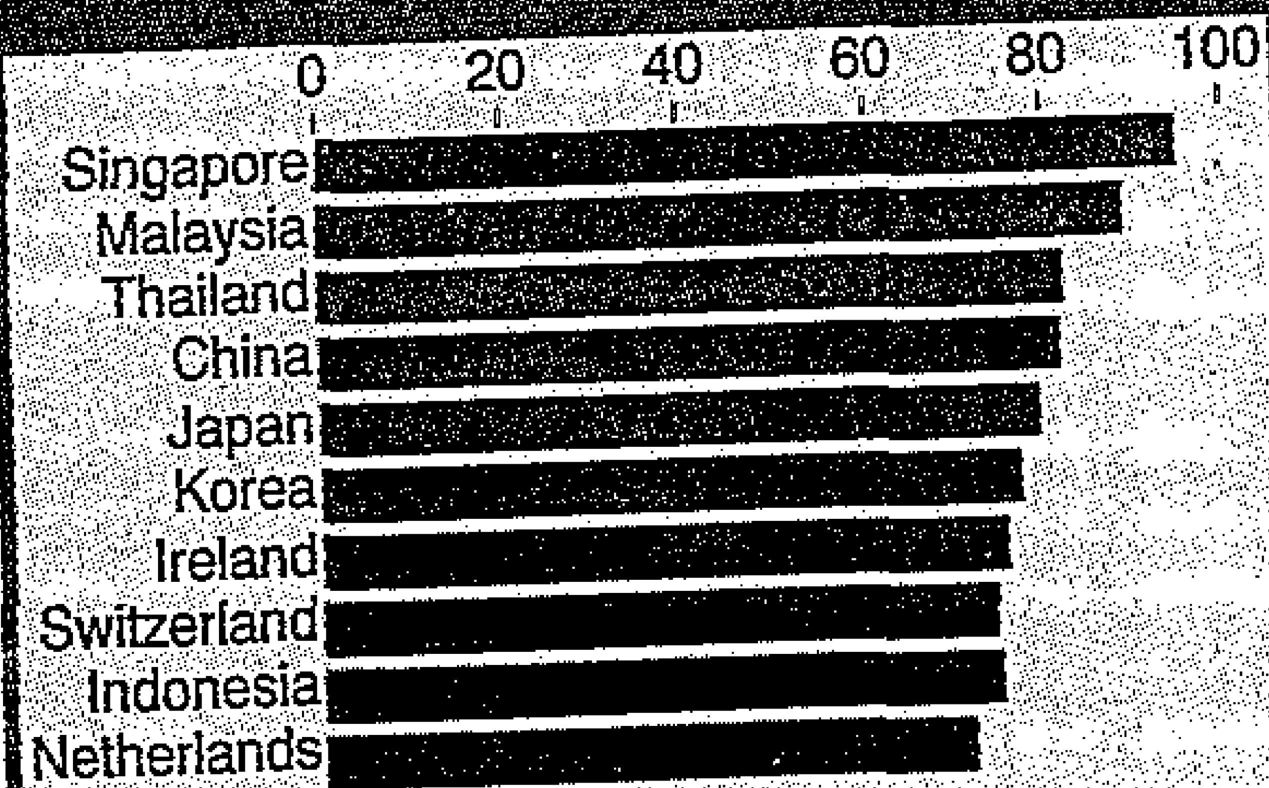
Switzerland, Singapore, Canada and Japan come closest though the two western countries are not doing as well as they were 10 years ago, and Japan's improvement was before 1990.

"The move from mass-manufacturing to hi-tech goods and service economies is proving difficult," says the article. It suggests "these losses can be made up once policies to buttress the industries of the past give way to policies promoting industries of the future."

It points out that high growth rates require high rates of investment and therefore of domestic savings. Foreign investment "remains small relative to the amount (needed) for significantly better than average economic growth."

The latter generally requires domestic savings rates of more than 30% of GDP. Savings must be invested either to improve plant productivity through new technology or to "create a general economic environment conducive to using resources efficiently."

Finally, the article argues the difference between 3% and 5% inflation is immaterial. Above 5%, however, "it impedes long-term planning."



SOURCE: UBS INTERNATIONAL FINANCE

On the bank's per capita GDP index, SA slumped from 30 in 1985 to 11 in 1995. It is now abreast of China and doing only half as well as Brazil.

The Reserve Bank says gross domestic saving fell from 24,5% of GDP in 1985 to 18% in the third quarter of last year. The explanation lies mainly in government dissaving.

Eskom finance executive director Willem Kok told the investment conference that, to help finance current expenditure, government borrowing soared from R5bn in 1991 to R23bn in 1993.

It has since reduced to about R18bn, but some economists fear the debt trap is still alarmingly close.

Commissioner for Inland Revenue Trevor van Heerden, reporting to the Auditor-General in his capacity as Accounting Officer for Inland Revenue, freely conceded the deficiencies. And as he has frequently pointed out, he could do very little, due to his inability to recruit personnel.

And, since 1993, the new government has imposed a freeze on creating new posts or even filling existing posts. It is likely the situation will worsen, as resignations of key officials are possible.

He says the process of incorporating the revenue departments of the former TBVC states is likely to aggravate problems significantly. Skilled officers will have to be drawn from their existing posts to assist.

Van heerden applauds the support of government for the establishment of the Revenue Service but, until this process is completed, the basic problems will remain insoluble.

Modest progress can be reported in some areas. The first stage of a new Paye system was implemented in December 1995.

Like other new systems, this will be enforceable by computer. Revenue offices will not be able to overrule the computer on the issue of extensions.

Government was asked to give more money in January to shore up Inland Revenue by creating posts for control functions and tax collection. And additional computer equipment has been bought

An urgent instruction has been issued to all revenue offices to offset debts for GST against credits for Vat. A new manual is being compiled for processing tax claims against deceased and insolvent estates.

Van Heerden says it has proved unnecessary to enact amending legislation to set up the new Revenue Service. It was possible to do this by promulgating new regulations under the Public Service Act — which permits the creation of a new department.

An initial allocation of funds will be appropriated in the Budget to get the service started and its inauguration date will be April 1.

Meanwhile, says Van Heerden, the urgency of the task has been underscored by the second allegation of corruption within two months — in the Paye section at the Johannesburg Receiver's office. This came to light when a taxpayer, subjected to extortion by an official, reported the matter to the police. ■

Little hope of further jobs

Business Editor (180) ARG 7/3/96

NO significant increase in jobs can be expected from the manufacturing sector this year, according to the SA Chamber of Business (Sacob).

Reporting the results of its February survey of confidence levels in manufacturing, Sacob said manufacturers were less confident about sales volumes, skilled employment and investment.

Fewer manufacturers than before expected production volumes and capacity utilisation to increase over the next 12 months.

The results, Sacob said, might be an over-reaction to the economic shocks of the past month.

A majority of respondents said they would reduce their employment of unskilled workers over the next 12 months.

... may be declared an official public holiday for the local elections, it would affect business negatively, says the Cape Chamber of Commerce and Industry.

President Geoffrey Ashmead said yesterday that the public holiday in November for local elections elsewhere in the country had cost business in the Cape region about R60m.

UFO only a cable

A MYSTERY object shining in SA skies has been identified as a high-technology cable lost in space on a failed US space shuttle experiment.

Astronomer John Caldwell of the SA Astronomical Observatory said a bright line seen in the sky last week was sunlight glinting off the copper, nylon and teflon cable that broke during a US-Italian mission.

REPORTS: Sapa, Reuter, Business Day reporter.

Business SA proposals made

BD 14/3/96 (180)

John Dludlu

BUSINESS representatives at the National Economic, Development and Labour Council will respond tomorrow to government proposals on measures to improve SA's industrial competitiveness.

Business SA submitted its proposals to Nedlac this week, trade and industry chamber business convenor Stef Naudé said. He expected the proposals to be discussed at tomorrow's meeting of the chamber.

Business is known to favour a lower corporate tax regime as an incentive, while some BSA affiliates want tax incentives on training and investment.

Labour responded to the state proposals by calling for a more comprehensive approach which takes into account declining primary sector activity.

Debate on government measures to improve industrial competitiveness, which includes training and small business development incentives, has been frustrated by government's reluctance to indicate what it can afford, financially and administratively.

Government has only indicated a willingness to fund such measures through savings on the phasing out of the general export incentive scheme.

Nedlac will receive a report tomorrow outlining labour's proposal that SA's trading partners be asked to respect worker and human rights in trade accords.

Sources say this social clause will allow SA to pursue the linking of trade to labour standards. But such a clause will not be a prerequisite to the conclusion of an accord. If approved, this compromise could break the impasse holding up the conclusion of trade accords with Cuba and the Philippines.

Union to review 'save jobs' drive

Renee Grawitzky

THE SA Clothing and Textile Workers' Union would review its relationship with the trade and industry department, and its campaign to protect jobs in the clothing and textile industry, at its national bargaining conference which begins in East London tomorrow.

National organising secretary Freddie Magugu said yesterday that the union's "protect jobs" campaign, launched earlier this year, would be reviewed and intensified if necessary. However, the final decision would be based on progress made in terms of protest campaign.

The conference would focus also on closing the wage gap between urban and rural workers; provident funds; tabling a proposal linked to RDP objectives; grading and training; and reaffirming the union's commitment to closed shop arrangements.

Magugu said that last year the union had begun implementing its programme to close the apartheid wage gap. This year, the union would start setting specific rates for workers employed in rural, peri-urban and urban areas. The union wanted to achieve the situation where workers in the rural areas were earning no less than 80% of wages earned in urban areas. Currently, he said, workers in rural areas were earning about 10% to 20% of urban rates.

The union would propose to the various bargaining councils the establishment of housing development trusts to assist in housing delivery. He said initially union members would be the main beneficiaries. However, depending on the extent and growth of the trusts, "we could look at a general contribution to providing houses". The individual councils would decide on minimum contributions by employers to these funds.

Finally, the setting of minimum wages in sectors would differ, but the union would focus this year more on actual rates for grades, he said.

BD 14/3/96

PPI springs a surprise by falling to 7,2%

(180) CT(BR) 15/3/96

BY LLEWELLYN JONES

Johannesburg — South Africa's producer price index (PPI) for January fell sharply to 7,2 percent year-on-year as locally produced commodities and imported commodity prices were held in check.

The figures released yesterday by Central Statistical Service caught commentators by surprise. The figures showed the index's annual rate of increase declined 1,3 percentage points in January from a rate of 8,5 percent in December.

The monthly PPI increased 0,4 percent and the seasonally adjusted index rose 0,3 percent from December to January.

The monthly increase was well below expectations, because January is normally a month when big price increases are registered.

The steep annual decrease was largely attributable to a sharp decline in the food category. Food prices fell 3,5 percent month-on-month at the agricultural level, though they increased 0,6 percent at the manufactured level.

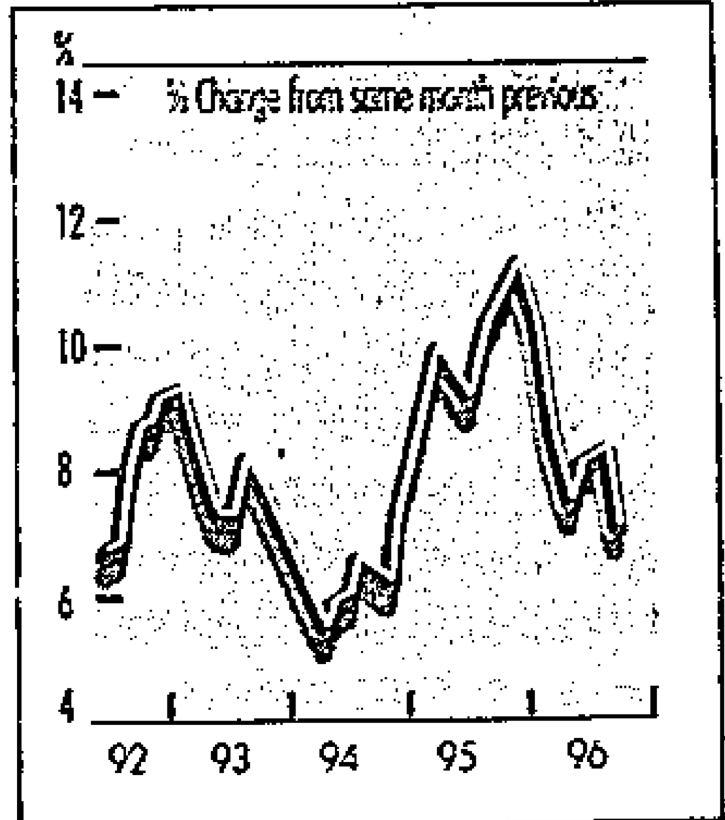
The fall at the agricultural level came after a 5,9 percent jump in December, largely due to seasonal and flood-related factors.

The index for locally produced commodities was up 7,8 percent, 1,4 percentage points lower than December's 9,2 percent. The imported commodities index increased 4,7 percent, 1,1 percentage points lower than December.

The increase in the imported component came despite rand stability and was most likely related to oil prices being seasonally higher in the northern hemisphere winter.

Other relatively large monthly increases occurred in the indices for gas and water (1,8 percent), mining and quarrying products (0,8 percent), footwear (1,2 percent) and paper products and printing (1,6 percent).

The electricity index rose 2,9 percent and petroleum and coal products were up 2,2 percent.



WORLD COMPETITIVENESS

FIRST GLANCE

29/3/96

(180)

Preliminary findings on world competitiveness in 1996 have been released by the International Institute for Management Development. The Swiss-based organisation surveyed 2 500 business leaders worldwide on their perceptions of the business environment in 24 OECD countries and 20 newly industrialised countries and emerging market economies.

FM 29/4/96

Their assessments are based on eight factors, such as infrastructure, the extent to which government policies foster competitiveness, internationalisation, human resources and financial services. These are measured by 380 criteria.

Early findings show:

- Government — SA is ranked 35th out of 44 countries by the world business community and 35th by SA nationals;
- Society — 21st and 26th;
- Attractiveness — 31st and 38th; and
- Aggressiveness — 31st and 26th.

"The surprise," says survey project director Stephane Garelli, is that "the international business community still places Germany — and to a lesser extent, Switzerland — in better positions than the US and Singapore in terms of government that is most supportive of competitiveness." However, the business communities within those countries did not

Boost for backyard industries

(180)

By Patrick Phosa

Star 29/3/96

A move to bring backyard steel manufacturers into the mainstream economy has been launched by the National Informal Steel Development Association (NISDA).

The aim is to mould them into formidable cohesive manufacturing units as part of the association's campaign to establish provincial branches.

NISDA national co-ordinator Moses Simelane said the campaign had been made possible by a grant of R100 000 from the South African Iron and Steel Institute.

He said that because they could work as co-operatives manufacturers could gain contracts to manufacture steel window and door frames for low-cost housing.

South African Iron and steel Institute spokesman Johan De Wet said his organisation was prepared to offer training in basic welding and to offer bursaries.

Campaign to promote locally made products proposed

BD 2/4/96 (180)

Renee Grawitzky

LABOUR, in what clearly can be seen as a "break with the past", has proposed the launch of a "buy local, buy fair labour standards" campaign to stimulate domestic demand for locally manufactured goods and services which will affect job creation.

This formed part of a number of mechanisms outlined in organised labour's economic policy framework "Social equity and job creation — the key to a stable future", unveiled yesterday.

As part of a range of proposals to encourage job creation, labour, in pursuance of this "buy local" campaign, would call on retailers to "actively source locally" and to disclose the proportion of their stock which was sourced locally.

Labour in its document acknowledged that productivity improvements were vital for the economy's performance, despite the fact that labour productivity in the past decade had increased more than 15%.

In a move to promote productivity improvements, labour proposed a national productivity and equity framework agreement to be negotiated within Nedlac by October this year.

This accord, labour argued, should cover the goals of "improving managerial, labour, capital and raw material usage productivity levels".

Distribution of productivity benefits and shop floor reorganisation should also form part of such an agreement.

Besides intensification of public works programmes to stimulate employment, labour called for a shift in focus of the Industrial Development Corporation away from capital-intensive mega projects to labour-intensive processes.

Labour proposed the creation of a national restructuring fund to finance the introduction of both new technology and work organisation to companies which could show increased output and more job creation.

Other proposals were creation of union based workplace forums, and granting workers the right to elect 50% of company boards' members.

Labour

Continued from Page 1

BD 2/4/96

The document called for moderation of "restrictive monetary policies" followed by the Reserve Bank to stimulate economic activity and job creation.

On job creation, labour proposed the intensification of public works programmes with the possibility of creating 550 000 jobs, directly and indirectly, by building 300 000 houses over three years.

The funding of such a programme would be shared jointly by labour, government and business through a 5% levy imposed on company pre-tax profit over three years.

Labour's convener at Nedlac, Ebrahim Patel, said workers would contribute to job creation with the introduction of a prescribed investment requirement on pension and provident funds, the life assurance industry and the assets of the Public Investment Commissioners of 5% of funds in special government bonds to finance RDP projects.

Patel warned that organised labour was also prepared to take a number of commitments — which should not be seen "in terms of trade-offs" — to negotiations on future economic policy.

Workers would commit themselves to an agreement on production increases and to give up some lucrative income obtained through overtime worked to facilitate job creation.

Labour had proposed a "worker rights index" for companies tendering for public contracts. This would require companies to spend the equivalent of 4% of their payrolls on training if they were to qualify for tendering.

Picture: Page 4

THE CAPE

Region's manufacturers lead confidence stakes

ARG 11/4/96 (180)

ALIDE DASNOIS
Business Editor

MANUFACTURERS in the Western Cape are more confident about the future than those in any other region, says a survey by the SA Chamber of Commerce (Sacob).

More than half of Western Cape manufacturers polled in March by Sacob expected to take on more unskilled workers in the next 12 months, compared to about a third in the country as a whole. Two-thirds expected to employ more skilled workers.

And 80 percent of Western Cape manufacturers expected production volumes and sales to rise over the next 12 months.

For the country as a whole, 71 percent of manufacturers expected sales to rise.

A year ago, the figure was 90 percent, showing how confidence levels have dropped. Sacob said most manufacturers expected demand for their goods to slow.

Business confidence in March was at a six-month low, Sacob said, with recent volatility on the financial markets reflecting uncertainty about the country's economic future.

The rand recovered today to R4,14 to the US dollar after plunging to a record low of R4,19 yesterday.

Dealers said foreigners and importers – anxious to stock up on dollars in case the rand fell further – had been active in the market.

The South African currency, which plunged in mid-February following rumours about President Mandela's health, has been jittery since the Cabinet reshuffle last week which gave the Finance portfolio to former Minister of Trade and Industry Trevor Manuel.

Dealers said continued uncertainty about the pace of exchange control relaxation, as well as the strength of the dollar, was also affecting the rand.

A weaker rand means exports from South Africa are more competitive but imports are more expensive.

● The Argus Correspondent reports from Johannesburg that South Africa, already experiencing something of a tourist boom despite the depressing crime rate, is expected to become an even brighter tourist destination as the rand continues to reel against foreign currencies.

The rand plunged to an all-time low of R4,19 against the dollar yesterday, making tourism the silver lining in a mushrooming cloud of gloom.

Hotel and conference facilities are expected to be stretched to the limit as tourism looks set to soar.

"Many facilities have already seen advanced bookings for the next three to six months," said Rupert Lawlor of the Association of South African Travel Agents.

"The drop in the rand will make this country all the more attractive.

"The tourism industry now needs to talk to the government with the aim of improving the country's infrastructure and maximising the boom. Roads need to be improved, taxes on the building of coaches need to be relaxed and airports need to be expanded."

He said Australia absorbed around 3,5 million tourists a year, while South Africa got 1,2 million last year. "If we are going to increase that threefold, we need to do a lot of long-term planning."

James Seymour, Satour's head of tourism research, said research done on last year's season showed that many visitors regarded South Africa as an excellent value-for-money destination.

Inflation rate is likely to remain muted

(180) (15??)

February PPI plummets to 22-month low

CT(BR) 12/4/96

By Sean Feely

Johannesburg. — The rate of increase in producer prices fell to a 22-month low in February, confirming that inflation was likely to remain muted and which fuelled a decline in bond yields yesterday to near their lowest levels this week.

The producer price index rose at an annual rate of 6,3 percent in February, 0,9 percentage points lower than January's figure of 7,2 percent because of a decline in the price indices for agricultural products, electricity, gas and water, the Central Statistical Service said yesterday.

That is the lowest rate since it hit 6,2 percent in April 1994, and below economists' forecasts of an increase of between 6,5 percent and 7 percent in February. Traders said local institutions were aggressive buyers of bonds yesterday morning, because gilts prices had dropped to near eight-month lows, adding to the drop in rates.

"The PPI confirmed what we knew before the rand's plunge, so those figures are history now," said a bond trader at a large bank.

"What the rand's impact is going to be on inflation and reserves is the big question."

The rand strengthened yesterday morning to R4,13 against the dollar from Wednesday's R4,18 close before trading near the R4,15 level in the afternoon as foreign sales of the local currency resumed.

"Foreigners are unwinding their positions, they're just selling.

"They seem to want to limit their exposure and re-assess what's happened," said a rand trader.

The rand's fall against the dollar since mid-February, when the currency's rout first started, indicates that capital has flowed out of the country, which will hurt foreign exchange reserves and delay a cut in the Reserve Bank's key interest rate.

The rand's 13,7 percent plunge over the past eight weeks was also likely to spur an increase in import prices and increase inflation, analysts said. That would further dim expectations of lower interest rates.

"Yields may even go over 16 percent if the picture doesn't change in the next week or two," said a merchant bank bond trader.

The yield on the R150 traded at about 15,7 percent late yesterday afternoon from 15,82 percent at Wednesday's close.

Gold shares will probably benefit from the rand's fall.

That and an increase in bullion prices pushed the gold index up 23,7 points, or 1,3 percent, to close at 1798,6 yesterday.

The all share index declined a marginal 0,4 points to 6653,9 as the industrial index slumped 25,10 points to 8060,6.

The producer price index's monthly increase was 0,4 percent because of relatively large increases in the price indices for mining and quarrying products, and food at manufacturing — but it was unchanged after being seasonally adjusted, the statistical service said.

The PPI for locally produced commodities rose 6,7 percent in February — 1,1 percentage points lower than 7,8 percent in January and the lowest rate since December 1993's 6,3 percent — while imported producer prices rose 5,2 percent, which is 0,5 percent higher than the 4,7 percent posted in January.

☐ See Business Watch, Page 14

Manufacturing confidence dented by declining sales

BD 23/4/96 (180 D)

Edward West

MANUFACTURING sector confidence fell sharply in the first quarter after sales, production and order volumes were lower than expected, a Stellenbosch-based Bureau of Economic Research survey found.

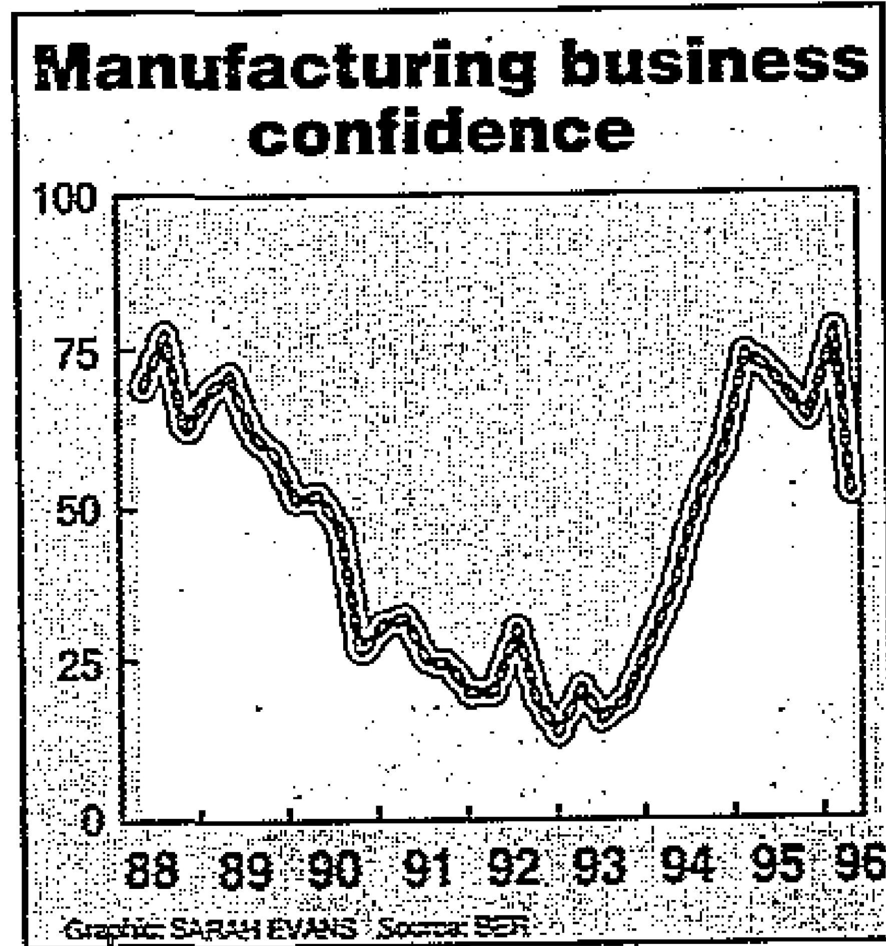
If manufacturers' expectations of an improvement did not materialise in the second quarter, confidence levels would fall further, providing confirmation that the economy was entering a downswing phase, the report warned. "This comes as a somewhat surprising result amidst all the optimism of stronger economic growth in 1996."

There was a substantial deterioration in sales volume growth in the first three months of this year, although both local and export sales were expected to improve in the second quarter.

As a result of the weaker sales and order volumes, growth in production volumes continued to decelerate. There was also a sharp cutback in factory employment and working hours in the first quarter.

More than four out of 10 manufacturers surveyed retrenched workers in the first quarter. The adverse employment conditions were expected to persist in the second quarter.

Domestic orders declined compared to a year ago and were significantly weaker than expected. Export orders slowed to a level comparable with the first quarter of last year.



Graphic: SARAH EVANS Source: BER

The survey pointed to a squeeze on manufacturing profit margins. Unit labour costs increased at a higher rate compared to a year ago, as did the average price a unit for raw materials. In the previous survey a drop in labour costs was reported, a trend which was expected to continue into the first quarter.

Raw material stocks and finished goods were too high in relation to demand and respondents indicated that they intended to lower inventories.

Manufacturers were, however, still increasing capital expenditure, in spite of the weakening demand. Fixed investment was at a similar level to the previous quarter and should remain at that level in the second quarter, the report said.

Outlook for business conditions over the next 12 months was brightest in the non-metal minerals, transport, electrical machinery, metal products, base metals, chemicals, food and beverage industries. Respondents in the consumer goods industries were generally negative in their expectations.

"It would appear the rapid growth in manufacturing in 1995 is unlikely to be repeated in 1996. The expected primary sector recovery and eventual delivery of RDP projects should counter the impact of slower manufacturing growth," the report said.

Protectionism the culprit behind high manufacturing costs

EWALD WESSELS (180) BD 8/5/96

IT IS generally agreed that the cause of SA's high unemployment is the fact that its manufacturing industries are not internationally competitive.

It is usually argued that this is a consequence of high wages and low labour productivity.

However, attention has recently been drawn to the fact that the industrial policies of the previous government systematically raised domestic prices of semiprocessed raw materials to levels far higher than their international equivalents.

This has probably contributed more than anything else to the high cost of manufacturing in SA.

A two-tier manufacturing economy has been created with inefficient, hugely capital-intensive, subsidised, and protected mineral beneficiation industries extracting high prices from the more labour-intensive downstream industries.

Steel is a good example. In Taiwan and Korea, domestic steel manufacture is controlled by the governments of these countries.

In both countries steel manufacturers keep their domestic prices lower than their export prices. The consequence has been a spectacular growth of employment in flourishing steel-based industries such as the manufacture of machinery, ships and cars.

In SA, by contrast, Iscor's average domestic price for steel has recently been as much as 67% higher than its average export price, according to evidence submitted to the Steyn board of inquiry into the Saldanha Steel Project.

This information was independently corroborated by evidence submitted to the competition board regarding the proposed joint venture between Iscor and Macsteel.

It follows from the fact that the 67% premium is an average, according to the evidence given, and that for individual steel specifications the premium has been higher. To place this information in perspective, the cost of the raw steel at such premium prices can be as high as the cost of finished products made from steel elsewhere in the world.

No amount of wage reduction or productivity improvement could make the manufacture of such products in SA competitive against imports when the cost of steel is at these levels. Even when steel can be imported, the delivered cost, including import tariff and transport costs, is higher than the price paid by competing manufacturers elsewhere in the world.

Smaller companies cannot import on their own. To expect that the average SA company should compensate by achieving a higher productivity than is achieved elsewhere in the world is unrealistic; the information suggests that the average SA manufacturer can only become internationally competitive, if at all possible, by depressing wages and salaries and avoiding discretionary costs such as training.

The number of people employed in the manufacture and assembly of components for machinery and other products of various kinds out of a ton of steel is far higher than the number of people employed in the manufacture of the steel itself. The consequence is that domestic employment opportunities have been destroyed as a result of the decline of downstream SA industries even though exports of steel have grown.

Downstream companies, suffering from high input prices, have often been unable to hold their own against imports. In some cases competing low-priced imports have been made from exported Iscor steel.

Numbers employed in the steel and engineering industries in SA have dropped more than 40% over the past 15 years, representing a loss of more than 180 000 jobs.

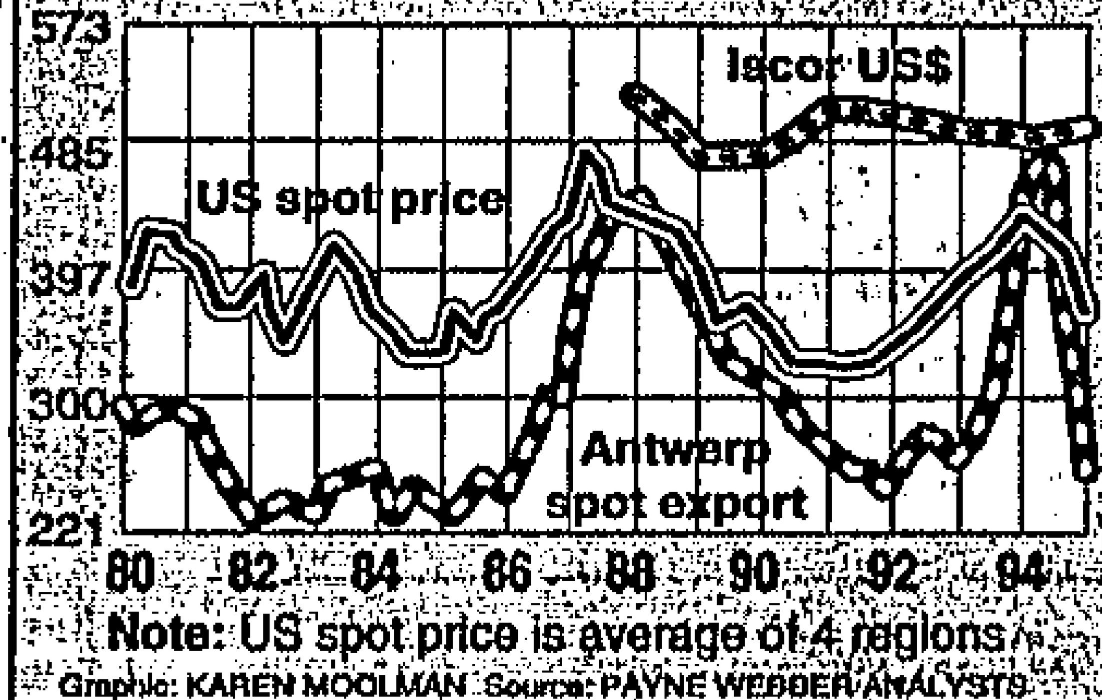
The submission last year to the competition board by Macdonald International, an independent steel trading company, shed light for the first time on some of the secretive inner affairs of the SA steel distribution industry. It explained how steel price premiums have been maintained in the domestic market in spite of the reduction to 5% of the import tariff on steel.

The steel distribution industry in SA is highly concentrated. The dominant distributor, Macsteel, has a long history of collaboration with Iscor, having used the revenue from excessive commissions earned on the export of Iscor steel during the sanctions era to buy up other domestic distributors.

Macdonald International alleged Iscor had used its influence over distributors to restrict free trade in steel, thereby maintaining premium prices on the domestic market.

Any serious attempt to address unemployment in SA will have to recognise the two-tier structure of the domestic manufacturing economy and promote growth in the labour-intensive downstream tier.

Many downstream manufacturers have been able to exist only by obtaining import protection and export incentives to compensate for the high prices of their raw material inputs. The domestic prices of semiprocessed raw materials should be reduced to internationally competitive levels before tariffs and export incentives that protect manufacturers of final products are removed. Otherwise, caught between high input costs and low selling prices, many of these manufacturers will go under.



The job-creating capacity of the economy will be permanently damaged.

The example of Iscor demonstrates that simply removing import tariffs on semiprocessed raw materials is not enough. Government action will be required to correct the market distortions created by decades of intervention.

A problem in the past has been that Iscor, for one, would not have survived if it had reduced its domestic prices to a par with its exports, and without exports created by the mineral beneficiation strategy of steel, paper, aluminium and other products, the rand exchange rate could not have been maintained.

To make it possible for the domestic prices of semiprocessed raw materials to be reduced to internationally competitive levels, without bankrupting companies like Iscor, some assistance may be necessary to allow these companies to achieve competitive levels of efficiency.

The rand depreciation that has taken place in the first half of the year has already contributed by raising the rand revenues mineral beneficiators receive for their exports. This has reduced the magnitude of the price adjustments necessary to bring domestic prices of beneficiated minerals into line with their export prices.

At some level of the exchange rate it will be possible to reduce the magnitude of the price adjustments to a point where government can force price reductions by legislation.

Price regulation of industries with a "monopoly" structure is an accepted international practice.

Of course a further depreciation of the rand would be unpopular. However, recognition of the way in which structural distortions created in the past have acted to produce other distortions in the economy suggests a compensating correction that would be very popular with the public at large.

The mining industry has received a huge windfall gain on its mineral exports from the recent rand depreciation. This windfall, and the windfall from any additional rand depreciation that may be necessary to correct the structure of the manufacturing economy, could be taxed to allow government to reduce the level of individual taxes.

Such a redistribution of the tax burden would coincidentally help restructure the economy by directing investments away from the capital intensive mining industry towards employment-creating downstream industries.

□ **Dr Wessels is a member of the executive of the Cape Chamber of Commerce and Industry.**

Manufacturers 'facing grim outlook'

BD 8/5/96 (180)

Lukanyo Mnyanda

THE rand's fall, higher interest rates and further evidence that the economy was slowing had left the manufacturing sector facing its worst outlook in nearly three years, the SA Chamber of Business said yesterday.

The chamber's monthly confidence index, hit by the same factors, dropped 0,7 percentage points to 117,3 — the fifth consecutive fall and the index's lowest level since September last year.

Sacob said the manufacturing industry's sales outlook was at its lowest ebb since mid-1993, with prospects for unskilled employment even bleaker. Few industrialists expected production to increase or investment in new capacity to rise this year.

Sacob economist Keith Lockwood said the number of respondents who

Continued on Page 2

Sacob

(180) BD 8/5/96

Continued from Page 1

expected sales volumes to rise in the next 12 months dropped to 63% from 71% in March. This reflected the extent to which recent "shocks" had undermined confidence, he said. The biggest drop was in the Western Cape, where only 54% of respondents expected increased sales volumes, compared with 80% in March. Manufacturers expecting to employ more skilled labour dropped to 41% from 55% in March.

Sacob said the rand's fall would make exports more competitive, but would make imports more expensive and foreign investors less willing to invest in SA. Lockwood said the negative outlook represented alarm over recent events in the economy and could be an overreaction. "We might see some stabilisation in the next few months."

Sacob director-general Raymond Parsons said the index's fall, which he also blamed on factors such as violence in KwaZulu-Natal and unresolved constitutional issues, was not surprising.

Other negative influences included the continued rise in the three-month BA rate, an increase in the number of people registered as unemployed and a lower dollar gold price.

The chamber's forecast of a 3,5%-4% economic growth rate for 1996 would not be seriously affected by the currency shock, as Sacob believed there was still enough momentum in the economy to sustain those levels. "While some of the economic fundamentals remain sound, negative perceptions about the economy have developed," the chamber said. "This puts even greater emphasis on the need for SA to pursue consistent and predictable policies."

Positive influences on the index included an increase in new passenger car sales and the continued decline in the rate of inflation. However, Sacob warned that the rand's fall could push the average inflation rate to 8,5% this year against a previously expected 7%.

Manufacturing sector at crossroads

(180) 9/5/96

Business Day Reporter

THE manufacturing industry has no alternative but to come up to world-class standards or slowly lose ground to competitors and imports, National Productivity Institute senior marketing consultant Grey van der Hoff said.

Pressure is mounting to improve export performance to achieve economic growth and to create employment opportunities. To this end Van der Hoff has set up a series of workshops to explain the workings of the export game.

"Many companies have a false sense of security due to local market success, believing that they do not have to investigate the export market. The reasons for this state of affairs are either motivational, informational or resource-based." Many manufacturers had taken up the challenge, although some had to be "dragged forward".

Van der Hoff has undertaken four export promotions projects on behalf of several companies. The aims were to test participating companies' competitiveness, and to identify potential agents, buyers and distributors in target countries such as the UK and US.

"The focus of the workshops will be to share our experiences, expose myths about export marketing and suggest ways ... to become globally competitive," he said. Van der Hoff's next seminar is at Kempton Park on May 16.

Use of manufacturing capacity drops with low demand

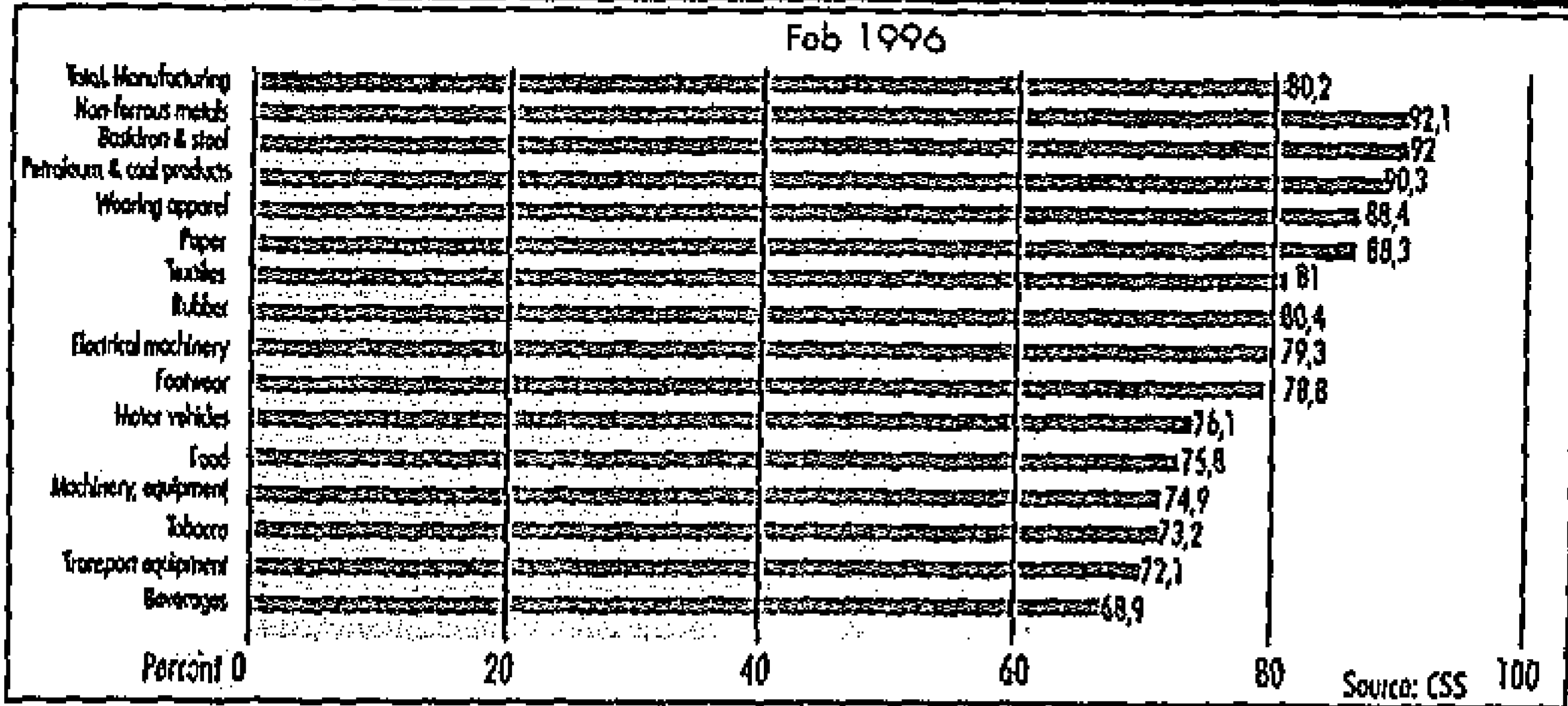
(180) CT(BE) 27/5/96

By Ann Crotty

Johannesburg — The use of production capacity in the manufacturing sector fell to 80,2 percent in February because of insufficient demand and rainy conditions. This was its lowest level since the first half of 1994.

According to figures released by the Central Statistical Service, use in February "showed a decrease of 3,7 percent compared with last February mainly due to insufficient demand (minus 1,8 percentage points) and 'other' reasons (minus 1,4 percentage points)."

The decrease of 1,4 percentage points in use due to "other reasons" is to a large extent attributed to the rainy conditions and the maintenance of machinery.



Decreases in rates of use occurred in 21 of the 28 largest manufacturing groups.

The beverages industry reported the lowest rate of use in line with reports that accompanied the results of Amalgamated Beverages Industries and South African Breweries. Cold wet weather in February resulted in an extremely low demand for beverages.

JSE analysts said that the lack of demand that led to a fall in the use of capacity could be seen in the build-up of inventories in the manufacturing sector.

They also said that corporate South Africa had been investing in capacity but much of this investment had been for the upgrading of capacity rather than increasing it.

Economists said that even at the comparatively low level of 80 percent, there was little scope for local manufacturers to take advantage of the weaker rand by getting involved in an export drive.

"It is difficult to sustain capacity utilisation above the high eighties over the long term as bottlenecks tend to keep cropping up" said one JSE analyst.

Tony Twine of Econometrix said: "When it comes to making inroads to the export market, South African manufacturers face a very definite structural constraint over and above world competitiveness."

He said South Africa would have to invest heavily in additional plant and equipment to exploit the opportunities offered by the rand's fall. However, additional plant and equipment would have to be imported and this would put more pressure on the rand.

"Given the lack of significant spare capacity, earlier calls by manufacturers for a reduction in the rand were extremely short-sighted," said Twine.

He said that most manufacturers focused on the local market first and then looked to the export market to take up any surplus.

If there were a fall in domestic demand "manufacturing capacity could be freed up for export". But he said this was an ad hoc solution to the need to develop a strong export bias among South African manufacturers.

South Africa third (from bottom) in world competitiveness ranking

(180) CT 28/5/96 (BR)

By Christo Volschenk and John Spira

Cape Town — South Africa slipped further in the competitiveness ranking of 46 countries published every year by the International Institute of Management Development with only Venezuela and Russia being less competitive.

In this year's World Competitiveness Report, the institute placed South Africa 44th out of 46 countries. The report was released yesterday. South Africa is the only African country on the ranking list.

Last year South Africa dropped seven places in the world competitiveness ranking, mainly due to an increase in the number of countries on the list.

Analysts said it was not surprising that South Africa was near the bottom of the ranking, but they were surprised that South Africa's ability to compete on international markets was still deteriorating.

"The low skills level of our labour force pulls us down in the ranking. That is a problem which will not be rectified overnight," said Flip Kotze, an economist at the Industrial Development Corporation. Andy Andrews, the principal of the Graduate Institute of Management and Technology, has been involved in similar studies by the Swiss-based Institute for Management Development. He agreed that South African labour was uncompetitive.

"They (the trade unions) don't understand how wealth is created; they are not economically literate. They cannot comprehend that wages dare not rise unless there is a parallel increase in productivity.

"These are not necessarily my views but those expressed by the international researchers who have been conducting the study for the past several years."

Andrews said South Africa tended to score well on its infrastructure and financial services, but labour productivity brought down its overall score.

"Our abysmally low competitive rating is a reflection of what the markets, and in particular the chronic weakness of the rand, are telling us. Foreign investors don't see us as competitive. Therefore, they don't invest here."

Andrews said the problem was exacerbated by the ANC-Cosatu alliance. "Cosatu needs a cold bath if we are to become a competitive nation." He believed business, too, was at fault. "There are fat cats in labour and in business."

☐ See Opinion & Analysis, Page 20

Why South Africa lacks efficiency

(180) CT (BR) 29/5/96

By Christo Volschenk

Cape Town — South Africa's poor human development and skills levels were largely responsible for the country being ranked 44th out of 46 in this year's world competitiveness survey, a spokesman at the International Institute for Management Development in Lausanne, Switzerland, said yesterday.

He said South Africa's poor performance in the world competitiveness ranking could partly be ascribed to the way the institute measured competitiveness.

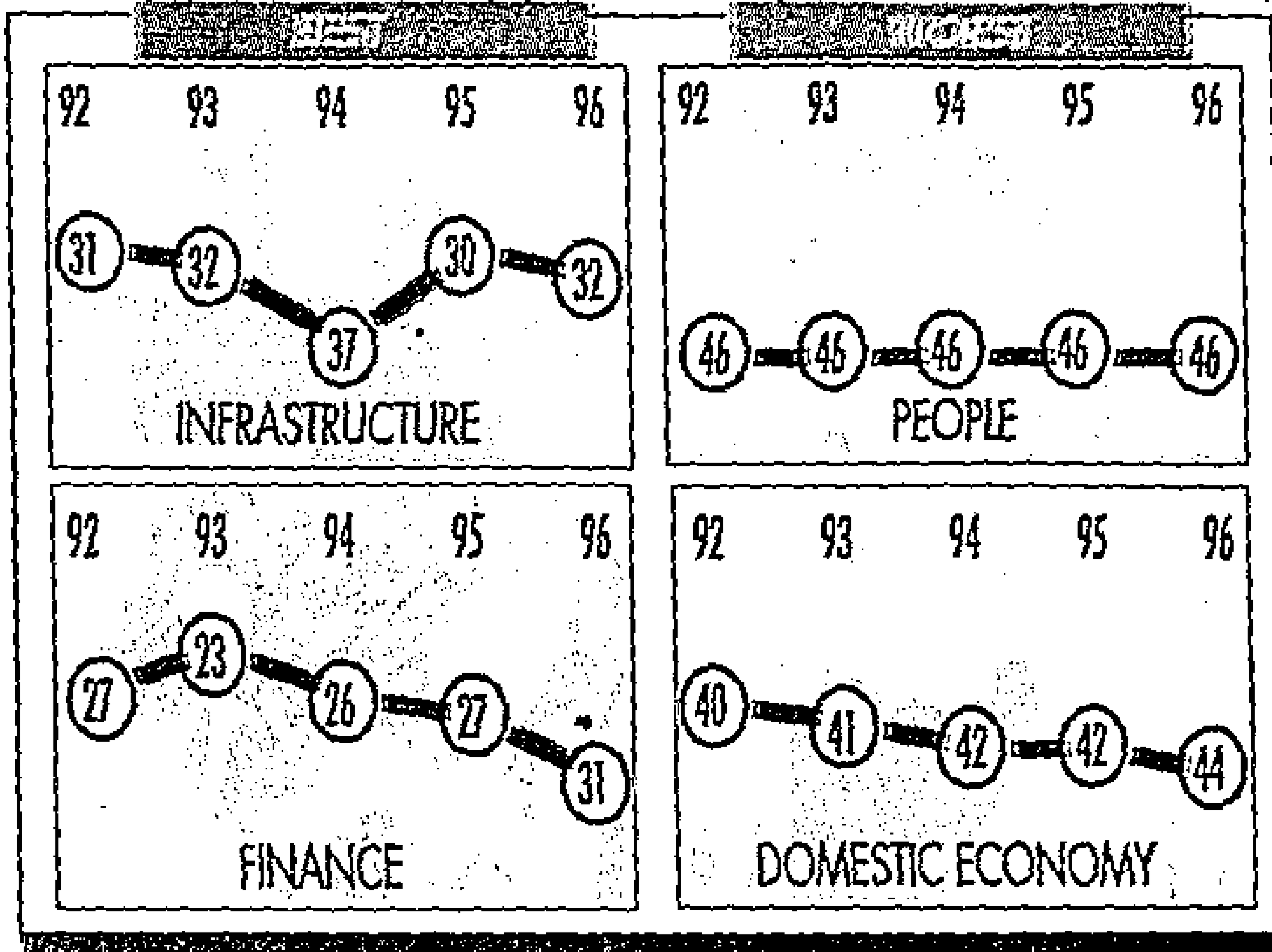
The factors in which South Africa compared poorly with other countries, such as human development and skills levels, carried a very heavy weighting in the institute's calculations.

But those factors in which South Africa performed well, such as infrastructure, banking services, and science and technology, carried relatively little weight, the spokesman said.

The institute recalculated the figures for previous years to make them comparable with this year's report.

The latest report was published on Monday and showed South Africa slowly slipping in the competitiveness ranking from 42nd place in 1994 to 43rd place last year and 44th place this year.

The institute used eight factors to measure the relative competitiveness of 46 countries and accorded a weight to each of the factors.



South Africa scored poorly in the World Competitiveness Report published this week. While it ranked a lowly 44th overall among the 46 countries surveyed using eight categories, in certain of these it fared reasonably well. The best of these categories were infrastructure (energy self-sufficiency, environment, and technological and transport infrastructure) and finance (cost of capital/rate of return, availability of finance, stock market and financial services). Bringing South Africa's overall score down to one which was superior only to Venezuela and Russia were people (population and labour force characteristics, employment, educational structures, quality of life and attitude of the workforce), and the domestic economy (value added, capital formation, private consumption, cost of living, economic sectors and economic forecasts).

It accorded a heavy weighting of 19 percent to human development because it felt the successful economies of tomorrow would be very dependent on skilled people, the spokesman said.

The banking sector, in which South Africa scored well, is a factor which only carries a weighting of 7 percent. Science and technology also carries a 7 percent weighting.

"South Africa was placed last out of 46 countries for human development and this brought the country down in the overall rankings," the spokesman said.

Task team meeting on initiative to aid industrial competitiveness

(180) BD 8/7/96

John Dludlu

A TASK team investigating the cluster studies initiative — think-tank mechanisms established to draw up development plans for individual industries — is meeting this week to begin discussing the programme's preliminary results.

The studies, co-ordinated by the trade and industry department, the National Economic, Development and Labour Council (Nedlac) and the Industrial Development Corporation, are part of an initiative by department director-general Zavareh Rustomjee to spotlight underlying impediments to firms and sectors becoming more competitive and to remove obstacles to downstream development.

Alan Hirsch, the department's chief director of industry and technology strategy, said this week's meeting would also set time frames on the programme. "It is advancing very well," he said. The possibility of extending the initiative into the provinces was being explored.

Hirsch said the findings would not be "a menu for the amount of government intervention" that would be required, as had been the case with the motor, clothing and textiles sectors — the three wobbly industries which underwent restructuring recently after years of tariff protection.

Instead, the results of the investigations should lead to inter- and intra-industry collaboration, without government intervention in some cases.

About 12 studies were being looked at, including a stainless steel and product cluster; an aluminium and product cluster; forestry products; pottery and earthenware; footwear; jewellery; petrochemicals, plastics and fibres; electronics; and a carbon steel and product cluster.

Industrial analysts have pointed out that the success of cluster initiatives depends on industry participation in the identification and resolution of its problems.

Business participation

When faced with a barrage of criticism from business for his hasty phasing out of the general export incentive scheme subsidy, Rustomjee invited business to participate in the studies. He warned that the department would rather tackle fundamental issues of uncompetitiveness than continue to mollycoddle sectors.

Hirsch was satisfied with the level of participation by business in the initiative, which was being financed by Nedlac's Japanese Grant Fund, the IDC and the department.

He said he saw no clash between the cluster programme and recently unveiled incentives, saying they complemented each other. Government's macroeconomic package was a "broad plan" that provided a framework and the cluster programme would identify specific initiatives.

Production levels in manufacturing drop

(180) BD 19/7/96

Lukanyo Mnyanda

PRODUCTION levels in the manufacturing sector during the first five months of the year fell marginally compared to the corresponding period last year, despite a slight 0,6% increase between March and May, latest Central Statistical Service (CSS) figures show.

The motor vehicle sector, with a 0,5% decline, was the major contributor to the 0,1% fall in production.

The petroleum products and basic iron and steel, textile, metal products and electrical machinery sectors also experienced falls of between 0,3% and 0,4%. These were partially offset by increased production in the chemical products industries (0,6%).

The basic non-ferrous metal and food industries experienced a 0,3% rise in production.

The production figures came a day after the release of employment figures which also showed a slight decrease.

Econometrix economist Tony Twine said the figures were not surprising, and even held promise because they would translate into a 2,5% annualised growth rate.

Vehicle manufacturers had been sitting with large amounts of stock before May and this could explain the falling production levels.

Partly due to pre-emptive buying in the wake of the rand's fall, May had been the car sales industry's best month since 1984 and the excessive stock was likely to have been "wiped out" Twine said. Production levels should improve during the rest of this year.

The CSS figures showed that only 15 of the 30 selected groups showed increases in the value of unfilled orders.

Large decreases were recorded in the motor industry (R378m) and in the iron and steel products industry which came in with a R370,7m drop.

Twine said the drop in the motor industry could partly be explained by the unavailability of stock during the first four months of 1994 when car hire companies absorbed the market, forcing buyers to wait longer for their vehicles.

(180) (...) ARG 24/7/96

WP manufacturers more optimistic

ALIDE DASNOIS
Business Editor

MANUFACTURERS in the Western Cape are more optimistic than their counterparts in the rest of the country, a new survey shows – but a majority expects business conditions to worsen over the next year.

The survey, by the Stellenbosch Bureau for Economic Research, found that manufacturers in the province expected higher sales and order volumes in the third quarter, in spite of a drop in the second quarter. But, the Bureau warned, stocks of finished goods are too high and could depress production volumes in the third quarter.

In contrast to the first quarter survey, when a net majority of manufacturers polled expected business conditions to improve, a majority now expect conditions to deteriorate over the next 12 months.

In Gauteng and in North West province, there was an increase in factory employment, while in the Eastern Cape, the Free State and KwaZulu Natal, employment dropped.

For the country as a whole, the Bureau found sharp declines in production volumes, particularly in consumer goods industries.

Business confidence also fell in the second quarter.

Yet 42 percent of manufacturers said they would increase real investment in machinery and equipment in the next year, in an attempt to become more competitive in foreign markets.

This would not necessarily mean job creation, the Bureau warned: on the contrary, modernisation of machinery could mean the shedding of jobs.

Competitiveness sought

CT (BR) 5/6/96 (180)

Japan has given the South African government R7,4-million (207,8-million yen) to implement policy studies (using the services of the World Bank) aimed at the improvement of international competitiveness.

Under the auspices of the National Economic Forum, the Japanese Grant Fund was set up to decide on studies, to allocate funds and to establish South African counterpart groups to take part in the studies along with international experts.

While the Department of Trade and Industry made the agreement, the Industrial Development Corporation was asked to act as the treasury for the funds. It was agreed that 45 percent would be spent on cross-cutting issues and 55 percent on sectoral/cluster studies.

The fund's initial focus has been on these cross-cutting studies: pre-shipment export finance (completed), strengthening business services for SMMEs (completed), promotion of foreign direct investment (completed), labour skills upgrading: financing of training (in progress, deadline this month) and regional industrial development policy: an evaluation of the Regional Industrial Development Programme (in progress, deadline this month).

The fund is now shifting to the sectoral/cluster studies. Investigations are under way on: pottery, electronics, footwear, jewellery, wool and mohair and petro-chemicals and plastics.

Agencies 'could oversee schemes'

BD 6/6/96 (180)

John Dludlu

FEARS that government lacked the capacity to administer a new set of industry support schemes were misplaced, a senior government official said.

Trade and industry department chief director for industry and technology strategy, Alan Hirsch, said yesterday most support schemes were administered by outside agencies on behalf of the state, and there was no reason why the same approach should be taken with new schemes.

State support schemes, such as the support programme for industrial innovation and the technology and human resources for the industry programme, were administered by the Industrial Development Corporation and the Foundation for Research and Development on the state's behalf.

In the Nedlac debate on supply-side measures, the business constituency had expressed concern at the state's administrative capacity to implement new industry support schemes.

Hirsch was optimistic that the R181m set aside by the state for supply-side measures would be spent this budget year, contrary to fears by some observers.

He said the money, announced in the Budget speech by former Finance Minister Chris Liebenberg, would be spent on supplementing and expanding existing supply-side incentives.

"But it is up to business and labour to come up with specific proposals as well, either in Nedlac or within the cluster studies," said Hirsch.

A Nedlac source said much of the complaints by industry on inadequate support measures was based on insufficient knowledge by business about existing schemes which they could access.

It was understood that the government had detailed available schemes, and the components industry would be advised shortly of the support schemes suitable for the industry.

"For me, the supply-side measures are starting to get real. We just have to increase business' awareness of these schemes," the source said.

Nedlac spokesman Lomin Saayman said the trade and industry chamber, the forum at which the supply-side initiative was being discussed, had called for a meeting with Trade and Industry Minister Alec Erwin to discuss the government's strategic economic vision, especially on supply-side instruments.

Industry gears up for big wage battle

(180) ST 9/6/96

By CAROL PATON

THE slowdown in the economy, coupled with growing pressure on firms to become internationally competitive, will make for a tough round of bargaining in annual wage negotiations, under way in earnest this month.

Although inflation now stands at its lowest in many years, at 5,5 percent, Cosatu has said that its affiliates will bring factors like the hike in the bond rate into wage negotiations.

Firms are also having to respond to demands from unions to teach workers new skills as they restructure for international competition.

Leading the field with this approach is the National Union of Metalworkers of South Africa, which has initiated a wage modelling exercise with the Steel and Engineering Industries Federation of South Africa.

Enoch Godongwana, the union's general secretary, said: "It will mean a wage rise, but a more skilled workforce will lead to increased productivity."

In the clothing industry, which is suffering the hardest blows of international competition, employers and the South African Clothing and Textile Workers Union are in the middle of a bitter dispute. Coupled with competition problems are the comparatively low wages in the industry. The offer of seven percent has been firmly rejected by workers, who want 10 percent.

Numsa has also put forward an innovative strategy, proposing a two-year agreement linked to inflation, and multiskilling and broadbanding of occupational categories. The union is demanding increases of up to 100 percent for the lowest paid and 18 percent for workers in higher grades. Negotiations begin on Friday.

In the chemical industry, the Chemical Industrial Workers' Union is likely to tie up an agreement with 600 employers this week for an interim centralised bargaining arrangement. The union is demanding a 20 percent increase or a monthly minimum of R1 800.

Trade department puts focus on competitiveness

(180) BD 10/6/96

John Dludlu

THE trade and industry department — the agency which is hoping to drive the country towards a 6% growth rate by the turn of the century — is forging ahead with strategies to tackle fundamental impediments to competitiveness.

In his 1995 annual report released last week, director-general Zavareh Rustomjee says the department is using three initiatives to identify underlying problems of competitiveness in firms and sectors, rather than continuing to "mollycoddle" them.

The three include the sectoral and cluster studies; the regional industrial location study; and the "corridor" approach such as the Gauteng-Maputo corridor.

The cluster initiative, through Nedlac's Japanese grant fund, is in line with the strategy of strengthening SA's international competitiveness. The location study — in collaboration with SA's regional partners — seeks to develop more coherent industrial and trade policies in the region and provinces.

Rustomjee's comments have been seen by trade observers as referring to the general export incentive scheme (GEIS), which is being scaled back.

Recently, Rustomjee was hit by a barrage of criticism from GEIS beneficiaries when he announced that budgetary cuts had forced him to consider hasty cuts to the subsidy scheme.

According to Rustomjee, the subsidy would have to be slashed to 6% in July (it is currently 12%) if his budget is to balance.

His answer to the criticisms has been consistently an invitation to industries to join the department in the search for solutions to uncompetitiveness.

He says in the report analysis of the factors used to measure the anti-export bias of the economy — one reason for GEIS's introduction — now indicates "much of the structural nature of the bias" has been removed.

Some export support schemes, such as the duty credit certificate (DCC) for clothing firms, have been modified to require greater commitment by companies to human resources development and work reorganisation — some of the key objectives of government's supply-side measures.

Rustomjee says last year's numbers show DCC usage has declined, and firms are choosing rebates instead. "This suggests that firms are choosing not to remove the fundamental bias against their competitiveness, namely past neglect in raising the quality of their human resources."

The report shows 105 white officials resigned from the department last year compared with 12 blacks, six coloureds and two Indians, while 51 whites retired.

Though the intake of blacks at 84 was the highest of any population group (21 whites, 15 coloureds and 17 Indians), promotions were skewed towards whites. More than 100 were promoted compared with 22 blacks, nine coloureds and two Indians.

Gatt hands out shock treatment to the manufacturing sector

(180)

CT (BR) 13/6/96

Segments of the Western Cape's manufacturing sector were suffering the shock effects of the General Agreement on Tariffs and Trade (Gatt) liberalisation process.

But a combination of strong local demand, a shift towards exports, modernisation efforts and steps to improve labour productivity should bring about moderate growth in many of the province's existing industrial clusters.

The Western Cape Economic Monitor annual review said with the industrial sector featuring prominently in the regional development strategies of virtually all nine of the country's regions, and with world market competition in manufacturing still intensifying, it should be clear that "moderate" growth would not come easily.

Manufacturing (including the fishing industry) amounted to R15 billion or 24,8 percent of the Western Cape's gross regional product.

In the medium term, the sub-sectors likely to see moderate growth include food processing and beverages, petrochemical products, metal work, printing and publishing, and the furniture and wood processing sector.

The clothing and textile sector was still going through a difficult adjustment phase with a drop in local demand starting last year and the combination of the impact of tariff reductions and tariff evasion on used clothing imports.

As clothing manufacturers in the Western Cape have generally focused on the higher quality range of goods, the shock effects of the imports might be less dramatic here than in other regions. However the industry had to accept clear limits to growth prospects.

With sufficient concerted attention, relatively small niches like boat building, jewellery manufacturing, computer software and scientific/technical and medical equipment could expand at a steady rate.

Substantial mineral benefication would be triggered by the Saldanha Steel and Namakwa Sands projects.

The government's regional industrial development programme, which was under review, was likely to be of "great significance for future industrial growth".

However, several other provinces would be able to demand a relatively larger share of the resources set aside for the programme.

The manufacturing sector currently provides jobs for more than 260 000 people in formal employment and more than 55 000 in informal employment.

There are almost 4 000 formal manufacturing enterprises in the region with the largest number in furniture and wood manufacture (484) followed by food processing (453), metal products (406), printing and paper (382), clothing (380), electricity and other machinery (368), automotive and transport equipment (176) and textiles (170).

R900 000-R950 000. Research is on-going to determine more accurate figures.

(2) No.

Sources:

(i) Medical Schools/Faculties.

(ii) Interim National Medical and Dental Council of South Africa.

Public servants: retirement packages

*15. Rev M M PHENETHI asked the Minister for the Public Service and Administration:†

(1) Whether his Department is offering retirement packages to public servants at present; if so, (a) how many and (b) what will the cost be to taxpayers;

(2) whether he will make a statement on the matter? N977E

The MINISTER FOR THE PUBLIC SERVICE AND ADMINISTRATION:

(1) Yes,

(a) it is not at this stage known how many applications for voluntary severance packages will be approved,

(b) in view of the aforementioned reply, the total expenditure relating to the severance packages is presently still unknown. The expenditure must, however, be defrayed from funds already allocated, and

(2) No.

New industrial strategy (180)

*16. Mr J W LE ROUX asked the Minister of Trade and Industry:†

Whether his Department is currently in the process of establishing a new industrial strategy for South Africa; if so, (a) which roleplayers are involved and (b) when will the report on this matter be completed? N978E

The MINISTER OF TRADE AND INDUSTRY:

The Department is constantly developing industrial and investment policy for South Africa. The first step in the process of developing industrial policy was the publication of the report "Support Measures for the Enhancement of the Industrial Competitiveness of South Africa's Industrial Sector" which was published in November 1995 by the Department together with Nedlac.

This was followed by the draft report "An Account of National Support Measures for Manufacturing" which was published in February 1996 by the Department and the IDC. This report was a re-evaluation input into the Regional Industrial Development Programme (RIDP). The RIDP re-evaluation is almost complete and the report that is in preparation will be discussed in Nedlac during July, as well as in a Minmec meeting that will be held between the Minister and the Provincial MECs.

Cluster studies are addressed in the draft report "Industrial Cluster Initiative" published in March 1996 by the Department and the CSIR. Various cluster studies will be published during the course of 1996.

A Regional Industrial Location Strategy (Rils) investigation was undertaken by the Department with the Provincial Governments. A report document on the Rils is at present being finalised.

Studies with regard to the development of the Maputo corridor were completed in early May 1996.

*17. Mr C A WYNGAARD—Public Works.†
[Question standing over.]

Infectious diseases: deaths

*18. Pastor Z K MANGALISO asked the Minister of Health:†

(1) How many persons died of infectious diseases in the Republic during the past financial year;

(2) whether her Department is planning a strategy to reduce such deaths; if not, why not; if so, what are the relevant details;

(3) whether she will make a statement on the matter? N980E

The MINISTER OF HEALTH:

(1) The Department does not have the necessary statistics available per financial year, however statistics are available per calendar year. The Department currently only keep records of the deaths resulting from notifiable diseases. The recording of statistics of deaths occurring from all infectious diseases is the responsibility of the Central Statistical Service. According to the latest available figures (1993) of the Central Statistical Service, 16 802 deaths have resulted from infectious and parasitic diseases.

(2) The most effective way in which to reduce death and disability due to communicable diseases, is by prevention. Strategies to reduce deaths from infectious disease include the following:

Tuberculosis (TB)

A strategy for TB control was developed through consultation with national and international experts with participation of all provinces and endorsement by the World Health Organisation. The TB Control Programme (TBCP) which is being implemented focuses on providing quality diagnosis, standardised treatment and measuring outcomes clearly. A review of the TBCP is taking place from 11-26 June 1996.

The National TB Control Programme is a founding member of the Southern African TB Control Initiative (SATCI), which is attempting to standardise TB control throughout the Southern African region.

The aim of the programme is to improve the cure rate for smear positive TB cases from about 70% to 85%.

The expanded programme on immunisation

Efficient and nationwide control of vaccine preventable diseases such as polio, measles, hepatitis B, whooping cough, diphtheria and tetanus is ensured through the provision of immunisation services and programme management at all levels of health care.

The last case of polio in South Africa occurred in 1989 and in order to eradicate not only the disease but also the polio virus and for the country to be certified polio-free by the World Health Organisation, mass polio immunisation campaign was conducted last year and another will be conducted in August and September this year.

Other communicable diseases

A response mechanism for the identification and control of epidemics, e.g. typhoid and cholera, on national, provincial and district level is being formalised.

Vector-borne diseases

Malaria control is receiving priority attention in the affected areas of the country. Intensive vector control, active case detection and effective treatment measures have been instituted. Although plague occurs in the local rodent population, transmission to human beings is prevented by the necessary control measures.

(3) The whole issue regarding the control of infectious diseases is set out in the draft document: *Towards a National Health System,* that is currently being finalised.

The control of infectious disease has to go hand in hand with improving the lives of our people. Clean water and sanitation, adequate housing, proper nutrition and prevention strategies will lower the infectious diseases. Without the above the problem will persist.

Parliamentary complex: recarpeting

*19. Mr A J LEON asked the Minister of Public Works:

(a) What is the estimated total cost, including labour and materials, of recarpeting the Parliamentary complex, (b) what areas have been or are to be recarpeted, (c) who is doing the recarpeting and (d) on what grounds was the decision taken to recarpet the Parliamentary complex? N981E

The MINISTER OF PUBLIC WORKS:

(a) R396 383,

(b) The corridors leading from the Poorthuis to the new wing—inclusive of the Marble Foyer,

The U-shaped corridor around the Hall of Assembly,

The three staircases of the Senate Wing and the complete upstairs corridor,

MANAGEMENT

Beneficiation 'will solve unemployment'

Business Day Reporter

SA's pressing economic problems, such as unemployment and low foreign reserves, could be solved if local management embarked on a policy of beneficiation.

This is the view of Rex Glanville of international management consultant Decision Processes International.

He says prime examples of products which could be beneficiated are gold and platinum.

"Although final gold refining is processed by Rand Refinery, international marketing is controlled by the Reserve Bank.

"Apart from hedging, mines have no influence over the gold price, but they would influence prices if they added value," he said.

Referring to platinum, he said the trend in motor manufacturing was towards the introduction of catalytic converters.

"When SA legislation makes them mandatory locally, platinum will be sent offshore, and converters will have to be imported at substantial cost," he said.

The solution to this was simply to investigate the feasibility of manufacturing them locally, creating a new industry, more employment and ultimately, saving the country foreign exchange.

SA companies had to search for opportunities in world markets for value-added goods and identify which had the greatest potential for success, Glanville said.

It was essential that companies invested in research and development, and the final step was to pursue opportunities using local and international marketing tactics in order to compete successfully, Glanville said.

"There is a tendency for SA businessmen to take the short term view of marketing, and viewing it as a cost rather than as an investment.

"It takes years of investment in brands and products to develop them to the level where they can add more value to a company's worth than is evident in the tangible asset base," Glanville pointed out.

Clustering 'vital to growth plan'

Business Day Reporter (180) BD 1/8/96

THE linking of associated industries into "clusters" is being billed by the trade and industry department as being vital to SA's national growth and development strategy

As a result, it ran a workshop last week on the importance of establishing stronger links between industries in the metals, machinery, electrical and engineering sectors.

Clusters are the linking of associated and supporting industries to create a total value chain.

For example, the construction of a stainless steel plant should encourage the development of stainless steel product fabricators. Since 1990, several government-initiated and private sector studies have been launched on clustering to create a strong downstreaming policy in SA.

A number of key issues have been identified from these studies, including the need for the co-ordination and co-operation of industrial initiatives at local, provincial and national level.

The long-term aim of the studies is to create a more competitive and sustainable industry and improve government industry policy. This will support the objectives of growth and development strategy.

The department's workshop will provide actual case studies of successful cluster implementation in New Zealand, where many of the lessons learned in that country have special relevance to SA industry.

The department said if enough interest was stimulated by the workshop in the metals and engineering sectors, ad hoc steering committees would be formed to implement the cluster policies.

NEWS IN BRIEF

Pretoria strikers fired

PRETORIA — About 300 striking workers at a Pretoria metal works, who held 15 administrative staff captive in their offices for 12 hours on Tuesday, were fired yesterday morning. Management consultant Darran Ross said the workers had ignored an ultimatum to return to work. Management would not negotiate further.

Overspending claim

PIETERSBURG — The NP in Northern Province claimed yesterday that the provincial government had spent about R14m too much in recent property deals. NP MPL Burger Lategan said government had bought a building in Pietersburg for R18,6m, but the true value of the property was no more than R7m. Government had also bought a block of townhouses for R11,5m, worth about R2m less.

Boeing blows engine

THE SAA Boeing which transported the SA team to the Atlanta Olympic Games blew an engine en route to Johannesburg from London carrying 185 passengers yesterday. Spokesman Leon Els said there had been a "technical problem with one of the engines, but this has already been repaired".

Policeman in court

PORT ELIZABETH — Supt Johannes Gerhardus Visser, 42, of the SAPS information systems department at police headquarters in Pretoria, appeared in the Port Elizabeth Regional Court yesterday after he and a colleague were arrested for raiding telephone booths in the Eastern Cape.

REPORTS: Sapa, Business Day Reporters.

SA does badly in economic survey

BD 1/8/96 (180)

Lukanyo Mnyanda

SA HAS fared badly in a new international competitiveness report for not spending enough on developing its human resources, bringing up the tail end in a 46-country survey.

This emerged from the latest SA Competitiveness Monitor 1996 by the SA branch of US-based WEFA econometric consultancy.

The group measured competitiveness in eight categories and found SA's performance in five was lower than the average for developing countries. "In respect of its people (matters such as literacy rate, skills and labour productivity) SA came stone last," it said. On domestic economic strength and management performance, SA fared slightly better, ranking 44th and 40th.

The group said SA was likely to obtain high returns if it invested resources into uplifting the skills of its work force. Upgrading 1% of the (black) work force's skills to the level enjoyed by whites could translate to a 2% jump in GDP growth.

SA compared "relatively favourably" with developing countries in scientific and technological capabilities and the quality of its infrastructure. But it still lagged behind developed and newly industrialised countries.

SA's productivity levels fared reasonably well against other developing countries. However, this did not correspond to the country's performance in average living standards.

This could be attributed to SA's serious unemployment, a factor considered in living standard but not productivity comparisons, the report said.

It was critical of the export performance of SA manufacturing industry and said the sector needed strong internal competition to improve the standard of manufactured goods.

World trade had expanded much faster in industries which dominated SA's imports, rather than its exports.

Countries like SA with abundant natural resources often developed a dependence on these resources. "Competitive advantage nowadays depends on rapid innovation and improvement rather than on static advantages."

The report also identified low SA saving and investment levels as one of the major obstacles to improving its competitive performance. SA had the lowest investment rate in 1994, dropping from 30,8% in 1980 to 15,1%.

SA's domestic saving rate had also decreased from 39,1% in 1980 to only 19% in 1994 when it was only about half the rates of Indonesia, Korea and Malaysia.

Anglovaal joins exodus from CBD

Lukanyo Mnyanda

MINING and industrial group Anglovaal yesterday joined the exodus from the Johannesburg CBD, with its industrial and corporate division's senior management moving into new premises in Rosebank.

However, the group's mining sector would remain at its Main Street headquarters, a spokesman said yesterday.

The group would be taking up a 4 000m² building — costing "just under R30m" — at the corner of Bolton Road and Bath Avenue.

The spokesman said Anglovaal's leases in city centre buildings, used to accommodate staff overflow from the Main Street premises, had matured. It was decided to concentrate the mining division staff in the two fully occupied Main Street premises.

Hanekom conditionally approves changes

BD 1/8/96 MAIZE

Louise Cook

AGRICULTURE and Land Affairs Minister Derek Hanekom last night conditionally approved the amendment of the maize marketing scheme this year, sources said.

After a marathon meeting between the maize advisory committee and the SA Futures Exchange — under the auspices of the minister — a source said Hanekom told the meeting he would approve changes to the scheme if the written submission from the committee reflected agreements made at the meeting.

These apparently boiled down to placing a 3,3-million tons cap on exports, doing away with automatic opening of export pools by the Maize Board, going with a floor price of R490/ton net to farmers and opening a new export pool if the price to the farmer threatened to drop below R490/ton.

Yesterday's special meeting was also attended by the SA Futures Exchange agricultural markets division, banned from previous meetings.

A furore broke out in the maize industry when Safex GM John Wixley accused the committee and the Maize Board of interfering in the market. He warned the exchange could close after trade in maize futures contracts came to a halt in July. "Effectively this would mean the end of a free market in agriculture."

However, District Securities Bank markets manager Ika van Niekerk said Safex would have an easier run next year in a free market.

The maize advisory committee and Safex were not available for comment after the meeting.

Why measuring competitiveness is an inexact science

CT (BR) 1/8/96 (180)(49)

By Christo Volschenk
CAPE EDITOR

The International Institute for Management Development, a business school in Lausanne, Switzerland, and the World Economic Forum, also based in Switzerland, had a scrap late last year which ended in divorce.

The organisations parted company, but the breakup had positive consequences. It reminded international businessmen and policymakers that the forum's annual ranking of economies according to their competitiveness has always had shortcomings.

In fact, measuring competitiveness is no exact science.

For eight years the institute published the annual World Competitive Report on behalf of the forum. When their ways parted, each decided to publish its own ranking of country competitiveness.

The forum called its ranking the Global Competitiveness Report and the institute called its publication the World Competitiveness Report.

Both institutions define competitiveness in broadly the same way as the ability of an economy to create wealth (to grow) and improve the living standard of its people.

The two institutions used almost exactly the same criteria for measuring competitiveness and yet they came up with completely different rankings because they used different weightings for the same eight criteria.

Two rankings make it difficult to judge which countries are becoming more competitive

For instance, the institute put the US on top of its list of 46 countries as the most competitive country. The forum gave the US the fourth position and ranked Singapore as the most competitive economy with Hong Kong and New Zealand in second and third positions.

The institute put New Zealand at 11 in its ranking. It also put Germany, the powerhouse of Europe, in 10th position while the forum gave it the 22nd spot on its list of 49 countries.

Many more countries suffered under the divergent views of the two institutions. For instance, the institute reckons Japan has the fourth most competitive economy in the world, while the forum feels Japan is not worth a place in the top 10 and relegated it to the 13th position.

The advent of two rankings also made it difficult to judge which countries were becoming more and which less competitive.

The institute said New Zealand slipped from ninth place last year to 11th place this year in what must be interpreted as a loss of competitiveness.

The forum, on the other hand, calls New Zealand "the new star" and promotes it from nowhere to third position.

"Reforms in New Zealand in the past decade will be widely studied and emulated in future," predicted the forum.

In short, the two lists give confusing signals which make life difficult for policymakers and dilute the value of the reports.

Fortunately, South Africa's policymakers will have no difficulty in interpreting the two reports.

The institute put South Africa 44th out of 46 countries and the forum put South Africa 43rd out of 49 countries.

Both organisations have pretty much the same message for South Africa: it is at the bottom of the heap when it comes to competitiveness.

The scrap between the forum and the institute may be important to South Africa for another reason.

It will remind local businessmen that competitiveness means different things to different analysts, that competitiveness is difficult to measure and that neither the forum nor the institute ranking is gospel.

This is important because both organisations rely heavily on the feedback of local opinionmakers in the public and private sectors to compile their annual rankings.

The feedback on South Africa may be tainted by previous performances

For instance, the quality of the judicial system in protecting property rights and settling commercial disputes is a factor which is taken into account when compiling the rankings.

Since the efficiency, honesty and predictability of the judiciary cannot be measured objectively, the organisations ask local opinionmakers for their views.

Every year the institutions send long questionnaires to thousands of senior executives in the private and public sector to get views on factors which influence growth but which cannot be measured.

The feedback given may easily be tainted by previous performances by South Africa on the competitiveness rankings.

For example, when a busy senior public servant with little first-hand knowledge of our labour market is asked about the flexibility of the market, he may — consciously or otherwise — tend to fall back on the views held by the institute in previous World Competitiveness reports. This would be that our labour market is inflexible and uncompetitive.

In fact, a recent study of the International Labour Organisation found our labour market is relatively flexible when compared to other countries of similar development levels.

By doing that, the executive inadvertently sentences South Africa to another bad performance in the rankings.

In short, our performance in the rankings hinges, to a large extent, on the perceptions of local opinionmakers who may be influenced when they complete the forum and institute questionnaires by the widely accepted view that South Africa is uncompetitive.

These opinionmakers should remember that neither the forum nor the institute has found a foolproof way of measuring the competitiveness of nations.

And they should guard against unnecessary and damaging pessimism.

Mineral riches make for poor performances

ST (BT) 11/8/96 (180)

By CIARAN RYAN

FAR from a blessing, South Africa's rich mineral deposits have become a curse.

The manufacturing sector is characterised by low value-added industries while the successful economies of the world have moved up the value-added chain where the bulk of world trade is concentrated, according to a new study entitled "South African Competitiveness Monitor 1996", published by Wharton Econometrix Forecasting Associates Southern Africa.

The study says countries with an abundance of natural resources develop a dependence on these resources: "This is part of the 'resource curse hypothesis' which has become popular in recent years."

Seven of South Africa's manufacturing industries recorded negative growth in value-added over the past 10 years. The industries which contributed most to the country's manufactured exports in 1993 were steel, non-ferrous metals, petroleum and food. The highest growth rates in manufacturing value-added were in the rubber and plastics industries.

By contrast, the country's imports of manufactured products tend to be in more sophisticated goods, such as machinery.

"World trade expanded much faster in the industries which dominate our imports than in the industries which dominate our exports," says the study. "It therefore seems we have not been able to move into new market segments through continuous upgrading and innovation."

Competitive advantage now depends on rapid innovation and improvement rather than on static advantages such as minerals. Strong local competition is also required to create the pressure to upgrade and the local manufacturing sector has "not been characterised by strong rivalry in the domestic market".

South Africa's manufactured output as a percentage of exports remained unchanged between 1972 and 1992, while countries such as Mauritius, Indonesia and Thailand recorded huge gains in manufactured exports. Brazil, for example, increased manufactures as a percentage of exports from 20% in 1972 to 60% in 1992.

"In the long term a more export-oriented growth path can promote increased productivity growth in a variety of ways," says the study. China recorded huge growth in manufacturing value-added in 1994 and 1995 (15,8% and 14% respectively) against South Africa's 8% in 1995 and just over 2% in 1994.

Food, petroleum refineries and transport account for roughly one-third of South Africa's manufacturing sector.

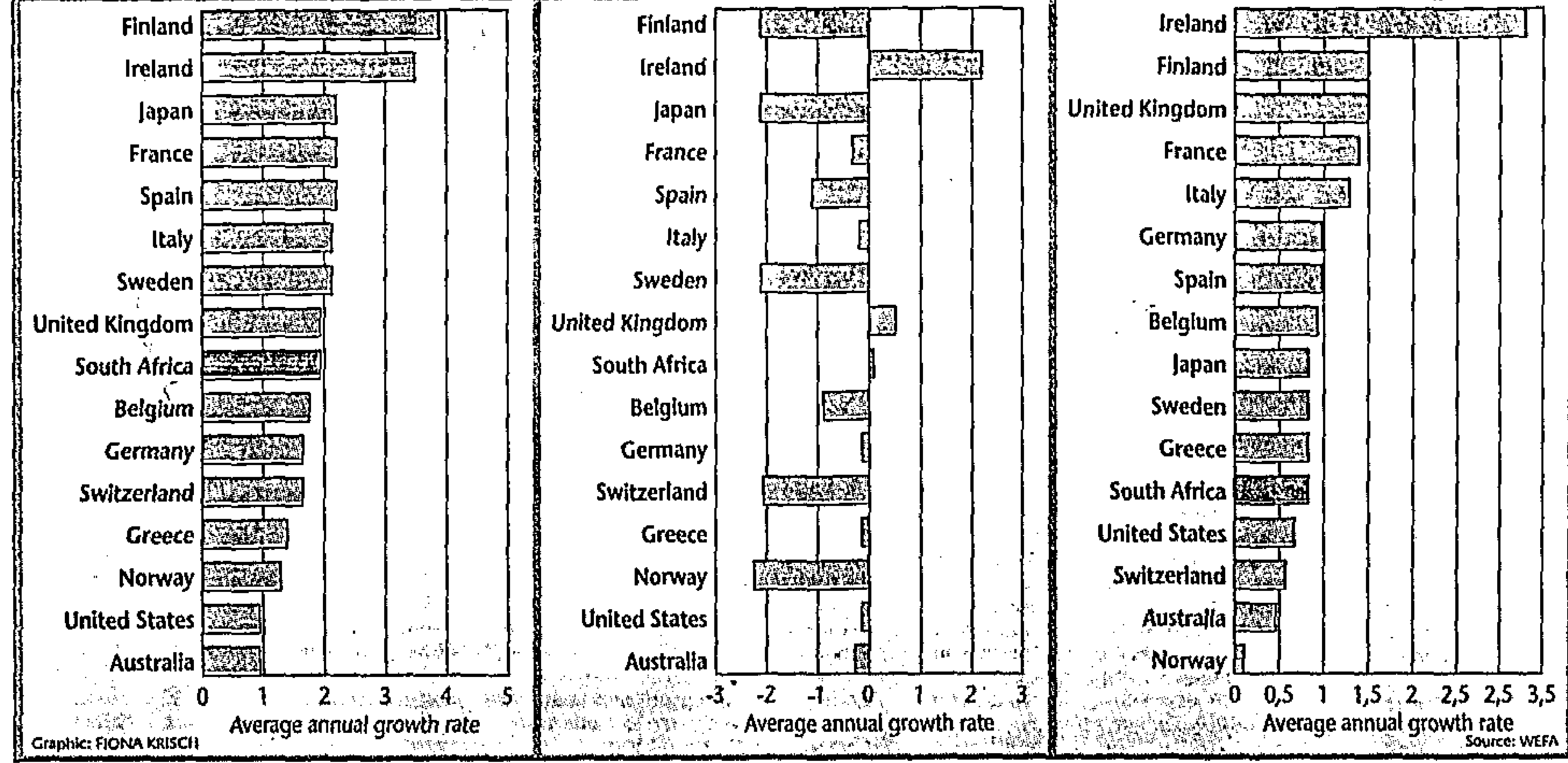
Labour productivity increased at a slower rate than the country's major trading partners over the past 20 years, but unit labour costs increased by between four and six times that of more developed nations. South Africa cannot compete with low-wage countries such as China, Indonesia and India. In 1993 a manufacturing employee in China earned on average about $656 a year compared with the $9 088 earned by his SA counterpart.

"Since it would be impossible to reduce our wages to that level, the only alternative is to enhance the skills of our workers so that we will be able to compete in more sophisticated markets."

The traditional approach to competitiveness in export markets has tended to focus on price competitiveness. Newly industrialised countries employed this approach in their manufacturing export drive, capitalising on their abundant supply of cheap labour which helped to keep manufacturing costs low and internationally competitive.

"In recent years the comparative advantage associated with low wages has been increasingly eroded, since direct labour costs are declining as a percentage of the total cost of a firm. This trend is largely due to the emergence of new technologies such as flexible manufacturing systems and advances in communications and information technology which have reduced the wage component of value added by creating avenues for flexible automation."

Current developments, however, are making it more difficult for latecomers to follow the path of export orientation. Developing countries find they must now compete in a world where advanced technology has become an important factor in industrial competitiveness. Product life cycles have become shorter and changes in production techniques are restructuring the international division of labour and reducing the size of the required labour force. The replacement of raw materials with human-made substitutes also reduces the need for commodity exports from developing countries.



Manufacturing in South Africa tends to be homogeneous and segmented (including industries such as paper, petroleum, rubber, iron and steel and non-ferrous metals) while countries with a strong competitive advantage have a large number of differentiated industries, such as machinery and electronics manufacture.

"At the other end of the spectrum the revealed competitive advantage of countries like Chile, Brazil, New Zealand and South Africa is in slow-growing industries characterised by high concentration."

Interestingly, China and Hong Kong show competitive advantage in homogeneous fragmented industries (numerous companies producing similar products, such as clothing and textiles) where strong price competition exists, underpinned by low wages.

Part of the solution to manufacturing's competitive weakness is to raise the country's low levels of savings and investment. Competitiveness, says the report, is largely dependent on national productivity, which in turn is dependent on the stock and growth of human capital.

The quality of human capital depends on educational attainment and training, while technology is driven by the ability of a society to innovate and respond dynamically to opportunities.

Gross domestic savings as a percentage of GDP halved from around 40% in 1980 to 20% in 1994. While most successful economies increased their investment levels as a percentage of GDP between 1980 and 1994, South Africa's declined from around 31% to 16%.

Research and development expenditure in South Africa was 1,04% of GDP in 1991 — higher than most other developing countries — but it was directed largely to national security objectives in the field of defence and energy.

"Economic motives have been relatively unimportant and the cost structure of South African high-technology industries has not really been tested in world markets. In the field of energy, research and development efforts were aimed at achieving self-sufficiency. Although achievements like the pioneering synfuel technology developed by Sasol are technologically impressive, they are expensive and do not meet the requirements of the world market. To a large extent, South Africa has unfortunately developed a significant technological capacity that is not attuned to world markets."

Another weakness is the country's human resource development. A World Bank study in 1994 found that only one out of 10 000 black children who entered the school system would qualify for university acceptance in either science or mathematics. Another study by Fallon and Pereira da Silva found that upgrading 1% of the black workforce to the status of whites could raise annual GDP growth by 2%.

South Africa also needs to move from exports based on natural resources to the export of more sophisticated goods, says the study. Openness to trade may increase rather than depress relative wages in industries competing in sophisticated markets exposed to import penetration.

"The development of human resources and technological progress will therefore have an extremely important role to play in ensuring the upgrading of South African industries to be able to compete in areas other than costs," says the study.

Emulating the competitive successes of the East Asian economies will not be easy, but the future prosperity of the country depends on the pursuit of superior performance measured by global standards, says the study.

Mineral riches make for poor performances

ST (BT) 11/8/96 (180)

By CIARAN RYAN

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South Africa's manufactured output as a percentage of exports remained unchanged between 1972 and 1992, while countries such as Mauritius, Indonesia and Thailand recorded huge gains in manufactured exports. Brazil, for example, increased manufactures as a percentage of exports from 20% in 1972 to 60% in 1992.

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Current developments, however, are making it more difficult for latecomers to follow the path of export orientation. Developing countries find they must now compete in a world where advanced technology has become an important factor in industrial competitiveness. Product life cycles have become shorter and changes in production techniques are restructuring the international division of labour and reducing the size of the required labour force. The replacement of raw materials with human-made substitutes also reduces the need for commodity exports from developing countries.

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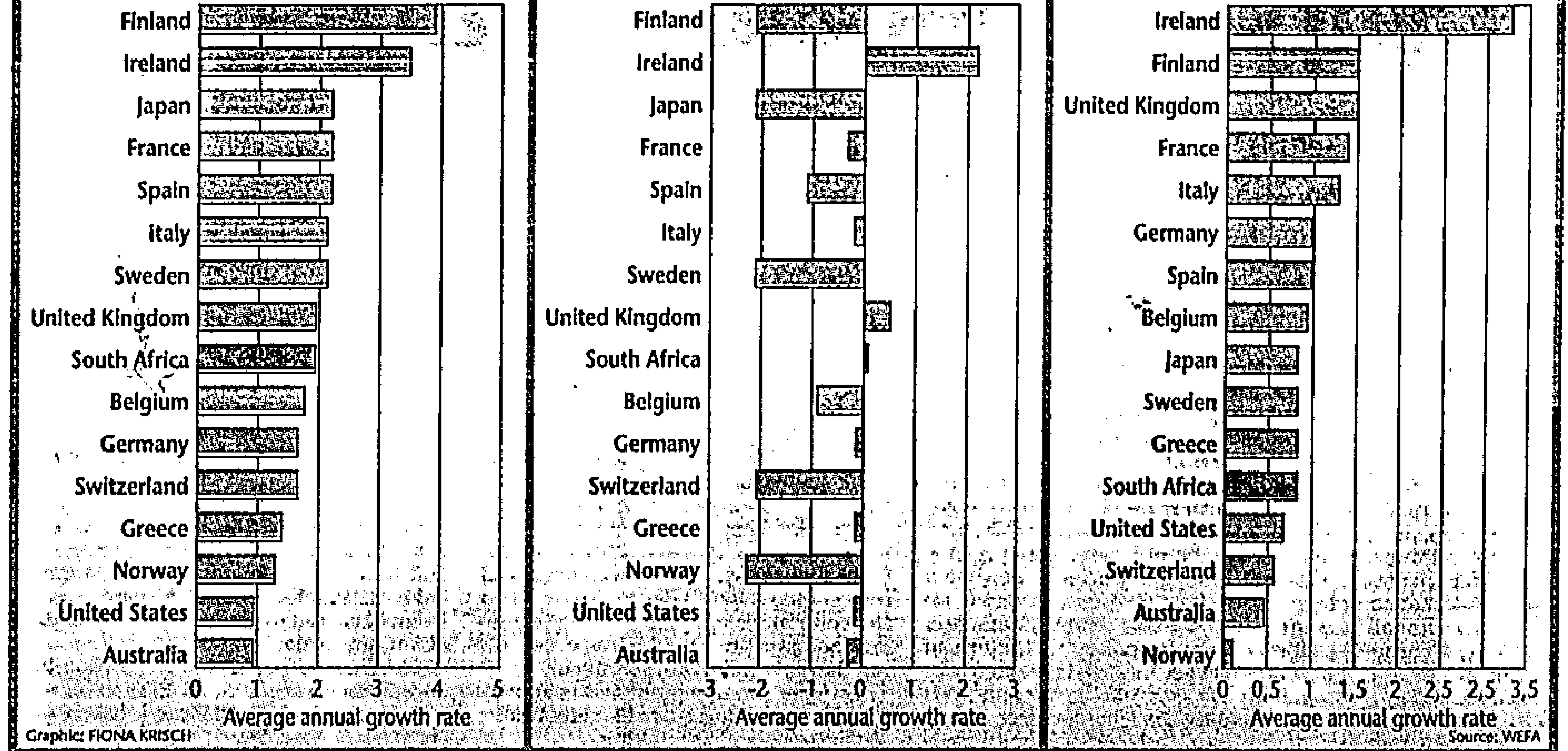


Graphic: FIONA KRISCH

Government to modify its industrial incentive

CT(BR) 15/8/96 (180)

By Roy Cokayne

Pretoria — The government would probably introduce a modified version of its regional industrial development incentives programme in the last quarter of the year, Johann Reinhardt, the chief director of regional industrial development at the trade and industry department, said yesterday.

At present, incentives are available to businesses countrywide, except in Gauteng and the Durban core area.

Investors qualify for the incentive package if they establish new secondary industries or expand their operations in South Africa.

Initial assistance under the programme takes the form of an establishment grant and incentives based on profit and relocation. Assistance is based on the level of investment, which may not exceed R15 million.

A simplified version of the programme, known as the simplified regional industrial development programme, caters for investments which do not exceed R2,5 million.

Reinhardt said the government's new economic policy proposed replacing the regional programme with a tax holiday. The simplified programme would continue in a modified form, but no details were available.

The provinces and representatives of the National Economic Development and Labour Council were involved in re-evaluating the programmes, Reinhardt said.

Manufacturing sector recovery pushes GDP growth to 3,5%

CT (BR) 28/8/96 (180)

By Christo Volschenk
ECONOMICS EDITOR

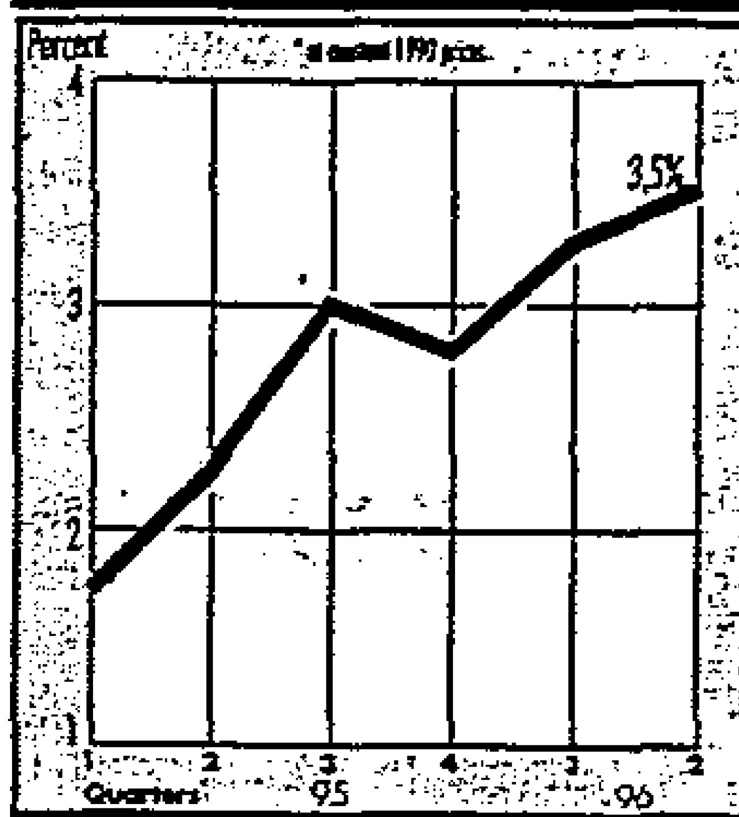
Cape Town — South Africa's gross domestic product (GDP) grew 3,5 percent in the second quarter, from a revised 3,3 percent in the first quarter, moving economists to warn that interest rates could soon be raised to slow the economy.

A second-quarter recovery in the manufacturing and service sectors propelled the improved growth, the Central Statistical Service said yesterday.

The growth in the second quarter was widely based. Mining was the only area that failed to contribute. Most of the first-quarter growth came from agriculture, the service said.

Output in the mining sector fell 1 percent in the second quarter, pulling down the performance of the non-agricultural sector —mining, manufacturing and services — to 1,8 percent for the period, the service said.

A few economists said they were expecting a slightly stronger GDP performance in the second quarter, but none revised their forecasts downward for the year.



"In the third quarter, growth will once again be calculated from a low base and another strong figure will keep average growth for the year above 3 percent," said Karin Schoeman, an economist at Southern Life Asset Management.

In the second quarter, the manufacturing sector grew at a seasonally adjusted yearly rate of 1,2 percent and the service sector grew at 2,4 percent.

Agriculture grew 41,2 percent in the second quarter, but some economists said they were expecting an even better performance from the sector after the good summer rains.

Schoeman said the benefits of the good agricultural summer season should be reflected in the third-quarter figures and help sustain the overall growth momentum achieved in the first half of the year.

The Reserve Bank also released figures for gross domestic spending and its current account yesterday.

Gross domestic spending grew 8 percent in the second quarter. The deficit on the current account of the balance of payments, which measures capital flows, widened from R10,5 billion in the first quarter to R16,5 billion in the second quarter.

Nick Barnardt, the chief economist at BOE Natwest, warned that those disappointing second-quarter figures could trigger another increase in the Bank rate.

"Unless the trade account, money supply, credit and gross reserve figures improve soon, another Bank rate increase may be on the cards," Barnardt said.

Condom market gets a new flavour

CT (BR) 28/8/96 (180)

By Stuart Rutherford

Durban — Pietermaritzburg-based GP Prophylactics is about to come into its own in the retail condom markets of South Africa, Kenya, Egypt, Ivory Coast and Ghana.

Vijay Parmar, the business manager of GP Prophylactics, said the company planned to double its capacity and launch its Pleasure range of condoms before the end of the month. Condoms in the range come in banana, strawberry, mint and natural flavours.

"The new range of condoms will improve our margins and will give us visibility in the market," he said.

The company, which already supplies almost 15 percent of the condoms distributed by the government and local non-governmental organisations, has ordered electronic testing and foiling machines that will boost its annual output to 60 million.

GP Prophylactics supplies other brands of condoms to the health department and Population Services International. Its order book for these products is full until next April.

Parmar said the company hoped the Pleasure brand would take up 20 to 30 percent of its capacity over the next two years.

He said though there were other competitors, they tended to bank on "saucy pictures" to sell their products. Pleasure came in a sober pack that anyone could buy.

GP Prophylactics is 90 percent owned by the GP Group, which supplies about 3 percent of the world condom market.

The GP Group has already launched the new range in Thailand, Brazil and Vietnam. It is enjoying considerable success.

Parmar said all of the condoms were imported from the GP Group's plant in rubber-rich southern Thailand and were SABS approved.

A distributor and promoter for the range is being sought in South Africa.

Cluster concept mooted for better industry co-operation

David McKay

BD 29/8/96 (180)

THE Department of Trade and Industry is planning to launch a roadshow by the end of the year to popularise the concept of "cluster industries", a concept aimed at SA's top executives.

Director of metals and allied co-ordinator Tony Heher said the roadshow would turn years of planning by the department into action.

He said the concept of cluster industries had been bandied around the halls of the department, but without bringing it to account.

Heher said that while a definition of what clustering comprised was still hazy, the aim was to increase co-operation between SA's industry leaders.

"In the steel industry, companies must establish what downstream producers require in terms of product supply and quality," he said.

"This will enable a company such as Iscor to adapt and develop its strategy in the local market with more effectiveness. It is also aimed at making SA a better exporter of its product."

While the metals industries were leading the way in the cluster concept, the textile industry was not far behind, he said.

Another important part of the cluster industry concept was the development of downstream industries.

There were many opportunities for establishing downstream industries around producers of primary metal such as Columbus Stainless in Middelburg and Alusaf cited in Richards Bay, Heher said.

He admitted that the department traditionally suffered "an image problem". As a result, another aim of the roadshow was to improve this image in the eyes of industry.

But the roadshow is mainly aimed at informing industry. "Most of the time, executives do not understand the cluster concept and in some cases, businessmen have not heard of its existence," Heher said.

While the department had offered financial advice towards improving the structure of industry through the founding of associations for example, it would not supply direct funding to exporters as a type of GEIS replacement — a common misconception.

Ideally, Heher said, the department would like industry to put its private-sector resources behind the cluster plan with government supplying support on the sidelines.

Local goods push up producer inflation

(180) CT (BR) 10/9/96

By Christo Volschenk

Cape Town — A large jump in the prices of locally produced commodities pushed year-on-year producer, or wholesale, inflation from 6,1 percent in June to 6,6 percent in July, the Central Statistical Service announced yesterday.

The 0,5 percentage point jump was generally discounted by analysts last week, but they had been expecting imported inflation to be the biggest culprit behind any rise in the inflation figure.

Instead, the prices of imported commodities remained unchanged from June to July, which is a decline of 0,2 percent when measued on a seasonally adjusted basis. The prices of locally produced commodities increased 1,1 percent. This pushed the year-on-year increase of locally produced commodities from 6,5 percent to 7,3 percent. Food, fish products and beverages contributed to the increase.

Imported inflation, measured year-on-year, rose from 4,7 percent to 4,9 percent.

Economists were concerned about the upward pressure on producer inflation emanating from local industry.

Imported inflation has hardly increased since the rand dropped by 25 percent earlier this year. This led analysts to warn yesterday that big increases were looming after last month.

"When a currency loses 25 percent of its value in a few weeks it must show in higher prices for imported goods. We have not yet had all the bad news," Pieter Calitz, a senior economist at Sanlam, said yesterday.

"Several factors kept imported inflation down in July, including a drop in oil prices, lower tariffs and keen international competition. Another important reason is that the prices of several items are only measured quarterly and a few shocks may still be in store when those items are measured," he said.

INTERNATIONAL COMPETITIVENESS

ISCOR DRIVES UP CAR COSTS

FM 20/9/96 (180)

Steel giant Iscor has been singled out by the Industrial Development Corp (IDC) as a key factor in pushing up costs in the motor industry. The IDC also blames fragmentation of the industry for adding to the problem.

And in a depressing illustration of lack of competitiveness, the IDC reveals foreign rivals are up to 5 000% more efficient than SA.

The IDC criticises SA's costly raw steel pipeline, accusing Iscor of poor quality and delivery records. It adds that local steel processors have to pay an import-parity price premium for Iscor steel.

The criticisms are contained in the IDC's first "minicluster" report on the downstream carbon steel industry. The report, which concentrates on the automotive components sector, has already forced industry officials to concentrate on finding a solution.

An "industry platform" or committee has been created to find solutions to the industry's lack of global competitiveness. It includes representatives of the automotive steel stamping industry, Iscor, the Department of Trade & Industry, the IDC and the National Union of Metalworkers of SA (Numsa).

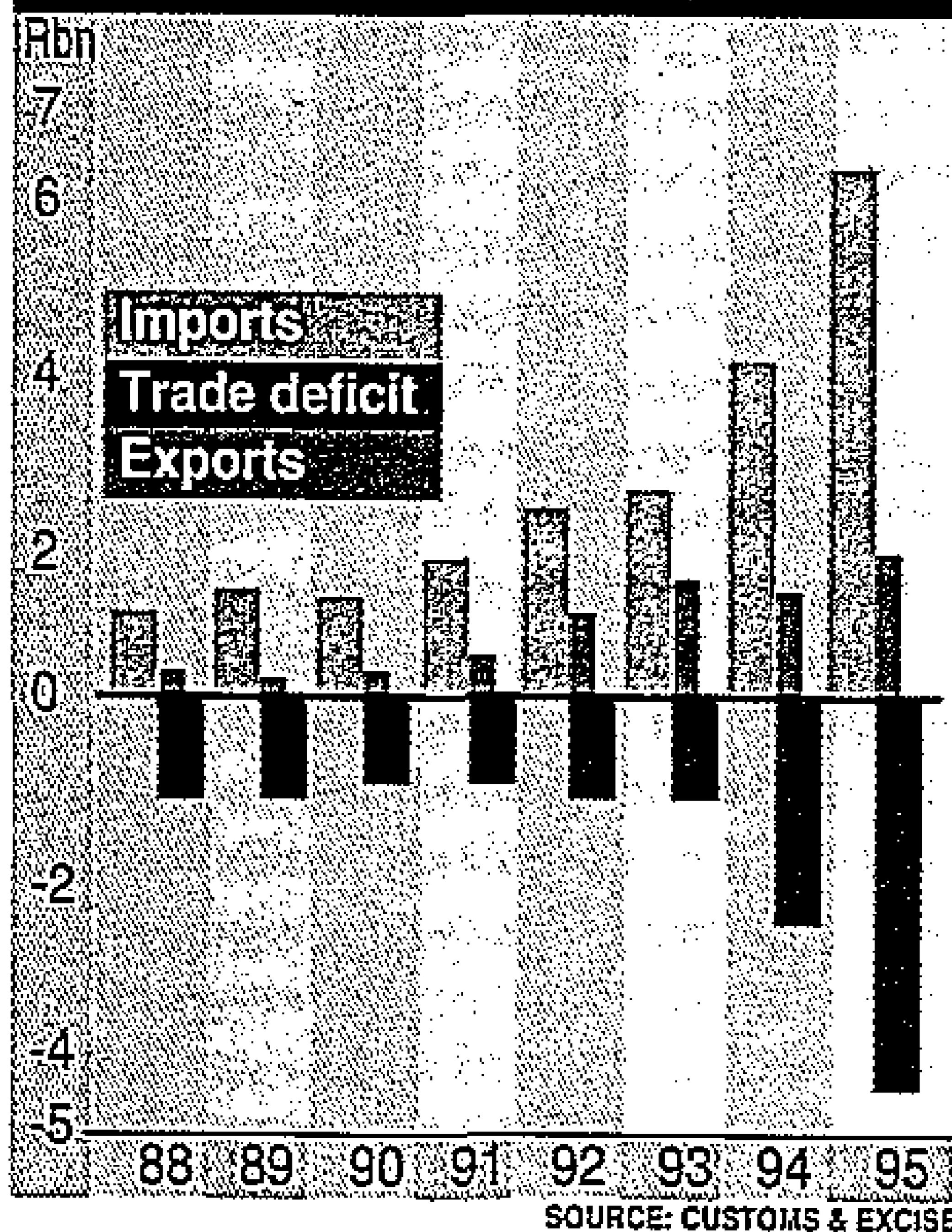
A plan is being devised for the stamping sector — producers of components such as roof and door panels and vehicle hoods — which its creators say could lead to rapid rationalisation of the vast numbers of steel specifications required by vehicle manufacturers.

Joe Panzer, chairman of the committee and divisional manager of Pretoria-based stamper August Laepple, says virtually all raw material input costs are higher than overseas.

The minicluster concept is a means of encouraging industry sectors to work together and find ways of co-operating. Well established in some export-orientated countries, it is new to SA.

Iscor supplies about 95% of local carbon steel needs. The IDC recommends removing all remaining tariffs on imported steel and says ways should be found to encourage competition for Iscor.

Panzer says quality, price and delivery problems could be reduced because cluster members are devising ways of rationalising the various steel grades and specifications required from Japanese and German vehicle manufacturers. "With luck, firm proposals can be made to Iscor within the next few months."



The IDC stresses that Iscor is only part of the difficulty: "The relatively small volumes of various grades of sheet metal required by SA's automotive industry add to the problem as economies of scale do not exist and upgrading existing technologies would require costly capital expenditure. Stockists are forced to buy up in volume and keep stock until required by stampers, adding to costs."

In the US and Europe, component manufacturers obtain their stock directly from competing steel makers on a Just-In-Time production and delivery basis, with little inventory cost.

By one estimate, up to half of the country's component companies are in danger of going out of business in the next few years because of increased use of imported components.

According to the IDC report, while component exports grew on average by 49% a year between 1988 and 1995 — from R100m to R1,5bn — imports also increased sharply from R1,2bn to R6,2bn. Reducing the resultant components trade deficit could be another spin-off if the IDC's cluster recommendations are implemented.

Based on the IDC's benchmark comparison of local and US stampers, SA's lack of competitiveness remains a glaring problem. Late deliveries and quality rejections in SA are respectively 400% and 300% more prevalent than in the US; productivity (thousands of units per worker) is 81% below the US figure; labour cost per unit and turnover per worker, respectively, are 71% and 67% worse; labour costs per floor panel are 525% higher in SA. Contributing reasons include SA's older industrial equipment and labour-intensive practices.

Other glaring disparities show that in SA 547% more units have to be reworked after completion, while defects returned by customers show an astronomical 4 900% differential in favour of the US.

National Association of Automotive Components and Allied Manufacturers (Naacam) director Clive Williams says apart from the raw material pipeline, the industry is also lobbying government to introduce supply-side measures to encourage upgraded training and labour productivity measures.

"While the Gatt Uruguay Round has forced us, in terms of the Motor Industry Development Programme, to drastically reduce tariff protection, it would be naive to think that a long-protected industry can suddenly pick itself up by its bootstraps," says Williams.

"The industry welcomes government's tax holiday and accelerated depreciation allowances, but we must realise that in certain US states component manufacturers can qualify for such added incentives as free land, training allowances and other tax breaks. We will ask government to assist us in making the game fairer."

SA discusses loan with World Bank

BD 25/9/96 (180)

Greta Steyn

SA HAD begun talks on a possible World Bank loan to help finance improvements to its international competitiveness, Finance Minister Trevor Manuel said this week.

Manuel indicated at a news conference on Monday the loan would not feature high on the agenda of the SA delegation to the AGMs of the Bank and the IMF in Washington next week. Trying to hammer out a loan at the meetings would be "like trying to see the Pope on Good Friday". It was "early days" but discussions had started on assistance involving the trade and industry department on a package to enhance global competitiveness.

Sources said the amount involved would be small, indicating that the South Africans were seeking to test the waters of Bank lending. The figure was unlikely to exceed $100m and would be aimed at boosting new ventures and small and medium-sized companies seeking export opportunities.

A source said three components were possible — firstly, a competitiveness fund which would help enterprises to obtain funds for new technology or improving productivity; secondly, a guarantee facility for pre-shipment financing; and thirdly, a partnership fund aimed at helping firms network.

"The finance is aimed at a new tier of mobile, flexible companies that are quite labour intensive. The idea is not that existing big companies should benefit," a source said.

Another said the loan would mark a change in relations between SA — a reluctant borrower — and the Bank. So far the Bank's involvement had been limited to technical assistance, with SA taking its time over deciding how to take the relationship further. The loan under discussion suited government as it was very focused and did not involve major policy conditions. He said the loan would be discussed at the AGMs, but would not be finalised.

Manuel and Reserve Bank governor Chris Stals indicated SA would not ap-

Continued on Page 2

Loan

(180) BD 25/9/96

Continued from Page 1

ply for an IMF standby facility, despite the current account on the balance of payments being deep in the red.

But Stals said that SA had made it clear to the IMF that if the gold price was affected by the Fund's planned gold sales, it might have to apply for a special facility to make up for the loss of export earnings.

Manuel, Stals, finance director-general Maria Ramos and other officials are attending the Commonwealth finance ministers' meeting in Bermuda this week before going on to the Bank/Fund AGM in Washington from September 28 to October 3.

A roadshow to market the country's planned Yankee bond issue follows from October 4 to 11. Manuel said the bond would be issued only if circumstances were favourable.

Business strategy translates into manufacturing ability

(180) BD 3/10/96

Mteto Nyati

EVERY year, senior managers in SA retreat to various private game lodges to formulate their business strategy for the next planning cycle.

These executives have become aware of the value of analysing their operating environment, identifying their business's strengths, weaknesses, opportunities and threats, plotting their relative market share positions and formulating strategies meant to unseat an industry leader or to remain the local leader.

Normally, the outputs of these business strategy sessions are thick, convoluted planning documents which are regarded as private and confidential, although their purpose is to envision a desired leadership position and establish the criteria the company will use to chart its process.

A business strategy is supposed to give employees the only goal that is worthy of their commitment, unfolding the future back into the present. In most cases, the next stage of the process is that the senior team conducts presentation sessions throughout their operational centres to inform employees of the business strategy. These presentations are characterised by busy slides filled with everything the presenter has known since childhood.

Simplification of issues is forbidden. This is based on the assumption that if the senior team is seen to be simple, employees would think they are simple-minded. Anyway, on completion of these presentations, the business strategy is allowed to gather dust in the senior team's top drawers. The same process is followed the following year.

SA managers should realise that companies that were superstars only yesterday will soon find themselves stagnating and frustrated, in trouble and often in seemingly unmanageable crisis. The root causes of these crises will be the lip service being paid to effective communication, and lack of development of a manufacturing strategy based on the business strategy.

How long did it take the big US motor manufacturers like Ford and Chrysler to realise they were no longer simply competing against each other but also against Japan? And that the Japanese had changed the basis of competition to quality? And then how long did it take them to begin to adapt?

To illustrate the point, Caterpillar, a company that always stood for the highest quality, the best service and the best products, had a sense of specialness that bordered on arrogance. Then, one morning, Caterpillar woke up and discovered that Komatsu was bringing out better products and doing it faster. The world had changed and Caterpillar values and its sense of specialness had become a disadvantage.

The point being missed by SA companies is that the "secret weapon" of their fiercest competitors is based not so much on well formulated business strategies or financial muscle but on something harder to duplicate — superior overall manufacturing capability.

These days, a company's manufacturing function typically is either a competitive weapon or a corporate millstone. The emerging wave of competitively aggressive moves originating from the manufacturing function is a new phenomenon in SA. Better deployment and management of physical assets seems to be the next source of competitive advantage.

One way to compete is to focus the entire manufacturing system on a limited task, such as flexibility or cost, precisely defined by the company's business strategy. As a manufacturing task is an offspring of a business strategy, it is susceptible to change.

Frequently in SA companies the inter-relationship between manufacturing and business strategy is not easily grasped. The notion is simple enough — that a company's competitive strategy at a given time places particular demands on its manufacturing function. More elusive are the cause and effect factors determining the link between manufacturing and business strategy.

A manufacturing strategy describes just what the manufacturer must do exceptionally well in the face of precisely defined obstacles and difficulties to play a proactive part in the business strategy. This is so because the purpose of manufacturing is to serve the company, to meet its needs for survival, profit and growth. Achieving long-term competitive advantage depends on the company understanding how to position its manufacturing capabilities vis-à-vis competitors. Formulating a business strategy is a start. Transferring business requirements into manufacturing capability is what is required.

□ *Nyati is a management consultant with Nampak division Divpak.*

Capacity utilisation takes dip

BD 8/10/96 (180)

Edward West

CAPACITY utilisation fell in 18 of the 20 major manufacturing industries in May, and by the end of the next month nearly 10 000 workers had lost their jobs, Central Statistical Service figures show.

SA Chamber of Business economist Keith Lockwood said the figures were in line with a generally "murky picture" for formal sector employment this year — although he warned there could be seasonal aberrations.

About 35 000 formal sector jobs were created last year, but about 50 000 jobs, or 0,8% of the total, had already been lost in the first quarter, he said.

It appeared as if local companies had taken the need to restructure in the face of falling import tariff barriers and greater competition "far more seriously than we would have credited them with".

Central Statistical Service figures show average capacity utilisation was 3% lower in May compared with May last year. The largest decreases were reported in the footwear (20,2%) tobacco (14,2%) and motor vehicle industries. Average capacity utilisation was 80,7%.

The largest number of workers, 68 000, or 4,7% of 1 433 649 workers in manufacturing, were employed by women's, girls' and infants' clothing manufacturers.

The basic iron and steel industries and manufacturers of men's and boys' clothing were next at 56 119 or 3,9%, and 54 989 or 3,8% respectively.

Between May and June employment in the manufacturing, construction, electricity and mining and quarrying sectors fells by 9 556, with the largest decline reported in the quarrying sector, where 6 108 people lost their jobs.

Average salaries and wages fell 4,3% or R132 in manufacturing, 8,8% or R168 in construction, and 1,5% or R86 in the electricity sector. Pay in mining and quarrying increased 3,8% or R89.

Manufacturing jobs fall 0,9%

(180)) CT (BR) 9/10/96

Jonathan Rosenthal

Johannesburg — Manufacturing-sector employment has fallen 0,9 percent, almost 13 000 jobs, from January to March this year, the Industrial Development Corporation said in a report released yesterday.

Sectors including the electrical machinery, wood and wood products, beverages and footware sectors and representing 18 percent of total manufacturing employment, have continued to exhibit a downward trend in employment.

Employment stabilised or rose in clothing, furniture, rubber products and basic iron and steel products. Sectors representing 28 percent of manufacturing employment increased or stabilised.

Growth in manufacturing has stalled since the end of last year, after reporting growth of 7,6 percent last year. Economic growth of 3 percent for this year was still likely, but would be driven by the agricultural and mining sectors.

Economy's engine starts to splutter

(180) ST (BT) 13/10/96

MANUFACTURING
By SVEN LUNSCHE

AFTER leading the economy to three years of relative economic strengths, the manufacturing industry is signalling the first signs of a significant slowdown in economic growth.

Manufacturers expanded their production by 7,5% in calendar 1995, but production volumes fell by about 1% in the first six months of this year compared with the first half of last year.

The economy is still set to grow by about 3% this year, but it will be relying on better agricultural conditions and improved mining production to achieve this level.

Tragically, manufacturing is the sector that should lead job creation. Instead, in the first three months the sector shed almost 13 000 jobs — 0,9% of its workforce. Even during the 1994 and 1995 boom years, job creation was minimal as the industry chose to invest in productive assets like plant and machinery.

Research by the Industrial Development Corporation shows the overall figures hide widely differing performances for various manufacturing sub-sectors.

The largest rise in output in the first half was in non-ferrous metal basic products, which boosted production by 51%, reflecting the coming on stream of Alusaf's new aluminium production capacity. Basic iron and steel output rose by 4% following new stainless steel production at Columbus.

The IDC says production in the manufacture of motor vehicles and parts fell by 21%. Footwear production declined by 16,5% and paper products by 14,5%.

Overall use of productive capacity by manufacturers fell by almost 4% in the first quarter.

More positive is the relative strength of the export market. In the first half of the year manufacturing exports were up 20,6% on last year. The IDC expects further growth in coming months in the wake of the weaker rand.

A geographic breakdown of export destination shows that Zimbabwe is now South Africa's third largest export market. Last year it was only sixth. The UK remains the prime destination, accounting for 13% of export volumes.

Imports of manufactured goods rose by 13% over the same period, led in value terms by a 24% rise in imports of machinery and equipment. Germany, Britain and the US account for 45% of all manufactured imports.

The IDC says average import protection in the industry has been reduced sharply, from 19% of value in 1994 to 10% at present. In line with the country's obligation to the World Trade Organisation, this figure will have to decline to 8% by 2000.

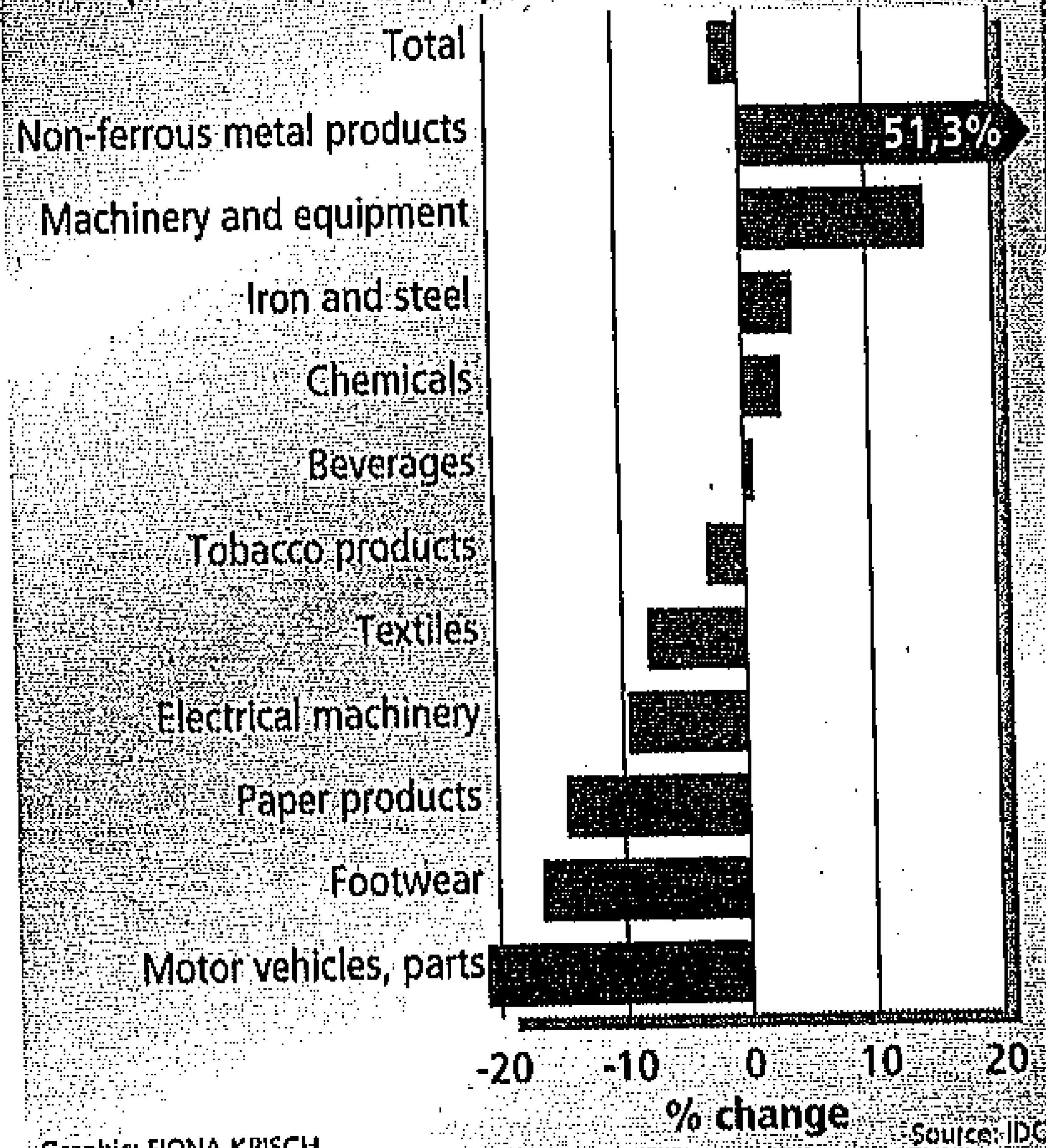
An interesting side angle to the IDC statistics is a surprisingly large inflow of foreign direct investment since the April 1994 election. The corporation estimates inflows of R18-billion, with almost half — R8-billion — from 46 US companies.

Germany follows with R3,2-billion from three companies, the UK with R2,3-billion from four companies and Malaysia with R1,8-billion from about 10.

The manufacturing sector has attracted about two-thirds of these investments. Industry subsectors were led by the food and beverages sector, which accounted for more than 29% of total inflows, followed by the motor and electronics sectors.

But many of these investments represented buy-ins into companies, rather than direct investment in plant and new capacity.

Over 11% of foreign direct investment was in properties and 13% in hotels and leisure, while telecommunications has attracted 6,2% of total direct investments since 1994.



Not all doom and gloom in manufacturing sector

(180)
ARG 16/10/96

One of the most important sectors of the economy, the manufacturing sector, is currently going through a lull in output. The latest available figure – for July 1996 – shows a drop in volume produced. Compared to the same month a year ago, the physical volume of production has dropped 2,3 percent.

THE ECONOMY MIDWEEK

OCKIE STUART

A survey conducted by the Bureau for Economic Research towards the end of last month sheds more light on current trends in this sector.

Order books play an important role in the tempo of activity in manufacturing. Orders are also important in shaping manufacturers' confidence: the volume of production and of sales is largely determined by the number of orders received.

The bureau's survey suggests that in the third quarter, the volume of orders from within South Africa received by manufacturers was lower than a year ago. As a result, they slowed down the tempo of production.

But the participants in the bureau's survey said they expect keener demand for their goods from abroad in the fourth quarter of the year.

The fall in domestic demand is also expected to bottom out towards the end of 1996. So, although overall activity is bound to stay sluggish for the rest of the year, the signs are that there will be an improvement early in 1997.

Sluggish conditions in the manufacturing sector are also illustrated by the fact that participants in the survey are retrenching workers, the ratio of unfilled orders to sales is deteriorating, less hours are worked per factory worker, delivery periods are shortening, and, lastly, confidence is waning.

From a list of factors hampering their activities, manufacturers highlighted what they saw as an adverse political climate and high short-term interest rates. Not surprisingly, they also added insufficient demand for their products as a worrying factor.

But all is not doom and gloom in the manufacturing sector.

Not only are participants planning to accelerate production to cope with an expected surge in foreign demand for goods, they also expect costs of production to rise more slowly. They reckon that even the increase in labour costs could slow, and that, in spite of the weak rand, the average purchase price of raw materials could also rise more slowly.

Whether manufacturers will pass this on to their customers remains a moot point.

Although many manufacturers are now going through difficult times, most seem to view the longer term with confidence. Participants in the bureau survey said fixed investment would continue to grow for at least 12 months.

In sum: the manufacturing industry is currently in a cyclical downturn. This is fairly widespread, though there are important sub-sectors which are still performing well. Indications are that keener demand from overseas will prevent the current recession from deepening. In fact, the manufacturing sector should be out of the woods by the middle of next year.

■ *Ockie Stuart is the director of the Stellenbosch Bureau for Economic Research*

Manufacturing will grow with training (180)

Manufacturing in South Africa could raise its contribution to GDP to 34 percent by 2000, from 24 percent this year, if technological-training programmes are put in place, Henri Maurer, the head of the European Committee for Co-operation of the Machine Tool Industries' economic department, said yesterday. Industry sources said South Africa would face an artisan shortage by 2000 because of the scant resources companies were directing towards apprenticeships. Maurer said European machine tool makers had identified South Africa as an important emerging economy and would bring a 24-company delegation to South Africa in February. Europeans hold 75 percent of the local market. Manufacturing production in August rose 0,7 percent on a seasonally adjusted basis from August last year, and 1,8 percent on the month, the Central Statistical Service said yesterday. — James Lamont and Reuter, Johannesburg

CT 18/10/96 (BR)

SA manufacturers face changes

(180)

Nicola Jenvey

BD 24/10/96

DURBAN — To achieve full employment, double-digit growth rates and a booming tourism industry, SA manufacturers must accept international competition and be given a clear direction from government regarding economic rules, T&N CEO Ted Waldburger said this week.

He told a Durban Metro business conference that regulations affecting international competition and consequent pricing pressures faced by manufacturers had changed dramatically in recent years.

Foreign investors wanted to take maximum advantage of these changes, for example, in the motor industry, where government policy created opportunities for the manufacturing of new vehicles costing less than R32 000.

"SA business competes for foreign investment dollars with India, the Far East and Eastern Europe. There must be the realisation that investors go where economies of scale are balanced with stable management/trade union relationships and sound potential," he said.

This translated into businesses being forced to guarantee a continuity of supply. Given labour relations problems in SA, foreign investors might be attracted elsewhere.

Investors expected world-class standards when making business decisions based on the risk:return analysis.

"SA must question whether the upper level of acceptable risk has not already been surpassed with employees being killed on duty."

Although organisations such as Business Against Crime were actively trying to reduce the problem and hence attract foreign investment, the responsibility was not solely that of management. Government had to play its role.

It was government's task to police rules guiding business such as customs and excise duties and trade licences, to ensure local and foreign businesses could operate on level playing fields.

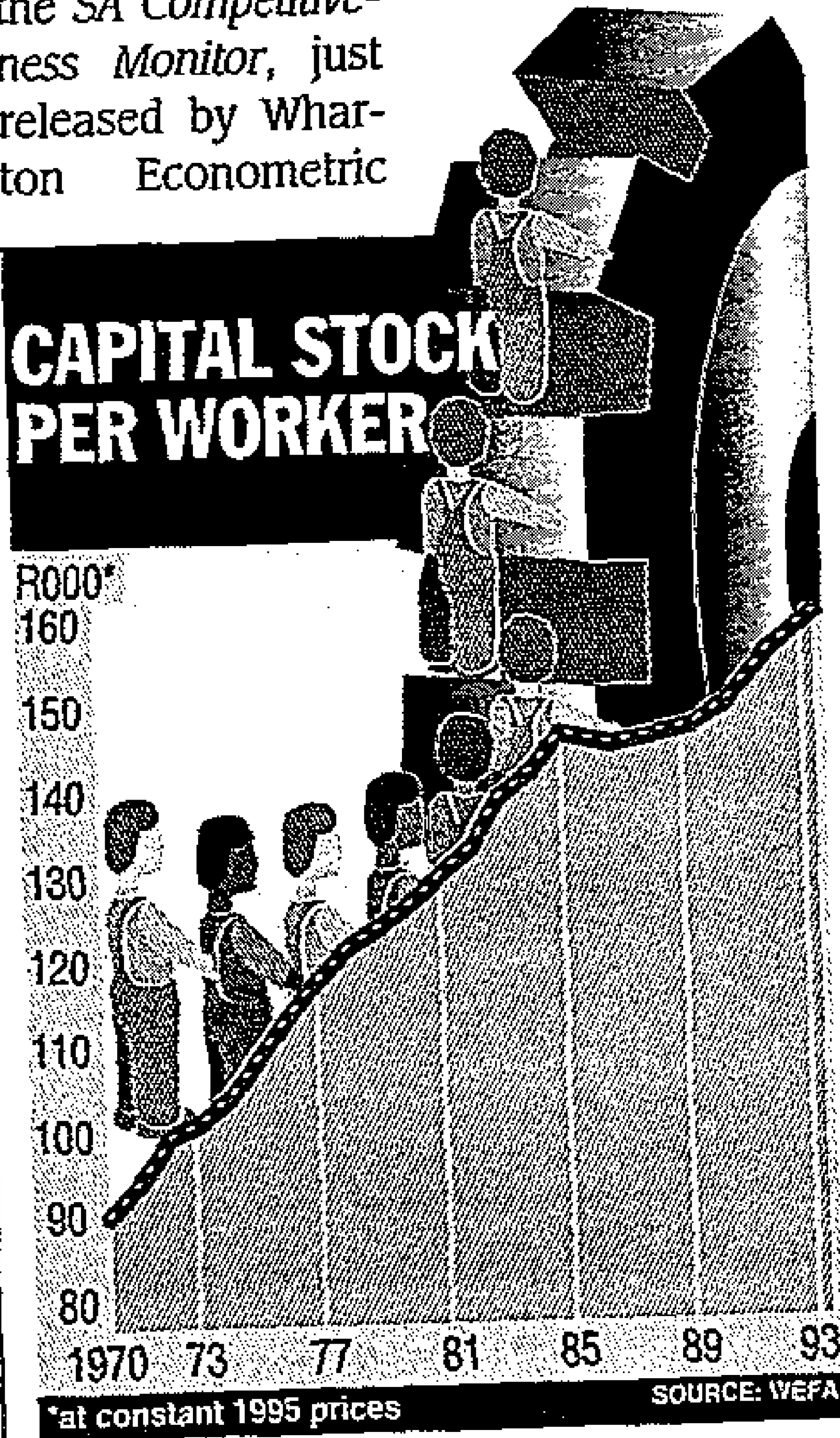
Waldburger said management had not given enough consideration to availability and retention of skills in SA. Education levels from board-level downwards had to be raised and technical support provided where necessary.

FACING WRONG DIRECTION

FM 25/10/96

Inappropriate government policies raised the capital:labour ratio sharply over the past 20 years — bad news for the unemployed because the economy must grow much quicker to create jobs.

This is highlighted in volume three of the *SA Competitiveness Monitor*, just released by Wharton Econometric



Forecasting Associates, which also reviews human capital, productivity, remuneration and unit labour costs.

Written by economics consultant Karin Liebenberg, it shows the economy's capital:labour ratio shot up by more than 80% in real terms over 15 years (see graph).

The employment coefficient — the extent to which employment will change as a result of changes in economic growth — turned negative during the past decade (-0,3). During 1961-1972, 1973-1978 and 1979-1984 it was 0,5, 0,7 and 0,5 respectively.

The report ascribes the high capital:labour ratio to inappropriate relative prices in the Seventies and Eighties. Reasons given for the mispricing are: low interest rates, tax concessions, a rapid rise in the wages of unskilled workers, an increase in industrial action by workers, an overvalued rand and price controls.

Some of the causes of high capital intensity have been removed. For example, since 1989 the real cost of capital has gone up quicker than the cost of labour. But the report warns that it will be hard to reverse the capital intensity.

Competitiveness will also be hampered in the next few years by higher unit labour costs. This is a summary measure of changes in productivity and wages where an increase reduces competitiveness.

Unit labour costs in the private economy went up by an annual average of almost 14% between 1985-1995. Though the report expects increases of less than 10% between 1995-2000, that's still too high in a harshly competitive world. ■

INDUSTRIAL INCENTIVES

A NEW REGIONAL PACKAGE

FM 8/11/96 (180)

Government officials have devised a new system of industrial and export incentives. They hope the new regulations will be gazetted by the end of November.

Regional development chief director Johan Reinhardt says provinces and Nedlac have discussed the final proposals. Now it's up to government legal advisers and the Ministers of Trade & Industry and of Finance to approve the proposals.

The programme includes a new six-year tax holiday scheme. Supported by an accelerated depreciation allowance, letting investors write off capital expenditure against tax in three equal annual tranches, SA will have an industrial and export incentives package to replace the combined effects of the expired Geis export incentive, the old Section 37E tax write-off scheme and the regional industrial development programme (RIDP).

The vanishing rand will help exporters, though this will be offset to a degree by the imported cost of components and equipment required by many industries.

The tax holiday consists of three two-year components — one each for region, industry sector and labour. For the full six-year benefit, firms must qualify on all three. They must also be liable to pay tax. As long as companies are reporting losses, they won't benefit.

KwaZulu-Natal Marketing Initiative vice-chairman Arnold Griesel says: "The tax holiday incentive lacks the immediate cashflow 'push' effect of the old Geis and RIDP incentives." He says the tax write-off benefits will start kicking in only after a qualifying investor goes into profit. Fortunately, the accelerated depreciation allowance lets industrialists immediately start writing off purchases of new plant and equipment, and thus new technologies, against tax.

Details of the proposed regulations for the "three-pack" scheme — consisting of three different two-year tax holiday packages — include:

- Fifty-seven locations, spread across all nine provinces, which qualify for the packages. These are listed in the accompanying table;
- To qualify, companies must demonstrate that labour accounts for at least 55% of added value. This is intended to encourage investment in labour-intensive industry; and
- Ninety-seven specific industries qualify. These include brewing, dairy, wine & distilling, textiles, clothing, tanning, luggage, footwear, wool, wooden products, pulp & paper, publishing, printing, paints, pharmaceuticals & chemicals, tyres, plastics, motor vehicles, cement, industrial machinery, office & computing machinery, electricity distribution, TV & radio manufacture, and furniture & jewellery. There is also an opening for "other manufacturing not elsewhere classified."

HOLIDAY RESORTS

Where the two-year tax holiday will be available

Province	Locations
E Cape	Butterworth, Despatch, East London, King William's Town, PE, Queenstown, Uitenhage
Free State	Bloemfontein, Botshabelo, Harrismith, Phuthaditjhaba, Sasolburg, Thaba Nchu, Welkom
Gauteng	Alberton, Gauteng islands, Germiston, Krugersdorp, north-west of Pretoria, SE Johannesburg, Springs, Vaal Triangle
KwaZulu-Natal	Durban (certain areas only), Empangeni, Isithebe/Mandini, Ladysmith, Newcastle, Maritzburg, Richards Bay
N Cape	Kimberley, Upington
Northern Province	Phalaborwa, Pietersburg, Thohoyandou, Tzaneen
North-West	Babelegi, Brits, GaRankuwa, Klerksdorp, Mabopane, Potchefstroom, Rosslyn, Rustenburg
Western Cape	Atlantis, George, Malmesbury, Mitchell's Plain, Mossel Bay, Oudtshoorn, Saldanha/Vredenburg, Worcester

SOURCE: TRADE & INDUSTRY

Port Elizabeth Chamber of Commerce & Industry executive director Kevin Wakeford says most incentive areas are in formerly marginalised regions. He predicts the incentives will increase the growing trend to locate export-focused plant close to under utilised ports like Port Elizabeth.

He says falling tariff protection is forcing SA industry to take a global outlook, rather than concentrate its attention on the main domestic market around Gauteng. "With transport a major cost factor in becoming globally competitive, export-focused industrialists will now try to save railage costs by locating new plant at the coast."

Cape Chamber of Commerce & Industry deputy director Colin Boyes says a criticism of the tax holiday package is that "world-class" exporters operating from established metropole industrial areas do not qualify for the new incentives.

He hopes government will consider applications to add to the initial incentive locations. He also believes the 55% labour added-value component may work against export companies which compete internationally against more efficient and automated foreign competitors.

Reinhardt says while the tax holiday scheme will be jointly administered by the provinces and the Department of Trade & Industry, the board for Regional Industrial Development will decide who qualifies. ■

VEHICLE SALES

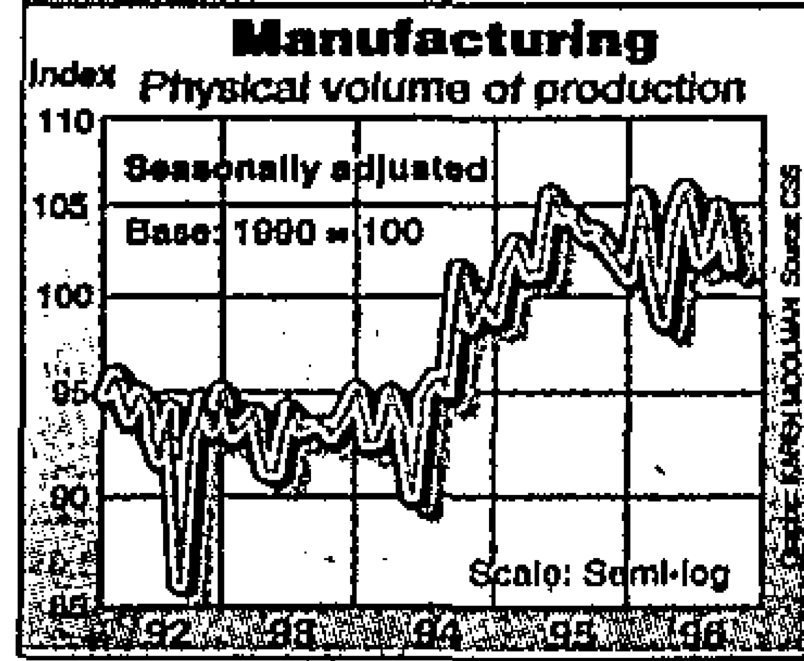
TEMPERING PLEASURE

Motor industry delight at the dramatic boom in vehicle sales during October is tempered by the realisation that it may have a reverse impact on sales in coming months.

New-car sales of 27 816 was the best monthly performance since June 1982,

Economic slowdown hits manufacturing sector

(180) BD 13/11/96



Lukanyo Mnyanda

SA's slowing economy has hit the manufacturing sector which experienced a 0,7% decline in production during the third quarter compared with the same period last year, figures released by the Central Statistical Service yesterday showed.

The motor industry, with an 11,8% decline in production despite an 8% increase in sales over the same period, was the main contributor to the fall in production. The CSS said the inconsistency between production and sales was "mainly due to a considerable increase in the number of motor vehicles sold with no or relatively low local content".

Economists said the manufacturing sector was also suffering from slowing consumer demand following months of largely pre-emptive buying in the face of the rand's decline earlier in the year.

They said they were disappointed manufacturing for exports had still not responded to the rand's fall.

According to the CSS figures, there was a slowdown in the sales of locally produced manufactured goods, with the motor and electrical machinery industries being the biggest contributors.

BoE Natwest economist Nick Barnardt said the figures were a "bit disappointing" as the rand's weakness should have stimulated manufacturing for export. Manufacturers were clearly suffering from a levelling off in consumer spending and many retailers were reducing their inventory levels.

Econometrix economist Tony Twine said the figures meant that manufacturing — which made up 25% of total GDP — would make up a negative 0,2% contribution to overall growth during the quarter. "It's been a bad year for manufacturing," he said.

The motor industry had produced little in the last quarter and had used sales to reduce inventories. "It sold what was already produced. That is probably also true for components suppliers."

Transnet economist Mike Schüssler said most components had experienced declines between August and September and the emerging picture was one of a broad-based downward trend.

The drop was especially disappointing as production usually picked up for the festive season at this time.

Rapid decline in number of manufacturing jobs

(180) BD 14/11/96

Greta Steyn

MANUFACTURING employment fell again in July, with 7 260 jobs lost compared with June as industries continued scaling down their workforce.

Central Statistical Service figures released yesterday confirmed the rapid downward trend in manufacturing employment, with almost 35 800 manufacturing jobs having been lost since January.

The sharp decline in jobs is only partly explained by the slowdown in manufacturing production, with economists saying even healthy economic growth is unlikely to result in a major rise in jobs in industry.

Steel and Engineering Industries Federation of SA economist Michael MacDonald said the trend worldwide was for manufacturing employment to fall.

"The figures are pretty worrying but not unexpected. Manufacturing has become much more capital intensive."

He said it was obvious that manufacturing would not absorb unskilled labour to any significant extent. Unskilled workers employed by SA industry in the early 1980s had made up about 69% of the total workforce, compared with only 32% at present.

The only growth in manufacturing employment could come from the middle level of skills.

MacDonald noted that in the US, less than 1% of the workforce was employed in manufacturing, with employment growth now focused firmly on the services sectors. "SA is one of the most underserviced places in the world. It is easier and cheaper to create jobs in the service industries and in small business."

However, he thought government was not doing enough about encouraging small business, which he regarded as being seriously underfunded.

It is impossible to make accurate comparisons to last year's manufacturing employment levels, as the figures from this year include the former TBVC states.

The CSS figures show that the total decline in jobs in July from June in the manufacturing, construction and electricity sectors was 14 754workers, with the biggest percentage decline occurring in the mining industry.

Economists have noted that the services industries, especially financial services, and the public sector, are bucking the trend and creating jobs.

A CSS review of the year to March said increases had occurred in financial services, real estate, trade catering and accommodation services, and community social and personal services.

The CSS said employment in the formal non-agricultural sector had fallen by 1% — or more than 52 500 workers — in the year to March. The biggest decline had been in the construction sector.

NE

Erwin to reveal new supply-side measures to promote growth and investment

Boost for manufacturing sector

(180) CT(BR) 26/11/96

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Alec Erwin, the trade and industry minister, will announce a set of new supply-side measures aimed at stimulating growth and investment in the manufacturing sector tonight.

The programme to be announced is expected to give new momentum to the government's growth, employment and redistribution plan (Gear).

Sources in the trade and industry department said Erwin would announce details of an accelerated depreciation scheme for manufacturers.

He will also officially launch the small and medium size manufacturing development programme, which replaces the regional industrial development programme, and release details of an improved pre- and post-shipment export finance guarantee facility for small businesses.

And he will release, for the first time, the regulations of the tax holiday legislation which contain mechanisms to prevent abuse of the tax incentive.

The new measures will be part of a package of supply-side measures already in place that include the Industrial Development Corporation's (IDC) World Player scheme.

The scheme gives manufacturers that face increased competition because of the lowering of import tariffs access to subsidised loans for plant and equipment to make them competitive on the international market.

Supply-side measures are central to Gear and are aimed at making the local economy more outward looking, competitive in the global environment and responsive to market trends and opportunities.

They replace the demand-side measures which have been in place for the past few years, such as the general export incentive scheme, which will be phased out by the end of next year.

Erwin is expected to announce that the accelerated depreciation scheme will allow depreciation at 33 percent a year, over three years, of plant and machinery (now 20 percent over five years) and 10 percent a year over 10 years (5 percent a year) of buildings used for manufacturing purposes.

This incentive will only be available on plant and equipment bought and brought into use between July 1 this year and the end of September 1999.

The export finance guarantee scheme will see the government giving guarantees, which can be used as collateral for prime rate bank loans, to small and medium size businesses that need working capital to produce for the export market.

The small and medium size manufacturing development programme will give manufacturers with assets valued below R3 million access to grants and subsidies to stimulate new investment.

It will dovetail with the tax holiday, which is only available to manufacturers with assets valued higher than R3 million.

BD 27/11/96

BUSIN

Erwin tells of scheme to 'hold the hands of investors'

(180)

John Dludlu

TRADE and Industry Minister Alec Erwin announced a series of industry support measures last night aimed at accelerating investment and making SA companies internationally competitive.

At a media briefing, Erwin announced details of the tax holidays and small/medium manufacturing development scheme to assist new investments.

In terms of the tax holidays scheme, new investments in manufacturing, with assets — land, buildings and machinery — of more than R3m, would be taxed at zero rate for six years, Erwin said. Qualifying criteria would include human resources, priority industries and the investment location.

Through the small business manufacturing development programme, which replaced the present simplified regional industrial development programme, firms with assets of less than R3m would be given an establishment grant to ease cash-flow problems.

Erwin said that with the accelerated depreciation system, industrialists' holidays would run to nine years.

Johann Reinhardt, chief director in charge of the regional industrial development programme, said workshops would be held to allow provinces to take part in the evaluation of projects.

However, Erwin said, the final decision would rest with national government through the board for regional industrial development.

Erwin disclosed details of the long-awaited, short-term export finance guarantee scheme. The scheme, to be administered by Credit Guarantee, was designed to make pre- and post-shipment finance available to smaller firms through banks. "Credit Guarantee will, in turn, guarantee the loans," the corporation said.

Erwin said the schemes were aimed at assisting growth and restructuring-orientated businesses and took account of pressures on business from the global economy.

On concerns for the state's administrative capacity, Erwin said the package was building on administrative strengths of the regional industrial development programme.

Trade department chief director for industry and technology strategy Alan Hirsch said existing firms, which would not qualify for the new benefits, would have received support from a range of state schemes such as the lapsed 37E for accelerated depreciation.

Erwin said although all investors would be given the same treatment, through next year's launch of Investment in SA — a one-stop investment centre — government would hold "the hand of investors, especially foreign ones".

Officials estimated that it should take six weeks for a project to be evaluated.

FEATURE

MANUFACTURING INDUSTRY

THE LONG ROAD BACK

(180) FM 29/11/96

The manufacturing sector is in trouble. According to the Central Statistical Service's October report, capacity utilisation in 18 out of 20 major manufacturing industries fell back in May. The report says 10 000 jobs were lost during that month alone.

Average capacity utilisation — at 80,7% — was 3% down on May 1995 with the largest decreases being reported in footwear 20,2%, tobacco 14,2% and the motor vehicle industries. Both the footwear and motor industries face growing competition from cheaper imports, the combined result of SA's Gatt-induced tariff reform package and uncontrolled smuggling through porous borders.

The Industrial Development Corp (IDC) says after expanding by 7,6% in calendar 1995, manufacturing growth stalled towards the year-end and early in 1996. And sector employment declined by 0,9%, or almost 13 000 jobs, over the period January to March, 1996.

But, while the IDC reports that physical volume of manufacturing production declined by 5% in the first semester of 1996 some other sectors were, conversely, booming.

Says the IDC: "The subsector producing nonferrous metal products took top position, reflecting the coming on stream of Alusaf's aluminium production capacity. This subsector, with a significant 2,1% share of total manufacturing production, saw its output increase by over 51% during the first semester of 1996 relative to the corresponding period of the previous year, underpinning growth in total manufacturing by 1% over the period."

Food processing and chemicals, as well as basic iron and steel — largely attributable to expanded stainless steel production by the new Columbus plant — also experienced "significant output growth in the first semester."

But industrialists are also facing increasing trade competition. Disguised behind the past week's negative business indicators — prime rates up by 1%, inflation heading for double-digit levels, a transport strike, industrial shares plunging and an expected sharp fuel price hike in December — SA's industrial sector has also been forced to gird its loins against growing competition from cheaper imports in the domestic market.

Alusaf... bright light in a dull scenario

Simultaneously, in the global export markets it has had to parry the cutthroat challenges from experienced and competitive traders from the industrialised tigers of the Pacific Rim. Added to the other miseries of sudden change, SA's manufacturing sector also has to cope with dismal levels of productivity and constant demands for higher wages. The new Labour Relations Act will also force formerly-cosseted industrialists to face up to new challenges such as co-operative workplace forums and the need to train and upgrade skills.

While government is desperately trying to create more jobs through growth, the scene for industrial restructuring was set by a combination of recent policy changes which put the squeeze on many sectors.

According to the IDC, average import protection in the manufacturing industry has been reduced from 19% in 1994 to the present level of 10%, going down to 8% by 2000. Industries facing the most severe tariff cuts include clothing (44%); motor vehicles (41%); rubber products (13%); textiles (11%); footwear (11%); and wood and wood products (11%).

Assisted by the low rand, which enhances exports and should depress imports, government's new investment incentives package (including the new three-year accelerated depreciation allowance) is aimed at helping to restore the balance.

Fortunately, the gradual return of formerly divested foreign parents — and some new investors — is now also helping to smooth the way, by means of some welcome equity capital. And foreign direct investment, about R18bn committed since April, 1994, also opens the door to beneficial technology transfers, coupled with marketing and management expertise which give easier access to new global markets. Examples of this (hopefully growing) trend include:

- A R404m investment by French dairy giant Danone in over-borrowed Clover SA;
- Toyota Motor Corp acquiring a 27,8% stake — for R456m — in Toyota SA;
- General Electric buying the assets of Daimler Benz subsidiary AEG in SA;
- Merck obtaining Logos Pharmaceuticals from Tiger Oats;
- Mitshubishi buying back its SA distributor;
- State-owned Malaysian oil group Petronas' R1,9bn, 30% share in Engen; and
- Goodyear last week buying 60% of tyre manufacturer Contred for US$121m.

Ernst & Young head partner, corporate finance David Perlstein estimates that inward foreign investment should this year at least equal last year's R3,7bn. And, while it could take a year or two to surface, the results should be salutary to the economy — new investment in productive capacity and technologies should lead to growing exports, falling imports in some areas, skills upgrading, improved productivity and a growth in job creation.

The Goodyear deal is a case in point — not only is the new US parent planning to invest R100m in improved capacity, it also plans to cut back the local division's production lines from a current 260 tyre types to only about 40. Improved economies of scale should allow it to profitably export surplus production — while importing cheaper brands no longer made here. This is the way to achieve global competitiveness — and a good example for the rest of SA. ■

SA industry in better shape than it thinks

A survey by UCT's Graduate School of Business shows that companies fear global competition, writes CIARAN RYAN

ST(BT) 1/12/96 (180)

SOUTH African Breweries is "by far" the country's most respected company in its approach to strategic manufacturing issues, and SA industry is in far better shape than was thought previously.

This is according to the Global Manufacturing Futures Survey by the Manufacturing Round Table at UCT's Graduate School of Business.

The study shows that revenue growth among the 161 companies surveyed — with a combined annual turnover of R49-billion — accelerated from 8% in 1994 to 18% in 1995. Equally impressive was the growth in physical sales from 4% in 1994 to 12% the following year. Plant capacity utilisation increased from 66% in 1992 to 77% in 1995.

The study, conducted every two years, shows that the benefits of plant closures or relocations, ranked first in 1992 as a management priority, is now ranked 34th.

"Companies placed a great deal of emphasis on downsizing and closing inefficient plants in the early 1990s," says Professor Norman Faull, who compiled the report. "By 1995 more emphasis was placed on rebuilding than downsizing, although the need to cut costs remains a concern."

The opening of South Africa to global competition is the single greatest concern facing the companies surveyed. Price competition is the area of greatest vulnerability, but quality, flexibility and time-based competition are also mentioned. Respondents consider the environment in which they operate to be unsupportive. Productivity, process and technology issues are the greatest operational challenges; skills upgrading on the shop floor the greatest human resource challenge.

'The best performers extract value, concentrate on a few things at a time and do these well'

The report also analyses the best versus the rest to see what it is that top performing companies do differently.

"It isn't that the best are necessarily doing things differently," says Faull. "It's just that they extract more value from what they do and place a lot of emphasis on implementation of strategic plans. They concentrate on a few things at a time and do these well."

Instead of trying to solve all strategic and technical problems in one go, successful companies concentrate on resolving one issue at a time.

SA Breweries is an example of a truly world competitive company. Direct labour accounts for roughly 1% of total costs in the brewing industry: "This is virtually irrelevant in the total cost structure, so attention goes to other areas of potential saving," says Faull. The most successful companies are those that extract value throughout the value-added chain. This often involves effecting partnerships with customers and suppliers to reduce the cost of inputs, forcing suppliers to look at their own internal efficiencies, and passing the benefits on to customers.

The five most important competitive priorities cited by survey respondents are the ability to offer consistent quality with low defects, dependable deliveries, reliable products, fast deliveries and the ability to profit in competitive markets.

Slightly lower down the list of priorities are the ability to provide high performance and durable products and give effective product support and after-sales service. Tail-end priorities include broad product distribution, introducing new products quickly, customising products to customer needs, rapid production, product mix and design changes and offering a broad product line.

Customs error leads to closure

(180)

CT(BR) 13/12/96

JONATHAN ROSENTHAL

Johannesburg — An error by Customs, which cut tariff protection on locally made incandescent light bulbs four years before an agreed phasedown schedule, has forced South Africa's largest manufacturer to close and caused the loss of 200 jobs, Consolidated Lamp Manufacturers (CLM) said yesterday.

CLM said it would not reopen Elmosa, its Port Elizabeth lamp plant, after the Christmas shutdown.

The trade and industry department had agreed to phase tariffs down to 20 percent over five years under the General Agreement on Tariffs and Trade, but had mistakenly left items off its tariff book and cut tariffs in January last year.

Rudi van Eck, CLM's managing director, said Elmosa had lost R27 million last financial year and losses were currently running at about R1,5 million a month.

Manufacturing industry is still shedding jobs — CSS

BD 19/12/96 (180)

Greta Steyn

THE manufacturing industry again shed jobs in September, bringing the total number of jobs lost in manufacturing since January to 38 302, Central Statistical Service figures released yesterday showed.

The manufacturing industry is the largest provider of private-sector employment in SA and has been shedding jobs virtually uninterrupted since 1990. A small increase in job numbers last year was wiped out this year. However, direct comparisons with last year are not possible as the TBVC numbers were added in from this January.

The rate at which manufacturing jobs are being lost could be tapering off — there was only a small decline in September after a marginal increase in the number of workers in August.

Another encouraging aspect of yesterday's figures was the increase in September in construction employment after a period of rapid decline. CSS said the rise of more than 1% or 3 684 workers in the construction industry could be ascribed mainly to the appointment of contract workers. Nevertheless, the net decline in construction jobs between January and September stood at more than 8 600.

According to the Reserve Bank's December Quarterly Bulletin, about 104 000 jobs in the private sector were lost between the second quarter of last year and this year.

A senior economist at the National Institute for Economic Policy, Asghar Adelzadeh, said the unemployment trends raised questions about the underlying premises of government's macroeconomic strategy.

"Tight fiscal and monetary policies and trade liberalisation will not miraculously create jobs," he said. He argued that it was wrong to cut the fiscal deficit when unemployment was high and increasing.

Government's strategy assumed that 126 000 jobs would be created this year and that employment would rise by a further 3% next year. More than 400 000 jobs should be created annually by the turn of the century.

However, economists doubted that employment would grow next year. BoE Natwest economist Nick Barnardt expected non-farm employment, including government, to remain flat.

An economist said the non-agricultural economy had been weak this year, and job creation had occurred in the labour-intensive agricultural economy. However, jobs growth on farms was not picked up in the CSS statistics, which meant that the net job losses were overstated.

He also believed that the official numbers for the services industries could be understating the robust growth in areas such as private education.

CSS figures confirm that the services industries are creating jobs, al-

Continued on Page 2

Jobs

(180)

Continued from Page 1

BD 19/12/96

though the total addition to employment is not yet significant. Banks and insurers at the end of September had employed 6% and 3,8% more people respectively than at the end of the same month last year. But growth was off a low base, with the total number of people employed in financial services below 215 000 compared with 1,42-million in manufacturing.

According to the Bank, services — including financial services, hotels and transport — and government were the only two sectors where staff numbers increased since 1990. It has been a worldwide trend, especially in "mature" industrialised economies, for manufacturing to stagnate and services to grow.

MANUF - GEN.

1997

Survey projects better times for manufacturing sector

BD 6/1/97 (180)

Shareen Singh

OVERALL performance in the manufacturing sector might stabilise next year with strong prospects for a bottoming-out of the unfavourable conditions experienced in the past few months, Stellenbosch University's Bureau for Economic Research projected in its December survey.

It found that production and domestic order volumes increased beyond expectations in the fourth quarter of the year and business confidence improved markedly. However, positive indicators in the fourth quarter did not signal a recovery but rather an indication that manufacturing business conditions would not deteriorate further.

Despite improvements in the period under review, overall manufacturing business conditions remained sluggish with weak business confidence, poor employment conditions and high costs.

Total unit costs, which shot up during the year, remained unchanged and could continue on the same level in the first quarter, the survey forecast.

Local manufacturers were unable to increase selling prices commensurate with increased unit costs both on the domestic and export market. It appeared that international competition inhibited any increase in export selling price, according to the survey.

The negative trend in factory employment was unchanged and was likely to continue. Production was improved by lengthening working hours.

While the relatively stable conditions in the food and beverage sectors persisted in the last quarter, the textiles, clothing and footwear industries continued on a sluggish trend with low business confidence.

With the exception of the food industry, all subsectors in the manufacturing industry were optimistic about exports in the coming year. This could be attributed to favourable world economic prospects, the rand's depreciation, and structural changes in the manufacturing sector. Favourable export prospects also resulted in growth in real fixed investment.

Despite the positive aspects, the general constraining influences on the economy such as an uncertain political climate, high short-term interest rates and declining consumer demand contributed to projections of an overall bearish year ahead, the bureau said.

ON THE ROPES?

FM 10/1/97

Down and out or up and running? Take your pick as the manufacturing industry struggles from quarter to quarter, punch drunk from the signals being sent from the various sectors.

Stagnant in some provinces, blossoming in others. Yet, despite the pounding, confidence is on the up with the weak rand and a concomitant export rally being looked upon as the white knight. But the picture would be a lot clearer if government figures — both Customs and Department of Trade — were available. They invariably seem to make an appearance eight months after the event.

Nonetheless, some indications are forthcoming from the private sector. According to the Bureau for Economic Research at the University of Stellenbosch 1996 fourth quarter manufacturing results are encouraging. No clear indication of a further deterioration in manufacturing business conditions is evident. In fact, increases in production and order volumes exceeded more neutral expectations. Business confidence improved markedly, and is now at a similar level recorded in the second quarter. However, it is premature to identify a recovery. The situation appears to be stabilising and prospects for a bottoming-out towards the second half of this year remain in place.

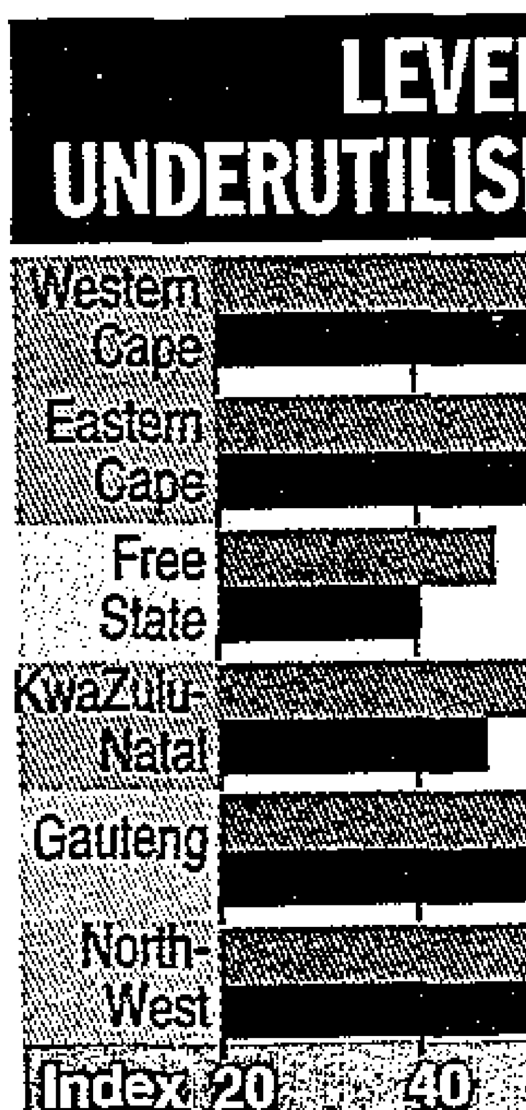
The sectoral picture changed somewhat. In certain consumer goods industries — foods, beverages, wood and furniture, business conditions improved, but those in textiles, clothing and footwear remained weak.

The slowdown of general demand conditions also filtered through to some heavier industries — rubber, plastics, nonmetal minerals, base metals and

electrical machinery. It is encouraging, however, that almost all the major manufacturing groups are optimistic on export prospects for the next 12 months. Favourable world economic prospects and the rand's depreciation presumably explain this.

These positive aspects should, however, be weighed against the rather bearish 12 month outlook for general business conditions, says the bureau. The constraining influences of an uncertain political climate, lacklustre demand conditions and high short-term interest rates are determining factors in this regard. But there appears to be substantial spare capacity (see graph) and unsatisfactory high stock levels — both of raw materials and finished goods.

Continued growth in real fixed investment in the fourth quarter is encouraging as it is linked to favourable export prospects. But the outlook for order volumes is not that bright, the length of delivery periods of orders received shortened, and the ratio of unfilled orders to sales declined. All this underlines the sluggish overall business situation and bearish 12-month outlook.



The gross percentage of respondents to a bureau survey for the fourth quarter reported under-utilised production capacity decreasing from 74% to 60% between the third and forth quarters. Production was increased by longer working hours. The negative trend in factory employment persisted (see graph) and could continue to do so.

Export order volumes did not quite live up to expectations and the level appears to have deteriorated compared with the third quarter. Expectations for the first quarter of 1997 are neutral, but 12 month export expectations are more buoyant across a wide spectrum of industries.

Unexpected sharp increases in labour and raw material unit costs underlie the higher rate of increase in total unit costs. The sharp depreciation in the rand probably explains the increase in raw material purchase prices. Despite the cost push, manufacturers are generally not able to increase selling prices — both on

says there will be a joint investigation by his staff and the Office for Serious Economic Offences.

Maingard and Sanachem employees who have worked with Gilmore strongly deny that any invoices were inflated. Maingard, who was replaced as MD of Sanachem last November, four days after the announcement of the forex losses, describes Gilmore as "a nasty piece of individual." Of Gilmore's allegations, he says: "It's an absolute pack of lies."

Frank Richardson, Maingard's right-hand man before his retirement 18 months ago, says: "I met Roger (Gilmore) but I've had no involvement in the commercial side of trading. My only involvement was registration matters. As to inflated invoices, I'm not in a position to confirm, deny or make any statement."

Jacques Giquel, who still works for Sanachem says: "This is an absolute untruth which obviously came out of some ill-feeling on his (Gilmore's) part. He's obviously using whatever he can to attack us."

Sentrachem MD John Job declines to comment. *Jack Lundin*

AGRICULTURE

FOOD FOR THOUGHT

Farmers again face the prospect of low maize prices this year as supply is expected to exceed demand. Last year, they were paid an average of R600/t — which, considering input costs have risen by at least 15%, isn't good news for the sector.

The National Maize Producers' Organi-

ported high levels of finished goods stocks. Export expectations remain optimistic.

In the Eastern Cape confidence remained low. A further decline in sales volumes materialised and the order book position remained unchanged from the level of a year ago. However, export volumes were up in the fourth quarter and continued growth is expected. Export sales expectations are exceptionally optimistic.

On the domestic and export fronts favourable conditions were reported from the Free State with volumes significantly higher than a year ago. No net retrenchment of factory workers occurred in the fourth quarter. The strong agro-industrial linkages in this province could account for the better business conditions.

Trade and industry is moving away from regulatory role

The trade and industry department is working hard on improving its relations with industry. Edward West reports on how this will be done

(180) BD 24/1/97

THE trade and industry department is shifting its previous focus on being a regulatory authority to developing a closer partnership with industry, says recently appointed department industrial promotion chief director Tony Heher.

He said the directorate aimed to develop much closer links with industry to promote competitiveness and exports than had been the case in the past, when the department was viewed as a regulatory authority and, in many cases, was disliked by big business.

Activities within the department were also uncoordinated under the previous government, with little co-operation between the trade and industry activities in the department.

The changing focus of the department was necessary, and not only because most fast-growing developing economies were following a similar route.

"We need to target management, unions and all other players in industry and let them realise that their futures, even those between competitors, are inextricably linked if they want to be internationally competitive.

"There are well-tested techniques learned from other countries which can take you down this road," said Heher.

There were good aspects to industrial policy in SA, "some of it misunderstood, some perhaps not well communicated". The "pace of delivery" had also not been as fast as business might have wanted.

"The evidence internationally is that it is no longer good enough just to have good policies in place. You have to communicate, co-ordinate and ensure the implementation of these policies as far as is possible."

He said that it was unnecessary to "flagellate ourselves" over what appeared to be the slow development and implementation of industrial policy.

"By world standards we are moving fast. It takes us a minimum of two years to get an industrial promotion programme in place. In Australia, for example, it has taken 18 years to develop policy to devolve functions to the states," he said.

Although the previous government's industrial policy had made "people and business lazy" through protection on demand, SA industry had the capability to cut cost structures far faster than, for example, Japan.

"In Japan it takes 16 hours for one employee to build a car. In SA it takes 54 hours. Just cutting the local figure in half would increase productivity substantially and consequently increase wages," he said.

"What this is all about is a series of planned and concerted actions, facilitated and led by government, to ensure an increasing degree of involvement of industry in taking over responsibility for their own upgrading and competitiveness improvement.

"We do not have an exact model for SA yet, we need to look at what has been developed elsewhere and develop a plan which suites our particular circumstances and needs."

Department directorates involved would gain knowledge of their various industry sectors through cluster studies — many of which were already well under way — as well as gaining knowledge by recruitment or secondment of experienced staff from industry.

Heher said tariff reform would continue indefinitely, and all supply side measures in place were of a fixed duration.

"If you don't run to improve your competitiveness, you fall behind. That's not of our making — that's how the world operates today," he said.

SA firms losing competitive ground, study shows

(180) BD 29/1/97

Edward West

SA MANUFACTURING companies are rapidly losing ground to their counterparts in Europe in the race to remain competitive in the global market, an international benchmarking initiative says.

This was the conclusion following "overwhelming evidence" to emerge from IBM's global Africa initiative, which got under way towards the end of last year.

The initiative was being conducted by IBM Consulting Group in association with the Unisa Graduate School of Business Leadership and London Business School. It was designed for local companies to measure themselves against an international model of "best practice" standards, and identify what they needed to succeed in the global economy.

IBM Consulting Group project manager Gert Schoonbee said strong evidence was emerging that many SA companies did not appear capable of getting even the basics right when it came to operational and business controls and practices. "Our best practice benchmarking research indicates that performance in SA is being seriously affected by an apparent inability among many companies to manage their operations according to internationally and recommended procedures," he said.

"In many instances senior management initially attribute lack of performance to labour difficulties. After consultation and in-depth self assessment, most companies identify that one of the main reasons for lack of workforce productivity is that staff are working in a vacuum and do not have a set of practices to follow."

The research so far showed that labour generally represented less than 10% of total costs, and in many instances companies were devoting a disproportionate amount of time and resource to this issue for little return.

"There are, for example, instances where inventory return accounts for more than 60% of a company's overheads. Effective management of this area would pay handsome dividends." Schoonbee said the research showed many companies operating in highly competitive sectors were better performers than others. Company size and the personality of the CE also played important roles.

One of the most important trends to emerge was that although performance improvements of more than 40% a year were being achieved by European companies, there were no signs of any real improvement in SA.

Schoonbee said he was confident the global Africa initiative would assist in developing a workable macrocompetitive strategy for SA. The initiative's findings would be published in a Made in SA report to be compiled by Unisa and London Business School.

Huge challenge faces Rustomjee as trade head

BD 10/3/97 (180)

John Dludlu

TRADE and industry director-general Zavareh Rustomjee likes to use the word "navigation". It is an appropriate term given the challenges he faces as the department's top bureaucrat.

Broadly, his job description entails repositioning SA globally — in economic terms, that is — restructuring apartheid trade relations in southern Africa; preparing SA's industries for global competitiveness and transforming the department to a more efficient government agency geared more towards policy work than regulation.

Last year, Rustomjee showed his navigational skills by cutting the export subsidy scheme available to business under the general export incentive scheme. At the height of resistance and threats of lawsuits by business against the department, Rustomjee invited firms to join government in identifying impediments to competitiveness through the department's cluster initiative.

He encouraged SA industries, used to being mollycoddled with subsidises, to reorganise their work methods, to re-examine their customer/supplier relations and to look anew at their human resources.

Some firms took heed of his advice. He says the country is beginning to see fruits of the industrial restructuring programme.

As an example, he cites "tens of thousands of jobs" that go unrecorded in the clothing sector — one of SA's sickly sisters. "Productivity is constantly rising ... the utilisation of (factory) capacity is also at a high level."

He told a lunchtime gathering of German and SA businessmen that today's analysis is based on an economic structure that does not exist anymore.

His worry, though, is the recent depreciation of the rand could have taken the pressure off some firms to continue the quest for global competitiveness.

The current restructuring programme, following the reduction of tariff protection, has seen a gravitation of economic activity from inland towards coastal areas lured by port facilities. Similarly, SA firms are being attracted to neighbouring countries by cheaper input costs.

"Decisions (by firms) are (increasingly) based on the recognition that there's a regional market and that they (firms) can lower input costs by relocating in the region".

The top 100 publicly quoted companies in SA, venture capitalists and the banks are investing in the region.

Normally, the financial services tend to follow the productive sectors into new markets, he says.

Apart from the post-sanctions resuscitation of SA subsidiaries in neighbouring states, the revival of certain traditional industries — for example, mineral and agro-processing sectors — also offer an attractive investment opportunity. He says government would like to encourage SA investment in the region, but denies claims that Pretoria is exporting jobs to the region.

While admitting the attractions offered by the region, where wages are frequently lower than in SA, Rustomjee believes an industrial policy based on cheap labour is a dead end.

In SA, companies which derive their competitive edge from an exploitative labour relations system are beginning to shut down. "We make no apologies for having put into place policies that make it difficult for them to sustain their operations".

SA's industrial policy is based on the need to move away from a "low wage, low consumption economy to a high wage, high consumption economy". Rustomjee and senior echelons at the department believe the restructuring programme is not a "zero sum" game: shutting down business in SA and relocating to southern Africa. This approach, which is being promoted within both the Southern African Customs Union and the Southern African

RUSTOMJEE

Development Community (SADC), envisages the creation or resuscitation of regional industries with a long-term future rather than fighting over a "fixed cake", he says.

As an example, Rustomjee uses the sugar industry. The 12-nation SADC is home to some of the lowest-cost producers of sugar, he says. He wants to see the region's sugar sector taking on the European Union's (EU's) heavily subsidised common agricultural policy as global liberalisation takes firm root.

Contrary to claims by vested interests, Rustomjee believes SA firms have passed with a measure of success through the restructuring era.

Recently, he mounted a spirited defence of the country's tariff policy, saying there was no link between current tariff reform and unemployment.

The second, and maybe the trickiest, strand of Rustomjee's task as head of department is to reposition SA globally. Pretoria believes it has to realign its trade with growing trading nations.

Figures show SA's exports to the SADC and the EU have grown to R25bn recently. Importantly, exports to the SADC are made up of manufactured and machinery products.

Trade and investment in the SADC, now chaired by SA, are growing at an encouraging pace.

Naturally, the SADC has been identified by SA government as a priority region. But Rustomjee says the intention is not to ditch the EU and traditional trading partners whose economies have been expanding at a sluggish pace. "We have to continue on all fronts", he says, referring to the current co-operation talks with the EU.

SA, which is now standing at the door of the Lomé convention, is still looking for signals that Brussels is serious in wanting a special relationship with Pretoria and the SADC. This thinking keeps on coming up in the talks with the EU.

All trade relations, though, have to strive for a "mutually beneficial outcome, otherwise they're not sustainable", he says.

While occasional spats with the EU are understandable, dealing with neighbours which do not trust Pretoria may prove difficult.

Tensions between SA and its neighbours have been exasperated by the long-running deficit the region has suffered in its trade with Pretoria. The verbal attacks from Harare on Pretoria are symptomatic of this condition.

However, Rustomjee says Pretoria wants to use the SADC trade protocol to grant generous trade concessions to fellow signatories to the protocol.

To overcome all these challenges, Rustomjee will have to transform the trade and industry department into an efficient, policy-oriented department. This process has begun.

As his contribution to the rightsizing initiative, he plans to cut his bureaucracy of about 1 230 people by a further 30% over the next three years.

This will be done without compromising levels of service as more regulatory functions are devolved to the provinces. Such an initiative will then see the department becoming an efficient policy-orientated state department. As for efficiency, he narrates a small, but symbolically big, initiative to train secretaries and staff to increase their use of computers. For example, his secretary now sends his messages through the computer. Computers have also significantly reduced the hours spent arranging meetings in the department.

The transformation task, as parastatals have recently discovered, is not just about cutting jobs, employing blacks and women or getting secretaries to use computers efficiently. It is also about ensuring that junior officials at the department are sufficiently employed and their frustrations at the hands of inaccessible or insensitive directors are given a sympathetic audience by Rustomjee.

Perhaps, to accomplish all these challenges, Rustomjee will need more than just navigational skills. A bit of luck may come in handy.

MEC urges focus on 'high-value' industry

Gauteng at risk of losing heavy industry growth source

(180)

CT (BR) 19/3/97

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — Heavy industry, Gauteng's traditional source of economic growth, is under threat, Jabu Moleketi, Gauteng's MEC for finance and economic affairs, said yesterday.

Industries typically based in the area were moving towards coastal areas to make it easier to export their products, Moleketi said in his speech announcing the Gauteng province's new budget yesterday.

Gauteng should go for a growth strategy that "would position Gauteng as the smart centre of the country, a province with advanced skills, advanced infrastructure and the ideal place from which to do high-value business", Moleketi said.

Jabu Moleketi

That meant the province must not skimp on social services spending, despite the need to tighten its belt along with the rest of the country, he said.

Gauteng's new budget requests 16 percent more spending money from the central government than last year, or a total R12,9 billion. Provincial revenue services will add R811 million, bringing the total revenue set to be available for spending in the new fiscal year to R13,72 billion.

The vast and growing majority of that money, 88 percent in this budget, up from 85 percent last year, would be allocated to health, education and welfare. Welfare would get the biggest boost, with a spending increase of 17 percent over what was actually spent last year, for a for a total of R2,34 billion in spending in fiscal 1997, Moleketi said.

Such increases in spending on what were typically the first areas to be cut in a lean year would make this budget tough to balance. "There is no doubt that 1997-1998 will be a difficult fiscal year and that it will be hard to keep within the very stringent fiscal limits which apply to us. However, we are determined to maintain our record of sound budgeting and sound financial management," Moleketi said.

To help keep within its spending limits, the province would introduce a form of "internal privatisation", Moleketi said, in which different departments will pay fees for certain financial management services, rather than simply requesting a service from the central government.

"Service standards will be set and agreed, and any failure to meet those standards will result in a discount on the fees charged. Departments will also be free to look elsewhere for the services."

Gauteng received less from national government per capita than any other province, Moleketi said, but it also led the other eight provinces last year in paring down the size of its public service.

SA firms must wise up to compete, says Sunter

CT(BR) 26/3/97

NANCY MYBURGH (180)

Johannesburg — "Truly world-class" companies provided shareholders with at least a 10 percent real return over a 10-year period, Clem Sunter, the chairman of corporate affairs at Anglo American, said yesterday.

This year is the 10th anniversary of Sunter's first "high road" growth speeches, a phrase which has become linked to his pro-market philosophy. Yesterday he told a business breakfast audience "we're going to have to wise up" if South African firms wanted to compete internationally.

In addition to the 10 percent real return, world-class companies offered 20 percent growth in earnings a share over a 10-year period, Sunter said. They also generated R1 million in revenue for every employee. "Most South African companies are in the R100 000 to R500 000 range."

World-class companies would also be involved in developing environmentally friendly technology, he said, adding that Anglo American was working with Daimler-Benz to develop an environmentally safe car.

Sunter illustrated all too well how South African companies had suffered by not keeping abreast of technology developments. The price of a long-distance telephone call made through AT&T, the US's largest telephone company, was now just one-quarter of the price of such a call made in 1984. But Telkom's price was still three-quarters of what it was back then, he said.

But Sunter was upbeat about South Africa's future. Finance minister Trevor Manuel's maiden Budget was "brilliant". The government could provide the launch pad, but not the rocket — that was the job of entrepreneurs. "You have to evangelise about business, so it becomes accessible to everybody," he said.

Gauteng facing job cuts as manufacturers head for coast

BD 27/3/97 (180)

Ingrid Salgado

GAUTENG would face job losses in the short term as heavy manufacturing operations, the province's traditional industrial base, moved to the coast, Gauteng finance and economic affairs MEC Jabu Moleketi said yesterday.

However, this would largely be countered by provincial government plans to retain and attract other industries with high growth potential. Gauteng would outline its industrial development strategy in a document due for release at the end of May, Moleketi said.

Gauteng's economy contributes the lion's share of gross domestic product — 37,7% — followed by KwaZulu-Natal with about 15%. Moleketi expected the province to continue contributing more to national government's coffers than other provinces as its efforts to attract high growth industries kicked in.

Those targeted were the service industry, including financial, management and legal sectors, "smart" industry such as electronics, information technology, biotechnology and food processing sectors and business tourism.

Moleketi cited Iscor — which was building a new plant in Saldanha Bay — and plans to site aluminium plants in Maputo as examples of business opting for coastal sites.

SA Chamber of Business economist Bill Lacey said high rail and road costs made moving a sensible option for the export-orientated heavy manufacturing industry.

However, sectors like electronics remained well placed to export from Gauteng through Johannesburg International Airport.

It was possible that food processing facilities would follow heavy industry.

Moleketi reaffirmed the provincial government's decision not to halt business's move to coastal areas, saying "narrow provincial attitudes" should not block natural structural changes to the economy.

An end to the sanctions era — and hence production solely for the domestic market — meant heavy industrial operations with an export bias had to be globally competitive. In this context, relocation was wise.

The trend would not affect the provincial government's revenue base. However, it could knock local government finances in the short term.

Namakwa Sands MD Neville Keys announcing yesterday that the company would proceed with its second phase of development. Picture: GARTH LUMLEY

Union threatens bank in retrenchments row

BD 27/3/97 (593)

Patrick Wadula

THE SA Commercial Catering and Allied Workers' Union (Saccawu) is threatening to take African Bank to the Commission for Consultation, Mediation and Arbitration if the bank goes ahead with further retrenchments.

Saccawu finance sector co-ordinator Joseph Mosii said yesterday discussions with the bank on retrenchments were deadlocked, and the union was considering an appeal to the commission.

"If we fail to resolve the matter at that level, the union will take industrial action against the bank," he said.

Mosii said the union and bank management had agreed to put further retrenchments on hold for at least six weeks while negotiations continued.

Sources said bank staff were concerned about losing their jobs as plans to retrench 155 employees at the head office were being implemented. Mosii said the bank and the union had agreed to retrench staff at management level. The bank planned to close 10 branches nationally, but it was not known how many employees might be affected.

Management had also proposed a wage freeze while talks were taking place, but this had been rejected by the union.

African Bank spokesman Jabu Magagula rejected Mosii's claim that the talks had deadlocked. A subcommittee comprising union and management representatives was expected to report back on its discussions next month, he said.

African Bank has been talking to Saccawu regarding the proposed restructuring of the bank. The first phase of the restructuring, already completed, was to implement controls and procedures, and to ensure they had been "satisfactorily" managed by staff since the bank was bought by NBS and New Africa Investments Ltd at the end of 1995.

The new shareholders of the bank were now also working with the union on a growth strategy, Magagula said.

SA runs out of fuel in race to become competitive

ST (BT) 30/3/97 (180)

A massive negative trend in direct investment flows is cause for serious concern, writes MARCIA KLEIN

SOUTH Africa has slid to near-last in international competitiveness despite its best efforts to claim a higher ranking in the global economy.

An interim report of the reputable World Competitiveness Yearbook, which will be published in June by the Swiss IMD business school, shows South Africa has slid to 45th place, second to last amongst the 46 industrialised countries under review. Only Russia lags behind in last place.

Over the past few years both Poland and Venezuela have crept up the rankings and overtaken South Africa.

A disturbing feature of the research results is that the SA ranking has slid in areas of focus such as internationalisation and finance, which the country has targeted in its bid to become globally competitive.

Paul Hatty, the SA affiliate partner of the report, says the research, which is based on data received on a quarterly basis, suggests South Africa is not improving in many areas.

Direct investment flows are particularly disturbing, he says. Investment made into productive plant, machinery or business — that is, real long-term investment excluding the more liquid investments in equities and bonds — has shown a massive negative trend.

In 1994, $4.36-billion of SA money was invested outside the country while the inflow was $1.93-billion. But in 1995, the gap widened significantly, and just over $5-billion was invested overseas while only $1.8-billion of direct investment flowed into South Africa.

Government consumption expenditure is growing — to R113.2-billion in 1996 from R99.9-billion in 1995, and there seems to be no improvement in crime.

There has been some improvement in the ranking of the domestic economy, infrastructure and government.

But the country now ranks 44th in terms of internationalisation, from 39th last year, despite its efforts to claim a higher status in the global village. For the past five years, South Africa has been ranked worst in terms of people, which includes equal opportunities, skilled labour, unemployment and education.

The ranking of SA management — which reflects the views of managers themselves — has dropped to 43rd position from 40 last year and 32 in 1993.

The finance ranking, reflecting structures and their suitability for supporting a competitive economy, has dropped to 33rd from 31st last year and 23rd in 1993.

"There is nothing that shows we really are getting stronger", Hatty says. "We know what we need to do but we are not doing it fast enough and it is not coming through in the results."

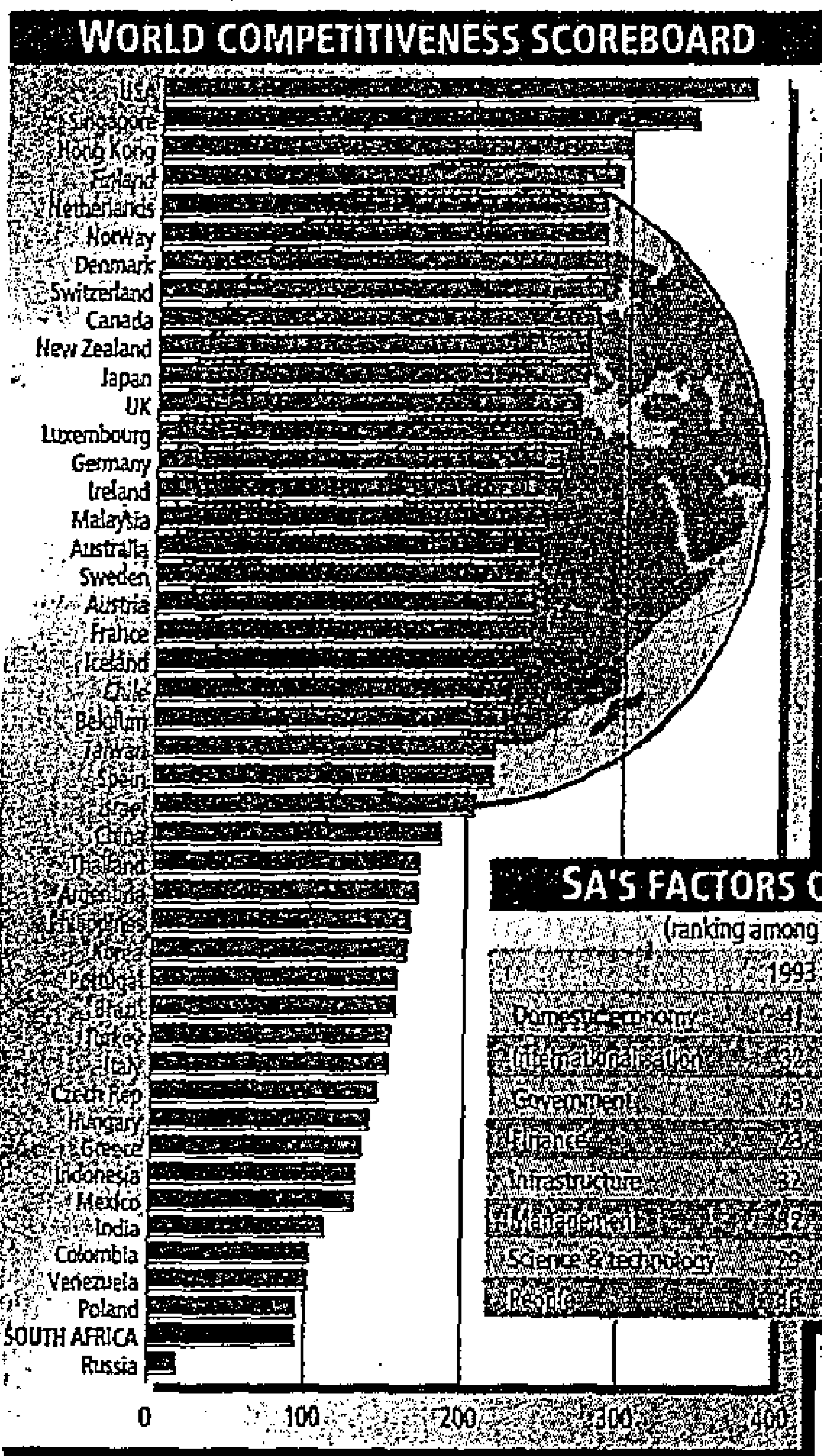
Hatty says while results are not definitive, they are indicative of the country's standing among industrialised nations. South Africa is in a similar position to the one in which Germany finds itself after incorporating East Germany, but "the ratios here are much worse, with a vast difference between the well-developed, resourced sector and the poorly developed, under-resourced sector".

Stephane Garelli, director of the report, says the US and Singapore have reached "cruising speed" and remain comfortable in the first and second positions respectively. Japan continued its slide to 11th position from last year's fourth place. Garelli says the slide underlies "the painful transition of the Japanese economic model into a more transparent and open system".

The United Kingdom, which bounced up to number 12 from 19th last year, had a year of robust economic growth and falling unemployment and it scored well in internationalisation, particularly with its low labour costs. It also performed well in finance and improved in government.

The report says that Germany, down to 14th from 10th place in 1996, still has all the potential of a world leader in competitiveness, but it "continues to muddle through a pattern of reforms that may take more time to implement than anticipated". Its ranking was affected by the cost of doing business in Germany, the late restructuring of certain companies, rigid labour laws and efforts to upgrade the competitiveness of the former East Germany.

Northern European companies performed well "with robust growth and reduced unemployment". Finland, the Netherlands, Norway and Denmark were notable while a high level of labour costs and prices weighed down Switzerland, whose fundamentals nevertheless remain strong.



SA'S FACTORS OF COMPETITIVENESS

(ranking among 46 surveyed economies)

	1993	1994	1995	1996	1997
Domestic economy	41	42	42	44	39
Internationalisation	32	33	38	39	44
Government	43	36	35	37	35
Finance	23	26	27	31	33
Infrastructure	32	37	30	32	28
Management	[illegible]	35	38	40	[illegible]
Science & technology	29	28	31	39	37
People	46	46	46	46	[illegible]

Source: WORLD COMPETITIVENESS REPORT, IMD LAUSANNE
Graphic: FIONA KIRSCH

Innovation programme 'was too conservative'

BD 17/4/97 (180)

Wyndham Hartley

CAPE TOWN — Trade and industry department programmes for innovation in industry had been too conservative and risk-conscious, as shown by the R80m return on departmental grants in March last year, departmental chief director for technology development Alan Hirsch said yesterday.

Hirsch told the parliamentary trade and industry committee that in March last year grants in the support programme for industrial innovation (SPII) totalled about R40m.

In the same month, the tax earned by the state from the investments consolidated by means of the grant money had been R120m.

Hirsch said while the exponential jump in tax earned measured against grants approved was pleasing, it showed that the design of the programme and the approval of grants was too conservative.

"Perhaps we have not taken enough risks," he said. Bigger risks would have cost the state more, he said, but would have increased the chances of success in industry.

He said the SPII programme was to be expanded through a sister programme designed for larger companies. Rather than grants, this would use a system of contingent loans as a means of promoting more competitive SA products. The repayment contingency for the loan would be the successful completion of the programme.

Hirsch said one of the poor performance aspects of SPII was the ratio of total sales of products developed under the programme measured against exports of those products.

Total sales were almost R850m, while exports were less than R100m, which indicated most of the products assisted by the SPII programme were for the domestic market and "a shift has to be made to the export market".

The SPII grants were designed to promote technology development in manufacturing industries through support for the innovative development of competitive products and processes. All private sector enterprises in the manufacturing industry can qualify for these grants through the submission of a meritorious project proposal. DTI assistance grants cover 50% of the actual direct cost of the project, up to a maximum of R1m.

Black entrepreneurs 'shun manufacturing sector'

BD 25/4/97 (180)

Patrick Wadula

BLACK economic empowerment in the North West Province is still in its early stages, as only a few black businesses are involved in the manufacturing sector, with most opting for the retail sector.

The chairman of the North West National African Federated Chamber of Commerce and Bophirima Investments, Cyprian Lekoma, said yesterday many opportunities for black business were becoming available through the planned privatisation of state-owned enterprises.

Black business had to identify these and take advantage of them, Lekoma said.

Bophirima Investments recently won a bid to buy the North West Development Corporation's 40% stake in JSE-listed company Yabeng Investment Holdings.

Khoza Management Consultants' Abel Khoza said one of the reasons for the slow progress in empowering blacks in the province was that black entrepreneurs were not enthusiastic about developing businesses in the industrial sector.

Most preferred to concentrate on the retail sector, he said.

But this did not add much to the province's economic growth or create significant numbers of jobs.

The North West Development Corporation has called on black businesses to identify opportunities in the manufacturing sector and approach the corporation for assistance.

The Manpower Development Authority of the province and industrial companies had established a fund to teach schoolchildren basic business principles in the industrial sector.

Golden Arrow Group personnel manager Richard Renick said it was difficult to set up manufacturing plants in the North West as most of the province's manpower was concentrated in the mining region.

SA's global competitiveness 'in doubt'

BD 2/5/97 (180)

John Dludlu

DOUBTS about SA's global competitiveness were among the top concerns of foreign investors, the newly created Southern Africa Business Association's (SABA) chairman, Alistair Boyd, said this week.

Speaking at a luncheon held by SA's Institute of Directors outside Johannesburg, Boyd said he did not think the crime rate was an "overriding concern" for investors abroad. "Competitiveness is the main problem."

SA was recently placed 44th in the World Competitiveness report, beating only two other nations surveyed by the authoritative report.

Boyd, who is an adviser to the Commonwealth Development Corporation, was in SA with the British Means Business mission to look at partnership opportunities. He praised government's asset restructuring initiative.

Non-payment of services widespead

BD 6/5/97 (180)

Deborah Fine

RECENT figures show the largest portion of greater Johannesburg's R1,5bn services debt stemming from the non-payment of municipal services in Gauteng has emanated from areas previously governed by the "old Johannesburg" administration.

"When the press carries reports on the escalating local government debt, the immediate reaction is to blame this firstly on non-payment in the former black areas and then possibly on the wicked residents of Sandton," independent councillor Liz Clogg said yesterday.

Clogg works in the Greater Johannesburg Transitional Metropolitan Council's Eastern substructure.

However, she said, figures provided by the substructure in response to her questions on the overall levels of debt throughout the greater Johannesburg metropolis had indicated areas in old Johannesburg accounted for most of the region's debt.

The areas considered were run by the old Johannesburg city council prior to the establishment of the metropolitan council and its four local substructures.

Old Johannesburg was incorporated into three of the four new substructures and includes areas such as Robertsham, Ormonde, Selby and La Rochelle in the south; Parktown, Emmarentia, Claremont and Melville in the north; and Hillbrow, Bertrams, Orange Grove and Kensington in the east.

Clogg said old Johannesburg accounted for R893m, or 56,9% of greater Johannesburg's accumulated arrears.

However, a spokesman for the southern metropolitan substructure, which issues municipal accounts for the areas of old Johannesburg falling within the eastern, southern and northern substructures, said yesterday it was "unfair" to label these areas as the worst non-payers based on debt figures.

This was because the total value of municipal accounts sent out to these areas was larger than the combined value of all the accounts sent out to areas such as Sandton, Soweto, Randburg and Alexandra.

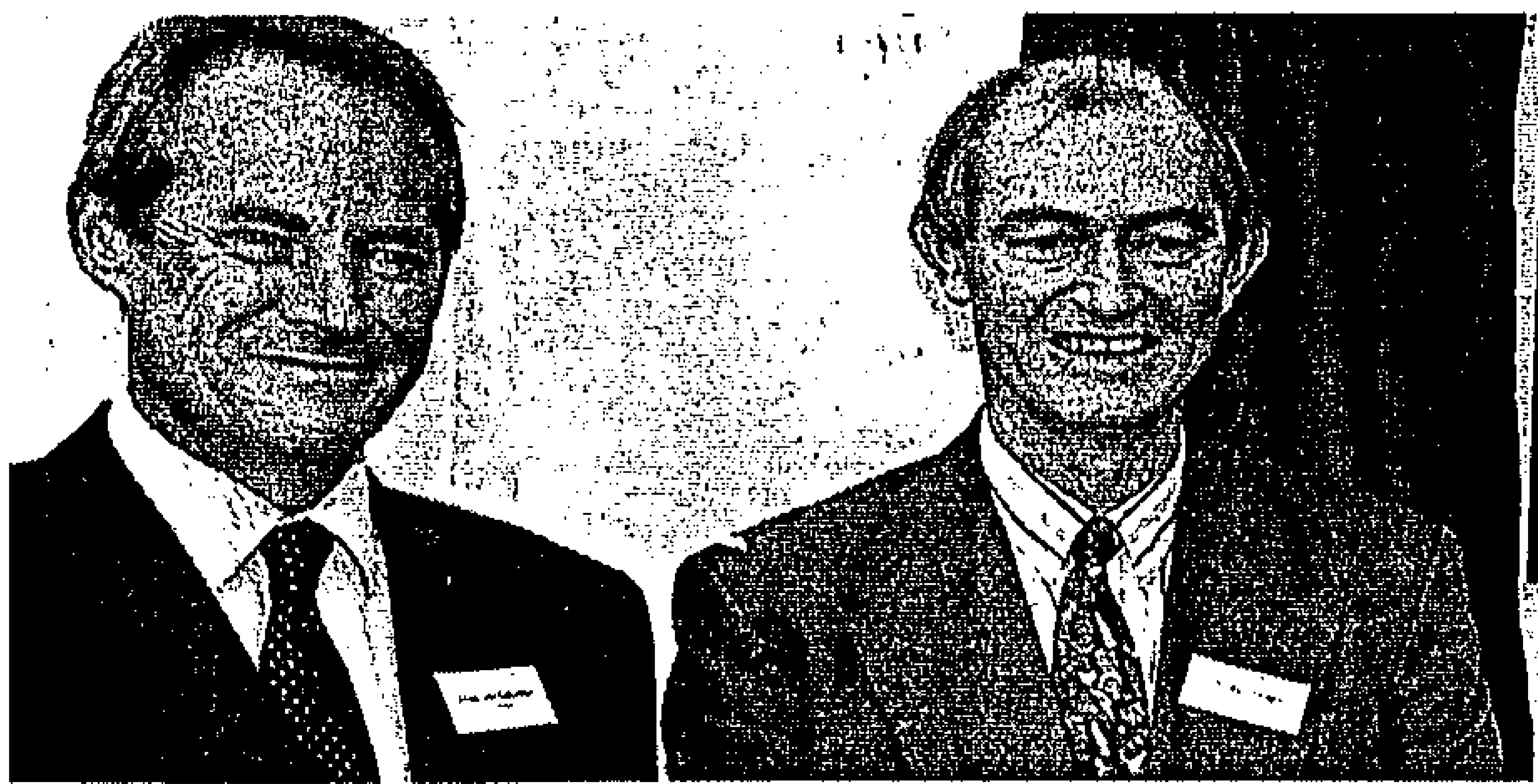
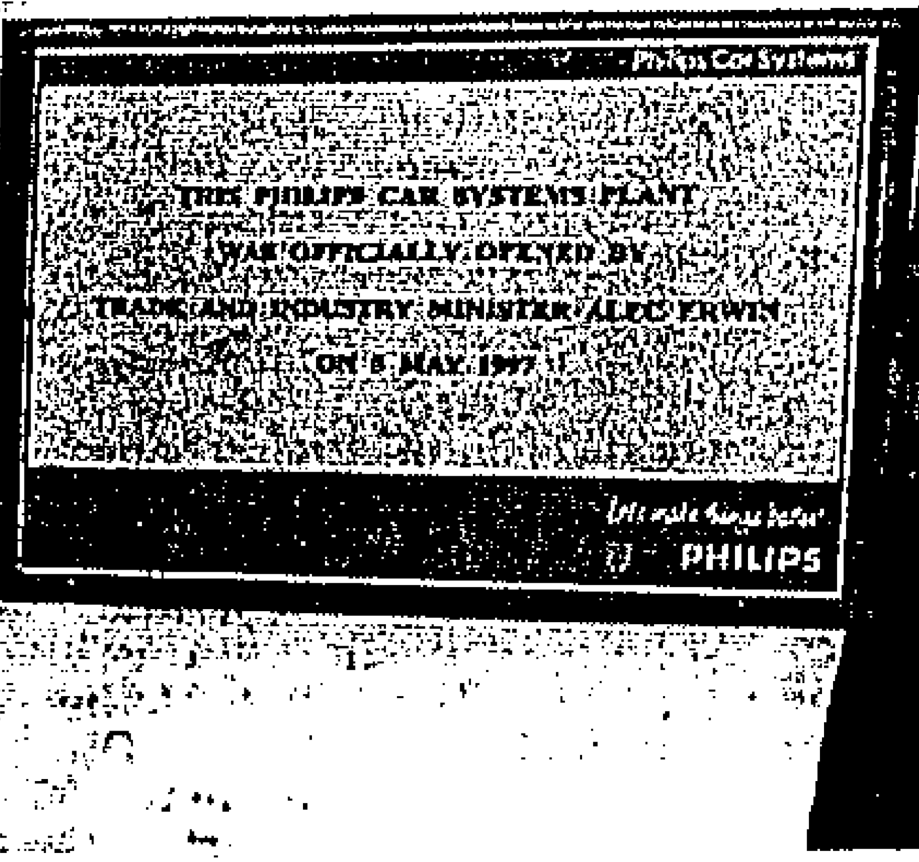
The huge value of the accounts meant even if the percentage of non-payers in old Johannesburg was the same as the percentage of rates-defaulters in other areas, old Johannesburg's debt would still be the greatest amount.

More than 260 000 accounts were sent out to old Johannesburg, while only 40 000 were issued in Randburg, for example.

He conceded there was a non-payment problem in the areas, and attributed this to "genuinely needy people who can't afford to pay".

He said there was also a culture of non-payment which had developed in these areas over a number of years.

People had developed an attitude of "if people in Soweto don't pay, why should I?" he said.

Trade and Industry Minister Alec Erwin, centre, with SA Philips CEO and chairman Johan van Splunter, left, and Philips Car Systems International CEO Wouter Dronkers at the official opening of a R25m car radio plant in Martindale, Johannesburg, yesterday. Picture: AP

Rightsizing savings questioned

(180) BD 6/5/97

Reneé Grawitzky

PUBLIC-sector unions were concerned that government savings resulting from rightsizing carried out in the public sector amounted to only R323m, a union source said last night.

This emerged after government advised unions at negotiations within the public sector central bargaining chamber yesterday that savings amounted to R323m. Some unions questioned this figure as they predicted that savings should be in excess of a R1bn. At the previous chamber meeting in March, labour had demanded such information from government.

The three-year agreement signed last year provided for an amount of R6,5bn (full-year cost) or R4,8bn (over nine months) to finance wage increases for this financial year. This amount would be supplemented with savings from staff reductions up to R11,3bn, which elements within labour wanted to use to correct anomalies created during the implementation of last year's agreement.

Representatives of public sector unions affiliated to the Federation of Unions of SA (Fedusa) said although the R4,8bn was available to finance increases, conflict could arise over how government wished to pay for the recent arbitration, which it lost.

A recent arbitration ordered government to pay out an extra R230m as a one-off notch increment to about 170 000 public service workers who, in terms of a previous wage system, were eligible for this payment on July 1 last year. A dispute arose when government refused to grant the notch increment, saying that this increment fell away when the new three-year agreement was signed.

The unions said last night that government had proposed that the R230m be financed out of the R4,8bn which was set aside for wage increases this year.

Fedusa affiliates said it opposed this move and government had to find the money elsewhere. "It is not our problem that government incorrectly implemented the agreement. Government is expecting labour to pay the price for their mistake," a union official said.

The official said disagreement over this issue could possibly result in the breakdown of the three-year agreement.

Differences of opinion also existed over how the R323m from savings should be utilised, with some unions wanting to use it to raise the minimum wage while others wished to spread it across a number of categories of workers.

SA can be 'key manufacturer in the southern hemisphere'

Edward West (180) BD 6/5/97

GOVERNMENT was convinced SA would become a key manufacturer in the trade links developing between southern hemisphere countries, Trade and Industry Minister Alec Erwin said yesterday.

Speaking at the opening of a R25m car radio manufacturing plant constructed by SA Philips and Philips Car Systems International in Johannesburg, which is expected to produce up to 150 000 radios a year, Erwin said it was realised in 1992 that SA's manufacturing sector needed restructuring.

"Unlike East Asian countries where they have had an external orientation to business from the outset, we had an internal orientation. It was a recipe for disaster," he said.

Supply-side measures were being developed by government and trade links were being forged with other regions in Africa, Latin America and east Asia.

This year government had participated in trade missions to Malaysia, Indonesia, Philippines, Cuba, Mexico and Australia, with another visit to Australia expected in July.

Next month trade missions would depart for the UK and Germany, where the automotive, electronics and defence industries would be discussed. Trade delegations would also visit Brazil, Japan, Korea and possibly China before the end of the year.

Innovation of products a low priority, says survey

(180)

BUSINESS EDITOR

ARG 15/5/97

Less than 4 percent of employees in the manufacturing sector are engaged in innovation, according to a survey by the University of Cape Town's Development Policy Research Unit.

The results of the survey, modelled on a European Union investigation in 1994, are presented in the unit's quarterly publication *Trade and Industry Monitor*.

The survey, covering the period 1992-94, covers a sample of innovative firms in the manufacturing sector.

Presenting the results, Development Policy Research Unit director David Kaplan said 3,8 percent of all employees covered were engaged in innovation.

Figures for different sectors ranged from 10,4 percent for metal products, machinery and equipment, to 0,7 percent for food, beverages and tobacco.

The food, beverages and tobacco sector also spent less on innovation than other sectors: spending on innovation in this sector amounted to less than 1,5 percent of turnover compared to the manufacturing average of 4,9 percent.

Metal products, machinery and equipment again came top, with spending on innovation equivalent to 14 percent of turnover.

Professor Kaplan says firms surveyed concentrated on extending existing product ranges rather than developing new products.

Between 1992 and 1994, about 80 percent of all products did not change, 12 percent changed slightly and only 8 percent were new or significantly changed.

Most innovation was prompted by the need to improve product quality and gain market share, rather than by cost considerations.

Downstream industries 'are starved of support'

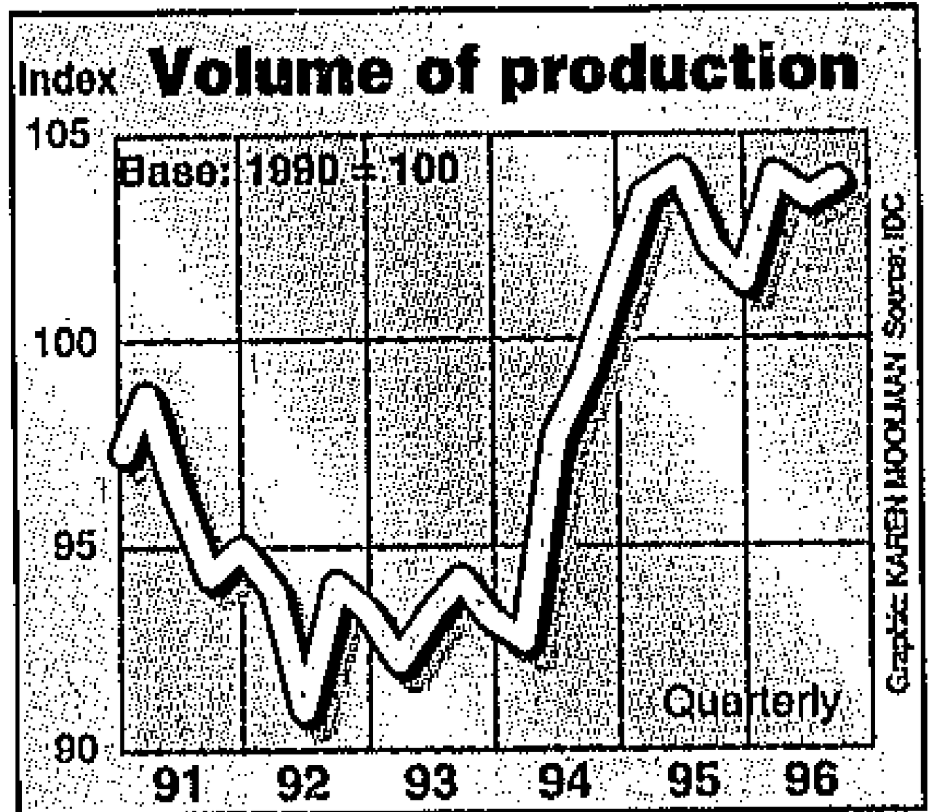
(180) BD 20/6/97

John Dludlu

A NUMBER of SA's downstream industries, including metal products, automotive components, wooden furniture and footwear, were "fundamentally" uncompetitive when compared with international counterparts, the latest manufacturing survey from the Industrial Development Corporation (IDC) said yesterday.

But the report, compiled by the IDC's economic research and development division, said there was hope impediments to competitiveness could be addressed.

The report, released this week, blamed SA's uncompetitiveness on the domestic environment which provided "little support to downstream manufacturing".



Among the factors blunting the country's competitive edge were higher taxes which reduced private spending, past industrial policies which promoted inward focus of industries, inefficient use of minerals and labour resources, limited upgrading of machinery, low exposure to global competition, and high overhead and marketing costs.

The report, coming only months after the introduction of the state's industry support measures, confirmed previous authoritative studies. The influential World Competitiveness report has previously given the thumbs down to SA's ranking, placing it second from bottom of nations ranked.

Authors of the report said that although development through raw material beneficiation has often been recognised as a possible route to higher economic growth in SA — owing to the perceived advantage in commodity production — latest evidence suggests that "such advantages are not passed onto local downstream users".

In what could be seen as a damaging indictment of the local raw material suppliers, the survey reveals that "producers in competitor economies are able to source materials at lower cost (from SA)".

This disadvantage to the local industries results, in part, from dual pricing policies, the practice of cross-subsidising prices of materials used in making exported goods by charging higher prices on those used in producing items for domestic consumption.

The report said wage levels made it impossible for SA to compete with low-wage nations, especially where more labour-intensive industries were concerned. "Indications are that even if SA producers were able to operate at 'best-in-practice' productivity levels, they would still not be able to compete at the price-sensitive end of the market with Indonesia, India, China and ... Zimbabwe".

The survey, which renews the debate on competitiveness, hinted that a solution could lie in present cluster studies initiatives, which sought to develop a common vision and action plans for each industry. Government support measures, including the sectoral partnership fund, competitiveness fund and a revamped export marketing assistance scheme could also come to the aid of SA.

The authors said, though, that global competitiveness required the co-operation of components of the industry.

In assessing manufacturing performance in the second half of last year, the survey said 14 subsectors reported higher volumes of production in the second half than in 1995.

The nonferrous metal basic products subsector was an unrivalled performer on the back of aluminium's expanded capacity.

(180) CT 21/5/97

WORLD ECONOMIC FORUM *Foreign executives remain more bullish*

SA's competitiveness takes another dip

JONATHAN ROSENTHAL AND
CHRISTO VOLSCHENK

Johannesburg — South Africa has slipped one place to 44th out of the 53 countries ranked in the latest Global Competitiveness Report released by the World Economic Forum yesterday.

But, despite brooding pessimism in this country, foreign business executives seemed to think the South African economy is more competitive than the report ranks it. In an opinion survey in which foreign executives listed countries they thought were most competitive, South Africa came in at 38.

The 44th placing by the World Economic Forum does not reflect an absolute loss of competitiveness, as the report's ranking included four countries for the first time — one of which, the Slovak Republic, slotted in at 35th position, pushing South Africa down a position to 44.

Vietnam, Zimbabwe and Ukraine, the other newcomers, placed at positions 49, 51 and 52.

Russia was judged the least competitive nation for the second year in a row.

Top of the ranking is Singapore, followed by Hong Kong and the United States.

The report ranks countries according to their ability to achieve sustained high rates of growth in GDP per head.

It takes into account 155 criteria, including the openness of an economy to international trade and finance, the quality of infrastructure, technology and business management as well as the flexibility of its labour markets and the role of government.

South Africa's best ranking was 17 for the size of its government. South Africa also scored well in infrastructure, its financial sector and its technology.

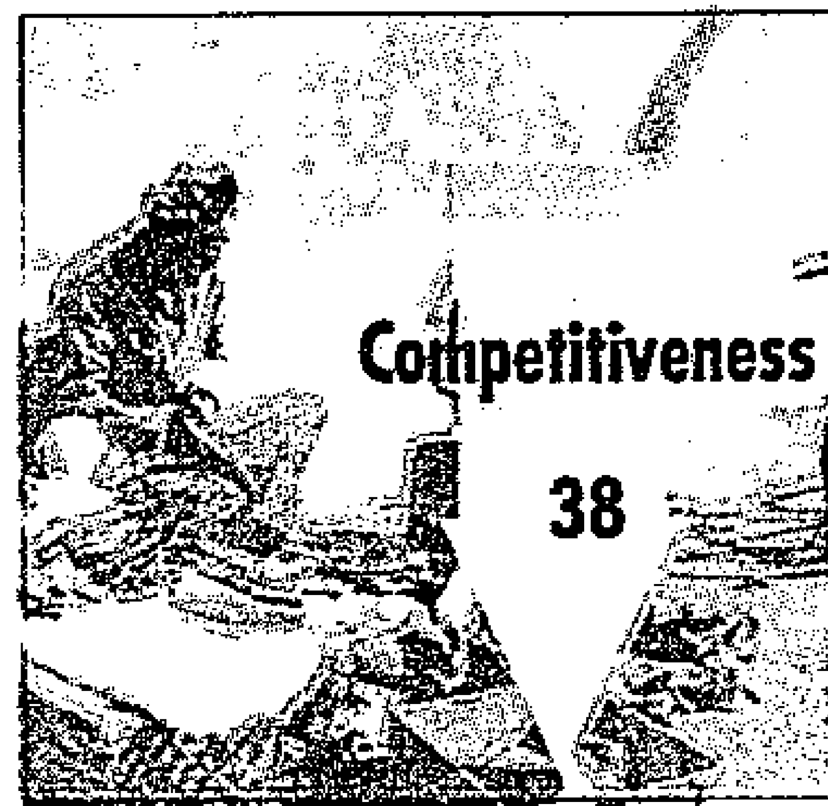
But it ranked atrociously in the areas of labour and its institutions, coming last in industrial relations and third from last in the ranking in terms of labour skills and productivity.

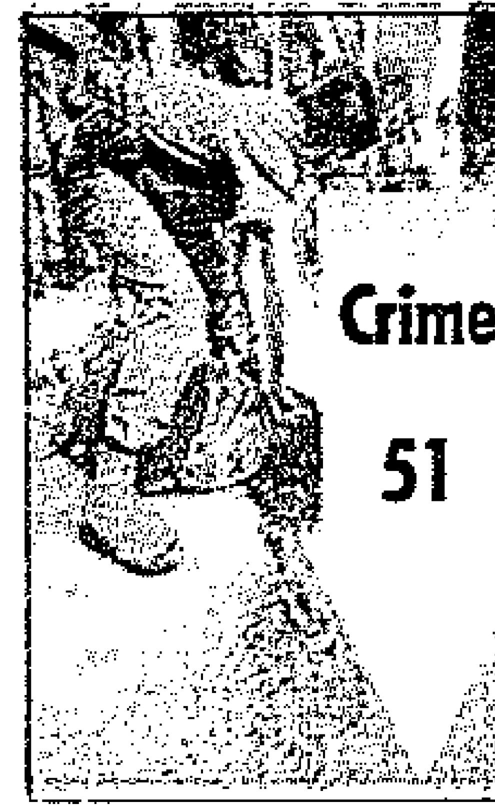
The ability of police to safeguard personal security and mitigate the effects on business of organised crime came third from the bottom at 51.

Not surprisingly, Singapore was ranked world first in terms of police protection, and Russia came last.

Competitiveness: South Africa versus 53 nations

SOUTH AFRICA		ZIMBABWE	UNITED KINGDOM
Overall ranking	44	51	7
Size of government	17	30	32
Efficiency and competition	20	6	9
Infrastructure	26	53	3
Skills and productivity	52	36	29
Police protection and combating of organised crime	51	32	12





South Africa is 44th

(180) ARG 21/5/97

Johannesburg – South Africa was ranked 44th of 53 countries in the World Economic Forum's 1997 Global Competitiveness Report.

The WEF said South Africa edged out India and Hungary, but trailed Jordan and South American economies, Brazil and Colombia.

The index judged the countries' "recipes" for growth, with open financial markets, corruption-free civil service, superb infrastructure and a highly educated labour force high on the list. Labour market flexibility, technological prowess and contained fiscal deficits were also important criteria.- Sapa

CT (BR) 3/6/97

Industrial surge for KwaZulu Natal

(180) ([illegible])

SHIRLEY JONES
KWAZULU NATAL EDITOR

Durban — At least 60 new industrial enterprises, including 20 overseas investments, were earmarked for the KwaZulu Finance and Investment Corporation's estates and business parks this year, Peet Marais, the corporation's group executive, said yesterday.

He said this was despite continued low investor confidence in South Africa and the downward trend of the manufacturing production cycle.

The corporation, which is KwaZulu Natal's development finance organisation, was confident it would meet its ambitious targets, including R46 million in capital investment in its industrial properties programme.

Marais said the organisation's target of establishing or expanding 60 industries this year was a realistic one.

"We have shown this sort of target is attainable, having established and expanded 66 industrial enterprises in KwaZulu Natal during the past 1996-97 financial year."

Marais said the organisation's factory space available for letting had grown by 42 676m^2 to more than 1 000 000m^2 last year and had resulted in the creation of almost 2 000 new jobs in the province.

He said he expected the economy to remain lethargic, with growth continuing at between 2 and 3 percent this year.

The production cycle was still in a downward trend since reaching a peak in mid-1995. But the fall in production levels did not spell recession, he said.

The organisation aimed to bring a further 91 000m^2 of industrial production space on stream this year in its three estates in Isithebe, Ezakheni and Madadeni, as well as in its business parks in the greater Durban/Pinetown, Pietermaritzburg and Richards Bay areas, Marais said.

He also said R31,8 million had been budgeted as loan finance for industrialists this year, reflecting a 36 percent increase over last year.

East Rand must act to save manufacturing ability

BD 4/6/97 (180)

Can the East Rand be revived and consolidate its historic position as SA's manufacturing "workshop" into the 21st century, despite recent changes in its local government structure? asks **Ann Bernstein**

"As world population cascades into metropolitan regions, it becomes ever more clear that big national economies are mostly agglomerations of distinct regional economies, each centred around one or more 'citistates' or cities. Such citistates are currently positioning themselves for intense global competition by adopting conscious, explicit, regionwide strategies ... (that) ... span every area from economic niche development to workforce training and development, from infrastructure development to arts and culture."
(Citistates: Does the American City Have a Future? by N Pierce)

THE Centre for Development and Enterprise has recently completed a report on the East Rand — one of the first attempts to look at this metropolitan area as a whole. The key message is that the future of this declining area is of national concern.

The East Rand is SA's historic "workshop", the heart of its manufacturing economy. In recent years, manufacturing has stagnated while the region's population has grown. The crucial challenge facing the region is to generate economic growth and jobs for a growing population. Without sustained economic growth, the East Rand faces a bleak future.

In 1994 the East Rand consisted of 32 local authority and other areas stretching from Alberton to Kempton Park/Tembisa to Nigel/Tsakane. It is home to 2,5-million people, has a formal sector economy worth R66bn and sustains about 628 000 job opportunities, largely provided by 33 000 registered employers. It is SA's unknown metropolis.

Most of its jobs are in manufacturing — metals production, metal working, chemicals, food and beverages, packaging. Fifty one percent of its gross geographic product comes from manufacturing, as compared to SA's 24%. Manufacturing is complemented by the air transport, rail warehousing and telecommunications sectors.

Unemployment is very high — some estimate 40%. A rapidly growing, often unskilled population faces a shortage of formal/informal jobs and a shrinking of the metals cluster that has provided upward mobility for generations of workers.

The region faces two new challenges. Government's new economic approach (Gear) could encourage manufacturing to move to the coastal metropoles.

Other SA cities are currently better placed to compete for new investment. Many of them now have metropolitan-wide economic strategies, more effective governance structures for co-operation across the urban region and a better image with respect to crime, violence and the general business climate.

However, research indicates that, despite stagnation, the economy of the East Rand can be revived. It has of late shown sign of vigorous life, but steps to promote revival cannot be postponed indefinitely. If real opportunities for growth are to be grasped, the region will have to improve its low status and attractiveness as a place to do business. At present it falls short in several crucial areas.

The region is institutionally fragmented. Individual towns compete rather than co-operate. Despite the integrated nature of the area's manufacturing-based economy, centred as it is on clusters of competitive and interlinked companies, individual city governments do not seem to understand the advantages of co-operating to develop it further. Such rivalry often inhibits the region's ability to respond to economic challenges.

The local government elections of November 1995 have greatly changed the shape of the East Rand with far-reaching consequences for its future.

Edenvale, Modderfontein, Kempton Park and Tembisa have hived off from the region and created a new metropolitan area — the Khayalami Transitional Council — which stretches to Midrand and incorporates the most dynamic part of the region's economy. The other local authorities fall under the Eastern Gauteng Services Council, which now also has jurisdiction over a large number of far-flung rural councils.

The region is also socially divided, with differences in social and economic conditions and life chances between black and white. Large-scale infrastructural initiatives such as the Katorus presidential project, while undoubtedly contributing to the improvement of social conditions do little to address the area's economic viability.

The considerable public resources (R3bn) that are being put into a historically deprived area constitute a once-off gift that must be used to maximum effect. Infrastructure development and services delivery must be viewed through the prism of economic growth if they are to provide sustainable "steel ladders" for a community's future development.

Can the Katorus presidential project really be successful without an effective economic strategy for the region?

The East Rand lacks a cohesive business grouping concerned with its social, economic and political welfare. East Rand business leaders rarely comment on the economy or the future of the region and do not seem to identify wholeheartedly with the East Rand. Although some of the reasons for this are understandable, it is nonetheless puzzling. It is hard to envisage the sustained development of world-class companies from a region in economic and social decline.

Despite a few well-meaning efforts, there is little strategic understanding of the East Rand's economy, its fit within the dynamics of the broader provincial, national international economies and the area's true sources of competitive advantage. Ironically for an area that is economically based on distinctive clusters of manufacturing and distribution industries that cross municipal borders, there is absolutely no shared vision of the region's economic future.

Compounding this is a dearth of information and data, a lack of leadership from any quarter, and a lack of social "glue" — the infrastructure for social collaboration. Crime and violence, together with social inequalities and poverty, form an interlocking spiral which seriously compromises the ability of the area to compete as a metropolitan economy.

As a consequence, the image of the East Rand — among investors, managers, and the media — is negative. The positive factors that exist throughout the region are overshadowed.

But there are real opportunities on the East Rand. The area has under-utilised physical infrastructure (think of its freeway system), plenty of vacant, industrially zoned land, a trained industrial labour force — much of it in small and medium-sized firms already linked to the area's large companies. Here exists much latent entrepreneurial possibility. As a place to live, it has many positive characteristics: low housing prices, good recreational amenities, much open space and good shopping facilities.

A new strategic vision for the East Rand is urgently required. This vision must be developed within the context of national and global competition, and could be built around the revival and strengthening of the area's manufacturing based economy.

The key stakeholders in the East Rand (business, labour, government, communities) need to come together as equals to discuss their future.

What is needed is an agreed vision of the region's future — a growth-orientated approach of focused excellence. On this agreed base, a realistic programme of action can be defined and implemented and existing projects, structures, investment priorities reoriented to complement the new direction.

The future of the East Rand is an issue of national concern which should not be left for local actors alone to wrestle with. Without strategic leadership — national, provincial and local, public and private — it is difficult to see the East Rand as an entrepreneurial region able to meet the challenges of increased population and economic competition. Without concerted action, the spectre of an unmanageable urban region looms large.

☐ *Ann Bernstein is executive director of the Centre for Development and Enterprise. This article is based on a research project recently released in the CDE "Big Cities" series.*

INDUSTRY CT(BR) 12/6/97 (180)

'White elephants' in line for development

Four former homeland airports and military bases have been targeted for development as one-stop industrial centres, Sembie Danana, industrial development co-ordinator for the department of trade and industry, said yesterday.

Danana said the department intended to make these "white elephants" — Mafikeng airport, Pietersburg army base, Upington airport and Bisho airport, previously known as Bulembu — instrumental in the industrial development drive undertaken by the different provinces. "We envisage ... the making of free trading zones to produce high-value goods," Danana said. He said plans were at an advanced stage to convert the Mafikeng airport into an aviation school, which should start operating next year. — *Ncaba Hlophe, Johannesburg*

Hansard.

(2) No. A policy decision has been taken not to involve the government directly in the process of retail credit provision. This decision was taken for the following main reasons:

- The establishment of a national retail infrastructure will require hundreds if not thousands of millions of rands of investments in infrastructure, staff, systems, etc. and will take a significant period of time;
- the business of lending and the management of credit risk, is a very specialised and high risk business. South Africa has a very well developed banking system with massive historic investment in infrastructure, systems and staff and with a wide reach through in excess of four thousand branches throughout the country. Given the scarcity of government funds, it did not make sense to try to duplicate this infrastructure in a country which is already regarded by some as over banked;
- the history of credit provision by the state in South Africa and internationally, indicates a very high incidence of default, weak credit management and eventual high write-offs. The moral hazard associated with the state fulfilling this function, especially given the South African history in this regard, was regarded as too high;
- government operates under severe fiscal constraints and did not have the financial capacity to engage in a venture which could have annual funding requirements of up to R10 billion.

As an alternative and recognising the need for the state to intervene given unacceptable levels of exclusion of certain parts of the population from bank finance, government launched two initiatives:

- the Mortgage Indemnity Fund (MIF): With a 3 year life span, this was an interim measure to bring the banks back into the areas where they have previously withdrawn from, mainly due to a breakdown of the due legal process and other non-commercial risks. This scheme has succeeded in bringing banks back into ±470 areas in the country and mobilising ±R7 billion of new housing finance in these areas in the past 22 months;
- the National Housing Finance Corporation (NHFC): With a long term focus, this institution is mandated to look at new, creative ways of financing housing to reach people excluded from presently available bank finance. The NHFC as a wholesaler, will work through a variety of intermediaries (not only banks) and will also actively (both technically and financially) support the establishment of new housing lenders.

The government has no intention at this stage of directly establishing a central lending institution.

(3) No. Government does not prescribe the lending rates applied by banks on any transactions other than through limitations imposed through laws such as the Alienation of Land Act, Usury Act and others.

Lending rates are determined by banks in view of competitive considerations, the prevailing cost of money, risk and the cost of overheads.

Except through the introduction of interest subsidies for first-time home-owners or prescribed lending through legislation, government therefore has no basis on which to impel banks to apply lower rates to certain customers.

(180)

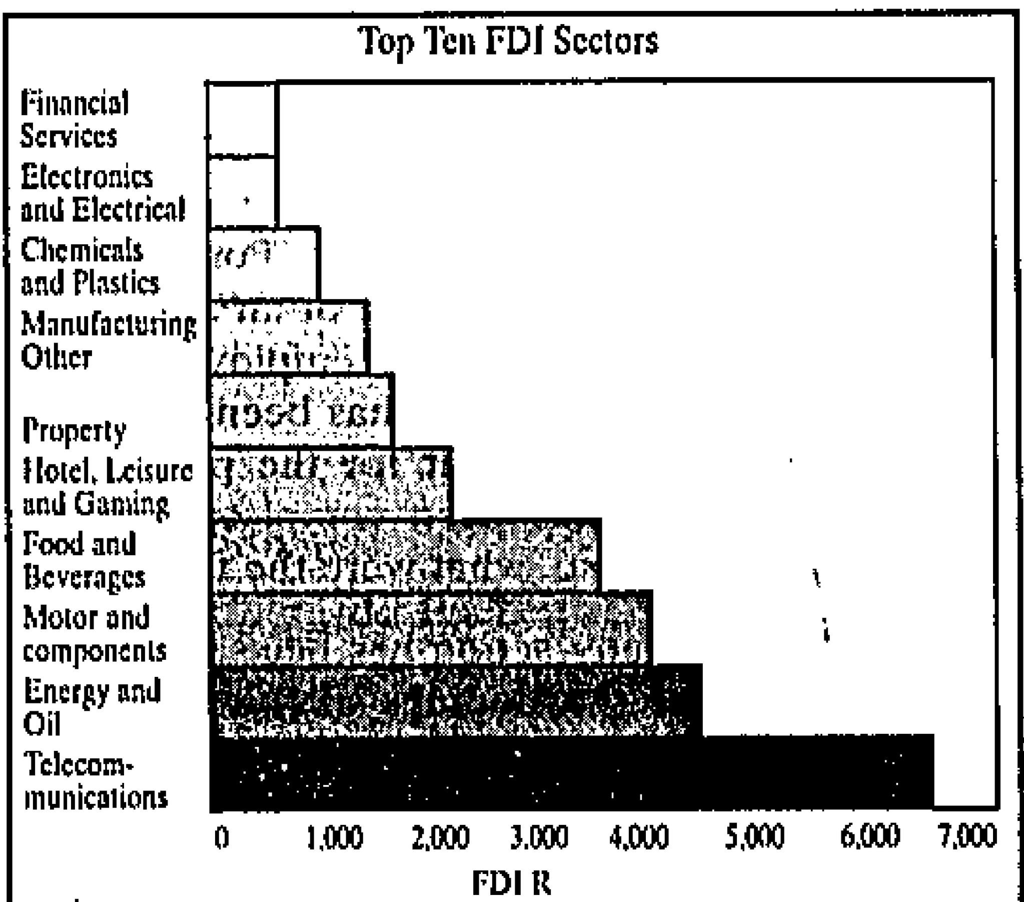
International industries relocating to SA

*18. Mr M F CASSIM asked the Minister of Trade and Industry:

Whether any internationally based industries are currently relocating to South Africa as a result of low productivity and the cost of labour in their own countries; if not, what is the position in this regard; if so, what are the relevant details? N1436E

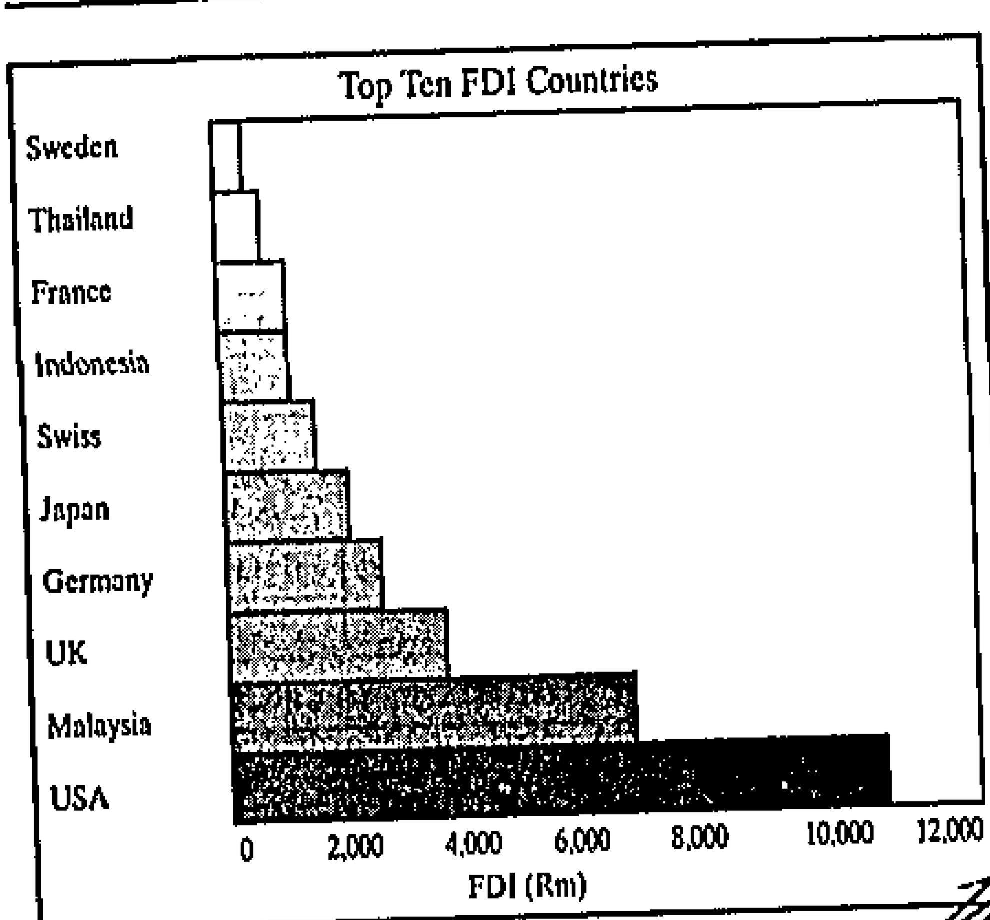
The MINISTER OF TRADE AND INDUSTRY:

Many internationally based companies have relocated to South Africa because of South Africa's relatively lower labour costs compared to the labour costs within their own countries. Included are two tables of relocations per sector and relocations per country.



Investment sector	FDI R
Agriculture, forestry and fishing	11,000,000
Chemicals and Plastics	685,400,000
Clothing and textiles	391,000,000
Construction and Materials	378,400,000
Consultancy / Management	9,000,000
Electronics and Electrical	543,400,000
Energy and Oil	4,517,000,000
Engineering	293,000,000
Financial Services	534,000,000
Food and Beverages	3,777,850,000
Hotel, Leisure and Gaming	1,962,600,000
Information Technology	313,600,000
Investment Holdings	500,000,000
Manufacturing – Metals	454,700,000
Manufacturing Other	951,000,000
Media and Publishing	376,200,000
Mining and Quarrying	372,800,000
Mining Exploration	5,500,000
Motor and components	4,161,500,000
Packaging and Paper	266,000,000
Pharmaceutical and Medical	129,000,000
Property	1,361,000,000
Retail and Wholesale	157,500,000
Services	243,400,000
Telecommunications	6,436,000,000
Transport	142,000,000
Unknown	5,500,000
Grand FDI Total	28,951,350,000

Country	Total FDI (R)	RIDP (R)
International	156,000,000	
Australia	81,300,000	
Austria	80,000,000	
Belgium	11,000,000	62,200,000
Canada	11,000,000	
Finland	110,000,000	
France	519,500,000	
Germany	2,314,500,000	320,000,000
India	87,000,000	
Indonesia	550,000,000	
Italy	0	73,000,000
Japan	1,625,700,000	
Korea	223,400,000	
Malaysia	6,568,000,000	
Namibia	27,300,000	
Netherlands	159,600,000	85,000,000
Norway	52,500,000	50,000,000
Sweden	255,000,000	
Swiss	1,152,000,000	33,500,000
Taiwan	206,900,000	1,042,500,000
Thailand	300,000,000	
UK	3,481,400,000	65,500,000
USA	10,979,250,000	
China		400,000,000
Other RIDP		569,000,000
RIDP Total		2,700,700,000
FDI Total	28,951,350,000	
Grand Total	31,652,003,000	



Legislation assigned to Northern Cape Province

*19. Dr C P MULDER asked the Minister for Provincial Affairs and Constitutional Development:†

Whether any legislation has been assigned to the Northern Cape Province in terms of item 14(l) of Schedule 6 to the Constitution; if not, what is the position in this regard; if so, (a) what legislation and (b) when? N1438E

The MINISTER FOR PROVINCIAL AFFAIRS AND CONSTITUTIONAL DEVELOPMENT:

The information is not readily available in the Department. In an attempt to be of assistance to the hon member, the relevant Department *viz* the Department of the Public Service and Administration was approached and they indicated that they are not aware of the assignment of any legislation to the Northern Cape Province in terms of item 14(l) of Schedule 6 to the (1996) Constitution.

Deregulation of oil fuels industry

*20. Dr K RAJOO asked the Minister of Minerals and Energy:

Whether he or his Department has considered taking any steps towards the deregulation of the oil fuels industry as part of a free market strategy to promote entrepreneurship in South Africa; if not, why not; if so, what are the relevant details? N1440E

The MINISTER OF MINERALS AND ENERGY:

The restructuring of the liquid fuels sector is currently being considered. The position of entrepreneurs in this industry is also being addressed as part of this process.

Disciplinary inquiry into Portnet manager

*21. Mr J A JORDAAN asked the Minister for Public Enterprises:

(1) Whether the disciplinary inquiry held into the payment by the Portnet legal and contracts manager of an amount of R12 000 to a certain employee of the SABC, whose name has been furnished to her Department for the purpose of her reply, has been completed; if not, why not; if so, what were the findings;

(2) whether any action has been taken as a result of the findings of the inquiry; if not, why not; if so, what action? N1442E

The MINISTER FOR PUBLIC ENTERPRISES:

Transnet Limited furnished the following reply to the hon member's question:

(1) No. Internal Company procedures for dealing with matters of this nature have to be followed. The inquiry will proceed soonest bearing in mind Company procedure and due process as prescribed in the Labour Relations Act.

(2) Falls away as a result of the answer to part (1) of the question.

*22. Mr M F CASSIM – Welfare and Population Development.† [Question standing over.]

Post Office: delivery standards

*23. Mr J J DOWRY asked the Minister for Posts, Telecommunications and Broadcasting:†

What were the delivery standards of the Post Office in each province in (a) 1995 and (b) 1996? N1445E

The MINISTER FOR POSTS, TELECOMMUNICATIONS AND BROADCASTING:

The Managing Director of the South African Post Office Ltd has informed me as follows:

The postal delivery standards measure the percentage of mail that is delivered in accordance with set delivery times. For example, standard mail items should be delivered in 3 days within a metropolitan region.

For operation purposes the South African Post Office is divided into six postal regions and not necessarily in provinces. However, the provinces included in each postal region are indicated in the table below in brackets.

	(a) 1995	(b) 1996
Western Cape Region (Western Cape Province including West Coast)	91%	95%
Eastern Cape Region (Eastern Cape Province)	93%	98%
KwaZulu / Natal (KwaZulu / Natal Province)	90%	91%
Central Provinces Region (Free State, Northern Cape (excluding West Coast) and North West Provinces)	93%	92%
Witwatersrand Region (Gauteng excluding Pretoria district)	62%	71%
Northern Region (Pretoria, Mpumalanga and Northern Province)	86%	87%

*24. Ms M SMUTS – Public Works. [Withdrawn.]

SABC: termination of SAPA's news service

*25. Ms M SMUTS asked the Minister for Posts, Telecommunications and Broadcasting:

(1) Whether the SABC is reconsidering its decision to end its subscription to the South African Press Association news service; if not, why not; if so, what are the relevant details;

(2) (a) how many reporters are currently employed by the SABC and (b) what is their mother tongue in each case? N1449E

The MINISTER FOR POSTS, TELECOMMUNICATIONS AND BROADCASTING:

The Chairperson of the SABC has informed me as follows:

(1) The SABC is not at this stage reconsidering its decision to cancel its subscription to the SAPA news service. This is because it is still assessing whether the service is worth the substantial (50%) increase in fees that SAPA demanded for a two-year contract.

At present the SABC news services are managing comfortably without the SAPA service. If SAPA indicate a willingness to accept a more reasonable fee for a news service of declining quality, the SABC may consider re-opening negotiations.

(2) Total reporters equal 457. No detail on their mother tongue is available, as the basic requirements is a proficiency in English.

Disturbances at Pollsmoor Prison: warders/prisoners injured

*26. Mr G C OOSTHUIZEN asked the Minister of Correctional Services:†

(1) Whether any (a) warders an/or (b) prisoners were injured during the recent disturbances at the Pollsmoor Prison; if so, (i) how many in each case and (ii) what were the reasons for the disturbances;

(2) whether he will make a statement on the matter? N1450E

The MINISTER OF CORRECTIONAL SERVICES:

(1) (a) No.

(b) Yes.

(i) 77 prisoners.

(ii) On 23 May 1997 information was received that there were two (2) hand grenades and four (4) firearms in the Pollsmoor Maximum Prison. The Provincial Commissioner of the Western Cape immediately gave

Numsa's economic policy conference in Johannesburg yesterday. Picture: LORI WASELCHUK | telephone calls.

Numsa conference to focus on manufacturing industry's dip

(180) BD 18/6/97

Nomavenda Mathiane

THE effect of the decline of SA's manufacturing industry would be the focus of the National Union of Metalworkers of SA (Numsa) this week, the union's acting general secretary Mbuyi Mngwenda said yesterday.

The closed conference, attended by senior personnel from Numsa's nine regions, would review the union's economic policy with regard to the Growth, Employment and Redistribution (Gear) strategy and labour market issues, Mngwenda said.

The decisions of the conference will be considered by the central committee, which will meet tomorrow and on Friday to prepare Numsa's submissions to Cosatu's September congress.

Mngwenda said the conference would debate employment and job creation strategies, as well as focusing on "cluster studies".

He said the conference was taking place at a time when technological innovations were having a negative effect on Numsa members.

The union would look also at a code of conduct for foreign investors, and would examine how investors could boost labour-intensive programmes.

Mngwenda criticised the "lack of commitment of local business in developing the local economy". It was an anomaly that the government was calling for foreign investors to come to SA, while local business was leaving the country.

Cosatu could answer 'rebuke' with strike

BD 18/6/97

CAPE TOWN — The Congress of SA Trade Unions (Cosatu) said on yesterday a new strike was possible over planned labour legislation following a "rebuke" to workers from employers.

"We will go with the action," Cosatu general secretary Sam Shilowa said at a news conference. Asked if a strike was on the cards, he replied: "Oh yes. There is no doubt."

He said Cosatu's executive committee would meet on June 24 and 25 to decide what form the action would take, and its duration.

The labour federation held a one-day national strike on June 2 in an effort to pile pressure on business and government over new laws which would govern the basic conditions of employment.

"We are going to emerge victorious. We are going to engage in action which will ensure they (employers) change their positions," Shilowa said. "It will be a response which will be commensurate with their rebuke of workers," he said.

Shilowa said Business South Africa (BSA) had effectively told workers "to go to hell" at a news conference the employer group gave in Johannesburg on June 4.

He said Cosatu thought talks in the National Economic, Development and Labour Council (Nedlac) on the Basic Conditions of Employment Bill were a waste of time. "We propose that the negotiations in Nedlac be brought to an end." — Reuter.

Zimbabweans lose 'bargain used cars' they bought in SA

Michael Hartnack

HARARE — Hundreds of Zimbabweans had found themselves stripped of "bargain" used cars bought in SA when they were impounded at the border as stolen, a police spokesman in Harare has confirmed.

He said up to 700 vehicles were held in the Messina police "pound", many of them the subject of alleged insurance frauds, in which unscrupulous former owners sell to foreigners and then claim — sometimes within a few hours — they have been stolen.

Due to computerised police systems, however, details are relayed swiftly to border posts and the vehicles are intercepted and impounded.

SA insurance companies had lost millions of rands through this type of fraud, said the spokesman, urging Zimbabweans to seek clearances from SA police in the area where they bought the vehicle before attempting to take it home.

Impounded vehicles were eventually sold at SA police auctions in Pietersburg, but vehicles incorrectly reported stolen were returned to their Zimbabwean owners, the spokesman said.

We're more competitive than we thought

(180)

FM 20/6/97

Foreigners' perceptions are positive

Despite SA's depressing performance in world competitiveness rankings, foreign companies still rate SA above other emerging countries in many areas, says the Washington based Investor Responsibility Research Centre (IRRC).

In this year's survey, 356 companies responded from 16 countries — about 20% of the more than 1 900 multinationals operating in SA.

Compared with other emerging markets, 69% of respondents believe SA's infrastructure is better than its competitors' (66% said so last year).

And 48% see our economic policy management as better (1996: 43%). Availability of raw materials was considered better by 52% of respondents.

Areas where SA is believed to be on a par with other emerging markets include ability to repatriate earnings (46% said so), industrial relations (42%) and political stability (58%). SA's legal environment was rated the same as competitors' by 38%, while 44% said it was better.

Labour productivity was rated worse by 37% of respondents, and the same by 37%.

Predictably, crime and violence were the problem area, with 76% of firms (1996: 79%) saying SA's levels were worse than those of competitors. But that doesn't seem to be scaring foreign companies away. IRRC director Meg Voorhes says the perceptions "do not appear to affect their decisions to make investments in the country." ■

'Control the removal of SA's tariff protection'

(180)

LLEWELLYN JONES
Business Reporter

ARG 1/7/97

The removal of tariff protection was necessary to achieve global competitiveness but needed to be implemented in a balanced transition, John Temple, the chief executive of Plessey, said in the company's annual report.

Mr Temple said the move to freer markets had had benefits for competition and inflation, but had not been matched by a freer market in local manufacturing inputs such as labour, high interest rates and high tax levels.

"There is a need to take a holistic and perhaps more selfish approach if we are not to allow our industries, which grew originally in protected home markets, to be destroyed by international competitors," Mr Temple said.

"For example, state and parastatal purchases seem to allow for little or zero preference for local industry, while our products are dutiable in export markets.

"Incentive schemes, such as the Support Programme for Industrial Innovation, are too small and do not assist when they are most needed."

He believed that the same logic, which had given a privatised Telkom monopolistic protection to subsidise its licence obligations to provide universal telephone access, should apply in supporting "truly indigenous local suppliers" – those whose products and services were based on their own technology.

"Without such protection, which can provide a secure domestic market and customer reference base, we will never develop viable export markets for our South African technology," Mr Temple said.

The prepaid electricity meter, which was developed to meet the needs of Eskom and local authorities, was a case in point, he said.

South Africa had established world leadership in this technology, but "unbridled competition" in pricing had resulted in an unprofitable domestic market, rather than a profitable one on which exports were normally built, Mr Temple said.

"The consequence is that suppliers have either exited the market or are forming relationships with foreign controlled groups.

"This has allowed a potentially large worldwide market to essentially pass out of South African hands," Mr Temple said.

South Africa's undiscovered metropolis

CT 7/7/97 (180)

THE NATION'S historic workshop faces testing times, writes Contributing Editor **ANN BERNSTEIN.**

THE future of the East Rand is of national concern. This region forms the historic heart of South Africa's manufacturing economy but, in recent years, manufacturing has stagnated while the region's population has grown.

The crucial challenge facing the East Rand is to generate economic growth and jobs for a growing population. Without sustained economic growth, the region faces a bleak future.

In 1994 the East Rand comprised 22 local authorities that stretched from Alberton to Kempton Park-Tembisa to Nigel-Tsakane. It is home to as many as 2,5-million people, has a formal sector economy worth R66-billion and sustains some 628 000 job opportunities largely provided by 33 000 registered employers. It is South Africa's "unknown metropolis".

The East Rand is SA's historic workshop. Most of its jobs are in manufacturing — metals production, metalworking, chemicals, food and beverages, packaging. Just over half of its gross geographic product is derived from manufacturing compared to the country's 24%. Manufacturing is complemented by the air-transport, rail, warehousing and telecommunications sectors.

Unemployment is very high — some estimate 40%. A rapidly growing, often unskilled, population face a shortage of formal and informal jobs and a shrinking of the metals cluster that has provided upward mobility for generations of workers. Today, the region faces two new challenges. First, government's new economic approach (Gear) could lead away from inland manufacturing towards the coastal metropoles; second, other South African cities are currently better placed to compete for new investment. Many now have metropolitan-wide economic strategies, more effective governance structures for co-operation across the urban region and a better image with respect to crime, violence and general business climate.

Research indicates that despite stagnation the economy of the region can be revived. It has of late shown signs of vigorous life and steps towards the revival cannot be postponed indefinitely. If real opportunities for growth are to be grasped, the region will have to improve its low status and attractiveness as a place to do business. At present it falls short in several crucial areas.

The area is institutionally fragmented. Individual towns compete rather than co-operate. Despite the integrated nature of the area's manufacturing-based economy, centred as it is on clusters of competitive and interlinked companies, individual city governments do not seem to understand the advantages of co-operating to develop it further. Such rivalry among jurisdictions often inhibits a whole area's ability to respond to economic challenges.

The local government elections held in November 1995 have greatly changed the shape of the East Rand with far-reaching consequences for its future. In one major development Edenvale, Modderfontein, Kempton Park and Tembisa have chosen to hive-off from the region and create a new metropolitan area — Kayalami Transitional Metropolitan Council — which stretches up to Midrand and incorporates much of the most dynamic parts of the area's economy. The other remaining towns have amalgamated with their associated townships, forming new transitional local authorities, falling under the Eastern Gauteng Services Council, which now also has jurisdiction over a large number of far-flung rural councils.

The region is also socially divided, with enormous differences in social and economic conditions. Large scale infrastructural initiatives such as the Katorus Presidential Project, while undoubtedly contributing to the improvement of social conditions, do little to address the area's economic viability. The considerable public resources (R3-billion) being put into this historically deprived area constitute a once-off gift that must be used to maximum effect. Infrastructure development and service delivery must be viewed through the prism of economic growth if they are to provide sustainable "steel ladders" for a community's future development. Can the Katorus Presidential Project really be successful without an effective economic strategy for the region?

The East Rand lacks a cohesive business grouping concerned with its social, economic and political welfare. East Rand business leaders rarely comment on the economy or future of the area and do not seem to identify wholeheartedly with the East Rand. Although some of the reasons for this are understandable, it is nonetheless puzzling. It is hard to envisage the sustained development of world-class companies from a region in economic and social decline.

Despite a few well-meaning efforts, there is little strategic understanding of the East Rand's economy, its fit within the dynamics of the broader provincial, national and international economies and the area's true sources of competitive advantage. Ironically, for an area that is economically based on what are distinctive clusters of manufacturing and distribution industries that cross municipal borders, there is absolutely no shared vision of the region's economic future.

Compounding this is a dearth of information and data, the lack of leadership from any quarter and a lack of social glue — the infrastructure for social collaboration. Crime and violence, together with social inequalities and poverty form an interlocking spiral which seriously compromises the ability of the area to compete as a metropolitan economy.

As a consequence of these factors, the image of the East Rand — among investors, managers and the press — is a negative one. The positive factors that do exist throughout the region are overshadowed by the negatives.

SA WORKSHOP: The East Rand with its metalworking and machine-tool factories such as this one in the Western Cape has historically been the manufacturing heart of South Africa .

There are real opportunities on the East Rand. The area has under-utilised physical infrastructure (think of its freeway system), plenty of vacant, industrially-zoned land, a trained industrial workforce, much of it in small and medium-sized firms already linked to the area's large companies. Here exists much latent entrepreneurial possibility. As a place to live it has many positive characteristics: low housing prices, good recreational amenities, open spaces and good shopping facilities.

A new strategic vision for the East Rand is urgently required. This vision must be developed within the context of national and global competition and could be built around the revival and strengthening of the area's manufacturing-based economy. The key stakeholders in the East Rand (business, labour, local, provincial and national government and communities) need to come together as equals to discuss its future. They need to address the question: can the East Rand consolidate its position as South Africa's workshop into the 21st century?

The future of the East Rand affects the entire country and should not be left for local actors to wrestle with alone. Without strategic leadership — national, provincial and local, public and private — it is difficult to see the East Rand as an entrepreneurial region able to meet the challenges of increased population and economic competition. Without concerted action, the spectre of an unmanageable urban region looms large.

❑ *Ann Bernstein is the executive director of the Centre for Development and Enterprise.*

Jobs still being shed despite the good times

CT (BR) 11/7/97

JUDY MOSES

(180)

Johannesburg — The manufacturing sector shed another 14 000 jobs during the first quarter of this year, despite a 19 percent increase in the manufacturing production index during the same period, the Central Statistical Service (CSS) said yesterday.

The drop in first-quarter manufacturing employment follows a grim year for workers in the sector — nearly 50 000 workers lost their jobs last year.

Dennis Dykes, the chief economist at Nedcor, said while the domestic economy was strong in 1995, with export-related projects booming, last year saw "more pre-emptive buying" ahead of expected price increases.

However, prices for domestic goods weakened last year, meaning the South African public still had little incentive to buy manufactured goods. That trend, Dykes said, has continued this year.

However, if the rand continued to fall in line with inflation differences with the country's important trading partners, then manufactured exports could do well, Dykes said.

Carole Mason, the group economist for Investec Bank, said there were positive expectations for manufacturing next year because of the depreciation of the rand and external demand.

"Manufacturing has picked up, and we expect this to continue," Mason said.

The CSS figures for manufacturing production between last May and May this year showed that the motor industry, which was the fifth biggest sector, had declined by 12,6 percent.

Dykes said the slump in the sale of motor vehicles could be attributed to the high interest rates, consumer debt, companies holding up new purchases because of slow domestic demand and producers "still sitting on a fair amount of stock".

TRADE LT (BR) 16/7/97 (180)

Erwin to focus on EU competitiveness

Alec Erwin, the trade and industry minister, said yesterday he would play down differences over the exclusion of some agricultural products by the European Union (EU) and would rather press for a trade agreement to help boost the long-term competitiveness of the southern African economy.

Departing for another round of talks at ministerial level with the EU, he said South Africa still wanted a trade and investment agreement that would benefit the whole of the southern African region. "Our position, given the importance of the European market to us, would be to call for a relationship that would help South Africa rationalise its economy and be more competitive," he explained. He said South Africa would also press its call for a developmental component in the trade agreement. "We would canvass for trade and investment packages to make sure that we get early access to the EU markets and to step up the level of investment," he said. — *Ncaba Hlophe, Johannesburg*

Downturn in key industrial sectors

(180) Sowetan 18/7/97

PROFITABILITY in some of the largest divisions of the manufacturing sector dipped lower in the first three months of this year than in the same period in 1996.

This includes some of the largest employers, such as those in the food, paper, basic iron and steel and the huge motor vehicle assembly industries.

This is according the latest figures from Central Statistical Services (CSS) released yesterday.

The dip in profitability does not bode well for employment levels in the private non-agricultural sector, which has in the past decade shed hundreds of thousands of jobs.

The CSS figures come just days after Iscor, the countries biggest steel producer, warned of the possibility of closing its Pretoria mill and endangering 1 400 jobs in the process.

Reserve Bank figures show job opportunities in the non-agricultural sector at the end of 1995 were down by 440 000 on the peak reached in 1988.

This situation has not improved in the last year with employment levels declining further despite an average economic growth rate of just over three percent.

However, the dip in profitability has not been uniform throughout the manufacturing sector. According to the CSS, "the beverage, chemical products – including petroleum, and other basic non-ferrous metal products industries showed notable increases in profitability during the same period".

CSS figures also show that the basic iron and steel industries had during the period in question undertaken large capital projects, committing substantial investments in new plant, machinery and equipment.

Whether this will translate into new employment in the months ahead remains to be seen.

Past figures have shown that despite new investment, net employment declined in the private sector for most of the 1990s. – *Sowetan Reporter.*

Turks put up $25m for SA plant

ST(BT) 3/8/97 (180)

INVESTMENT

By MARCIA KLEIN

A TURKISH company is investing $25-million in SA to set up a major manufacturing operation for domestic appliances.

Cankurtaran Holdings has joined forces with local player, the MBS Group, to set up a factory in Atlantis on the Cape west coast. About 300 people will be employed at the plant which will be operational by next month.

MBS is already a major player in the small domestic appliances market, but has been importing the products it markets and sells. MBS managing and sales director Ellian Perch says while MBS has been price-competitive on most of its products, local manufacture will enable it to expand its range and compete head-on with its major competitors in all areas.

He reckons MBS and its competitors — the JSE-listed Nu-World and Amalgamated Appliances — each have a significant stake of the small appliance market and the deal will enable it to compete even more effectively and efficiently.

"We haven't been able to be permanently competitive because of the volatility of the rand and the fact that we often are not able to have the required stock on hand," he says. MBS is also unable to compete on certain product ranges such as vacuum cleaners and kettles, which cannot be imported at a competitive price to those products which are made locally.

The investment will facilitate local production of a range of appliances under the Conti brand name. Italian-owned Conti Manufacturing operates mainly in Turkey, where it has the rights to Rowenta and supplies Bausch and Siemens products. MBS will have exclusive rights to market the Conti range.

Perch says this is the first major foreign investment in the SA appliance manufacturing industry in 20 years. MBS has secured sole marketing agency rights for a wide range of products which it will manufacture locally, some designed specifically for the African market.

TURKISH DELIGHT... Ellian Perch of the MBS Group

SA will also be the base for exports to Australia, South America, the US and other countries. MBS will take over the existing export business emanating from Turkey as freight rates from there are very high.

It is envisaged that after about two years the SA operation will look at manufacturing major appliances such as fridges.

MBS has been trading in SA for 20 years. It has the Orion brand and house brands of televisions, videos and audio equipment. It imports and distributes small and large appliances, has a bicycle assembly plant, imports and distributes furniture and sells tableware and cookware.

Perch says: "Many international players pay lip service to local investment and use SA as a convenient distribution point. We are joining forces with a European heavyweight, and we're talking job creation, quality products and highly competitive prices."

Conti marketing manager Tanju Ozdeniz says Conti intends to "be here for good. This is a long-term investment".

SA 'driven' to be competitive

BD 24/7/97 (180)

Lucia Mutikani

THE removal of tariff protection and increasingly robust competition were forcing many SA businesses to accelerate efforts to become internationally competitive, a leading international management consultant said.

Peter Gilbert of QI International told an Institute of Marketing and Management breakfast meeting that transformation initiatives were now the rule rather than the exception. Central to the initiatives was a new — and laudable — commitment to customer satisfaction.

QI International is a multinational consultancy specialising in relationship management with customers, employees and suppliers.

"More and more companies are making customer satisfaction measurement scores a key part of the corporate scorecard and frequently executive incentives are being linked to improvements in the customer satisfaction score," said Gilbert.

"A satisfied customer is a loyal customer, whose long-term patronage will lead to increased sales and profits."

However, he said recent studies had revealed satisfied customers also defected, and gave the example of US car manufacturers which, he said, had high customer satisfaction scores of between 90% and 95% but low customer retention in the range of 30% to 35%.

"Satisfaction scores have become an end in themselves, but scores mean nothing unless the satisfaction they purport to measure translates into purchases and profits."

Gilbert said a recent QI International survey showed 15% of customers defected because of price, 15% because of quality programmes and 70% because of problems with relationships.

Customer relationships were being seen as corporate assets and, like other assets they could appreciate or depreciate, said Gilbert.

"In many markets, it is impossible to sustain a technological advantage indefinitely. As a result, the skilled management, measurement and development of customer relationships becomes a critical source of competitive advantage," he said.

Edited by Adrienne Roberts — Email: roberts@tml.co.za

Exporters gear up for stronger growth

FM 15/8/97 (180)

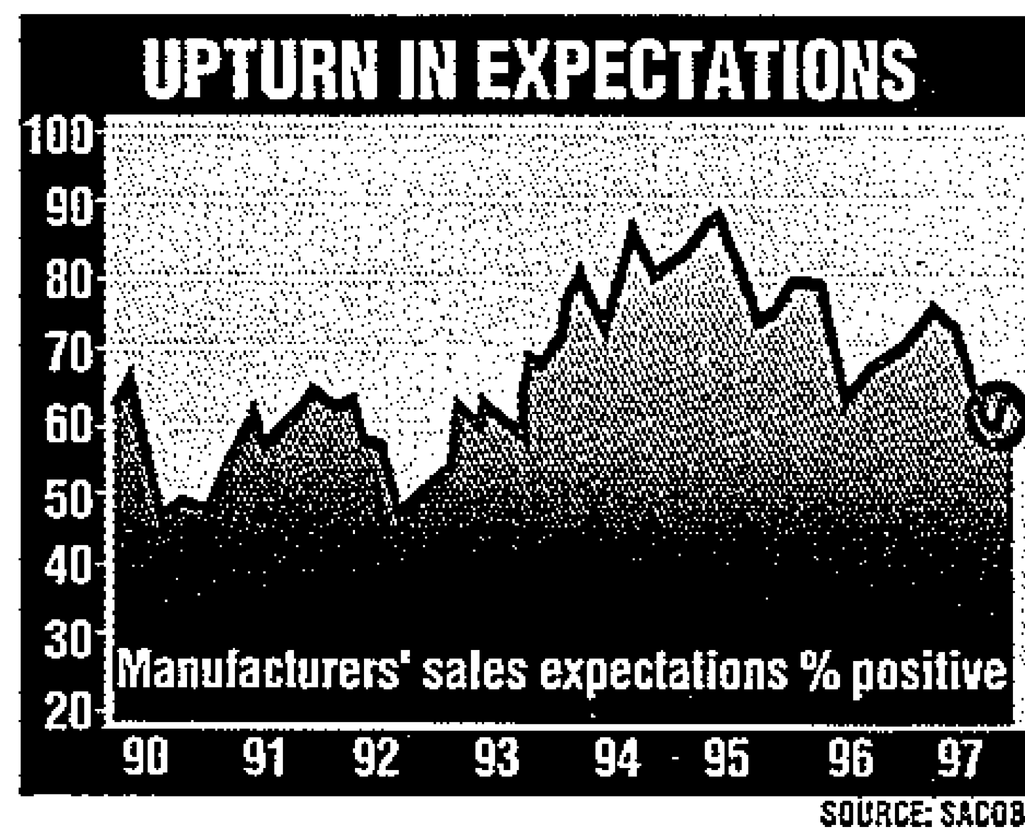
Sacob's manufacturing survey

Export producers are more optimistic about manufacturing prospects than those who supply local markets, according to the latest SA Chamber of Business (Sacob) manufacturing survey.

The survey found that manufacturers involved in export activity "tend to have more bullish expectations than those reliant on domestic demand only."

But overall, though manufacturers were positive about the sales outlook and production and investment levels in the short term, expectations remained slightly lower than during the earlier months of this year.

Sacob attributes this to the slowdown in domestic consumption and a broader drop in business confidence — reflected in a 0,2% contraction in the Business Confidence index in July.



The chamber is confident SA is heading for a soft landing, and not a recession, though it has revised its growth forecast down to 2% from 2,5% earlier this year. "Though domestic demand is subdued, manufacturing exports are facing promising conditions," it says.

But Sacob is adamant that Reserve Bank Governor Chris Stals should reduce interest rates now. It argues that high real interest rates are obstructing the growth targets of the Growth, Employment & Redistribution (Gear) strategy. The Bank's monetary policy "has been playing a major role in ensuring stability in the currency and a relatively low inflation rate" but Sacob cautions that "interest rates are seen to be restraining the economy."

The chamber says a strong global outlook will keep SA's export performance buoyant. It forecasts US growth of 3,4%-3,7% in 1997, slipping back to 2,3%-2,8% the following year. Japan's economic prospects have improved and 2% growth is expected this year along with a moderate consumption recovery.

Sacob says "the relative weakness of the rand given the dollar's strength is likely to maintain our competitiveness."

It predicts the current account of the balance of payments is also likely to benefit from the growth in SA's trade partners, despite a lower gold price. Sharon Wood

Manufacture, black firms are urged

(180)

Patrick Wadula

BD 18/8/97

THE Northern Province government should try to involve black entrepreneurs in sectors of the economy other than building and construction to boost emerging business in the province, a lawyer involved in government projects said at the weekend.

Law firm Mathosa Legodi & Associates partner Joas Legodi said most black businesses in the province were involved in the building and construction industry due to easy access to finance and security.

He said the manufacturing sector in the province was very weak, and needed to be boosted. Black business could play a key role. For example, rather than sending tomatoes to Gauteng to be processed, which the province currently does, it needed to develop its own manufacturing plant, Legodi said.

The same should apply to raw building materials which were sourced from Northern Province, he said.

The gaming industry could also open up major opportunities for emerging businesses, and government should consider that in granting tenders.

Sam Banyini, the Northern Province trade and industry department's deputy director for small, medium and micro enterprises, said the Council for Scientific and Industrial Research would canvass for non-core businesses from major enterprises which it would then source to small businesses via small business centres.

SA 'talks a good story but it does not deliver'

(180)

BD21/8/97

Business Day Reporter

THE inability of government and business to deliver on their grand plans is threatening SA's future. There is too much talk and too little action. And the more things fall apart, the harder it will be to put them together again.

This warning comes from strategy consultant and author Tony Manning, who says SA's competitiveness is being threatened by inadequate leadership and management skills.

Without radical strategies, many organisations will not survive long, he says. At best, they may become extremely good at the wrong things. But even the most imaginative of strategies is worthless while it remains in someone's head or on a piece of paper.

MANNING

"We talk a great story, but when it comes to action things just don't happen. Put us in a debate and we can hold our own with anyone. But foreign countries and companies beat us hands down when it comes to delivering the goods," says Manning.

"SA has limited resources. It's vital that we get as much leverage as possible from the raw materials, money and minds that we do have. But in no time at all we have become world-class wasters. We are flushing our future down the drain."

Manning says it is hard to think of any country of similar size that has as many conferences and talk shops, white papers and green papers. Launches, lunches, and cocktail parties have become key budget items, he says.

Consensus, transparency and openness are magic words. Facilitation is a valuable skill. But celebration ranks ahead of results.

"The reconstruction and development programme came and went with lightning speed. The Masakhane campaign showed few results until authorities started getting tough with people who defaulted on their service payments. Curriculum 2000 was launched with great fanfare from the steps of Parliament, but critics say it is coming unstuck already.

"Speeches, choirs and flocks of doves heralded Mayivuke — the new initiative to redevelop central Johannesburg, but there are doubts that the idea is even worth pursuing. Almost every day the media carry stories about the collapse of essential services."

Manning says too many people with too few skills are suddenly in powerful jobs. He believes archaic systems cannot carry a modern load. "Everything is a priority and nothing gets done."

Yet it is not only government that is failing. Many private-sector companies are also underperforming. "Managers in too many organisations confuse planning with action.

"Of course, there are many structural problems that get in the way of performance. Organisations of all kinds are hampered by old technologies, outdated systems and unskilled people. But too often these are used as excuses for poor performance," Manning says.

He pinpoints three things that could improve results all round:

- The first law of business was to focus on the few things making the biggest difference. "Effectiveness comes from doing what you can do, not what it would be nice to do;"
- The second law was never to hold the same meeting twice. "When you set an agenda, your goal should be to take items off it fast rather than keep them for the next meeting. And you should avoid setting up a task force to report back sometime;" and
- The third law was to get results fast. "Until you achieve something, all you have is good intentions. Long-time objectives are a recipe for disaster. Building slack into a strategy is a sure way to let other issues take over."

It is Manning's belief that a great deal could be achieved in a short time if only managers would focus their efforts. "For this nation to get anywhere near its potential, fine oratory and grand plans must give way to a sense of urgency and a drive for action."

SA's technology gets a R12m boost

(180) CT (BR) 21/8/97

JENNIGAY COETZER

Johannesburg — The Canadian Industrial Development Agency has pledged C$3,5 million (R11,8 million) to assist the South African government in formulating an industrial strategy to accelerate the growth of the information technology (IT) industry in this country.

The goal of the initiative is to ensure local IT is globally competitive and, at the same time, address the broader objectives of reconstruction and development, Alan Hirsch, the chief director of industry and technology strategy for the department of trade and industry, said yesterday.

He said the project would run over 18 months, monitored by a steering committee consisting of representatives from industry and representative bodies such as the Computer Society of South Africa. The first few months will involve "scoping the project", to be followed by six months of research and a reporting phase.

"The objective is not to provide excessive government support in the form of direct subsidies or tariffs," Hirsch said

Instead support would include examining regulatory and human resources issues and modifying existing state programmes to encourage international investment and government procurement.

Government departments, such as the departments of posts and telecommunications, and arts, culture, science and technology, were also likely to be involved with the initiative, said Hirsch.

Interim reports would be broadly aired, with a view to generating feedback to enable leading issues to be addressed before publication of the final report.

Labour softens stand on retrenchment assistance

BD 22/8/97 (180)

John Dludlu

THE labour element at the National Economic, Development and Labour Council (Nedlac), which is due to unveil fresh proposals on plans to help retrenched workers cope with the negative effects of industrial restructuring, will not call for legislation to force companies to finance such arrangements, labour sources say.

The labour constituency at Nedlac is due to make the new proposals after slow progress in the Nedlac process.

Mahlomula Skhosana, deputy general secretary of the National Council of Trade Unions (Nactu), says the federation will not be calling for legislation to protect retrenched workers. But he said government had to create a framework through which business and labour could jointly address the effects of industrial restructuring.

Previously, labour had called for legislation requiring companies to finance retrenchment plans.

The call provoked a defensive response from business, which saw the suggestion as an attempt to raise employment costs.

Skhosana's views are echoed by another source who says the new proposals, currently being finalised, will emphasise "tripartism" in dealing with the jobs crisis.

"In the past, social plan act (the term labour uses for retrenchment plans) was portrayed as punitive against business," the source said, pointing out that firms would be assisted in finding alternatives to layoffs.

Skhosana says Nactu will call on business and government to train workers ahead of retrenchments. The state could offer incentives to business through tax-based instruments. "Workers must be given portable skills," he said.

Labour unions will assist in organising social plan programmes and the placement of retrenched workers in alternative jobs, Skhosana said.

Apart from the legislative function, the state's role was unclear in previous submissions from labour. The new proposals will clarify this, sources say.

SA's industrial restructuring has been successful — Rustomjee

John Dludlu

WHEN the new policy makers at the trade and industry department first took up their jobs in 1994 the challenge facing them was crystal clear: they had to completely scrap the apartheid era's low wage and low consumption industrial policy which mollycoddled SA's inwardly orientated industry into cocoons of inefficiency.

However, what was not clear was what the focus of restructuring should be: to save existing jobs or create thousands of new ones. In a recent interview, it emerged that Zavareh Rustomjee, the department's director-general, had chosen the former course of action.

Rustomjee says the industrial restructuring has been successful. Since 1995, tariffs have dropped almost 50% to about 11% on a trade weighted basis. And for government to have done this and, in the process, managed to keep 1,45-million people employed is "a testimony to the robustness of our manufacturing sector".

Other nations, which had tried the exercise, had ended up with de-industrialisation. He dismisses as "ridiculous" expectations that government should have created 400 000 jobs by now.

Rustomjee's spirited defence of government's policies comes amid growing criticism that the state's policies have either failed to create jobs or have resulted in job losses. The loss of about 40 000 jobs in the clothing and textile industries are often cited as evidence of a misdirected industrial policy. The two sectors, and the vehicle industry, known pejoratively as the "sickly sisters", were among the most heavily protected sectors under the previous government's policies.

To critics, he says: "I'd argue that our policies have created jobs and have defended jobs we would have lost (if the old path had been followed)."

Perhaps, the most justifiable complaint against the department is that its supply-side measures — aimed at increasing efficiency through better training and reorganisation of work methods — have taken so long to kick in.

Rustomjee believes a firm foundation has been laid for the creation of between 70 000 and 90 000 nonagricultural jobs by 2000. Progress, too, has been made in linking the industrial and trade policies closely. An example of this is the present impasse in talks to modernise the Southern African Customs Union.

Pretoria's negotiators, led by Rustomjee, are insisting that the trade arrangement should be underpinned by clear industrial policies. Until the customs union partners table their industrial policy vision, Pretoria is not prepared to even discuss the institutional framework.

This is also the line that Rustomjee intends taking when SA unveils its offer to signatories of the Southern African Development Community (SADC) trade protocol. SA is expected to liberalise faster.

Although he will not say how fast, Rustomjee, backed by a study showing that SA's tariff levels are among the lowest in the SADC, says: "So, we have the least to fear from the SADC (eight-year free trade) protocol. The test will come when we make our offer."

A model to govern tariff reduction has been found. It will seek to create a simple tariff book — with fewer headings — and will provide certainty to investors.

The trade negotiations with the SADC form part of the department's "butterfly" strategy. The trade plan seeks to align the SA economy with fast growing partners. Each nation's strategic importance to SA has been assessed in terms of trade, investment or technology transfer.

Based on country-by-country analysis, the department, which has representation in SA's embassies, has recently either shut down or redeployed staff from 14 offices abroad. "We're changing the way we're engaging globally," Rustomjee says.

(180) BD 1/9/97

SA to spend R73m on competitiveness probe

BD 1/9/97 (180) 29

John Dludlu

SA IS expected to spend an estimated R73m on research into global competitiveness over the 1998-2001 period.

This emerged after Friday's meeting of the executive council of the National Economic, Development and Labour Council (Nedlac), the statutory negotiating forum.

The sum would be part of a newly established research fund. For fiscal 1997 the trade and industry department had set aside R15m for research into international competitiveness, Nedlac media liaison officer Lomin Saayman said at the weekend.

The money was part of the department's budget for its supply-side measures. Earlier this year government said it had allocated R604,6m to the support measures, including industrial development.

Saayman said the fund, whose main focus would be on "cluster" studies, would be managed by the Industrial Development Corporation, with representation from government, business and labour.

The studies are an attempt to identify impediments to competitiveness.

Further cluster studies were envisaged on developing an environmental strategy for industrial development, ways of supporting black economic empowerment and the tourism sector.

The establishment of the fund was one of several agreements ratified by the council. Others included an accord on the water services bill — which sought to guarantee access to water and sanitation — and amendments to the mine health and safety bill.

Leaders from government, business and labour also agreed to the implementation of the second phase of the "workplace challenge" for which R13m had been made available.

However, no discussion took place on the controversial employment standards bill. A Nedlac report on the bill had yet to be finalised.

Jayendra Naidoo, Nedlac's executive director, said: "An advance towards resolving some of the most pressing issues facing South Africans has been made, in particular on housing and workplace change."

ET (BR) 5/9/97 (180)

MANUFACTURING

Major groups post increased production

Of South Africa's 27 major manufacturing groups, 19 recorded higher production in the first six months of this year over the same period last year, the Central Statistical Service (CSS) said yesterday. Mark Orkin, the head of the CSS, said manufacturing production for the first six months of this year increased by 3,9 percent over the first six months last year. "Furthermore, the seasonally adjusted manufacturing production ... increased by 3,4 percent compared with the first six months of 1996. The main contributors to the increase ... were the basic metal products industries, the chemical and petroleum products industries and machinery and electrical machinery industries." Orkin said the seasonally adjusted sales of manufactured products increased by 5,2 percent, an increase of R8,784 billion over the first six months of last year. "This statistical release shows indices of the physical volume of manufacturing production and the value of sales and unfilled orders," he said. — *Bernard Sathekge, Pretoria*

NEWS

INDUSTRY *State promotes small and medium manufacturers*

Mac plan gets R38m sendoff

CT (BR) 10/9/97 (180)

NCABA HLOPHE

Johannesburg — The trade and industry department launched the Manufacturing Advisory Centres (Mac) programme yesterday to boost the competitive edge of small and medium manufacturers.

The R38 million programme has been co-funded by the Danish government (which contributed R12 million), the Ntsika Enterprise Promotion Agency (R11 million) and the CSIR (R15 million).

It has been launched on a pilot basis over three years in Durban and Port Elizabeth because of the existing high-level manufacturing activity in these cities, and would be expanded to other regions thereafter.

"Mac will facilitate clustering and co-operation among firms, foster linkages between big and small businesses with regard to outsourcing and subcontracting, and assist small and medium manufacturers to become more export-orientated," said Kate Moloto, Ntsika's chief executive officer.

She said the programme would serve as a "one-stop advice and assistance facility to upgrade the potential of black businesses" and would employ about 200 people.

BIG PLANS *Trade & industry deputy minister Phumzile Mlambo-Ngcuka*

CO-FUNDING *Kate Moloto, the chief executive officer of Ntsika*

Phumzile Mlambo-Ngcuka, the deputy trade and industry minister, said the programme should be seen as a move towards the formation of an integrated, national support system for small and medium manufacturers.

She said the initiative would be linked to other industrial support measures to promote downstream and benefication opportunities by the small and medium sector.

She said efforts were under way to address the factors that hamstring the development of the small and medium sector such as inhibitory laws and lack of access to finance. No less than 152 laws had been identified as restricting small and medium business.

Mlambo-Ngcuka said her department would meet finance institutions towards the end of the month to address problems related to the financing of the small and medium sector.

Reduction of jobs in manufacturing sector 'a problem'

(180)

CAPE TOWN — Although the Western Cape's economy was likely to perform better than the rest of SA, a reduction of jobs in mainstream manufacturing companies had become a serious structural problem, says Cape Chamber of Commerce and Industry deputy director Colin Boyes.

"At a recent Chamber Industrial Forum meeting, where the CEO's of some of the major industrial companies in the Western Cape were present, there was a clear indication that no new jobs were created over the past four years.

"According to a delegation of Thai investment consultants, the SA labour cost was three times higher than in Thailand."

Boyes said the success of job creation projects in Thailand had resulted in an unemployment level of less than 5%.

"The Western Cape and indeed the country clearly has a unhealthy labour market which is not being helped by the collection of new and pending labour legislation," Boyes said.

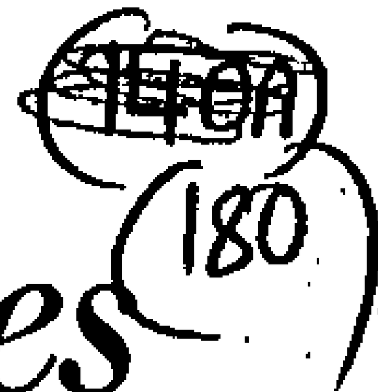
He asked whether the timing of the new legislation was appropriate, particularly the Basic Conditions of Employment Act, and whether it should not be held over and reviewed "when we achieve an 8% gross domestic product growth and create 400 000 jobs per annum".

If the country was serious about attracting foreign investment, it simply could not entertain blanket action to reduce the work week, increase overtime rates and introduce compulsory paid maternity leave.

Boyes said the inability to create jobs pointed to the vital role to be played by small and medium manufacturing concerns which were increasing in the Western Cape. Although they employed fewer people than the bigger manufacturing companies, cumulatively they added up to a significant employer group.

"Small and emerging businesses, particularly on the Cape Flats and in the townships, must also be encouraged. This will lead to the expansion of the province's middle-class, the backbone of any successful economy," Boyes said. — Sapa.

Cosatu resolves to fight effects of globalisation



AKG 18/9/97

Union proposes international alliances

THABO MABASO
At the Cosatu Congress

Johannesburg – The Congress of South African Trade Unions has resolved to fight the effects of the globalisation of production.

The resolution was taken after a heated debate lasting more than two hours at Cosatu's sixth national congress in Johannesburg yesterday.

The debate centred on whether Cosatu should reject globalisation outright or whether it should focus its fight against the negative impact of globalisation.

It still has to decide on areas of focus for the campaign.

The Southern African Clothing and Textile Workers' Union (Sactwu), which jointly sponsored the resolution with other affiliated unions, argued for the formation of alliances with federations in other countries in the fight against globalisation.

'Globalisation amounts to a new, ideological attack on worker rights and labour standards'

Sactwu secretary general Ebrahim Patel told the congress that the fight against globalisation should be adopted as a site of struggle.

"Let's form international alliances to fight the negative effects of globalisation and not say we don't want to have anything to do with globalisation," Mr Patel said.

Sactwu had also proposed that Cosatu should set aside 5% of its annual income in order to build trade unions in Southern Africa and other parts of the developing world.

The congress resolved that Cosatu's central executive committee should decide on the percentage to be set aside at its next meeting.

The resolution on globalisation follows a similar decision by Sactwu at its congress last month. It decided to contact unions in other parts of the world which had also experienced the effects of globalisation.

Mr Patel would be sent on six months sabbatical leave, travelling to the Americas, Europe and Asia to study the responses of the unions to globalisation.

Sactwu has blamed globalisation for a series of factory closures in which thousands of workers in the clothing and textile industries have lost their jobs in recent years.

The union said in its proposal that globalisation amounted to a "new, ideological attack on worker rights and labour standards in the name of international competitiveness, by investors, many governments and professionals."

The congress also resolved to strengthen its campaigns against undemocratic and autocratic governments in Africa.

Cluster process 'positively received'

BD 25/9/97 (180)

Lucia Mutikani

THE cluster process mooted by government to foster increased global competitiveness for the SA economy had received a positive response, department of trade and industry motor assembly head Johan Cloete said.

He told the national automotive manufacturing technology workshop that cluster processes built competitiveness through strengthened support networks between industry constituents.

"While many of these initiatives are heavily supported by government, cluster processes must involve both the government and the industry and eventually be led by industry," he said.

The DTI had recently worked with a few industries to create a strong knowledge base from which other industries could draw. "The automotive industry was tabled as a role model of the setting up of a cluster process. To date industry has responded positively."

The DTI recognises that considerable effort has been spent researching and organising the automotive industry and is interested in creating a process that leverages past work and organisational structures to promote increased industry competitiveness.

The automotive cluster process aims to build sustainable competitive advantage for firms in SA's automotive industry, construct a strong platform from which SA industries will compete and foster a new relationship between government and industry focusing on competitiveness.

This could be achieved only through the commitment of industry leadership, participation of a broad range of stakeholders, commitment of skilled capacity for ongoing analysis and a structure facilitating communication, engagement and action.

Component manufacturers and raw material suppliers have indicated that there was room for co-operation. "We need to think globally about our customers and competitiveness," said one.

Industry 'needs govt help' to become competitive

Lucia Mutikani

GOVERNMENT would have to provide substantial support for technological innovation if local industry was to be competitive, the trade and industry department said yesterday.

Commenting in an evaluation report on its support programme for industrial innovation, the department said the programme, which was launched in 1993 as part of government's strategy for the promotion of technology development in SA's manufacturing industry, should form an integral part of current national strategy. The programme is administered on behalf of the department by the Industrial Development Corporation (IDC).

"There is wide support for government intervention to take the form of direct grants rather than indirect tax relief," the report said. However, large companies had proposed alternative measures such as tax relief.

"There is agreement that true parastatal organisations should not qualify for programme support, but that those that have been privatised and are operating on a commercial basis should qualify once they achieve a profit-generating status."

A total of 154 projects have so far been approved under the programme, with grants worth R71m disbursed.

Evaluation board member Johannes Potgieter said the number of applications had proved disappointing.

He attributed the low figure to ignorance of the programme in the industrial sectors other than electronics.

"The programme is not widely recognised or well understood in the market, probably because promotional efforts have been inadequate in the past," he said. Between R20m and R30m has been budgeted this year for the expansion of the programme.

The department's chief director of technology and industry strategy, Allan Hirsch, said the department was looking into the possibility of introducing a technology development incentive for large companies based on a partnership between government and the private sector. Risks and returns would be shared, he said.

(180) BD 26/9/97

Boost for local beneficiation of diamonds and gold

CT (BE) 16/10/97 (180)

LYNDA LOXTON

Cape Town — The South African Diamond Board had joined forces with the private sector, including world diamond mining leader De Beers, to promote the increased local beneficiation of minerals, particularly diamonds, the parliamentary minerals and energy committee heard yesterday.

Various programmes, including the training of locals at the Harry Oppenheimer Training School in Johannesburg and soft loans, are being considered in a bid to involve more South Africans in the beneficiation of minerals such as gold, platinum and diamonds.

The locally trained cutters and polishers will use equipment made locally by companies such as Laser Optronic Technologies (Laser Optech) in Randburg, which is exporting equipment to India, one of the world's largest polished diamond producers.

"We as a board are studying various impediments — they may be macroeconomic, expertise and things like that — and trying to see how we can manage this so that we can improve beneficiation," Victor Sibiya, Diamond Board chief executive officer, said this week.

Govt grants R113,2m to developing industry

BD 20/10/97 (180)

Ingrid Salgado

GOVERNMENT's support programme for industrial innovation approved 259 grants worth R113,2m from its inception in 1989 until September last year, with the number of completed projects increasing significantly due to intensified monitoring.

The programme, which replaced the innovation support for electronics scheme in 1993, aims to promote local technology development by supporting innovative, competitive products and processes.

It does this by paying nonrepayable, taxable grants paid upon the completion of predefined project milestones.

The programme is administered for government by the Industrial Development Corporation.

Contrary to criticism that the programme favoured larger companies, 32% of the projects approved had gone to small companies with assets of less than R1m, the trade and industry department said in a progress report on the programme released last week.

Just more than 30% of support was geared at firms with assets of more than R50m.

Because smaller companies generally undertook smaller projects, the proportion of funds allocated to them represented a relatively lower percentage of total funds.

The department highlighted the increasing level of approvals to sectors other than electronics. In 1993 electronics projects accounted for 53% of the projects. Support for software development accounted for 14% and other industries 33%.

Other areas of support have included specialised equipment, chemical, biochemical and pharmaceutical processes, transportation equipment, mechanical products and new materials.

The report said that the commercial performance of completed projects within the scheme was good. More than 5 000 jobs had been created since 1990 in the manufacture or assembly of newly developed products, while total tax revenue accruing to government in the form of VAT and corporate income tax was about R120m.

Several new SA products had been established in local and international markets as a result of the programme's assisted development.

The department announced it had called for tenders to evaluate the effectiveness of the programme and to study research and development spending in local industrial sectors. These reports would determine the scheme's future promotion.

The fund had R109m available to support further project approvals. "This should be adequate to meet demand for at least two years even if further allocations from the state were to cease," the report said.

Business conditions are 'relatively stable'

(180)

Samantha Sharpe

BD 23/10/97

CAPE TOWN — Business conditions in the manufacturing sector remained relatively stable in the third quarter of this year, the latest Bureau for Economic Research (BER) manufacturing survey shows, but actual growth in sales, orders and production volumes was slightly below forecasts.

Export sales and order volumes had declined "unexpectedly".

BER said the third quarter was characterised by sluggish domestic demand, with the year-on-year growth of domestic sales and order volumes in the third quarter only mildly positive. Expectations for the fourth quarter indicated a sideways trend.

Production capacity utilisation was on the decline in the third quarter with manufacturers cutting back on their capital spending plans and a substantial number of the survey respondents reporting insufficient product demand.

"In this context, the reported weakness of manufacturing export sales and orders in the third quarter and the bearish expectations in this regard in the fourth quarter are somewhat worrying. The deterioration could be temporary as the twelve-month export outlook improved somewhat compared to the second quarter and remains fairly optimistic. Production for export could therefore still compensate for the sluggishness of domestic demand."

BER said a disturbing aspect of the latest survey was indications that the rate of factory worker retrenchments in the third quarter would continue in the final three months of this year.

"The deteriorating trend in factory employment appeared to be bottoming out towards the end of 1996, but has since the beginning of the year reversed into a rapidly declining trend. More than half of respondents indicated they plan to employ fewer workers in the fourth quarter of this year compared to the fourth quarter of 1996."

The results of a special fixed investment survey in the third quarter indicated fixed investment in machinery and equipment could still grow in real terms over the next year.

Manufacturing industry stabilises

Sowetan 23/10/97 (180)

GENERAL conditions in the manufacturing industry during the third quarter of this year remained relatively stable compared to the second quarter, a survey by Stellenbosch Bureau for Economic Research has revealed.

However, the actual growth in sales, orders and production volumes was slightly below expectation.

Export sales and order volumes actually declined unexpectedly in the survey quarter. According to the survey, respondents scaled down their expectations, but business confidence stabilised at the relatively low level reported in the second quarter.

Corresponding to the recent trend in real domestic expenditure in the wider economy, a number of indications from the latest survey points to the relatively sluggish demand conditions faced by manufacturers. These are:

- The year-on-year growth of domestic sales and order volumes in the third quarter was only marginally positive and expectations for the fourth quarter indicate a sideways trend;
- About 43 percent of the respondents reported insufficient demand for products being a serious constraint on manufacturing activity in the third quarter;
- The ratio of unfilled orders to sales declined significantly in the survey quarter and could continue doing so in the forecast quarter;
- Production capacity utilisation is declining and manufacturers are cutting back on their capital spending plans. – *Sowetan Business.*

People 'the key to unlocking competitiveness'

(180) Sowetan 23/10/97

By Oupa Ngwenya

NEW president of the Institute of People Management, Tiisetso Tshukudu, say he believes South Africa will rise to the challenge of developing its human resources and become more competitive in the process.

Tshukudu was speaking at Sun City yesterday at the annual conference of the institute (formerly the Institute of Personnel Management).

Citing a recent world competitiveness report covering 46 countries which ranked South Africa's management and "people dimension" 43rd and 46th respectively, Tshukudu said this was the case because our competitors "do not rely only on products and services, but compete with their brains".

The opening up of the South African economy had resulted in increased competition locally.

"New products and services are challenging the best that South Africa has to offer," he said.

"The key to our success in staving off competition on our doorstep, and also in competing effectively in the global market as we approach the new millennium, lies in people."

Describing the Government and companies as joint actors in the training challenges facing South Africans, Tshukudu said the country's ability to be an effective and formidable competitor would depend on its willingness to ensure employees were well trained, educated and knowledgeable.

He said the Government had an important role to play in improving South Africa's education system.

It was also in the interest of companies to invest in the creation of a knowledgeable work force by allocating significant funding to training. "Unless this is done, we might as well close shop," he said.

"Business is about people. It is about customs and shareholders. But most importantly, it is about employees, including managers. By investing time and money in them we deliver the bottom line."

Tshukudu agreed with the argument of the institute's outgoing president, Zohra Ebrahim, that in preparation for the new millennium and beyond human resources had to be allocated a strategic, rather than a support function.

Celebrate the village to remain competitive

M 30/10/97 (180)

Thesy Reuttner

SOUTHERN Africa's manufacturing companies are struggling to compete with foreign challengers in the local and regional markets because of the development of globalisation.

Derek van der Riet, founding partner of Competitive Capabilities African, has examined the role of southern Africa's manufacturing companies on the global stage, gauging their ability to defend local and regional markets.

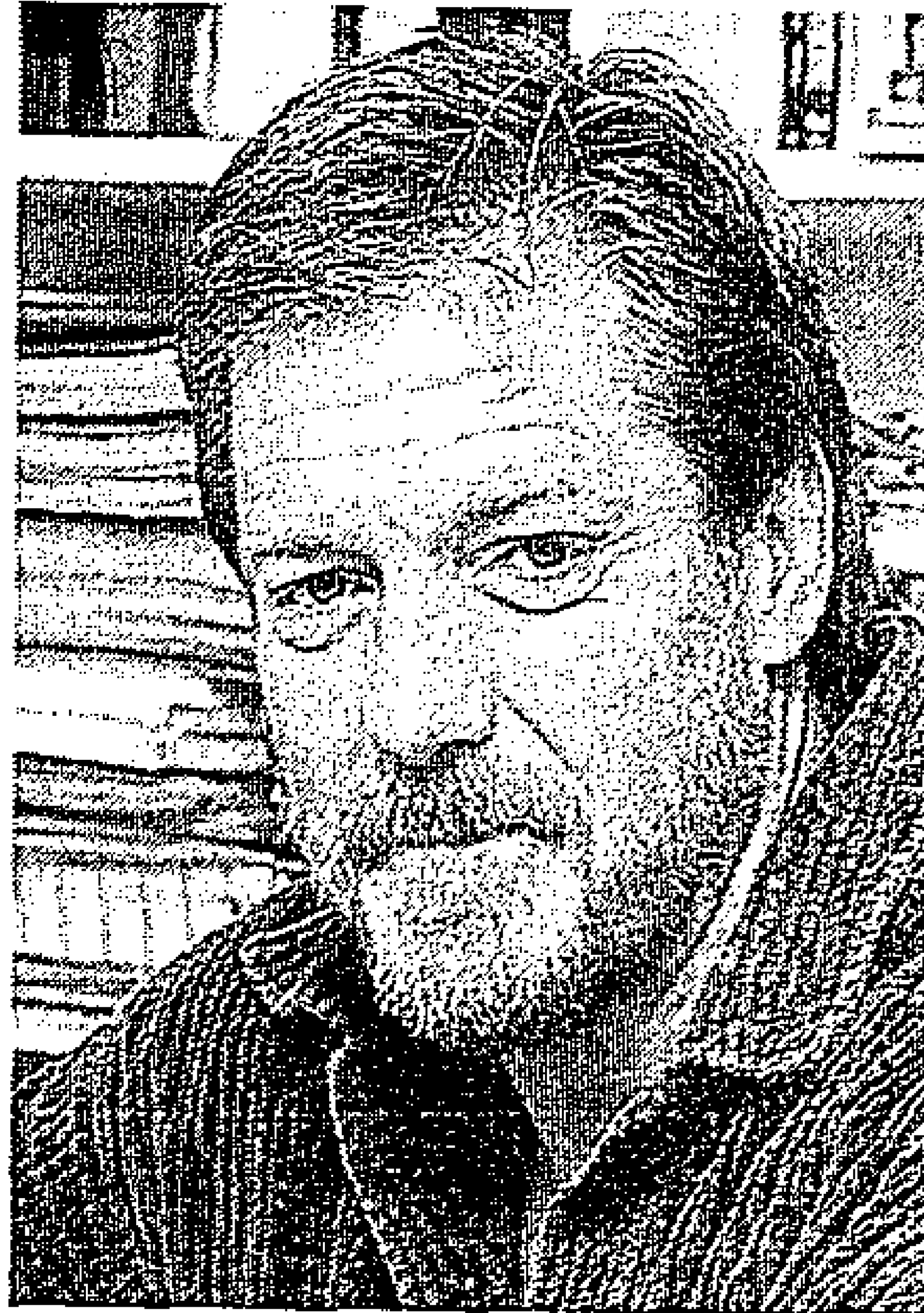
He says the situation could be improved if companies focused on channel segmentation and niched service delivery rather than on standardising on a global scale.

He says the concept of "celebrating your village" is vital. This accommodates the regional market's idiosyncracies and enables local markets to maintain a relationship with the region.

All markets have both local and global characteristics. This diversity can be found in any town: from shopping malls to roadside selling.

These different levels gained a limited recognition in the different market segments, such as agriculture and industry, through the use of branding, media, role models and industrial and consumer strategies. But some regional providers tried to merge these different levels into into single-channel delivery systems.

To protect the local market, Van der Riet said, manufacturing companies had to take advantage of its diversity. By using their special knowledge of its culture, religions and languages, and adding service packaging, they could create niched, customised value.



VAN DER RIET

Van der Riet says all service channels, whether retail or industrial, require potential suppliers to develop differently focused core competencies in order to become the supplier of choice.

Product category management is the key to core competency, he says.

Value-added services are important to build brand loyalty. Branding, promotions, attractive merchandising and creative new products all catch the consumer's attention.

Manufacturers need to study customer's buying behaviour and categorise products as basic, seasonal and fashionable, Van der Riet says.

For each type of product the local company can take advantage of its familiarity with cultural and political aspects of the market, he says.

Cluster initiatives a success — Erwin

BD 14/11/97 (180)

Lucia Mutikani

CLUSTER initiatives which had been facilitated by the trade and industry department to upgrade the economy's competitive capacity were showing success, Trade and Industry Minister Alec Erwin said yesterday.

"Experience worldwide demonstrates competitive advantage is not created by a single firm alone, but by the competitive platform, or industry cluster, off which it competes, and the efficiency and stability of the macroenvironment," he said in a message to an industrial cluster workshop.

The department has since Monday held a series of workshops in Cape Town, Port Elizabeth, Durban and Gauteng to share experience in cluster in SA and abroad and plan for next year.

Cluster initiatives are processes whereby industry role players identify challenges and opportunities that can be addressed more effectively through working together than individually.

"A number of cluster initiatives in SA are already showing success. The energy and commitment demonstrated is delivering concrete results for participants," said Erwin.

He said that in order to survive and win, SA firms as well as entire industries should transform and adapt to the new environment by focusing on how to create sustainable competitive advantage.

Land and Agriculture Minister Derek Hanekom said that the relationship between government and industry, including labour, called for a shift in dialogue from lobby to understanding and synergy. "This relationship ... needs to emulate (competitors') closeness and involvement if we in SA are to survive," Hanekom said.

The cluster initiatives have been introduced in the automotive, ceramics, capital equipment, stainless steel jewellery, footwear plastics and wool and mohair industries. Industry and labour have both backed the programme.

Many countries were promoting cluster development as a response to a changing global economy. There had been encouraging results in Scotland, Morocco, Ireland, Peru, El Salvador, Malaysia, New Zealand and the US.

Govt proposal a 'dead-end job zone'

(180) Sowetan 18/11/97

By Abdul Milazi

THE National Council of Trade Unions (Nactu) yesterday rejected the Government's proposed Industrial Development Zones aimed at boosting economic development and job creation.

Speaking at a press conference in Johannesburg to announce the federation's national congress resolutions, Nactu general secretary Mr Cunningham Ngcukana said IDZs were "dead-end job zones" which would violate basic human and trade union rights.

Nactu also rejected the privatisation of state assets and services and called on the Government not to shirk its responsibility to provide basic services.

The congress further resolved to engage the Government on the Growth, Employment and Redistribution (Gear) strategy. "We call on the Government to pursue expansionary fiscal policies to kick-start economic growth and job creation." The congress also resolved that women issues needed to be given as much attention as other trade union issues, and to end gender inequality within the union structures.

Education also featured prominently – congress delegates called for more training of organisers.

Capacity utilisation takes a dive of 0,9%

(180) BD 21/11/97

Greta Steyn

CAPACITY utilisation in the manufacturing sector fell 0,9% between May and August to 80,7%, Central Statistical Service figures released yesterday showed.

The CSS said the decline in capacity utilisation in the year to August was 1%. The biggest contributors to the annual decrease were food, the paper industry and motor vehicles. The lowest utilisation rate for August was recorded by the motor industry — at less than 70%.

The underutilisation of capacity was ascribed mainly to insufficient demand, which accounted for almost 13%.

Economists said the decline in capacity utilisation was in line with the slowdown in manufacturing output.

The fall signalled there would be a time lag until fixed investment spending gathered speed again, as the spare capacity would be used up first.

On the plus side, the absence of capacity bottlenecks augured well for a fall in inflation.

Bureau for Economic Research economist George Kershoff said the cooling of domestic demand would continue into the first half of next year, with a depressing effect on manufacturing.

However, he believed exports would take up some of the slack caused by domestic economic conditions.

Nedcor economist Kevin Lings said most of the fixed investment spending of past upswings had been on modernisation of equipment rather than on expansion of production capacity.

That meant when the next upswing started in the second half of next year, there was "real" spare capacity that could be used.

The result would be that fixed investment spending would not pick up as quickly as it did in the last upswing.

"The next upswing in fixed investment will only gather pace in 1999, but when it happens it will be expansion of capacity rather than modernisation. That is when we are likely to see an improvement in employment," Lings said.

MANAGEMENT

Firms 'lack human resources skills'

BD 27/11/97 (180)

Reports by
Lucia Mutikani

SA COMPANIES lack the human resources skills to meet organisational challenges required to survive the next millennium, a survey conducted by human resource consultancy FSA-Contact has found.

The survey, conducted among 80 local businesses of all sizes and across the economic spectrum, asked companies to rank eight different organisational challenges in order of importance, and then assess their competence in meeting them.

FSA-Contact MD Olof van Schalkwijk said the survey showed an almost directly inverse relationship between issues participants felt were most important and their ability to implement those issues.

"For example, the need to attract, develop and retain top talent within organisations was ranked as the most important challenge facing business, yet respondents rated their ability to achieve this goal at the bottom of their list of competencies," he said.

Companies rated the need to develop into customer-responsive organisations second on their list of challenges, although their proficiency in this area was ranked fifth out of eight.

Another startling finding was the relative lack of importance attached by participants to the need to implement defensible and fair human resource practices. It came bottom on the list of challenges, but businesses were confident of their ability to meet this requirement, placing their competency at the top of their lists.

"This seeming contradiction could be attributed to the fact that SA companies have devoted so much attention to the issues surrounding fair human resources practices, that they have become sufficiently proficient at it for it to no longer pose much of a challenge to them," said Van Schalkwijk.

"Interestingly, the need to effect change within the organisation is rated less important by SA businesses than their international counterparts. A survey conducted recently by FSA-Contact's international associate, Watson Wyatt Worldwide, found that 79% of 1 800 businesses in six countries felt organisational change was their number one priority."

The survey showed that organisational change was third on SA companies' priority list, and local businesses were also not too confident about their ability to implement change.

"Indeed, SA organisations are more confident about their proficiency in competing globally, implementing fair and defensible human resources practices, and aligning human resources management with business strategies than they are about change, despite the effort many have made in restructuring, downsizing and re-engineering processes," said Van Schalkwijk.

SA companies regarded becoming more effective global competitors as less important than the need to measure and reward employee performance, align human resources management with business strategies and increase staff utilisation flexibility.

"Participants probably felt that improving their global competitiveness would be a natural corollary to successfully meeting the other organisational challenges." He felt they would succeed only if they improved their proficiency in adapting to the organisational challenges they identified as being most important to their long-term goals.

Human resources are 'key to global competitiveness'

ET (10R) 27/11/97 (180)

FRANK NXUMALO
LABOUR CORRESPONDENT

Johannesburg — Efforts by South African companies to improve their global competitiveness without a significant re-engineering of the human resources (HR) role and function were bound to fail, FSA-Contact, the human resources consultancy, said this week.

Hennie Steenkamp, FSA-Contact's senior consultant, said while most businesses recognised that organisational change was needed to survive the global onslaught, they had to realise the focus of most of their efforts had to be the restructuring and re-engineering of the HR role.

"To date most HR functions are devoted to purely administrative tasks," Steenkamp said. "Chief executives state they need HR staff to play a greater role within their organisations, with a further emphasis on being change agents.

"However, change is driven by people. No matter how innovative and forward-looking a restructuring and re-engineering plan might be, if the people within the organisation don't buy into the change, it won't succeed."

Steenkamp said a comprehensive survey conducted by Watson Wyatt Worldwide, an international human management company linked with FSA-Contact, involving business leaders in five countries, had shown that while reorganisation produced a positive effect on productivity in 86 percent of the companies surveyed and 63 percent reported having achieved their cost cutting goals, 37 percent reported a decline in employment loyalty.

DIAMOND BENEFICIATION

Laser beams can add a glow to export earnings

FM 28/11/97 (180)

SA exports the stones and the processing technology. There are plans to put the two together before they leave

Laser expert John Bond has come up with a bold plan which will help benefit SA's diamond and gold industries. He proposes using frontier technology to establish downstream initiatives he believes could create hundreds of thousands of jobs and bring in billions in foreign exchange earnings.

He argues that if his plan is implemented, SA can seize 10% of the world's diamond processing and jewellery markets within five years.

Bond is head of the small award-winning company Laser Optronic Technologies. He also chairs the Department of Trade & Industry's jewellery technology cluster which has been charged by government to increase the value of SA's diamonds and gold production.

Laser Optech has spent R7,5m developing state-of-the-art laser technology for diamond-cutting and has 25 machines sold worldwide.

This year, 18 of them, valued at R8,5m, were installed in the factory of one of India's largest diamond processing companies, KP Sangahvi.

There are plans by the Indian company to install another 40 machines over the next few years.

To bolster his argument for local beneficiation, Bond points out that only 6% of diamonds produced in SA are cut and polished here while, in countries like India and Japan, the technology used to maximise the stones' processing is South African.

"Southern Africa has got 65% of the world's diamond resources. What happens to those diamonds? Most of them are shipped to London to the Central Selling Organisation belonging to De Beers, which controls about 85% of the world diamond market.

"Last year 130m carats were sold worldwide in the rough, for about US$7,6bn. After polishing, these were sold to wholesalers for about $14bn. So, by taking the diamonds through the process, $7bn has been added to the local value. SA's contribution to the 130m carats is about 12% by value. Therefore $1,6bn could be earned for SA by beneficiation."

At present, says Bond, "our technology is being exported to India giving it the competitive advantage."

Most of the smaller diamonds are polished in India which employs 93% of the world's diamond polishers. They work mainly by hand, using traditional methods unchanged for centuries.

"That way," says Bond, "it takes three hours to cut a one-carat stone. The human eye and brain get tired and mistakes are made.

"Our machines in India can do it in about six minutes. And each machine processes about 7 600 carats/month. The new technology fixes the position of each stone's maximum diameter and maintains optimum quality. They're then cut by a laser beam." Bond's plan is to establish factories in SA's areas of high unemployment and use soft loans from government to create an army of self-employed polishers.

Last month he made a detailed presentation to the Parliamentary Minerals & Energy Affairs Committee, with the support of Victor Sibiya, chief executive officer of the SA Diamond Board.

Bond has established a company, True South Natural, with three black partners, to launch his diamond project. He's seeking R5m from independent partners to build the first facility and is talking to Alexcor, the State-owned diamond mine, as a source for rough diamonds.

He hopes De Beers will come on board. "It would be in everybody's interest, De Beers is a South African company," he says.

Would De Beers support a massive diamond polishing industry in SA? "To think the opposite would be ludicrous," says a De Beers spokesman. "There's nothing to stop it happening. It's up to the entrepreneurs to get on and do it."

Would De Beers make its rough diamonds available? "It should make no difference at all," says the spokesman. "They would buy the diamonds they can cut profitably, that's what we want to see. But we want to see them cutting the diamonds; we don't want to see them exporting rough diamonds.

"Bond's laser machine goes back a few years and it's progressed nicely. It wasn't a goer in the beginning, but it's come along very well."

Jack Lundin

COMMENT & ANALYSIS

'Offsets' is name of this bidding game

Extracting development promises from potential investors is an important new part of SA's industrial strategy, writes assistant editor **Bernard Simon**

ROLLS-ROYCE, the UK industrial group, readily acknowledges its aircraft engines are similar to the products of its two US rivals, General Electric and Pratt & Whitney. Nevertheless, Rolls-Royce hopes that when South African Airways gets round to picking an engine for its new Boeing 777s, the UK company will clinch the deal thanks to a proposal to build an aero engine components factory in the eastern Cape.

The Rolls-Royce venture is one of dozens of projects on the drawing boards that stem from an important new plank in Pretoria's industrial strategy, known as "offset" or "industrial participation".

The policy aims to use government and parastatal contracts as a lever to extract a variety of economic development benefits from potential suppliers. These benefits typically include new investments in SA, technology transfer, job creation and training, and black empowerment.

Offset has its origins in defence procurement, where orders are typically large with a high import component. As Fred Bell, former Armscor CE, put it at a recent workshop sponsored by the department of trade and industry (DTI): "Expenditure on imported armaments is probably the most unproductive investment a country can make — unless it is balanced by well-structured offset benefits."

The UK defence ministry has squeezed 19 industrial projects with benefits estimated at £4,3bn out of defence contractors.

According to Vassie Ponsamy, DTI's director of industrial participation, offsets have become the second most important factor — after technical capability — in assessing bids for defence contracts.

They are now also an integral part of big civilian contracts. Under guidelines that took effect in September 1996, all government and parastatal contracts with an import content exceeding $10m must include an industrial participation component. The value of the offsets must total at least 30% of a bid's imported content (50% in the case of defence contracts).

The industrial participation portion of a bid is judged according to "credits" awarded for each type of benefit. For instance, the number of credits for job creation equals the estimated value of salaries and wages. New investments, research and development, and links with previously disadvantaged individuals (either as shareholders or contractors) earn double credits. Bidders must fulfil their obligations within seven years, and must put up a performance guarantee equal to 5% of the offset component. And once the contract is awarded, the supplier must file bi-annual progress reports.

The offset programme's profile is likely to rise in coming months as suppliers from nine countries vie for contracts to modernise SA's armed forces. For instance, Dasa, the German aerospace group, has floated the idea of building a facility to convert Airbus passenger aircraft into freighters.

The department has so far signed industrial participation contracts with seven companies:

- Sweden's Ericsson, for a Telkom contract for microwave equipment;
- Alcatel of France, for digital enhanced cordless telephones (Dect) supplied to Telkom;
- US-based Lucent Technologies, for a similar Dect deal;
- Thomson CSF, the French electronics group, for radar equipment supplied to Air Traffic and Navigational Services;
- Dimension Data, for a call centre sold to Telkom;
- General Electric's proposal, with benefits valued at R2bn, will serve as a framework for a bid yet to be disclosed; and
- Rolls-Royce's engine bid.

According to Ponsamy, "we are not looking to lever money out of Rolls-Royce or General Electric or IBM to build a sports stadium or houses. We are interested in these firms because they are the world's best engineers or information technology companies".

Alcatel has promised benefits estimated at R650m as part of its bid for the Dect contract. Its offset package includes local manufacture of radio terminal units and exchange interface cards. It expects to create 537 jobs, more than half of them with outside suppliers. One-fifth of its SA joint venture has been sold to Rethabile, a black-controlled group.

Marc Cathelineau, CE of Thomson Compensation Internationale, a division of Thomson CSF, says only Scandinavian countries match the transparency of SA's industrial participation scheme.

However, others point to flaws in offset programmes in general, and SA's in particular. The fact that the policy is based on promises of future benefits that are often difficult to quantify may encourage rival bidders to inflate the value of their offset proposals during the tendering process.

More seriously, there is a risk that, having won a contract, a supplier will lose enthusiasm for the offset component. Any number of excuses, from a changed economic climate to unexpected cost increases, can be used to delay or shelve promised projects.

"It is a trust thing," says Ponsamy. "You are really playing with your reputation."

The $10m threshold in SA's programme is criticised by some as far too low. It means, for instance, that a firm seeking to sell an executive jet to government would have to come up with an offset proposal. One consultant predicts the low threshold will discourage some prospective suppliers with excellent products from bidding for public sector contracts.

Rolls-Royce's proposal illustrates the advantages and risks of industrial offset. The UK group has done everything possible to make its eastern Cape project as appealing as possible to SAA and the DTI. Black empowerment groups would have a 70% stake and black managers would take over operations within 2-3 years.

The factory, employing 200 people in a needy part of the country, would be Rolls-Royce's sole source for the components it produces for at least 15 years.

However, Rolls-Royce's commitments fall short of a guarantee to buy the factory's entire output.

The UK group's financial contribution would consist of providing R20m of reconditioned machinery. The project depends on financing from commercial banks and the Industrial Development Corporation for the black partners, led by the Eastern Cape Black Empowerment Consortium.

It depends also on SAA's choice of an engine supplier. If Rolls-Royce does not win the contract, the eastern Cape will almost certainly not get its factory.

The bottom line is that politics can play as big a role as economics when government contracts are linked to offset programmes.

BD 28/11/97 (180)

DTI industrial participation director Vassie Ponsamy says offsets are a crucial factor in assessing contracts

IDC changes tack on R40bn five-year plan

ST(BT) 20/11/97 (180)

The IDC is shifting its emphasis to SMEs after government's review of the body's mandate, writes SVEN LUNSCHE

THE state-owned Industrial Development Corporation (IDC) announced on Friday a R40-billion funding programme for the next five years, leading SA's industrial expansion into the new century.

However, the programme is tainted with a lot more caution and is only set at the same level as the IDC's previous five-year plan, just completed.

Over the five years to June 1997 IDC funding totalled R21.4-billion which leveraged total investments of R44-billion and generated 61 000 new jobs.

The next five years are unlikely to see an acceleration in funding — a reflection as much of the weak markets for both mineral and agricultural-based commodities, as well as the IDC's new focus on small- and medium-sized businesses.

IDC chief executive Khaya Ngqula also ruled out the group's privatisation during that five year period. "We are far too busy to consider a change of status," he said.

KHAYA NGQULA

Releasing its 1997 annual report the IDC reported that it approved only one of four scheduled industrial projects during its 1996/97 financial year — an R850-million steel processing project at Saldanha in a joint venture with Duferco of Switzerland. Since year-end the IDC has also announced the cancellation of a proposed R1.3-billion fertiliser project in Richards Bay.

While most of its industrial projects yielded reasonable returns the IDC last year suffered a R92-million loss on its 33.3% stake in Columbus Stainless Steel, a joint R2.7-billion project with Samancor and Highveld.

On the other hand, support for small- and medium-sized enterprises rose from R426-million to R538-million and export financing surged from R79-million to R641-million. Total funding for 1996/97 fell to R3.11-billion from R3.62-billion previously. The number of companies backed rose to 384 (1996: 330) — the bulk were small business with an asset base of less than R10-million.

The IDC says its funding generated 11 157 jobs (14 962 jobs) and additional foreign earnings of R3.55-billion (R2.33-billion) last year.

The shift in emphasis towards SMEs is the result of the government's review of the IDC mandate. In particular, says Ngqula, it has been tasked to stimulate entrepreneurial activity with an emphasis on black empowerment. "We cannot remain an island of prosperity in a sea of poverty," he says.

At present the IDC is involved in or investigating industrial mega-projects with a total value of $6-billion and agricultural deals valued at R1.2-billion.

The list of projects is headed by the $1.3-billion Mozambique Aluminium Smelter and the R2.7-billion Eastern Cape zinc smelter, both of which are joint ventures with Billiton. A $1.6-billion direct reduced iron and steel plant near Maputo is also planned.

The IDC's report mentions a number of other major projects likely to get the nod in the current financial year: the R4.1-billion Palmag project near Palabora, on confirmation of a viability study; a R600-million Eastern Cape pine plantation, a venture with Anglo American and Mondi; and an R850-million glycol plant in KwaZulu-Natal.

The IDC says the glycol project will use sugar to develop glycol, a raw material for polyester fibre, toothpaste and other consumer items. The project could employ 10 000 people and generate sales of R450-million a year.

However, the report signals a further escalation of the cost of the Saldanha steel mill by R300-million to R7.1-billion as a result of the weaker rand.

The income statement for 1996/97 shows an increase in turnover from R2.25-billion to R2.55-billion and a rise in net income to R725-million (R535-million). The retained income at the end of the financial year was R3.05-billion (R2.8-billion) while total net assets stood at R14.8-billion (R13.46-billion).

The group raised a record R1.36-billion on offshore markets last year.

ANALYSIS

Changed people practices the only way for SA economy

Much of SA business needs to rethink its approach in order to achieve global competitiveness, write Mike Roussos and Basil van Loggerenberg

"INNOVATE or die" needs to become the watchword throughout the SA economy.

Global competition — and an appalling productivity record — are rapidly forcing our local companies to find new ways of competing. From gold mining to motor vehicle manufacture to clothing, we must either find ways to rapidly reorganise production (and marketing/sales) processes, or we will face the prospect of watching entire industries disappear.

Whether our concern is for dwindling profits and vanishing markets, or rapidly increasing unemployment, the root of the problem is the same. We need to restructure industries and production processes to compete with our global rivals.

Despite worldwide acclaim for our achievements in building a "rainbow nation", the ultimate measure of SA's success has yet to be faced. The world may applaud our political miracle, but only an accompanying economic miracle will enable us to take our place as a true equal within the international community of nations.

Before we can achieve this, we need to overcome the legacies of our past.

Apartheid has left us with many divisions that cripple our attempts to compete. How much chance do we have of succeeding when our team members are fighting among themselves? This is not to suggest that we should ignore the past to concentrate on these new challenges — only that we had better find a way of uniting to break through the barriers to the economic miracle we all want to achieve.

This "economic miracle" requires a number of foundation stones. First, we need to agree on what the performance problems are that prevent us from being able to compete effectively within the world arena.

Second, we need to understand the causes underlying this poor performance to know what to change. Third, we need to find ways of measuring our performance within these identified key areas, so we know how we are doing on the way.

Finally, we need to do something about these problem areas — in other words, institute effective action programmes to bring about changes.

Simple, is it not? Unfortunately not. Let us look at some of the disagreements on how to proceed.

Most of our business leaders focus their attention on the logical "scorecard" that underpins every business — the financial accounts. We can see how we are doing from month to month (even day to day) by keeping a close eye on the bottom line. When we see that things are not going too well, we just "kick butt" to fix the problem.

But what is the problem? We can see that we are not achieving budget on profits. When we look further we can see that this appears to be because we are not meeting budget on production levels and this seems to be pushing our costs up. On the other hand, we have also sold more than we anticipated in one region and this is increasing the pressure on the production line.

We also had a blow-up between the main assembly line workers and the foreman. This is being discussed in our monthly worker-management meetings. We also had a price increase for one of the main inputs into our product, which we also need to take into account.

Which problem is the real one? Or are they all it? How do we separate effect from cause? How do we decide which changes will give the most leverage? What about the things which may not fall into the category of "obvious problem", such as the new bonus scheme we just introduced, the decision made to cancel future training courses in the engineering department as they are spending too much on training, the new manager we hired to run our quality programme or the new maintenance schedule we introduced three months ago to improve machine up-time?

Obviously we need to rely on employees to run things and to assist in determining the key problem areas. We hired them because of their experience, so let us just tell them to get on with it and fix the problem. How do you think most of them will proceed? Bear in mind that most managers are highly pressured, and need to make decisions quickly. Most will adopt the following approach: "I did this last time and it made a difference, so let's do it again. Any other suggestions? No? OK, let's get on with it."

Many readers will be thinking; "Hold it. Unfair! Strawman argument!" Many businesses have key performance areas they have identified as the critical areas to be controlled if performance is to be optimised, profits enhanced, costs controlled, and so on."

This is true in many cases. The point I am trying to make is that unravelling what has an impact on our day-to-day operations is extremely complex. What tools are available to assist us in doing this?

Let us focus on the financials first. Accurate systems enabling us to track financial performance at an appropriate level are essential. We need to be able to unpack the contributions being made by various types of resources. Are they improving productivity or not? Some may be helping and others hindering, and often the two groups cancel each other out.

Tools do exist to enable us to decide what costs we want to focus on — and for how small a unit within our organisations. At that point we can use them to track the individual contribution of each resource to increasing or decreasing productivity.

What does this analysis tell us? It gives us a detailed insight into what is happening with each input into our production (or service/marketing) process. At this point we have a good picture of the effect of each of these inputs on our productivity. However, this is only the first step. Knowing that something is decreasing our productivity is not the same as being able to do anything about it.

Our analysis of these productivity changes — and their effect on our financial position — should lead us to ask:

- How do we sustain the productivity gains made?
- How do we reverse/retrieve the productivity losses?

This is the point at which we need to acknowledge that financial analysis can take us only part of the way. The way our business is managed, the way our people interact with each other and with technology to produce outputs, as well as the people-management systems we have in place, will all have a huge effect on our ability to produce the goods. These are the so-called "soft issues" and it is here that we need to look for the causes of productivity fluctuations. It is these people practices that determine productivity fluctuations.

Due to recent breakthroughs in the theory of productivity monitoring, we can analyse the causes of productivity change (measured in rands and cents) to understand which people practices have a strong positive impact on productivity and which have a weak positive impact or no impact at all. We can also see which practices have a strong (or weak) negative effect on productivity.

The new-generation financial measures described above are the modern scorecard. If we want to effectively change our performance for the long term, changes or modifications of our people practices are the only way. The tools to carry out this two-part programme do exist — but most businesses seem cor tent to do without them.

This is definitely not the cas for some of the world's larges and best-managed companies.

The US government institu ed the Baldrige awards to tr and galvanise US companies ir to publicly competing for recog nition of their efforts to improv their global competitivenes: This high-profile event — wit the US president personall handing over the awards — ha been extremely effective in f cusing US business effort. (Past winners have far outpe formed the S&P500 index).

We could do with a simile process in SA — guided by som of the new-generation tools f productivity enhancement.

We need to devote some er ergy to the design of an S. "President's award" whic could aim to entice a wide rang of SA businesses.

Striving to do this would b part of the process of achievin global-league competitivenes through improved productivit and quality.

This award could simultan ously address the issue of em powering the historically disa vantaged as part of the proce of optimally utilising the rang of resources in our society.

Roussos and Van Loggerer berg are productivity consu tants in the private sector.

Prima Toy and Leisure Group Limited

SA not alone in quest for competitiveness

BD 11/12/97 (180)

Lucia Mutikani

SA COMPANIES had to get to grips with implementing performance management systems if they were not to fall further behind in the race for global markets, FSA-Contact MD Olof van Schalkwijk said this week.

Van Schalkwijk's human resources consultancy recently conducted a survey involving 80 businesses across the economic spectrum about the organisational challenges facing them as the new millennium approaches.

He said SA was not alone in its quest to become globally competitive.

"The rush is on by businesses throughout the world to boost their competitiveness."

"Local businesses ranked the need to become a more effective global competitor among their top eight organisational challenges for the future.

"This is in line with international research which shows that organisational change has become a permanent feature in the business world responding to the pressures of international competition."

A survey of more than 1 800 businesses in Canada, France, Germany, Japan the US and Britain found that all had undergone some kind of organisational change in the past two years, including downsizing and reorganisation.

Two-thirds of all respondents believed that their current restructuring activities would continue at the same rate or increase into the 21st century.

The survey was carried out by FSA-Contact's international affiliate Watson Wyatt Worldwide.

Van Schalkwijk said SA companies had adopted numerous strategies to enhance their competitiveness including restructuring, reducing their staff complement and installing new equipment with the aim of improving productivity and profitability.

"It is clear that business people around the world believe they can flourish only in an environment conducive to competitiveness, and that implies limited government regulation," he said.

Van Schalkwijk said another factor harming productivity in SA as well as overseas was the shortage of qualified employees.

"Local executives, like their overseas counterparts, have recognised that the best way to overcome the problems of low productivity is to employ people with the right competencies for the job, develop their abilities and then reward them appropriately," he said.

Van Schalkwijk said the FSA-Contact survey had found that most SA companies were concerned about their ability to measure and reward performance fairly, and many experience problems implementing performance management systems effectively.

"SA companies will have to get to grips with these issues if they are not to fall even further behind in the race for global markets," he said.

MANUFACTURING – GENERAL

1998

Major shakeup in trade and industry launched

BD 8|1|98 (180)

John Dludlu

A MAJOR shakeup, including the first appointment of blacks in top management positions, has been launched at the trade and industry department.

Key components of the restructuring plan include the upgrading of trade relations with Africa, and foreign trade relations divisions, to chief directorates under Mfundo Nkuhlu and Bahle Sibisi respectively. The two headed directorates previously.

Sibisi takes over some of Faizel Ismail's responsibilities. Ismail, one of SA's trade negotiators, would become a chief director for exports and investment promotion, a position he had been occupying on a caretaker basis, department spokesman Themba Rubushe said yesterday.

The appointments — which increase the number of chief directorates to eight — have been seen as the first sign of the department's commitment to affirmative action.

The chief director rank is the third most senior professional job in SA's public service after a director-general and a deputy.

However, Rubushe poured cold water on talk that the small business promotion directorate would also be upgraded to a chief directorate. There had been calls from the sector's lobbyists that small business, another flagship of the department's policy, should have a dedicated minister.

A compromise, sources said, would have been to upgrade the directorate, now part of chief director Alistair Ruiters's overloaded portfolio, to a chief directorate.

Rubushe said the restructuring plan, which would also trigger a recruitment drive to beef up the new chief directorates, was in line with government's policy of strengthening its focus on African trade relations.

Trade relations with Africa, which have been under Nkuhlu's direction, form an important part of SA's trade strategy. This is, in part, due to the rising volume and the profile of SA's exports to the continent.

Unlike other trading partners, Africa buys mainly SA's high value-added goods, a factor that has created thousands of SA jobs. "Every African industrialist you meet will tell you that we (SA) are not paying enough attention to Africa. We have just scratched the surface," Rubushe said of the continent's trade potential.

There were no plans yet to fill the one vacant deputy director-general's post. The second position was scrapped after its incumbent took a voluntary severance package.

"The director-general (Zavareh Rustomjee) has, for now, settled for the flatter structure (without a deputy)," Rubushe said, pointing out, though, that the situation might be reviewed should the work load increase.

The department, which will now have four nonwhite chief directors, has been accused of ignoring calls for transformation and black advancement as well as being run by "cabals".

Rubushe said that although progress had been made on affirmative action, trade and industry had not matched other state departments as it was a technical and traditionally white field. "We are also competing with industry (in recruitment needs)," he said.

Nkuhlu and Sibisi's promotions were inspired mainly by merit. "They have developed themselves (through their work) into chief directors," Rubushe said.

SA 'seventh-most' competitive in Africa

BD 2/2/98 (180)

Jim Jones

DAVOS — SA has been ranked the seventh most competitive country among 23 African nations surveyed by the World Economic Forum and Harvard University, to the surprise and even consternation of some SA delegates at the forum's annual meeting in the Swiss ski resort of Davos.

And although SA leads in many of the categories surveyed, its businessmen are relatively the least optimistic.

The 1998 Africa competitiveness report parallels the forum's annual global competitiveness report. It represents a combination of hard data and the opinions and perceptions of the continent's CEOs.

Leading the competitiveness stakes is Mauritius followed, in order, by Tunisia, Botswana, Namibia, Morocco, Egypt and SA.

According to Harvard's Professor Jeffrey Sachs, who prepared the report, CEOs from countries such as Tunisia, Botswana and Namibia expressed the view that things were so good in their countries that they could not get much better.

South Africans expressed "tremendous concern over crime and the instability associated with the transition to democratic rule". As far as personal security and organised and petty crime were concerned, SA ranked bottom.

Sachs said optimism was conditional on good government and good leadership in Africa's reforming economies. Openness to trade was where governments had to start if their goal was to promote fast growth.

Responding to Sachs's findings on security and crime, Deputy President Thabo Mbeki told a business audience in Davos that the crime rate was, in fact, declining and quoted an article in The Star in support of his contention.

Mbeki's view contrasted with Sachs's report which stated: "Although rates of violent crime have slowed slightly, by any measurements SA is still much more crime-ridden than it was in 1990."

Asked by Mercury Asset Management's Julian Baring why he gave one view on the economy and investment climate to business audiences and another to domestic voters, Mbeki denied this was the case. Press reports, he said, gave incorrect impressions.

Where SA scored well in the competitiveness rating was in its infrastructure, telecommunications, financial services, commercial law and availability of capital. It did not rank particularly highly in some human development issues such as secondary and primary education and availability of adequately skilled employees.

Sachs expressed concern that although wealth disparities were narrowing between black and white South Africans in general, a consequence of SA's paucity of employment was resulting in the gap between rich and poor blacks widening dramatically.

The country's competitiveness was enhanced by its comparatively open economy. But, Sachs said, growth in Southern African Development Community countries depended on further trade liberalisation.

There was much evidence that foreign direct investment flows had shifted to SA from countries favoured when SA laboured under apartheid. Even so, in 1996, with a democratically elected government, SA attracted significantly less direct investment than Nigeria, Egypt, Tunisia and Morocco.

Mbeki confident: Page 10

Manufacturers gloomy this year

Sowetan 6/2/98 (180)

Foreigners show more confidence in SA economy than locals, survey finds

By Shadrack Mashalaba

SOUTH Africa is experiencing a deterioration in confidence in the manufacturing industry, the South African Chamber of Business (Sacob) said yesterday.

According to its latest manufacturing confidence index, released in Johannesburg, only a few respondents were positive about sales and production over the next 12 months.

Sacob economist Penny Hawkins said the sluggish economy and an expected tough business environment were also likely to affect the sector.

The deterioration in the sector would also be as a result of manufacturers' vulnerability to market volatility.

In Gauteng, only 46 percent of respondents expected higher sales in the 12 months ahead. "There is still an element of ambivalence as most manufacturers do not expect the situation to improve over the next 12 months," he said.

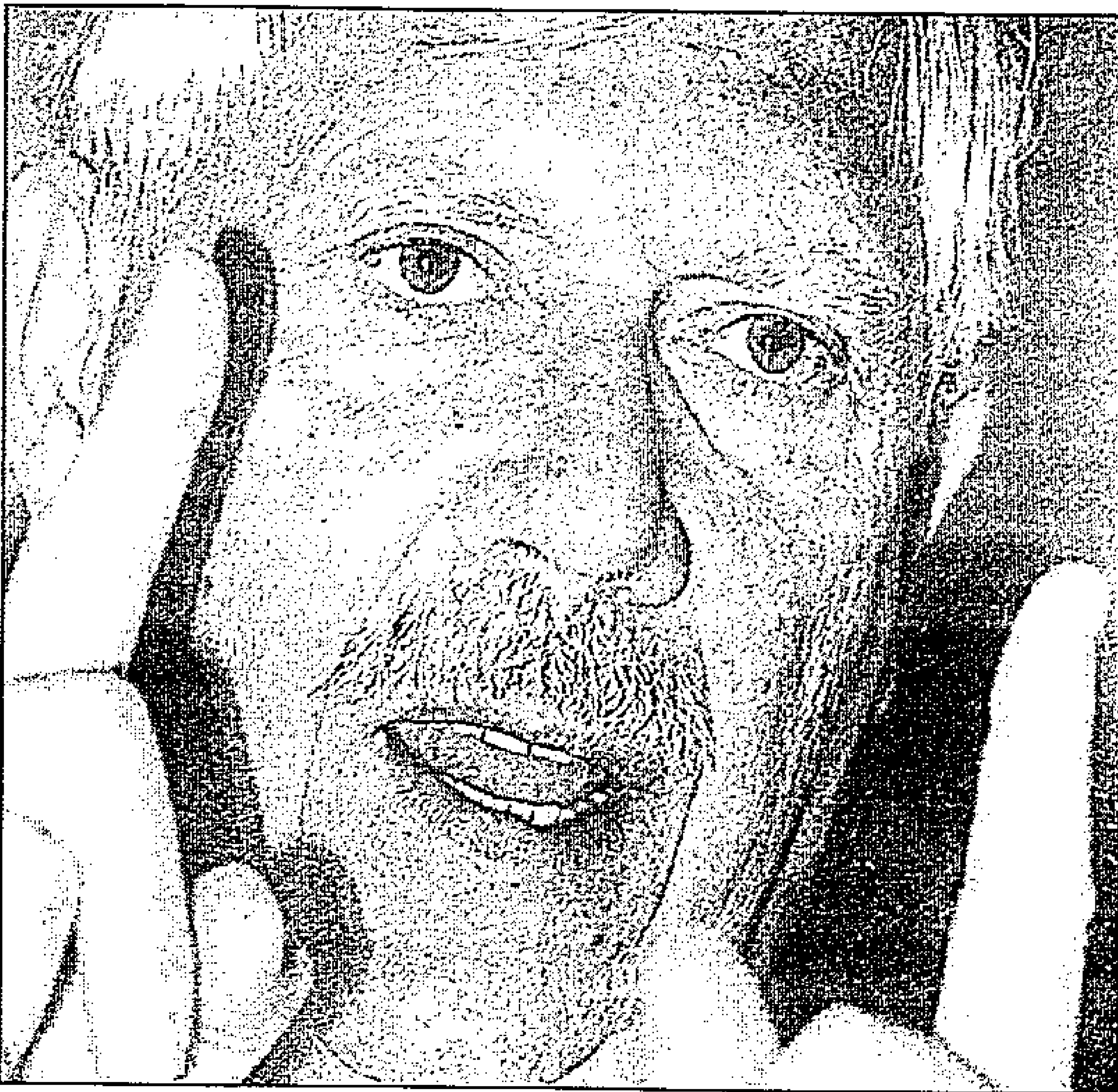
Resilience of the rand

The Western Cape was relatively optimistic in its outlook. The expectations in Mpumalanga, Northern Province and North West were unchanged from last year, said Hawkins.

"Expectations in Eastern Cape and KwaZulu-Natal deteriorated slightly but remained positive."

Despite lower inflation and the resilience of the rand in the face of Asian market turmoil, South Africa's business confidence index remained unchanged from last November's 95,5 percent when there was a marginal decline.

Although it was still too early to estimate the full impact of the Asian fallout on SA's global trading account, Sacob director of economic policy Dr Ben van Rensburg said the chamber was sticking "for the moment" to its forecast of a growth rate of 2,3 percent for the year.



Ben van Rensburg

The chamber described the business mood as "brittle".

Van Rensburg said economic indicators were not yet clear as they were pointing to both positive and negative factors prevailing in the economy. He said lack of financial prudence by the local and provincial governments was a matter that needed attention.

He added that foreigners were showing more confidence in the economy than their local partners.

"The Government's Growth, Employment and Redistribution Strategy is still intact. We are not particularly obsessed with figures but we nonetheless feel the Government needs to regroup and refocus on Gear priorities," he said.

The El Nino effect had not been as devastating as originally expected, bringing a sigh of relief to the economy, Sacob said.

Van Rensburg said the job market still remained grim, with companies and the economy undergoing massive restructuring.

ANALYSIS

Test of government's industrial policy will be in jobs created

BD 11/2/98

(180)

Trade and industry reporter **John Dludlu** looks at the direction of SA's industrial policy

THERE is a tendency in some quarters to call for a "clear and coherent" industrial policy for the country when manufacturing-sector jobs are being lost. This thinking, which is based on the hope that an industrial policy will solve the problem of unemployment growth, often presumes that government does not know what to do to help the industrial sector survive in the rapidly changing global environment.

This view is likely to irritate those higher up in the trade and industry department whose job is to plan survival strategies for SA's exporters and industrialists.

Alan Hirsch, chief director of industrial and technology strategy at the department, is aware of this tendency. Rather than entertain its argument, he prefers to talk about an "industrial strategy".

He believes government should explain this plan to stakeholders, something that will be done in a comprehensive document in due course.

When the new management took over the department in 1994, it had a number of concerns to address.

Creating a framework for tariff reform amid General Agreement on Tariffs and Trade-inspired trade liberalisation was the main worry. Despite its imperfections, this administration should be credited with having scaled back the high tariff walls.

A linked concern was putting in place support measures to help manufacturers work in the changed global environment.

These measures marked a break from "demand-side" measures — most of which fell foul of the new, multilateral trading regime anyway — to supply-side support.

Many of these measures applied across the board, including cheap loan finance for firms facing steep tariff reduction over the 1995-1999 period. However, there were sector-specific support programmes as well, such as the motor industry development plan.

Sadly, Hirsch feels the general schemes, such as tax holidays to buoy new industrial investments, are not being adequately used by firms. "Government has not been effective in marketing them (support measures)," he said.

To tackle this problem the department is setting up "help desks" for small businesses and exporters.

However, the industry-specific strategies have been used much more. Substantial job losses in the textile sector were averted due to significant, new investments made in response to the incentives provided by the support schemes.

The department's as yet unpublished annual report for 1996/97 says 77 000 jobs have been created through programmes supported by the department.

"This is a conservative estimate," says Hirsch.

Only last week, the Industrial Development Corporation (IDC) announced it would be ending its subsidised industrial finance scheme because applications from industries undergoing tariff restructuring were tapering off.

Apart from the targeted IDC finance, government has resisted suggestions that it manipulate monetary policy as an industrial policy tool, as has been done in other parts of the world.

The focus of the industrial strategy this year will be to strengthen sectoral plans, Hirsch says.

This will help address the problem of marketing the schemes to targeted sectors.

Hirsch says the role of the department will be to develop and implement strategies that support domestic initiative, innovation, productivity and partnerships through well-targeted programmes.

This will be in line with trade and industry director-general Zavareh Rustomjee's vision of shifting the department's role from a regulatory to a policy one.

Among other things, the department is aiming to reduce its active participation in "cluster studies" and support "private sector-led" initiatives. The clusters, considered by some as massive, industrial psychotherapy sessions, provide firms and unions with an opportunity to search jointly for solutions to their industries.

Business representatives have interpreted the department's shift in focus, which coincided with last year's departure of Tony Herr, a chief director in charge of industrial promotion, as signalling either government's lack of interest in continuing with the cluster process or as a reflection of deeper ideological differences in the department on industrial strategy.

HIRSCH

Neither theory is true, Hirsch says.

Government has come too far in the cluster process to abandon it now. When Rustomjee started the cluster process, there was little interest as firms were more concerned with getting subsidies and labour was suspicious.

Instead of managing the clusters, the department is looking at possibly using some of its money to support initiatives by labour and business on a few clusters.

A cluster on tourism, which government believes could create more than 1-million jobs, will be among these few.

A harsh test of government's policy, it seems, will not so much be the debate over whether it has an industrial policy or not, but whether its plan creates and saves manufacturing jobs.

The mess we inherited is no cliché, says Eastern Cape's former director-general

Thozamile Botha, former Eastern Cape director-general, claims the province's problems were beyond his control, writes **Vuyo Mvoko**

BD 11/2/98

NOW busy finding his feet as MD of black economic empowerment company Vula Investments, Thozamile Botha — who left the post of director-general of the beleaguered Eastern Cape provincial government late last year — believes that his former employer can change premiers, MECs and directors-general, but that five years down the line the province will still have the same problems.

Politically respected Botha did not see eye to eye with premier Makhenkesi Stofile on how the province's mountain of problems could be resolved.

Although Botha wanted to stay on, the two eventually agreed to part ways "amicably" in the best interests of the province.

Neither Botha nor Stofile are prepared to discuss the issue, and no "suitable" replacement for Botha has yet been found. The post was readvertised earlier this month.

In an interview Botha chronicled the travails of his former job, saying its many weaknesses — financial, political, institutional, structural and public relations-related — were beyond his control. He insisted his somewhat sceptical view of the province was not a litany of complaints from a failed chief administrator eager to apportion blame now that he wanted the respect of colleagues in the private sector.

"The weeding out of the Eastern Cape's inherited problems had to happen during the life span of this government," Botha said. Both the government and the people spoke of the problems in the province as if they were the responsibility of the current administration.

BOTHA

Stalking the Eastern Cape, Botha said, was the fact that not only did the province have to pull together two homelands and SA, it also had to deal with Port Elizabeth, the Border, plus a large component of Transkei that had long operated as different regions.

"These regional tendencies are quite entrenched, not just politically, but economically as well. They manifest themselves sometimes in infighting over where investments should go."

When the government took over in May 1994, nobody dared to carry out an audit of what was being taken over — the assets of the old administrations and how depleted those assets were, the personnel inherited and their skills levels, whether files were in order and what they contained.

One result was that the provincial government did not know how many people it employed and had been feeding at least 10 000 "ghosts" since 1994.

The province still operated two financial computer systems, one controlled by the national state expenditure department and another inherited from Transkei.

Books of the former Transkei and Ciskei were still kept open, although no proper records could be found.

The Eastern Cape "inherited more people than the establishment dictates we should have", he said, pointing out that a number of them were occupying offices, using telephones, getting paid and receiving work benefits without any work to do.

Retrenchment was not an option, he said. "Only the best civil servants, those you want to keep, your engineers and technical people, your scarce resources, run for packages," Botha said.

A moral dilemma arose when the government discovered that about 6 000 provincial employees were classified as "casual workers" by the apartheid government and were not covered by a pension scheme. "Some of them are old and willing to leave government, but they discovered they have no protection," Botha said, asking: "Can you throw a person in the street with the last pay packet?"

Botha said provincial finances had been thrown further into disarray by the discovery of a pile of files of pension and disability grant application forms dating back to 1991 that lay abandoned and unprocessed in offices in the former Transkei and Ciskei.

The province had since 1994 been forced to pay pre-1994 grants for the applicants, meaning huge back payments which had to be drawn from the current budget.

Asked whether he thought the national government had washed its hands of the province, Botha gave a politician's answer. "Solutions must be sought jointly. My preference would be that there should be no 'them' and 'us' attitude between national, provincial and local governments."

On the issue of provincial budgets, Botha said they were a "sensitive and emotional" question.

"But I want to say it cannot be that all of these provinces have no administrative capacity in the area of education, that they are irresponsible, (and hence are) overspending. It can't be correct that all welfare departments are mismanaging their affairs. They were, clearly, given less (than they needed)."

Botha defended the Eastern Cape government, saying it had done what was within its means and had some good managers.

To address the province's problems, he suggested a special fund be established to finance transformation and backlog problems. The books of the former homelands should be closed from a specific date, say mid-1994, and anything relating to the time of their existence be dealt with as a separate process.

Botha said that despite everything, he had not ruled out going back to the Eastern Cape "some day".

No competitiveness without innovation

Measuring research and development undertaken by companies is becoming increasingly meaningless without also measuring innovation. **William Blankley** and **David Kaplan** report on a new survey

(188) BD 11/2/98

INNOVATION and technological change are fundamental to economic growth. The ability of businesses to compete successfully in the market depends ever more critically on their ability to develop and adapt new products and new production processes.

In the Organisation for Economic Co-operation and Development it is now recommended that science, technology and industry policies should be formulated to maximise performance and well-being in "knowledge-based economies" — economies which are directly based on the production, distribution and use of knowledge and information.

In SA, as in many other countries, science and technology policy concerns have traditionally centred on research and development. Just as per capita gross domestic product (GDP) is taken as the measure of economic growth, so is the share of GDP devoted to research and development taken as the measure of the science and technology system.

The preoccupation with research and development is understandable — it is relatively easy to measure, and internationally uniform measures allow for comparisons between countries and over time. On this measure, as is now well-known, SA does not perform particularly well. If the results of a recent survey are a true representation of the national situation, then expenditure has dropped from 1,04% of GDP in 1991/92 to 0,75% in 1993/94. SA ranked 28th out of 43 countries in terms of expenditure on research and development in last year's World Competitiveness Report. The top 11 countries all spend more than 2% of GDP on research and development with Sweden topping the scales at 3,02%.

Expenditure on research and development reported by manufacturing firms in the innovation survey totalled R1,1bn with only 148 firms supplying research and development figures. This figure is almost double that of expenditure on research and development recorded for the manufacturing sector in the Resources for R&D 1993/94, the latest available survey in this national series of official reports.

There is strong reason to believe though that expenditure on research and development is being underestimated.

In most industrialised countries, it has long been appreciated that research and development is not a satisfactory measure of science and technology performance. First, research and development is an input. Measuring the amount of available resources devoted to research and development, in money or persons, says nothing about how efficiently these resources are being employed. Firms can spend a lot on research and development and have little to show for it at the end of the day. Second, many industries introduce new winning products and yet undertake little formal research and development. More importantly, many small companies are highly innovative, but spend comparatively little on research and development.

The central concept in SA's recent White Paper on science and technology is the national system of innovation. This gets to the heart of the issue — what we should be measuring and assessing is not just research and development, but innovation: innovation defined as the introduction of new or substantially improved products or production processes.

New products and new production processes emerge as a result of many activities within firms, including research and development, but also other activities such as trial production, training and tooling up, product design, acquisition of patents and licences and market analysis. We need to measure not just inputs into innovation but, and this is a far more difficult task, the outputs — namely the effect innovation has on the business.

The Foundation for Research Development recently modified an EU questionnaire to assess innovations in the SA manufacturing sector. The data are separated by industry sector and by company. Much of the richness of the data is at this separated, as opposed to aggregated level.

The sample of 244 innovative manufacturing firms spent nearly 5% of their turnover on innovation and 1,6% of turnover on research and development. Overall, expenditure on research and development comprised about a third of innovation expenditure and for smaller companies and some industries, such as nonmetallic mineral products and wood, paper and printing, it was much less.

Rather than being preoccupied with research and development, especially in relation to smaller businesses, policy should be concerned with increasing innovation activity outside of research and development.

In undertaking innovation SA manufacturers are overwhelmingly motivated by the desire to gain market share. More than four fifths of enterprises ranked market-related objectives, such as increasing or maintaining market share, or improving product quality or response time to market, as most significant. Other factors were of much less importance. Of particular note is that the desire to reduce costs, and this includes labour costs, is far less widespread.

Since innovation is likely to augment output, and most businesses are not motivated by the desire to reduce labour costs, successful innovation will lead to greater production and outputs, thus augmenting market share and leading to an increase in the demand for labour.

Besides, with the liberalisation of markets, innovation may be essential for the very survival of an increasing number of manufacturers. While there will be situations where fears of job losses as a consequence of innovation are borne out, generally speaking, innovation in this sector will have a positive effect on employment.

With regard to sources of information outside the firm, clients and customers were most important — 79% of firms regarded them as very significant or crucial — and they were indeed ranked more highly than in some European countries. Competitors and suppliers were of less importance, with only a third of the respondents regarding the latter as very significant or crucial. The now widely held view on the weakness of the supply chain for SA manufacturing is given credence by this result. There was no evidence that public-sector contracts had a significant effect on innovation.

Less than a quarter of all innovating businesses regarded educational and government research establishments as very significant or crucial sources of information supporting their innovation activities. There is therefore a case for policy to strengthen ties between businesses, particularly small enterprises, and the science councils and educational institutions.

SA manufacturers rank their marketing department higher than their research and development departments in generating information for innovation. This accords with the market orientation of innovation activities. Marketing and market-analysis activity provides the information and the feedback that enables the design of new products which are appropriate for the market.

Production departments and, more especially, workers, are ranked very low. Less than half of the manufacturers regard their production departments, and less than a third their workforce, as significant sources of information for innovation. This supports the widely held view that, at most manufacturers, product design for manufacture is poorly developed.

Even more importantly, manufacturers make little use of their workforce. They are weak in shopfloor-based incremental technological change.

It is widely recognised that successful innovative firms are those with participatory management styles and limited hierarchical structures. Manufacturing management needs to examine carefully the environment in which the business operates, choose schemes which can be implemented, provide appropriate incentives and foster a spirit of participation in innovation throughout the organisation. Progressive management and the bringing together all available skills at all levels are key to innovation success and indispensable to the development of learning businesses.

Overall, between 1992 and 1994, about 80% of all products produced by the manufacturers in the survey remained unchanged. Twelve percent of products were subject to minor incremental changes and 8% were significantly changed or newly introduced. Examining the proportion of old and changed products, the data reveal a somewhat, but not significant, higher level of innovation in export, as opposed to domestic, markets. This is similar to the result for some European countries.

While it is difficult to measure the rate of return on innovation expenditures, there is a positive relationship between investing in innovation and the proportion of turnover accounted for by new products. Innovation expenditure outside research and development is of particular importance.

As with European countries, economic factors constitute the main factors inhibiting innovation — especially the lack of finance.

At the enterprise level, lack of skilled personnel was the most significant focus. These findings conform to the findings of similar surveys in Europe.

A significant number of the smallest firms regarded lack of information on the market (29%) and the nonavailability of external technical advice (23%) as very significant or crucial. This indicates that policy designed to address information needs would be of particular benefit to a significant number of the smallest innovating firms.

With the rapid liberalisation of the SA economy and the normalisation of diplomatic and trade ties, it is important that we measure innovation in SA as precisely as possible and continuously.

An important finding of the innovation survey, which covered the 1994/95 financial year, was that more than 75% of respondents indicated that they intended to engage in innovation activities in the next two years. A similar proportion of the respondents also indicated that they were more innovative than three years ago.

Innovation is clearly on the increase in SA and government's efforts to stimulate economic growth, exports and employment will have an effect on innovation. But without an adequate understanding of the volume, nature and direction of innovation in the productive sectors, of the economy, it will be difficult for government and industry to know where intervention and support have been successful or unsuccessful in stimulating a more competitive industry.

Blankley is senior policy analyst at the Foundation for Research and Development and David Kaplan is associate professor at the development policy research unit of the University of Cape Town.

Innovation

The importance of lowering production costs as an objective of innovation by:

Objective	%
Raising productivity	84%
Reducing materials costs	64%
Reducing wage costs	35%
Reducing energy costs	27%

Total innovation expenditure as a % of turnover: 4,9%
Reported R&D expenditure as a % of turnover: 1,6%

Graphic: KAREN MOOLMAN Source: INNOVATION PATTERNS IN SA MANUFACTURING FIRMS

CT (BR) 5/3/98

SA ranked seventh in Africa poll

(180) (420)

STAFF REPORTER

Johannesburg — South Africa ranked last for government regulation of hiring and firing, labour regulations, unions and strikes and crime prevention in the World Economic Forum's Africa Competitiveness Report for this year, which was released here yesterday.

It also ranked last for the availability of investment protection schemes and scored poorly for monopolistic market dominance.

Last month an executive summary of the report compiled by Jeffrey Sachs, a Harvard economist, was released. It placed South Africa in seventh place in a field of 23 African countries. Mauritius, Tunisia, Botswana, Namibia, Morocco and Egypt were placed ahead of South Africa.

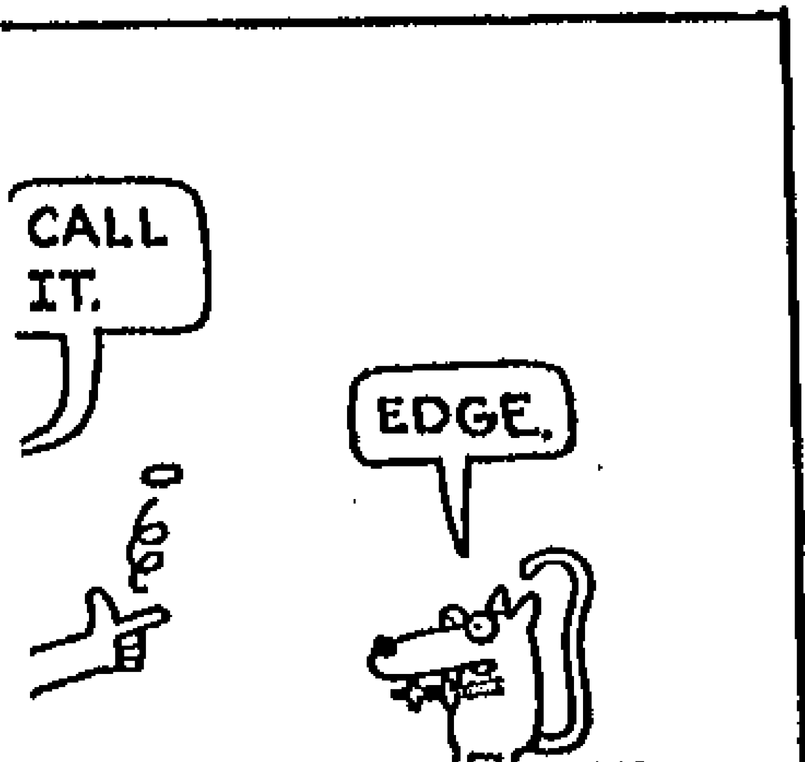
However, in a national competitiveness balance sheet, South Africa's assets outweighed its liabilities. South Africa scored highly for an open trade regime, banking and finance, education and welfare and the rule of law. Its highest scores were for infrastructure.

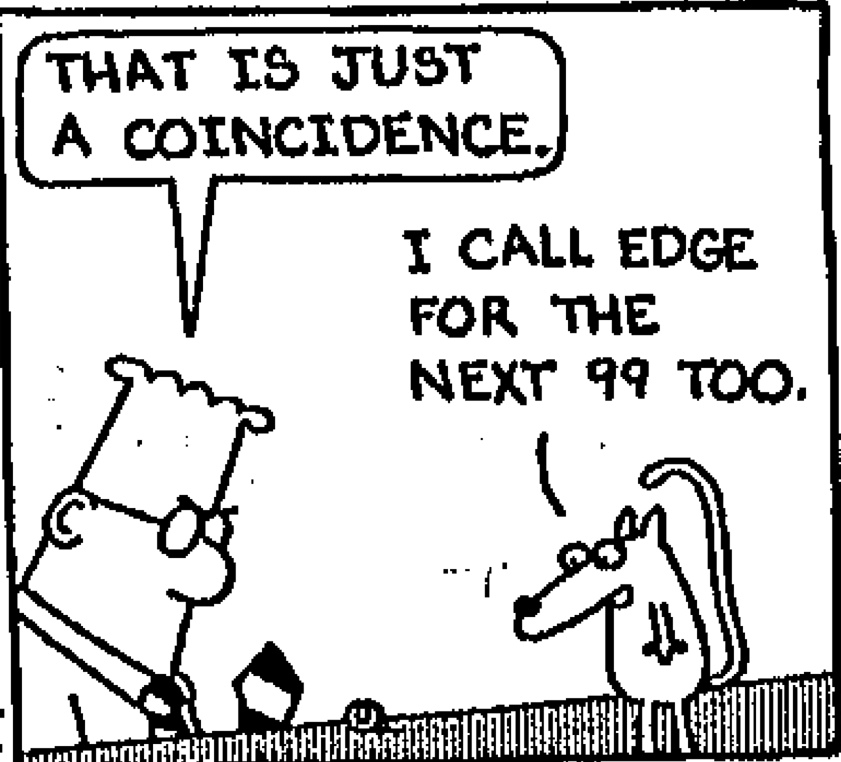
But the rest of the new law, which sets a working week of 45 hours,

Labour Minister Tito Mboweni

"It (the bill) should provide

–Reuters





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Output by industries edges up

(180) ARG 13/3/98

Johannesburg – Manufacturing increased by 0,9% in January 1998 compared with January 1997 and rose by 4,7% from December 1997 after seasonal adjustment, Central Statistical Service said.

Production for the three months up to January 1998 showed a marginal increase of 0,1% after seasonal adjustment compared with the previous three months.

Noticeably higher production figures for the three months up to January 1998 were reported by the paper and paper products, basic iron and steel products and the machinery industries.

These increases were counteracted by the negative contributions of the motor vehicle industry (-0,89 of a percentage point), the chemical products industry (-0,30) and the metal products industry (-0,34).

Total sales of manufactured products increased by 1,3% in the latest three months to January 1998. – Sapa-I-Net

ECONOMIC TRENDS

By Adrienne Roberts — Email: roberts@tml.co.za

FM 13/3/98

Africa's least (180) competitive countries

Investors' ten worst nightmares

Granted: SA's status as seventh most competitive out of 23 African countries in the World Economic Forum *Africa Competitiveness Report* is underwhelming.

But there's the consolation that things could be much, much worse. Take Angola, the least competitive country surveyed, or the runners up, Nigeria and Malawi.

Nigeria was the least open to trade, followed by Mozambique and Kenya.

Angola has the heaviest corporate tax and Vat rates, at 40% and 80%, and its government spends the most (37% of GDP), followed by Lesotho and Botswana.

Zimbabwe scored worst in terms of State interference in business, direction of government subsidies, public-sector competence, composition of government spending and the extent to which the tax system enhanced business competitiveness.

On the financial side, Zambia had the lowest rate of gross domestic investment, at 11,7% of GDP (SA: 17,5%). Malawi had the lowest gross domestic savings, at 2,1% of GDP (SA: 18%).

Zambia and Uganda scored the lowest on bank soundness and Cameroon and Ghana reflected the biggest problem with access to financing. SA came first in both cases.

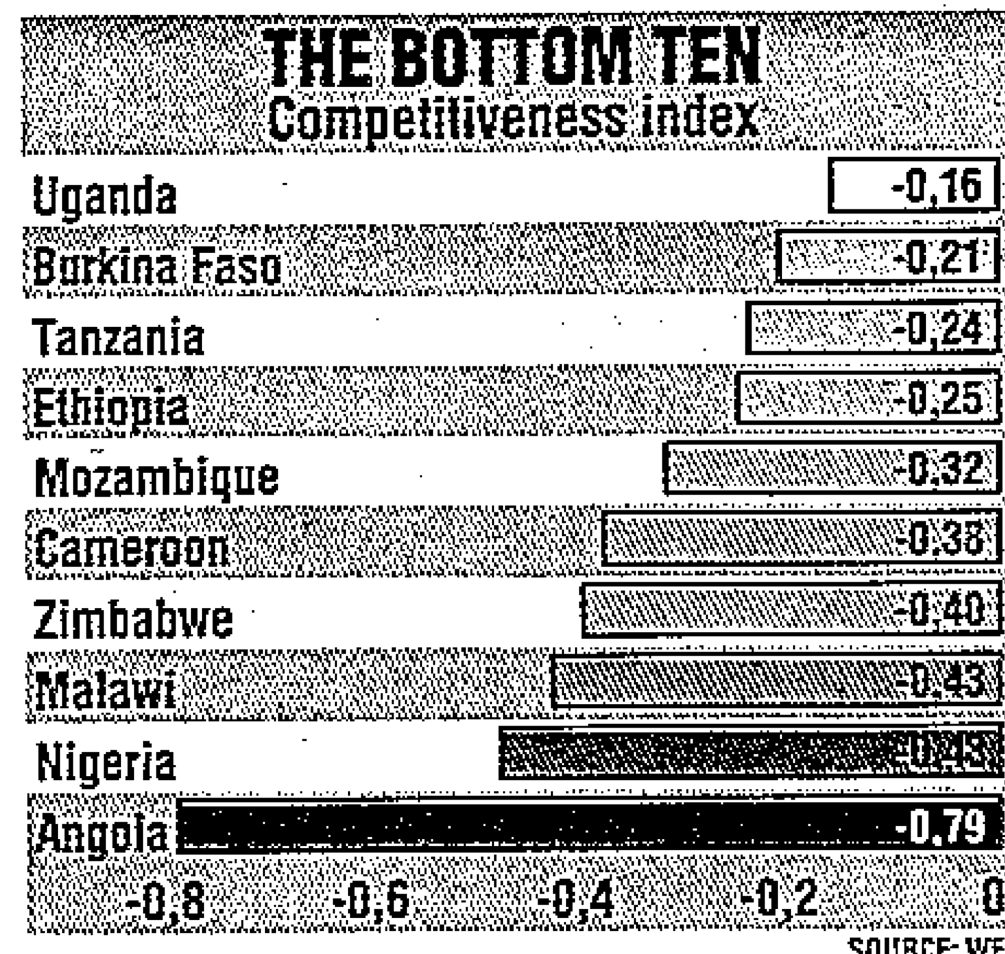
SA also reflected the fewest limitations on business activity imposed by road, port and rail infrastructure, air transport, transport costs and electricity supply. Burkina Faso and Nigeria ranked lowest.

But on the labour front, Namibia, Mozambique and SA reported the biggest shortage of educated workers. And Malawi, Zambia, Botswana, Uganda and SA scored lowest in the "work ethic" category.

SA had the least flexible hiring practices (followed by Zimbabwe) and working hours (followed by Mozambique.) SA firms (followed by Namibia) reported the highest costs from union organisation, labour unrest or strikes.

SA and Mozambique reported the heaviest costs to business from petty theft and SA and Malawi ranked last in terms of personal security. SA reported the worst problems with organised crime, well ahead of Nigeria and Mozambique.

On the bright side, Mozambique and Cameroon scored lowest on legal system criteria related to business, while SA usually made it into the top three. ■



THE BOTTOM TEN
Competitiveness index

Country	Index
Uganda	-0,16
Burkina Faso	-0,21
Tanzania	-0,24
Ethiopia	-0,25
Mozambique	-0,32
Cameroon	-0,38
Zimbabwe	-0,40
Malawi	-0,43
Nigeria	-0,48
Angola	-0,79

SOURCE: WEF

Department to fund industry project

PD 17/2/98 (188)

Patrick Wadula

DEPUTY Trade and Industry Minister Phumzile Ngcuka-Mlambo yesterday said the department of trade and industry has set aside R13m for the Workplace Challenge Project, intended to improve industrial relations and working methods.

At the launch of the project at DPI Plastics in Wadeville, she said the joint initiative between business, labour and government aimed to improve the competitive capability of companies in different industrial sectors. These companies had to compete in the global market and had to ensure high investment and employment security together with economic growth.

She said the Workplace Challenge project aimed to become involved at factory level to reach the people who were primarily responsible for adding value in the manufacturing process.

Each industrial sector would receive about R1m, depending on its size, from the department. Companies would be required to add 25% to the R1m sector grant.

Ngcuka-Mlambo said the project was not to be viewed in isolation from other department of trade and industry programmes.

Nedlac executive director Jayendra Naidoo said one of the key objectives at factory level was to encourage co-operation between management and workers so as to promote better company performance together with benefits that would be shared by all.

CT 19/3/98 (180)

TB still No 1 problem: Although the number of tuberculosis cases in Malawi has stabilised at 20 000 since 1995, almost all the beds in the country's hospitals are occupied by TB cases, a health official said yesterday. The manager of the country's National TB Control Programme, Felix Salaniponi, said the TB bed-occupancy rate in Malawi's hospitals was between 300 and 500%.

AFRICA COMPETITIVENESS REPORT

At best, it could have been worse

For businesses, stability comes ahead of democracy

Governments matter. This is the message that emerges from the World Economic Forum's *Africa Competitiveness Report 1998.*

"The things that businesses say are their most serious constraints are within the control of African governments," it says.

"The countries that have done well, by and large, are those which avoided the extreme economic and political turmoil that trapped many countries in Africa during the Seventies and Eighties."

Businesses want governments to provide stability. Democracy, however, is less important.

Businesses located in Mauritius, which tops the African competitiveness ranking, are lucky enough to have both.

The country, described by the report as "one of Africa's most impressive examples of economic turnaround," is the country most open to trade. It has the highest ratio of savings to GDP, the best telecommunications infrastructure, the longest life expectancy and the lowest infant mortality.

It is also "one of the most firmly rooted liberal democracies. Freedom of assembly and movement are assured and 300 labour unions operate. Elections are competitive, with ethnic minorities assured a voice."

But Tunisia, second in the competitiveness ranking, is described as only "nominally" a democracy. "The government party has come under increasing criticism in the West for authoritarian practices. The government justifies its stance as an effort to nip in the bud the Islamist movement that has destabilised neighbouring Algeria. However the brunt of force has fallen largely on leaders of the democratic left."

Nevertheless, Tunisia has a number of things going for it. It heads the table on civil service stability, certainty of rules and laws, personal security, legal system, health care and education.

Botswana, number three on the competitiveness ranking, offers benign stability, described as "perhaps Africa's most enduring democracy."

It is also one of the continent's wealthiest countries with an average per capita GDP of US$2 700. And it is the only African country to receive an investment grade by the Economic Intelligence Unit.

At this point in the rankings, the quality of economic and political achievements starts to decline markedly.

SA ranks seventh on the competitiveness index — behind Namibia, Morocco and Egypt — largely because of its infrastructure.

Among the other advantages, the Internet is widely available, access to finance is not a problem, banks have sound balance sheets, the legal system is rated highly and tertiary education is suited to the needs of business.

But the track record of the SA government does not inspire confidence. Though policies are sound, their implementation is "indecisive and equivocal". And government is one of the biggest spenders on the continent at nearly 21% of GDP.

Personal security is lowest (of the countries for which information is available), the costs of organised crime are high and citizens are likely to turn to physical force or illegal methods to settle disputes rather than depend on legal adjudication.

For the most part SA is seventh because the other 16 countries are a lot worse.

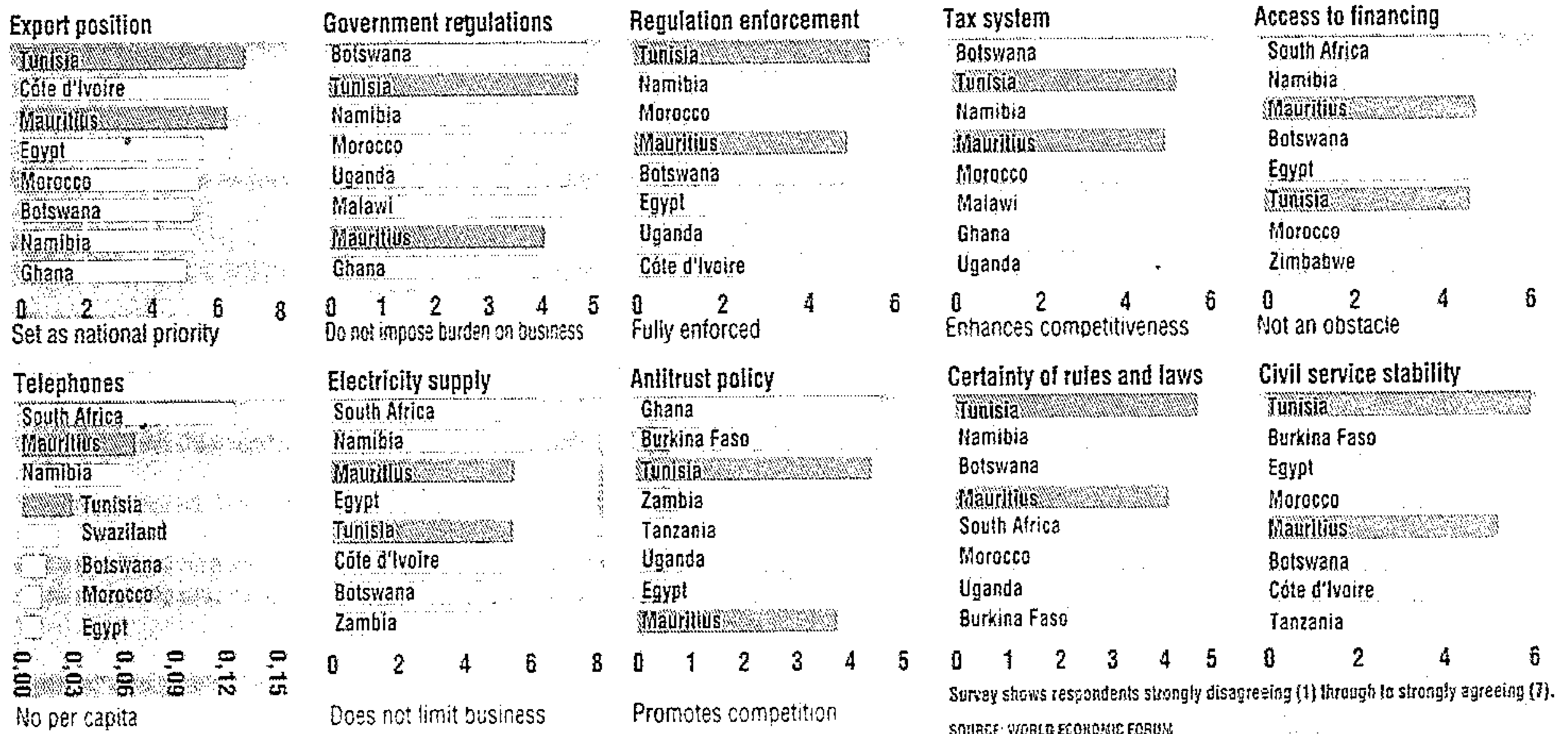
It needs to be said, though, that foreign direct investment does not seem to be greatly influenced by the stability or competitiveness of an economy.

The country that attracted most finance in 1996 was Nigeria, politically unstable and second last on the competitiveness index. Largely because of its crude petroleum industry, it drew US$1,7bn of the continent's $4,9bn.

But countries less richly endowed with natural resources have to compensate with better governance.

Ethel Hazelhurst

WHAT IT TAKES TO BE AHEAD OF THE FIELD



Survey shows respondents strongly disagreeing (1) through to strongly agreeing (7).

SOURCE: WORLD ECONOMIC FORUM

Real power is economic

Industrial revenue – Jo'burg still tops

Sowetan 20/3/98 (180)

By Abdul Milazi

Big performers in the Big Smoke include Midrand, Meadowdale

JOHANNESBURG is once again South Africa's top revenue earner in commercial and industrial properties with new areas rapidly opening in both Midrand and Meadowdale.

According to international property consultants Colliers RMS managing director Patrick Flanagan, industrial space sales in greater Johannesburg area have been consistently paced.

"Warehousing and distribution operations are stimulating much of the take-up (sales) and there is a discernible trend towards foreign companies taking over from local agents who had been distributing their products."

He said renewed confidence in the country by foreign business was a positive indicator for the domestic industrial sector.

Midrand was the best rental performer achieving a high of R25 a square metre in Corporate Park and an average of R22 a square metre.

Flanagan said other high-end locations included Strijdom Park, Kramerville, Eastgate, Aeroport, Sunnyrock and Meadowdale. "We expect the upward trend to continue throughout 1998."

He said the rates increases in the Eastern Metropolitan Substructure affected demand for office and industrial space in Wynberg, especially since the quality of business buildings there did not justify the rentals required to recoup the increases.

Marlboro in the north has shown no sign of improvement and lags behind in the rental stakes still hovering in the R5 to R7,50 a square metre bracket, along with Chamdor.

"A look at relative land values indicates that high-demand areas are experiencing increases in values, with land in Strijdom Park, Midrand and Eastgate changing hands at more than R200 a square metre. Meadowdale still represents value for money," said Flanagan.

He said the pace of buying and rental of space in Durban remained unchanged, as space shortages continued to hamper business activity in the most popular areas such as Springfield Park with little new development coming up.

Industrial space take-up slowed down in Cape Town, even in Montague Gardens, the most active industrial area there. However, office and industrial building rentals held fairly steady with minimal increases beyond contractual escalations.

The highest rental recorded in Cape Town was R18,50 a square metre while Durban notched R17 a square metre.

SOWETAN Tuesday April 7 1998

Getting competitive

(180)

A SUPPORT programme called the Technology and Human Resources for Industry Programme (Thrip), designed to improve the competitiveness of local industry, is to be launched by Trade and Industry Minister Alec Erwin in Pretoria tomorrow.

Thrip will help local industry which is facing major challenges in international markets.

The Ministry of Trade and Industry says the growing participation of South Africa in the international arena has posed new challenges for the country's firms "who must now grab the greater opportunities to compete internationally and also survive local competition".

Added to that are demands on South Africa's firms to seek innovative improvements in operating their business.

Thrip was established in 1992 with a budget of R2,3 million.

Due to the expansion of the programme's activities, the budget has since been increased to R50 million this financial year.

Sowetan 7/4/98

Erwin outlines industrial development programme

CT (MR) 16/4/98 (180) ~~(297)~~

MADELEINE WACKERNAGEL

Johannesburg — Alec Erwin, the trade and industry minister, yesterday presented to Nedlac the first consultative draft document on the government's industrial development zone (IDZ) policy, designed to boost exports and jobs.

The government hopes to fast-track the process, with legislation expected to be passed by the end of this year.

Shan Ramburuth, Nedlac's trade and industry co-ordinator, said business had raised concerns over investment distortions, while labour was worried about compromising standards. But he was confident that negotiations with the social partners and international experts on May 8 would run smoothly.

Alistair Smith, the IDZ co-ordinator at the trade and industry department, stressed that the initiative had nothing in common with traditional export processing zones (EPZs), which often emphasised cheap labour.

He said South Africa would compete on infrastructure without compromising labour standards.

In line with this policy, the zones would be located in the spatial development initiatives, targeting ports. In the long term the plan is to develop airports as IDZs.

"The old, enclave-type of EPZ has been totally discredited," Smith said. "To work, IDZs have to be fully integrated, industrially and socially.

"We aim to create a one-stop shop, incorporating local and provincial authorities, the departments of transport, finance, tourism and trade, as well as customs, Portnet and certain businesses, such as shipping, with as little red tape as possible.

"A government's role is to guide, not run things. We have to keep the fiscal contribution as low as possible, channelling funds into human resource development while encouraging public-private sector partnerships for infrastructure development. We need to crowd in investment and create value-added industries."

Smith said a human resource development strategy, incorporating training and skills transfer facilities, would be developed between the government, business and labour.

EMPOWERMENT

ET (BR) 17/4/98 (180)

R120m set aside to boost competitiveness

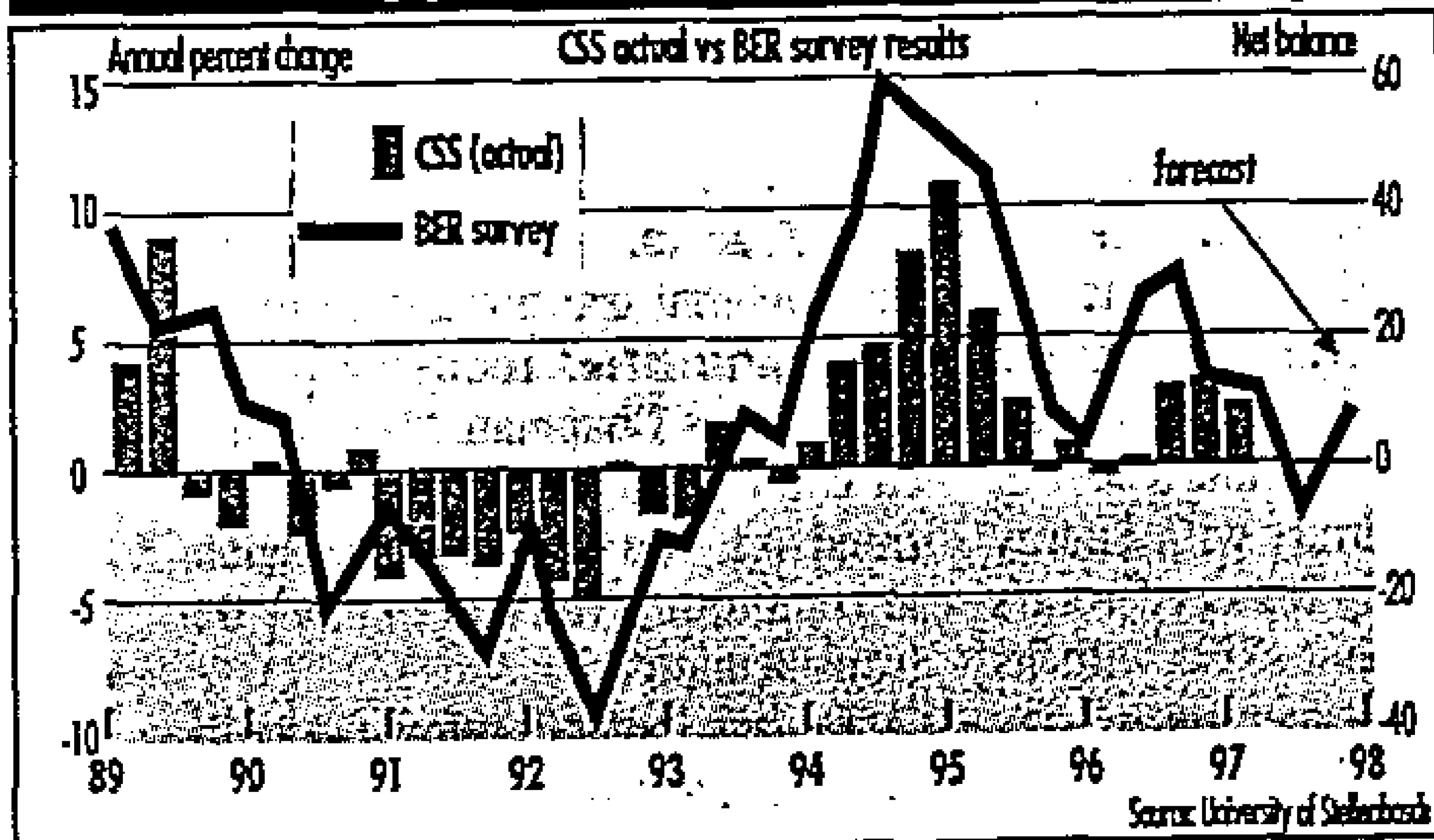
The Technology and Human Resources for Industry (Thrip), a partnership between the government, research and education institutions and industry, has earmarked R120 million to improve South Africa's competitiveness during 1998-99. Khotso Mokhele, the president of the Foundation for Research Development (FRD), said yesterday the department of trade and industry (DTI) gave Thrip R50 million and the rest of the money came from industry

Thrip was established by the FRD and the department of trade and industry in 1992 to stimulate companies' investment in research and boost the country's competitiveness through skills development. Thrip gives priority to black and female students studying engineering and technology at technikons, small, medium and micro enterprises and companies that collaborate on technology projects. — *Thabo Leshilo, Pretoria*

Manufacturers predict job cuts

ET (BR) 21/4/98 (180)

CHRISTO VOLSCHENK
ECONOMICS EDITOR



Cape Town — Production in the manufacturing sector was expected to pick up in the second quarter but manufacturers would continue to trim their labour forces, the Bureau for Economic Research at the University of Stellenbosch said yesterday.

"Our nationwide survey of manufacturers suggested retrenchments might accelerate in the second quarter, reversing a trend of growing job numbers in the sector," said Pieter Laubscher, an economist at the bureau.

Employment figures published by the Central Statistical Service recently showed job numbers had been growing slowly from the middle of last year. Production had also picked up in the second half of last year.

Those positive trends could have turned around in the first quarter.

"Layoffs will accelerate, mainly in response to a sharp contraction in sales in the first quarter of this year when local demand remained weak," Laubscher said.

"In the first quarter this year, domestic sales volumes dropped below the level of a year ago to register the first year-on-year decline in sales since the onset of the general economic recovery in 1993.

"The drop was worse than expected," Laubscher said.

The bureau conducts a nationwide survey of confidence levels and sales of manufacturers every quarter.

The results are published two months ahead of the production and sales data of the Central Statistical Service (CSS), and are judged by many manufacturers to be a reliable leading indicator of the state of the business cycle.

The latest manufacturing production data published by the CSS was for January.

At that stage production was still on an upward trend, but Laubscher expected production to dip in February and March.

"Our survey suggested production might pick up again in the second quarter but retrenchments will accelerate in the quarter despite the improved outlook," he said.

SA edges up in competition stakes

(180)

ARG 22/4/98

BUSINESS STAFF AND REUTERS

South Africa has inched up two places in world competitiveness tables, a new report shows.

The competitiveness report compiled by the Lausanne International Institute for Management Development (IMD) puts South Africa in 42nd place in a list of 46 countries.

Last year South Africa was in 44th place.

The report names the United States and Singapore as the world's most competitive economies for the third year in a row, with Hong Kong, the Netherlands and Finland just behind.

"The US is strongly installed in its position as the most competitive nation in the world," said IMD professor Stephane Garelli, director of the project which produces the World Competitiveness Yearbook.

"Privatisation, deregulation, flexibility in the labour market, and especially massive investment in new technology, have worked.

Japan, which in the early 1990s regularly ranked in the report's top five, dropped from ninth to 18th in a reflection of what Professor Garelli said was "a complete disarray of the economy".

Germany was in 14th place for the second year in a row, after slipping from 10th in 1996.

The ratings are based on official statistics and an executive opinion survey which the IMD said was completed this year by 4 314 top businessmen around the globe.

For six years since the late 1980s, the IMD produced a report together with the Geneva-based World Economic Forum, but they split up in 1995 and now publish rival surveys – often with differing conclusions.

The Forum, organiser of an annual meeting of business and political leaders in the Swiss mountain resort of Davos, has not yet issued its 1998 survey, which it calls the Global Competitiveness Report.

Both institutions base their findings on a wide range of criteria – like openness of financial markets and the incidence of corruption among officials, overall economic infrastructure and the level of education of the workforce.

SA moves up in competitive ratings

LAUSANNE — SA has moved up from 44th to 42nd place in a list of the world's most competitive 46 nations, according to an economic survey released in Lausanne today.

SA is now ranked ahead of Venezuela, Colombia, Poland and Russia, while countries such as India, Philippines, Turkey and Czech Republic are considered to be more competitive.

Struggling Japan plunged down the list, while the United States stayed in the top spot. Japan fell nine places in the World Competitive Yearbook annual rankings, from ninth in 1997 to 18th this year, reflecting the economy's "complete disarray". Five years ago, the country was ranked second.

The US had held its top ranking thanks to free market policies such as privatisation and a flexible labour market, the survey said. "The US is strongly installed in its position as the most competitive nation in the world," said Prof Stephane Garelli of the yearbook's Lausanne publishers, the International Institute for Management Development.

"Only a major crash in the stock market or, in the long term, complacency, could threaten a situation which is historically exceptional," Garelli added.

The study compares the competitiveness of 46 countries measured in terms of their economic strength, education and the economy's openness to international trade. The survey defines national competitiveness as a country's ability to help keep its businesses competitive.

Singapore was ranked second and Hong Kong held the third place this year, as they did in 1997. Singapore had been "less affected than its neighbours by the Asian crisis" but would be affected by the region's general slowdown, Garelli said.

China rose to 24th from 27th place. Economic efficiency and reforming the role of the state now seemed to be a priority for the Chinese, Garelli said.

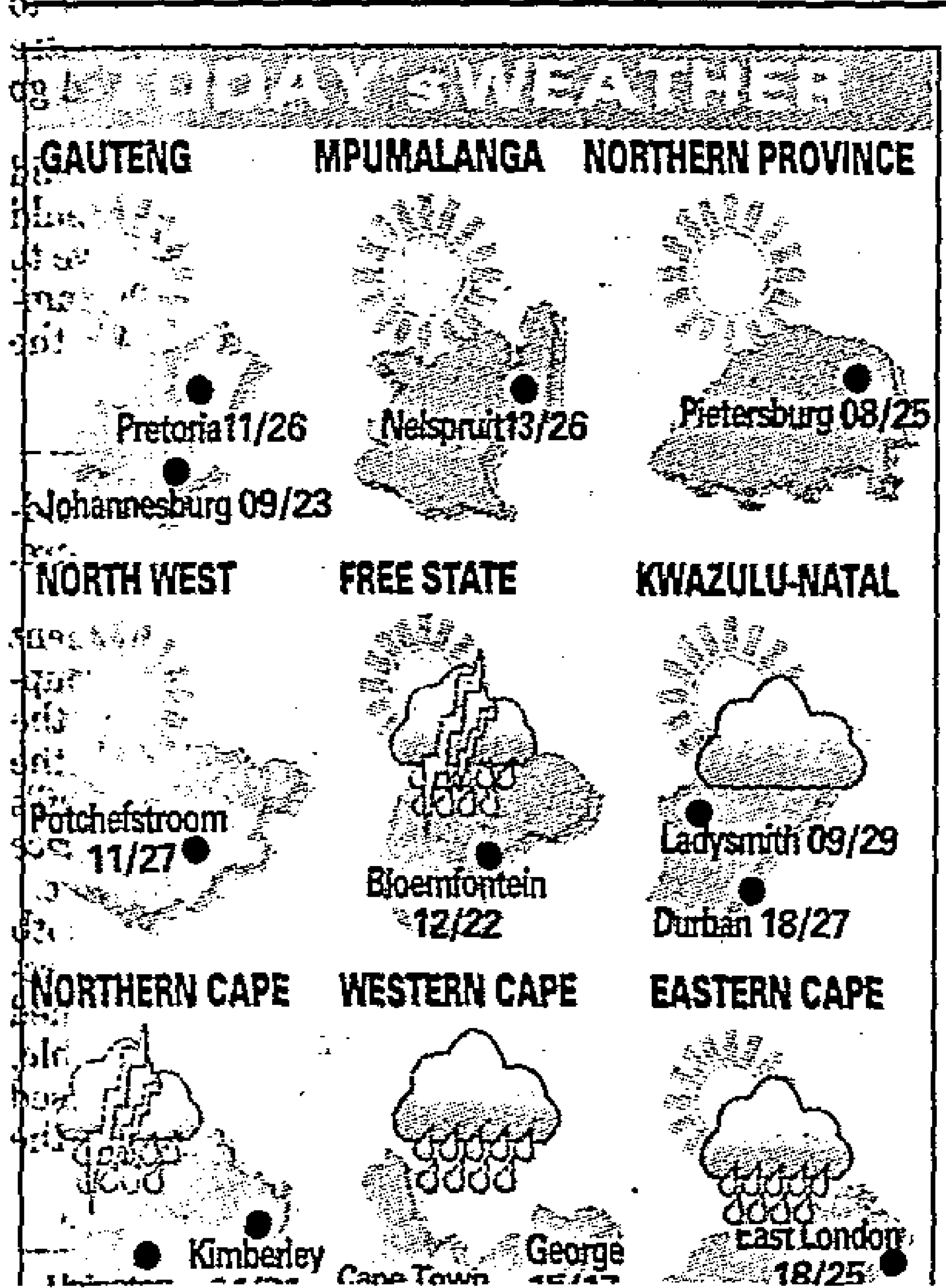
"Ireland continues to be the tiger of Europe," he said. Policies that had generated "staggering" growth had helped propel the country to 11th from last year's ranking of 15th, the report said.

Britain fell to 12th from 11th place, while Germany retained the 14th place it held in 1997. Switzerland remained in seventh position.

France dropped two places in the rankings to 21st from 19th. The country still had a substantial public sector and high unemployment, but was making "good progress in opening its economy to international markets", said Garelli.

The Netherlands had climbed to fourth from sixth place, and its neighbour Luxembourg had also improved, moving to ninth from 12th place.

Russia remained at the bottom of the table, in 46th place. — Sapa-AP.



"Ouch!!"

Accidents do happen, so if ever your Nokia phone needs care and attention, call the Nokia Helpline and ask for your nearest Nokia Customer Care Centre. We have experts on hand who will repair your precious Nokia.

Unions may accept industrial zones

Reneé Grawitzky (180)

BD 24/4/98

LABOUR might not oppose the setting up of industrial development zones as proposed in a draft government discussion document tabled in the National Economic Development and Labour Council (Nedlac) last week, union sources said.

They said possible support might be due largely to the fact that the framework document did not aim to undermine labour standards or call for the introduction of a dual labour market.

Industrial development zones are a specialised industrial area within a broader regional development initiative. The aim of such industrial areas is to establish an environment conducive to export production and attract foreign investment.

National Council of Trade Unions representative Henk Kamfer said that prior to the tabling of the document, labour was concerned as it believed such initiatives were similar to export processing zones. Unions had to date vehemently opposed export processing zones which they saw as undermining labour legislation and worker rights.

The department of trade and industry's discussion document, however, reflected a shift from traditional export processing zones to an industrial development zone model based on international best practice.

Alistair Smith of trade and industries said government was considering legislation to come into effect by the end of the year.

Labour said it was important that the document was fully negotiated in Nedlac and not confined to regional consultation. There was, however, concern that government was taking initiatives without an agreed policy.

This announcement appears as a matter of re

R143 000

Labour costs 'limit benefits of reforms' (180)

BD 24/4/98

Simon Barber

WASHINGTON — The World Trade Organisation (WTO) says the benefits of government trade reforms on SA's competitiveness are being eroded by rising labour costs.

The secretariat of the Geneva-based WTO, which polices international trade, concludes in an exhaustive report on SA and Southern African Customs Union trade policies that structural reforms have laid a "credible foundation" for making SA's products more competitive internationally.

However, the report says the competitiveness of SA manufacturers, shielded by tariffs averaging 16%, is being hurt by "upward pressures on unit labour costs resulting partly from a lack of skilled labour".

It also voices concern that government's effort to simplify and rationalise tariffs, while aimed at lowering costs for SA manufacturers and reducing price distortions, may conflict with its goal of creating new jobs.

"By escalating rates from primary to final products ... the (tariff rationalisation) process may increase effective protection, and thus perhaps raise the capital intensity of manufacturing," the report says. Rates of 10%, 20% and 30% are, generally, the limits for imports of raw material, intermediate goods and finished items respectively.

The report suggests that government needs to move faster to privatise or restructure state-controlled monopolies on services such as transport and telephony. "Further liberalisation of services should improve the efficiency of other sectors such as manufacturing and tourism; it would also help the competitiveness of SA's exports."

In spite of reforms, the WTO notes that SA's and the customs union's tariff regime remains complex. "Based on minimum import prices, formula duties, designed to combat 'disruptive competition', are still used, although SA also applies antidumping actions. Protective tariffs can also be introduced relatively easily."

Pretoria is reforming its antidumping law to bring it in line with WTO standards. This month it notified the WTO that, as of December 31, it was enforcing antidumping duties on 43 products from 20 countries. Seventeen of the duties were imposed last year.

The WTO report is likely to be music to the ears of US steel producers as they initiate their own round of antidumping suits against foreign competitors. It says SA exporters of secondary steel receive rebates from primary producers, and SA's domestic prices are higher than export prices — the basic definition of dumping under US law.

The WTO report also questions whether SA's tariff policies are in the best interests of the rest of the customs union — Namibia, Botswana, Lesotho and Swaziland. It warns that SA, which devises its tariffs "primarily (to) reflect its policy priorities and industrial structure", may be "imposing an anti-export bias" on its partners.

Customs union members have also complained that the SA-dictated tariff structure is difficult to implement and administer, the report says.

It also sounds a warning about sys-

Continued on Page 2

WTO (180)

Continued from Page 1

BD 24/4/98

tem overload, with SA negotiating a trade deal with the European Union, and the customs union renegotiating its own treaty while simultaneously reviewing its "operational relations" with the Southern African Development Community.

"There is a risk ... that the evolution of this complex set of relationships could create a structure, preferences and rules of origin that could well lead to future trade distortion."

John Dludlu reports that the WTO also urged SA's customs union partners to forge ahead with trade liberalisation. It says outward-orientated trade policies and freer markets would benefit the members' economies.

The review urges Botswana to open trade in services, including telecommunications, finance, insurance and transport, saying liberalisation will bolster the country's trading position.

The WTO report was the basis of three days of discussions this week between the customs union and the WTO's trade policy review committee.

EU negotiations: Page 3

By Adrienne Roberts — Email: roberts@tml.co.za

World's most competitive countries

(180)

FM 1/5/98

SA is not one of them

SA moved up two places in the International Institute for Management Development's *World Competitiveness Yearbook* last week. SA is fifth weakest contender out of 46 countries. Only Russia (46th), Poland, Colombia and Venezuela fared worse.

The biggest climbers in the survey were Ireland, which posted 8,3% growth last year and climbed four places, Mexico (up 6), Taiwan (up 7) and Hungary (up 8).

The biggest losers were Korea (down 5) Japan (down 9) and Thailand (down 10). The institute says Japan's fall reflects "the complete disarray of the economy".

Two-thirds of the data for the rankings are based on countries' statistics, and the remainder come from an opinion survey of more than 4 000 business executives. There are eight categories. The winners:

TOP 12

1 US
2 Singapore
3 Hong Kong
4 Netherlands
5 Finland
6 Norway
7 Switzerland
8 Denmark
9 Luxembourg
10 Canada
11 Ireland
12 UK

SOURCE: IMD

❑ Infrastructure: The US scored highest, followed by Norway and Finland;

❑ Internationalisation: judged on criteria such as trade, foreign direct investment and protectionism. The category was led by the US, Singapore and Hong Kong;

❑ Management, which includes factors like productivity and corporate culture was dominated by the US, Singapore and the Netherlands;

❑ Science & Technology: highest scores went to the US, Japan and Germany;

❑ Finance, including cost and availability of capital, dynamism of stock markets and efficiency of banking, was led by the US, the Netherlands, and Switzerland;

❑ The "people" category — which takes into account life expectancy, labour skills, employment, education, quality of life and "attitudes & values" including incidence of alcohol and drug abuse and violence — was led by Singapore, Denmark and Finland;

❑ The government category, which measures factors like national debt, financial policy, State efficiency and State intervention, was led by Singapore, Hong Kong and Malaysia; and

❑ The domestic economy category (for example GDP, savings and inflation) was led by the US, Singapore and Malaysia.

SA's overall rank of 42nd may be better than last year's 44th, but it's just a return to its 1994 level. The biggest gains were in finance and government, where it rose three places, and domestic economy, where it rose two. It dropped two places in the infrastructure category and one in management. SA was bottom of the list on the people criterion, for the fifth year running.■

SA'S SCORECARD

	Score (out of 100)	Rank (out of 46)
Government	48	31
Finance	49	31
Infrastructure	46	35
Management	42	38
Science & Tech.	42	39
Domestic economy	45	40
Internationalisation	38	45
People	16	46

Councils could soon close violence-hit taxi ranks

Pearl Sebolao and Deborah Fine

NEW legislation enabling Gauteng's local authorities to shut down temporarily or permanently taxi ranks plagued by violence was on the cards for July this year, the province's local government MEC Sicelo Shiceka said yesterday.

He was speaking at the launch of the new R12m Jack Mincer Park taxi rank in Joubert Park, Johannesburg, which was expected to be completed by developers Grinaker Projects and Properties in October this year. The rank will provide facilities for about 2 000 city taxis.

The new laws will empower municipalities to close down parks plagued by crime and to block off roads as a means of crime prevention.

Taxi associations in the Johannesburg city centre vowed yesterday to keep the new rank free from the renewed violence which had broken out at several ranks throughout the province in recent weeks.

In the latest spate of incidents, two people were killed and three others injured when unknown gunmen opened fire on a stationary taxi at the Pietersburg taxi Rank in Rockville, Soweto, yesterday morning.

Police attributed the shooting to continuing violence between rival taxi associations in the area. The incident brought to at least six the number of people killed in taxi-related shootings in and around Johannesburg since Monday.

Sapa reports that in Pretoria yesterday, a Mamelodi taxi driver was shot near the Union Buildings after taking part in a protest against the dangerous working conditions of taxi operators.

Police said the victim, Frans Makoa, was driving from the gathering at the Union Buildings with a passenger about 3.15pm when a car with three occupants forced his taxi off the road. The attackers pulled him from the taxi and shot him in the head.

He was admitted to Pretoria Academic hospital in a critical condition, police said.

Land transport deputy director-general Dipak Patel said the absence of a proper regulation framework for the taxi industry in the province resulted in some taxi operators using violence to secure routes.

The challenge for the province was to identify these areas and move in with a clear plan to stop the violence.

The transport department, province and police were putting together "sustainable operations" to formalise regulations for the taxi industry through passenger plans, route markings on vehicles and other properly planned measures. These would include the re-launch of "Operation Thiba" in Pretoria next week, followed by similar projects in Soweto, Patel said.

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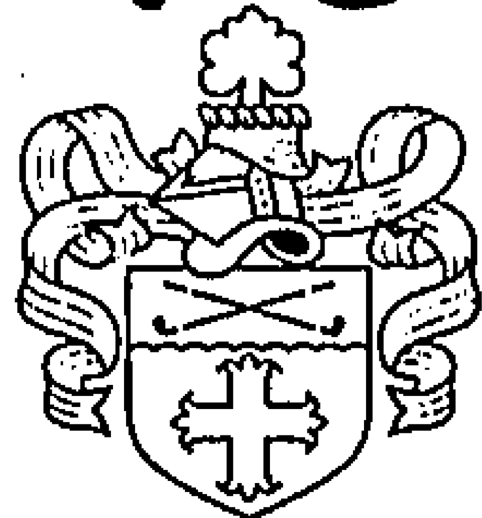


Competitiveness defended

Wyndham Hartley

CAPE TOWN — Trade and Industry Minister Alec Erwin has defended the competitiveness of SA's industry, saying this was the reason the US was taking action against some local products.

In a debate in the National Assembly, Erwin said SA had one of the most effective antidumping units in the world. It took more measures against foreign products than the US did.

Replying to a question on trade and industry policy from his African National Congress colleague Ben Turok, Erwin questioned the view that SA had not been successful in attracting foreign investment. He said that with foreign direct investment (FDI) of more than \$2bn, SA was among the top 10 destinations in the world for FDI.

Erwin said employment statistics were not reflecting some of the gains that had been made.

The country is one of the top 10 investment destinations

Erwin says SA rates highly among developing nations

CT(WR) 7/5/98 (180)

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

Cape Town — South Africa had moved into the top 10 developing-country investment destinations and was becoming increasingly competitive globally, Alec Erwin, the trade and industry minister, said yesterday.

This was despite the difficulties involved in restructuring its industrial base.

Instead of losing jobs, South Africa was creating employment and the fact that this was not yet reflected in national statistics was receiving urgent Cabinet attention, Erwin said in a mini-debate in the national assembly.

But MPs expressed concern that the move to make South African industry internationally competitive had instead opened up the domestic market to cheap, subsidised imports and more capital-intensive manufacturing techniques.

This had resulted in thousands of jobs being lost.

They also said it appeared that efforts to improve South Africa's industrial base were being dampened by policy decisions in other areas of the economy such as labour and monetary policy.

Erwin said his department had contested recent figures released by the Central Statistical Service showing that 22 700 jobs had been lost in manufacturing last year.

A joint study by the clothing federation and his department indicated that in the clothing industry employment had not only stabilised, but had grown by about 20 000.

"Investment in South Africa in terms of fixed domestic investment is excellent," Erwin said, adding that the latest estimates put this at R12 billion last year, or between $2 billion and $3 billion.

"This puts South Africa in the top 10 of foreign investment receivers ... We have graduated from a situation of getting nothing to being in the top 10," Erwin said.

Among developing countries, China had last year received the most foreign investment at about $30 billion while India had received $2 billion.

Looking at total investment last year, Erwin said that 398 projects had received investment totalling R82 billion, creating about 77 000 jobs.

"South Africa's industry and manufacturing sector is strengthening, and we are highly competitive," he said.

He added, however, that a "magical formula or short cut to the immediate creation of employment (did) not exist".

The South African economy had been in "a very serious and precarious state" for several decades and had required "considerable structural change".

This was a difficult task and it would be "very dangerous" for political parties to attempt to score points on this.

"We have no option but to open our economy," he said.

"You will not get sustainable employment if you are not capable of competing on world markets."

To counter the threat of subsidised imports, the government had developed "one of the most effective anti-dumping units in the world today".

South Africa had, in fact, instituted more anti-dumping actions than the US, which had created "certain problems".

Private sector 'destroying jobs' by not using plans

BD 8/7/98 (180)

John Dludlu

GOVERNMENT has accused the private sector of "destroying jobs" by not taking advantage of state support programmes aimed at shoring up the outward orientation of SA's firms.

Trade and industry director-general Zavareh Rustomjee also launched a spirited defence of government's supply-side measures yesterday, saying the taxpayer was getting value for his money.

Government, which has been accused of sending firms to the wall by its tariff reduction programme, said it created 77 000 new jobs last year, thanks to firms using its range of supply-side measures.

From April to September last year, state support for industry saw 45 000 new jobs created, said Rustomjee.

"We are showing that government support of industrial investments is yielding 70 000 to 80 000 jobs even at this stage.

"As fast as we are creating jobs, the private sector is destroying jobs," he said, referring to the retrenchments and closures in the industrial sector.

Central Statistical Service data would show losses of thousands of jobs in the industrial sector this year.

Rustomjee said certain parts of industry were not responding fast enough to government's call to be outwardly orientated.

"We are saying 'look outside ... extend your horizons. That is really your challenge. We are there to support you if you do that'," he said.

The restructuring of the industrial base would depend largely on the response of the private sector.

Rustomjee's statements coincide with the conclusion today of parliamentary hearings to assess the efficacy of government's support for industry amid restructuring. Rustomjee is due to attend hearings by the trade and industry portfolio committee today.

Government's tariff policy has been blamed for job losses in manufacturing, where the state has accelerated reduction of protection.

With external agencies, government runs about 33 schemes to support investment, restructuring, jobs and exports.

NEWS

Industrial restructuring pays off in more jobs, says Erwin

(180) CT (BR) 13/6/98

LYNDA LOXTON

Cape Town — South Africa's major industrial restructuring programme was beginning to pay off in job creation, Alec Erwin, the trade and industry minister, said yesterday.

Speaking during the debate on his budget vote in the National Council of Provinces, Erwin dismissed allegations that the restructuring drive was mainly aimed at export promotion at the expense of jobs. He expected it to start showing dividends this year in terms of sustained job creation.

Erwin said Volkswagen South Africa's R5 billion export order, the expected final announcement on the Mozal smelter in Mozambique later this week and the spinoffs expected from offset programmes for the new defence equipment procurement project were all signs that the structural changes in industry were kicking in.

Although employment in manufacturing had declined slightly in 1997, he expected to see a net increase in employment in the sector in 1998-99.

For example, the spatial development initiatives had 400 projects worth about R83 billion in hand, which would create 68 000 jobs.

Erwin said it had become clear that to achieve sustainable employment, South Africa had to change the structural base of its economy, which had for too long relied on tariff protection and state subsidies.

The new world order was characterised by the rapid spread of knowledge and its incorporation into production. Local industry had to adapt and use its basic competitive advantage through more dynamic change and planning.

The emphasis had therefore been on reducing tariffs to levels compatible with an effective manufacturing economy, generating new markets, promoting investment and new small, medium and micro enterprises, and regulating commercial activity. All this made up an "interlinked package that is not always entirely understood", Erwin said.

"There is a view that our policy is almost entirely focused on export promotion. This is not the case."

Initiatives 'are bankable'

Spatial development initiatives are not just the government's flavour of the month, despite some scepticism in business about their long-term prospects, writes trade and industry reporter John Dludlu (180)

BD 14/5/98

GOVERNMENT programmes to encourage investment, growth and job creation are regarded increasingly sceptically by labour and business. One of the main reasons for this is a belief that the trade and industry department's projects are a flavour of the month it dumps as soon as new ones are found.

Once, small business promotion was government's flagship programme. Not anymore, some in business argue. Then came "cluster studies" to provide a forum for business, labour and government to address impediments to competitiveness. Just as business was beginning to buy into the process, government appears, at least to some in business, to be taking a back seat, saying industry must drive the process.

Now, spatial development initiatives and industrial development zones appear to be the buzzwords du jour.

Scepticism stems, in part, from labour's concern about a possible drop in labour standards. Business, on the other hand, sees no new incentives to set up shop in coastal areas where the development zones will ideally be situated.

While projects in the popular Maputo development corridor are waiting to be tapped, critics doubt the viability of other spatial development initiatives identified by government.

However, Zavareh Rustomjee, the director-general at the trade department, is hardly surprised by the pessimism, which he believes is the result of wrong perceptions. In the absence of other wealth- and job-creation initiatives, spatial development initiatives are seen as a panacea to all development problems. Rustomjee would say this is exactly what the initiatives are not about.

Paul Jourdan, Rustomjee's deputy, says the initiatives are a set of "bankable" investment projects. After identification and assessment of financial viability, the projects are launched at an investor "jamboree" which seeks to put the initiatives on the map.

Typically, an initiative is situated in a high-growth area, which lies untapped thanks to apartheid neglect and the previous administration's policy of import substitution. They tend to be linked to a natural resource — minerals, tourism, agriculture, energy or forestry — which acts as an anchor.

There are at least nine such initiatives in SA: in Phalaborwa, Lubombo, Durban and Richards Bay; on the Fish River, Wild Coast and West Coast; along the Maputo development corridor; as well as in the form of a platinum initiative.

At the end of March 1998, several hundred investment projects worth about R83bn had been identified by government. These projects, at various stages of development, could create more than 68 000 jobs.

Owing to their popularity, two provinces, Northern Cape and Free State, have requested Jourdan's tiny unit to investigate areas they have identified.

Jourdan says SA's participation in southern African development initiatives will be to share experiences as an invited guest, allowing the neighbours to take charge.

Except for the co-ordinating role carried out on a R30m budget (it has risen to R40m in 1998/99), government also helped kick-start projects in cases where there were serious infrastructure backlogs.

The programme enjoys high-level government attention: Deputy President Thabo Mbeki has created the cabinet investment committee and a co-ordinating committee. These ensure communication and fast-track measures where legislation is needed and to resolve land claims wrangles.

Apart from job and wealth creation, the initiatives provide leverage for private-public sector partnerships and seek to "crowd in" private investment.

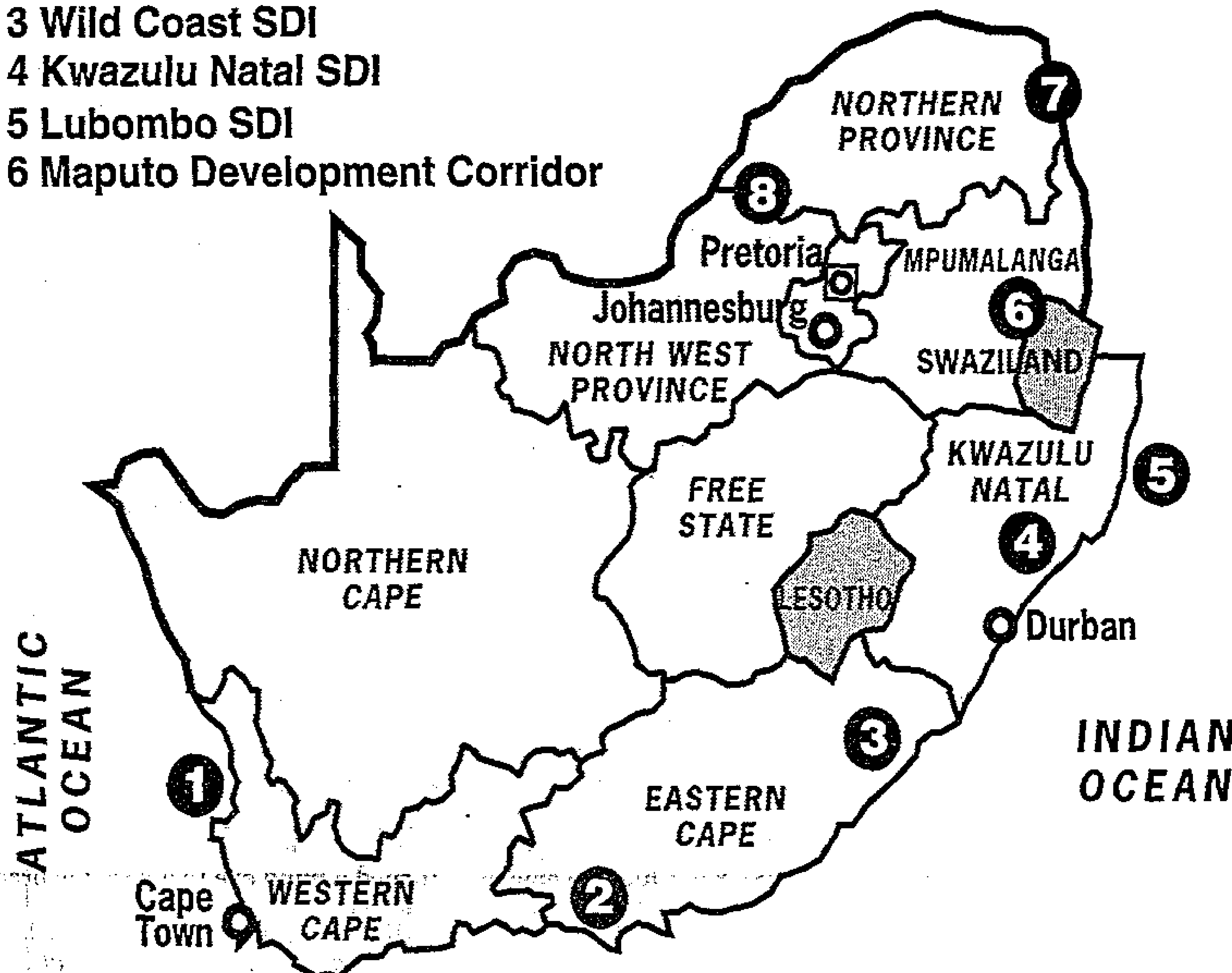
As a methodology, initiatives have ensured co-ordination in all government tiers and have accelerated investment decisions, says Rustomjee.

The initiatives have been criticised for being parallel policy to trade and industrial strategy and for not redistributing wealth. On the second charge, Jourdan pleads not guilty. "That's a political issue." Far from being new policy initiatives, Jourdan says the initiatives facilitate the implementation of SA's trade and industrial strategy.

All projects include black economic empowerment and participation of smaller firms.

While projects in the Maputo development corridor have been staring SA and Mozambique in the eye for years, waiting to be tapped, Jourdan will have to convince the doubting Thomases in business that the other initiatives are equally as viable and that they, as a methodology, are not just another flavour of the month that Pretoria will soon ditch for something else.

Most crucially, however, investors' hands have to be held as they tread cautiously in the minefields of environmental lobbies and land claims in their quest for job and wealth creation.



Map: KUBEN DAVID Source: THE DEPARTMENT OF TRADE AND INDUSTRY

Africa is on the mend

(180)

A survey on African competitiveness in terms of business and trade in 23 countries shows positive prospects of growth, writes **Sharon Chetty**

Sowetan 15/6/98

AFRICAN competitiveness will once again be on the agenda when political and business leaders meet this weekend at a World Economic Forum (WEF)-Southern African Development Community (SADC) summit in Windhoek.

Some of the discussions at the three-day gathering will centre around regional development, privatisation, inter-regional trade, infrastructural development, political risk assurance in Southern Africa, the cultural dimension of doing business in the region and how global volatility will impact on SADC.

Already an in-depth survey on African competitiveness has been compiled and much of the discussion will be drawn from that.

The first such report on the continent – every year the WEF compiles the authoritative Global Competitiveness Report – surveyed 23 countries and is particularly positive about growth and trade prospects for the SADC region.

Besides statistical information, the report – compiled in conjunction with the Harvard Institute for International Development (HIID) – takes into account the perceptions and opinions of more than 1 000 chief executive officers.

While their conclusion is that the "international climate is poised in Africa's favour", the authors emphasise that only with political will and foresight will the continent be able to end its poor economic performance.

They also point out that the specific development challenges of the continent are not unique to Africa.

Research by the HIID shows that the African economies respond to the "same basic strategy" that has proven successful in poor countries worldwide: private sector-led growth, openness to trade, attraction of foreign direct investment and public investments in health and education.

Debt relief, coherent economic assistance and improved market access are some of the areas that need urgent attention although they do caution that "even if current growth rates are sustained, it will be a decade or more before the continent as a whole can recover from the losses of the 1970s and 1980s. There is an urgent need to raise growth rates further".

The top performing economies – Mauritius, Tunisia and Botswana – have been well managed, have significant export interests and have a history of respectable growth, according to the report.

South Africa, which has the largest economy, has not had a high economic growth rate and is ranked seventh, but is credited for continuing "its political and social restructuring with astounding calm".

The better performing countries were those that were not torn apart by war or economic turmoil in the '70s and '80s, while the "middle" rankings still have to recover from long periods of bad performance, like Ethiopia, which has to rebuild after a civil war.

At the bottom of the rankings are Zimbabwe, Malawi, Nigeria and Angola.

There are also geographical coincidences.

Namibia president Sam Nujoma will host this year's WEF-SADC summit.

North Africa (Morocco, Tunisia and Egypt) and Southern Africa (Namibia, Botswana, South Africa, Lesotho and Swaziland) as well as Mauritius are among the better performers.

In all 23 countries, levels of optimism for future prospects were higher than expected and there were greater expectations for continued improvement, especially in the areas of tariff levels, road infrastructure, rule of law, telecommunications and access to financing.

However, perceptions about corruption and transparency showed limited improvement.

Illness and disease

The only factor that worsened was the impact of illness and disease, in which there is evidence of deterioration.

However, there were some stark contrasts. South Africa, for example, although its ranking is respectable at seventh, comes last in the optimism rankings.

The report states: "The relatively low ranking on the future can largely be explained by tremendous concern over crime and the instability associated with the transition to democratic rule.

"These fears may be exaggerated but these concerns are also strongly put."

Similarly, Zimbabwean businesses expected little improvement in the future and responded more negatively than in any other country on questions relating to the direction of change."

Interestingly, Botswana, Namibia, Tunisia and Mauritius – although the top four – were relegated to the bottom on this question; but this

was attributed to satisfaction with current circumstances and a belief that perhaps things were already "so good" they can't get much better.

Political and policy stability, openness to trade, transparency between business and government and improved infrastructure are the areas in which the business community wants more reforms.

Business ranked stability and transparency issues as the factors inhibiting their work most.

Both domestic and foreign businesses rated corruption as one of their greatest concerns and a major obstacle to efficiency and growth.

While much has to change internally, the authors also point to ways in which the international community can contribute to improving Africa's lot.

Debt relief would be the first step. The continent has a large number of highly indebted countries and more than 20 percent of Africa's export earnings are used to service international debts.

Opening up world markets to African exports would be another. In crucial markets such as agriculture, textiles and clothing, developed countries have policies that protect their own.

However, the United States government estimates that reducing its import restrictions to allow in textiles and clothing from Sub-Saharan Africa would help develop that industry in at least eight countries, at a potential cost of only a tiny number of jobs in the US.

Developing manufacturing exports is a key to growth, but that sector is unlikely to develop if international markets remain closed to Africa, says the report.

The continent also receives the least foreign direct investment (1,4 percent or about R25 billion) despite the fact that it yields high returns.

Since there has been greater democratisation and growth on the continent, there will be more business opportunities.

But Africa's recovery will "continue to gain speed and strength" only with the proper international climate and domestic leadership committed to well-functioning markets, concludes the report.

● The countries surveyed were (from highest to lowest): Mauritius, Tunisia, Botswana, Namibia, Morocco, Egypt, South Africa, Swaziland, Ghana, Lesotho, Cote d'Ivoire, Zambia, Kenya, Uganda, Burkina Faso, Tanzania, Ethiopia, Mozambique, Cameroon, Zimbabwe, Malawi, Nigeria and Angola.

MAIL & GUARDIAN
May 15 to 21 1998

Customer service is paramount

(180)

M+G 15-21/5/98

Saul Klein

A business exists to satisfy its customers. But South Africa's poor service attitude is an important factor in the country regularly being ranked near the bottom in terms of competitiveness.

One component of competitiveness that captures our poor performance has to do with the market orientation of local business. Market orientation means designing and managing organisations to satisfy customers better than one's competitors do.

South African business demonstrates a serious lack of understanding of what service quality means and how to ensure that it is delivered. Local businesses must fix this if they are to survive, let alone penetrate foreign markets with any success.

I recently took an international flight on South African Airways (SAA). On arrival, I discovered that three pieces of checked luggage had been opened and items stolen.

SAA said their liability in such cases is limited by international airline conventions, and offers reimbursement for only 15% of the loss incurred. While this may be legally acceptable, from a business perspective such an argument reflects a total lack of understanding of customer service.

SAA asserted that customers should know about this liability as it is printed on the ticket. Customers should, accordingly, declare excess valuation, and pay a premium for such, when they check in at the airport.

In fairness, SAA is not alone among international airlines in treating customers in this way, and sensible travellers will seek airlines that protect their rights better. But a service organisation that makes the customer feel it does not care stands in danger of fuelling customer opposition.

Poor service is generally not an accident but a direct consequence of poor management. The increasing competition facing SAA should be cause for management concern.

The cost of fully compensating a customer is generally very small relative to the potential lost business, yet this does not appear to figure in the airline's calculations. Neither does the loss to the reputation of the airline. Negative word of mouth inevitably follows from customer defection.

British Airways (BA) is a prime example of an airline that, since its privatisation in the 1980s, has become one of the world leaders in service quality.

BA realised that few customers complain; most simply go elsewhere. The airline revamped their customer-complaints operations, ensuring that every dissatisfied customer was heard from, and every complaint was acted upon.

Speed of response was also identified by BA as a key element in satisfying customers. They found that the quicker the response, the smaller the level of compensation that is required to keep a customer satisfied.

Customer satisfaction is not an option; it is an imperative. Trying to reduce costs in the short term can have major consequences in the long term. The sooner this is recognised, the better for all of us.

Saul Klein is the South African Breweries professor of international business at the Wits Business School

Manuel defends SA's performance in 'unrealistic' report

Alan Fine (180) BD 19/5/98

WINDHOEK — Finance Minister Trevor Manuel criticised the World Economic Forum's Africa Competitiveness report yesterday, saying aspects of it bore little relation to reality.

While acknowledging the value of the report to the continent, he questioned its "optimism index", which put SA at the bottom of a list of 20 countries where the survey was completed. The index was derived from interviews with members of countries' business communities.

Manuel said it was inconceivable that SA could be at the bottom of a table headed by Mozambique, where the economic situation was far poorer than SA's.

He also highlighted what he said was another logical inconsistency: the Namibian survey found fear of currency risk low, while in SA it was high. He asked how this could be given that the Namibian dollar was linked to the rand on a one-to-one basis.

Manuel joined several African political leaders in calling for stepping up the campaign for debt relief for African countries.

Responding to criticisms that SA's progress towards structural economic reform was too slow, he said this perception was incorrect and was due to the time lag involved before the effects of economic reform came through. A recent study had found this period was three to four years, and SA was still within that time frame.

Commenting on the performances of Mauritius and Botswana, Manuel said they had been able to begin their reform programmes up to 10 years ago.

Industry warned to adapt to competition or die

(180) CT (BR) 20/4/98

Thabo Leshilo

Johannesburg — South Africa's return to the world economy spelled doom for local manufacturers stuck in low-value-added production and government handouts, Zav Rustomjee, the director-general of the department of trade and industry, warned yesterday.

"We want to move from a low-wage, low-consumption economy to a high-wage, high-consumption one."

Anticipating foreign competition and crumbling import tariffs, the department has been trying since 1994 to encourage the manufacturing sector to shift from producing low-value added goods to focusing on high-tech products.

"Because of tariff protection during the period of isolation, (firms produced) everything, sometimes without much attention to quality. They could do that because they could charge anything, and consumers (paid) higher prices."

Zav Rustomjee

Some firms had responded positively to the department's initiatives. They trained their workers, and concentrated on few products and longer production runs. They could thus withstand the shocks caused by the collapse of tariffs.

But others did not rise to the challenge. Yet others, such as the labour-intensive textiles, footwear and agricultural industries, did not have the time to adjust, and many factories had to close because of competition from cheap Asian products.

"Apartheid was instrumental in driving down wage costs by hammering unions. But this can longer be done. We cannot sustain firms based on low wages."

For the manufacturing sector to survive, there had to be a shift in mindset, particularly among management, to anticipate the markets of the future.

Rustomjee said not all companies were taking advantage of the department's development programmes — including tax holidays, cheap Industrial Development Corporation loans and the export marketing and investment assistance programme, which helps meet businessmen's overseas travel and accommodation expenses to help them secure orders.

He rejected criticism the department concentrated too much on export promotion. "Our domestic market is relatively small and will take time to develop. The country has to look at exports because the domestic market and low economies of scale cannot sustain the desired growth."

The department's export promotion machinery was being transformed to improve efficiency.

Competitiveness vital

(180) Sowetan 20/5/98

Tripartite negotiations between government, labour and business could be Southern Africa's key to success in the global economy, says **Sharon Chetty**...

WINDHOEK – After two days of deliberations here at the World Economic Forum-Southern African Development Community Summit, Deputy President Thabo Mbeki urged delegates to set definite goals and time frames by which achievements could be measured.

While acknowledging that summits such as the current one in Namibia, annual WEF gatherings in Switzerland and forthcoming meetings between the public and private sectors were "very important, very useful and very interesting", Mbeki said "it might be useful to do a rationalisation of (the deliberations) of the conferences".

Mbeki, Botswana president Festus Mogae and business leaders also spoke on competitiveness for Southern Africa and the key to success in the global economy.

Reiterating Mogae's statement that there was commitment to change on a variety of matters to make the region more globally competitive, Mbeki suggested that effort should be placed on how information on the region was handled.

Work was already being done on several issues, he said, citing corruption (which was repeatedly mentioned as an obstacle to economic growth) as an example of where more information needed to be made known.

Referring to the first competitiveness study on Africa by the WEF, in conjunction with the Harvard Institute for International Development, he suggested that countries be surveyed on the actions they were taking to deal with problems rather than simply being measured by certain indices.

Crime was being dealt with at a regional level, he said, and although the region had been awarded a prize by Interpol for its integrated approach, such information was not generally known.

Although Mbeki did not mention it specifically, an area of contention for the South African Government was the low level of optimism in the report about business prospects.

South Africa came last in the optimism rating based on surveys answered by business people, and was ranked seventh out of 23 countries.

While practical steps were already being taken to fulfil certain plans, especially in relation to privatisation, infrastructural development and modernising telecommunications, he questioned whether SADC had the capacity to fulfil everything it set out to do.

Resources must be pooled in order to avoid situations where one country which was constrained by a lack of capacity would hold back the others, Mbeki said.

The slowness of governments in reforming (like not cutting red tape) was more than likely due to their lack of capacity rather than mere backwardness, he suggested.

If civil servants had always been penpushers, they could not suddenly be expected to be able to negotiate with the private sector, he added. The needs of a modern government were new and the civil service had to be trained for its complexities.

Mogae said the region was "making haste slowly" despite the commitment to change as there was still a need for tripartite negotiations between government, labour and business.

The rest of the panellists, Baroness Lynda Chalker, Eskom chairman Reuel Khoza, National Economic, Development and Labour Council executive director Jayendra Naidoo, Volkswagen SA director David Powels and Tongaat Hulett managing director Cedric Savage, reported back on action plans discussed on Monday.

Deputy President Thabo Mbeki and Baroness Lynda Chalker at the World Economic Forum summit in Windhoek. PIC: AFP

Chalker said the need for good governance and the rule of law was appreciated, especially to create a climate that attracted more direct foreign investment.

There must be "clear rules from the beginning" and much cooperation and continuous communication, she said.

Khoza said that there was agreement that within two years there would be an assessment of how much deregulation had taken place in the region.

Benefits of privatisation

Maximising the benefits of privatisation and ensuring that infrastructure "worked" to bring in cross-border finance were also priorities.

And while in the past countries emphasised self-sufficiency, there were now moves towards regional plans, especially in areas such as energy provision, said Khoza.

Savage repeated the often-quoted view that Africa's long-term development strategy "simply had to be export-led", and said it was imperative for countries to "jump quickly into the manufacturing arena".

Pointing out that no African country was successful in manufacturing exports, he emphasised that 90 percent of problems lay within countries.

There was slow progress in lowering tariffs. Non-tariff barriers like poor telecommunications, bad road systems, the absence of proper packaging for certain produce and an inflexible labour force also still needed to be overcome.

There was a need for countries to accept skilled personnel from investing countries too, Savage said. Enterprises did not have to be massive to succeed, he added, and cited Argentina as an example, where small and medium enterprises earned about R125 million a year.

Powels highlighted the need for greater harmonising of banking and financial services in the region and the need to transfer skills and technical expertise between the countries so that those with "deficiencies" could catch up.

Without shared vision and genuine partnerships between governments, business and labour, Naidoo said, opportunities would be underutilised.

He pointed out that of SADC's population of 120 million, 53 million made up the workforce, but only 15 million worked within the formal sector.

Trade unions within the region were well-organised and represented workers' desire to improve their lot. How that fitted into global competitiveness strategies needed to be considered, Naidoo said.

He recommended the establishment of a regional body to bring the three sectors together (similar to the way Nedlac works in South Africa). He also suggested that more be done to get unions to participate in the region's plans and to share responsibility for development.

However, he added, it was necessary to give consideration to the "quality and supply" of labour, especially in relation to education, health and training.

Abandon logic and stay ahead

BD 21/5/98

Companies, not countries, must learn to compete, writes **Tony Manning**

(180)

THE latest World Competitiveness Report shows SA once again near the bottom of the heap. Although its findings should be taken with a pinch of salt, local firms clearly need to move quickly and aggressively to deal with the future.

As economist Paul Krugman said a long time ago, countries do not compete with each other — companies do. So while external factors such as national infrastructure, sociopolitical stability, and sensible economic policies do affect firms, what really separates the winners from the losers is the way they think and act.

Many executives waste time complaining that they are prisoners of their environment. They would do better to make the radical changes that will enable them to capture and keep tomorrow's customers.

When Anglo American Industrial Corporation's results were announced at the end of March, chairman Leslie Boyd told investors that the group had conducted a thorough strategic review and was now committed to a tough new stance: any underperforming company would be fixed, sold or closed. More recently, Anglovaal chairman Basil Hersov made the same commitment. This is good news.

At last, it seems, local business leaders are taking competitiveness seriously.

However, they are terribly late into the game. Jack Welch announced the same "fix, sell, or close" approach when he became chairman of General Electric in 1991. For the past 17 years he has pursued change and improvement with a vengeance.

The past year has seen a flurry of restructuring on the local front. Most downsizing has been modest in global terms, but there is plenty of financial juggling and reengineering. A great deal of money is going into technology and training.

However, few companies are as bold as they need to be, or as innovative as they should be in fundamentally redesigning their business models.

To be successful in this age of hostile competition, managers must do two things. First, they must be clear about what drives profits in their industry. They must focus like a laser on what is inevitable for them.

Surprisingly, a lot of smart people are not sure about these levers. Of course, their people have even less idea of where to devote their time and attention.

Finding the "inevitabilities" is just a first step. Sooner or later, any competitor who is half awake will see the same things. To stay ahead, you have to abandon logic, escape the trap of "what everyone knows" and apply imagination to strategy.

Everywhere you look around the world, creative thinkers are turning conventional business wisdom on its head.

Execution of the inevitabilities is honed to perfection. It is the crazy things that drive competitors nuts.

South African managers spend too much time watching external signals that do not affect them, and trying to solve problems that do not deserve attention.

They would see better results sooner if they got back to basics — and at the same time turned their industry logic on its head.

□ *Tony Manning is an independent strategy consultant and author of Radical Strategy.*

SA fares well in competitiveness stakes

BD 3/6/98 (180)

Tim Cohen

LONDON — Amid SA's current financial gloom, the World Economic Forum (WEF) has released some good news in the form of its global competitiveness report which shows SA's macro indicators are inching in the right direction while its micro indicators show dramatic competitive advantages over many other countries.

The WEF's major annual study of international competitiveness shows SA's ranking has improved marginally off a low base from the 44th to the 42nd of the 53 countries measured.

However, according to a new measure introduced for the first time intended to show countries' microeconomic competitiveness, SA jumps up the ranks dramatically to 25th.

This measure, which focuses on national microeconomic business environment including such things as demand conditions, local rivalry and information infrastructure, sees SA leapfrogging countries like Italy, Malaysia, Korea and Turkey.

The traditional measure shows SA scoring high relative to its overall position for its government, infrastructure, finances, technology and management. But it is held back by a lack of "openness", its labour environment and its institutions.

The "openness" factor relates to factors like export policy, access to foreign capital markets, foreign investment protection and cross border ventures. SA's institutional measure was retarded by the lack of an effective police force, in which SA scored last, and the existence of organised crime, in which SA scored second last.

Negative factors in the labour measure include average years of schooling, in which SA scored last, poor industrial relations and poor primary and secondary education. SA scored extremely high for elements like the sophistication of financial markets, banks' financial conditions and private investment in infrastructure.

The report saw Singapore retaining its status as the world's most competitive country followed for the second year running by Hong Kong despite the Asian crisis. The measures are aimed at assessing countries' long-term growth potential.

However, other Asian countries fell dramatically because their economic crises are deemed to have gone so far that they will have a long-term effect. Indonesia dropped dramatically from 15 to 31 and Malaysia from 9 to 17.

The US came third, followed by the UK, which jumped three places, and Canada which lost one place.

Micro indicators guide to SA strengths — global report

The latest competitiveness report highlights the fact that microeconomic indicators are also important when ranking a country, says London correspondent Tim Cohen

(180) BD 4/6/98

THIS year's annual competitiveness report by the World Economic Forum demonstrates in statistical form what South Africans already know intuitively: from a macro viewpoint, SA's international competitiveness is dire.

Of 53 countries measured, SA's ranking this year of 42 places it below a country like Vietnam despite that country's civil war and years of communist government. Economic mismanagement in a doomed bid to make the apartheid economy work has left SA ill-equipped to take on the world.

SA's marginal improvement on its ranking last year shows the difficulty its new government has had in turning the ship around and the lack of a determined institutional effort to improve the country's competitiveness. Yet at least the direction is right and the corner has been turned.

Even the reasons for SA's poor showing, as well as its bright points, are well known: sophisticated financial markets, good infrastructure, good management, but a poor education system, inflexible labour markets and the least effective police force of all countries measured.

The consequence of SA's low ranking is a matter of grave concern as the link between long-term economic growth and competitiveness ranking of those nations can be statistically proved.

Yet this year's report contains an innovation that to some extent sets the cat among the pigeons. The innovation measures for the first time microeconomic indicators and on this scale, SA's overall ranking is much higher, coming in 25th of the 52 countries measured.

The microeconomic index essentially deals with the issues at company level rather than at national level, measuring such factors as demand conditions, access to venture capital, local rivalry and information infrastructure.

The inclusion of the microeconomic index is in part a response to the Asian crisis. The crisis has highlighted in technicolour that even though a country's macro indicators — prudent government finances, high rates of domestic savings, and sound political and legal institutions — might be well above average, these factors do not in themselves ensure success or even stability.

So, if Singapore and Hong Kong, the Asian countries least affected by the Asian crisis, win the macro-competitiveness race, it is the US which wins the microeconomic prize. As logic suggests, while the national environment for business is better in the dynamic and open Asian trading states, the business environment in the US — with its huge market and intense competition — is marginally better.

In the microeconomic index, SA's position is something of an anomaly. This is because the relationship between the micro index and per capita gross domestic product (GDP) suggests that although SA's micro ranking is better than its macro ranking, it is still under performing badly even by the micro measure.

In fact, the comparison between the micro index and per capita GDP suggests SA has the highest disparity between actual wealth (or poverty in this case) of its citizens and the microeconomic foundations on which business takes place in the country.

In a sense this is very good news because it means that SA already contains the micro conditions necessary for a surge in wealth creation.

So, apart from macro improvements, what is required for SA to live up to its promise?

The micro survey measured two things: company operations and strategy on the one hand and microeconomic business environment on the other. This measure indicates that SA's business environment is better than the state of its companies, mainly because, despite relatively advanced business conditions, SA's leading companies are heavily involved in basic enterprises such as natural resource extraction.

The report points out stable, prudent macroeconomic policies have long been seen as the cornerstone for achieving a high standard of living. However report co-writer Michael Porter, professor of Business Administration at the Harvard Business School, suggests more than 80% of the variations in GDP per capita can be explained by microeconomic variables. Sound macro policies are necessary but not sufficient for national prosperity, he writes.

Porter makes the point that when the Asian crisis hit, the International Monetary Fund (IMF) was counselling macroeconomic reforms — which invariably involved hardship and pain for ordinary people.

Microeconomic reforms on the other hand, such as the breaking up of cartels, are almost always seen positively by ordinary people. The IMF ought to have been pushing micro reforms as hard as macro reforms, Porter said.

For SA, macro reforms remain the priority, but as the report has demonstrated they will not, by themselves, improve the condition of the poor.

COMPETITIVE DISADVANTAGES

Another poor report for SA

SA is the 42nd most competitive out of 53 countries. Or, for those who prefer to see the glass as half empty, it is the 12th least competitive in the world. This uninspiring message comes from the World Economic Forum's *Global Competitiveness Report 1998*.

Singapore (first), Hong Kong and the US were judged most competitive, with Zimbabwe, Russia and the Ukraine (53rd) bringing up the rear.

SA'S SCORECARD

Overall ranking: 42*	
Infrastructure	24
Finance	28
Technology	30
Government	31
Management	33
Openness	46
Institutions	46
Labour	53

*out of 53 — SOURCE: WEF

SA came in last out of 53 on effectiveness of police force, average years of schooling, and maths & science education. It rated second-worst in the world for organised crime, industrial relations, primary and secondary education, collective bargaining power, gross domestic investment and public-sector competence.

But the news was not all bad.

SA came 10th on licensing of foreign technology and ranked 11th for "sophistication of financial markets".

And it still scores well in the infrastructure category (see chart). Overall, SA comes 24th, with 13th place for private investment in infrastructure and 16th for roads, railways and ports.

Though SA comes 33rd overall in the management category, it rates 13th to 15th for professional managers, management education, brand names and effectiveness of corporate boards. And in the finance category it ranks 13th to 16th for banks' financial condition, adequacy of financial regulation and participation of foreign banks. ■

Manufacturing leads export drive

BD 30/6/98 (180)

Samantha Sharpe

CAPE TOWN — While SA had a long way to go to improve its international competitiveness, it had made some progress in the past four years in improved manufacturing exports, the trade and industry department's Alan Hirsch said last night.

Hirsch, who was speaking on behalf of Trade and Industry Minister Alec Erwin at a Production and Operations Management Society conference on competitiveness and wealth creation, said SA's manufacturing exports had grown at a rate well above 10% in real terms since 1994.

"From 1988 to 1997, the proportion of SA exports classified as gold and primary products has fallen from 65% to 44%, while the proportion classified as manufactured products (not primary processed products) grew from 5% to 20%," Hirsch said.

"Last year, manufactured exports grew to a level nearly 20% higher than in 1996.

"Sectors which have improved the most include transport equipment, professional equipment, motor vehicles, parts and accessories, and plastic products, all of which grew by more than 40% last year."

In terms of inward-looking manufacturing, he said, SA had steadily reduced import protection since 1995.

At the same time it had offered support to industrialists willing to accept the challenge of international competition, Hirsch said.

This included a range of supplyside measures supporting investment, industrial innovation, small business development and exports, as well as specific programmes of limited duration for the most sensitive sectors such as textiles and clothing, and motor vehicle assembly and components.

"In doing so we have successfully lowered prices for consumers, increased exports and stabilised employment, which is falling fast in several industries."

The new competition law, which Hirsch said conformed with best international practice, would sharpen the teeth of SA's competition authorities without giving them licence to attack big business for no good reason.

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Competitiveness hampered by a lack of sophistication

Samantha Sharpe

BD 1/7/98 (180)

CAPE TOWN — A lack of sophistication in export marketing was one of the key microfactors inhibiting SA's manufacturing competitiveness, the trade and industry department's Alan Hirsch said yesterday.

He said at a Production and Operations Management Society conference on competitiveness and wealth creation that government was concentrating on several supply-side measures to help tackle this issue — one of which included its export marketing programmes.

This offered a wide range of facilities for exporters and a short-term export finance guarantee programme for small and medium exporters (to insure banks against manufacturing risk).

However, government's endeavours were not confined to export marketing only, with its investment support programmes working towards supporting the establishment of new manufacturing firms and the expansion of existing operations by sharing a small part of the risk of investors.

Hirsch said an additional group of competitiveness enhancement programmes fell under the heading of innovation support programmes.

These were complemented by strategic and informational leadership programmes which aimed to improve businesses' access to information.

Kwacha's devaluation 'a disincentive to investors'

(180) BD 31/8/98

Abel Mwanyungwe

BLANTYRE — The devaluation of the kwacha, apparently the result of falling tobacco earnings and a weaker rand and Zimbabwe dollar, has generated controversy in the business community.

The kwacha had been showing signs of stability since January, but was devalued last week by about 35% against a basket of foreign currencies. The Reserve Bank of Malawi said the devaluation followed a drop of about 27% in tobacco earnings against the previous year and the fall in the rand and Zimbabwean dollar.

While the authorities claimed the devaluation would boost Malawi's exports and reduce its imports bill, the Malawi Chamber of Commerce and Industry said the devaluation had been badly timed and would not resolve the country's economic problems.

The chamber, which is considered the voice of the private sector in Malawi, also said the devaluation would serve as a disincentive to foreign investors.

The chamber disputed government's claim that foreign buyers would be encouraged to buy more Malawian exports, saying most Malawian exports were agricultural commodities and foreign demand for them was declining. Malawian exporters always invoiced foreign buyers in US dollars so devaluation would not make it cheaper for these buyers.

The chamber also said 89% of Malawi's imports consisted of essential raw materials and intermediate inputs for industry and spare parts whose demand was not affected by prices.

"The import of these essential commodities cannot be reduced and devaluation serves to increase the import bill in kwacha terms without reducing its dollar value."

The chamber said the devaluation would lead to massive debts for most companies, high inflation, the need for higher wages, market shrinkage, and would complicate business planning.

When he announced the devaluation, central bank governor Matthews Chikaonda said the adjustment had been determined by three key factors — the effect of this year's drop in tobacco earnings as a result of sharp declines in the volume and prices of tobacco; substantial erosion of the external competitiveness of the kwacha by the recent fall in the SA rand and the Zimbabwean dollar; and the prospect of government's medium-term economic growth objectives being jeopardised by a relatively strong kwacha.

Other analysts say devaluation will fuel further concern about the country's import cover in view of the shortfall in forex earnings. Observers say the situation might deteriorate further unless donors disburse pledges quickly.

During the June budget presentation, Malawi said donors had pledged 5-billion kwachas in balance of payment support, but the pledges have yet to flow in.

A trade strategy that dreams of jobs

M+G 18-24/9/98 (180)

SDIs are aimed specifically at boosting employment and black empowerment, but, asks **Hein Marais**, *will they have the necessary finances?*

Right now the multi-billion rand Mozal smelter is just two holes in the ground — 3m deep, a kilometre apart, several football pitches wide — gouged out of a patch of pasture in Matola, outside Maputo. A decade ago, this was no-man's land, the scene of horrific massacres as Renamo rebels pushed on to the outskirts of the Mozambican capital.

You've got to use your imagination to see Peter Cowie's dream. He's the general manager of the smelter and says that in 28 months' time, workers will be hauling 245 000 tons of aluminium ingots from this plant.

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Stretching from Gauteng's industrial nerve centres through Mpumalanga, across Komatipoort and on to the Mozambican capital, the Maputo Corridor is the flagship of the Department of Trade and Industry's (DTI) most concerted bid yet to tilt our economy into the global market.

Another acronym is probably the last thing South Africa needs. But "SDI" does roll off the tongue more easily than "Spatial Development Initiatives", the phrase coined for a programme of ventures aimed, as DTI's Paul Jourdan puts it, at "unlocking the inherent and underutilised economic development potential of certain locations".

Together with a team of energetic project managers, Jourdan is the brains behind a trade strategy which dreams of jobs and black economic empowerment that stretches beyond the Johannesburg Stock Exchange to the engine room of the economy.

Ten SDIs are envisioned, several breaking out of the confines of South Africa's borders and linking with neighbouring economies — a practical fillip to the philosophical "African renaissance".

Each hinges on industrial activities, agri-tourism or a mix of the two. All either hug or end at the coast — testament to the government's determination to rebuild the economy via internationally competitive exports which, it hopes, will enable South Africa to snare a larger share of the rising volume of global trade.

According to the DTI, "the initiatives are the practical implementation of the government's economic strategy as set out in its growth, employment and redistribution (Gear) policy".

Compressed into the ideological and fiscal frame of the Gear plan, SDIs rely on minimal financial inputs from the state, massive infusions of private capital and emphasise projects that can produce commodities for export. The state's role, explains Jourdan, is to build a "platform of infrastructure", vision and skills that can attract private investment into a designated area.

The process begins with workshops to assess the potential of a planned SDI. Then bottlenecks are identified — the need, say, for better transport routes, more water or electricity, or a container terminal.

Partnerships between the public and private sectors are cobbled together to remedy those hitches. Occasionally, when the private sector turns a cold shoulder, the state might step in and splurge on an essential new road — as it is doing to kickstart the Lubombo agri-tourism SDI that straddles northern KwaZulu-Natal, Swaziland and southern Mozambique.

Here ideology — specifically Gear's deficit targets — threatens to undermine SDIs' impact. The shallow pool of state finances available to develop SDIs ultimately leaves them at the mercy of market forces. The rule of thumb has government contributing no more than 10% of the total investment value of an SDI programme, says Jourdan.

There is ample evidence to back Keynesian economists' view that, when linked to a cogent industrial strategy, greater government capital expenditure becomes a prime catalyst for economic growth and job creation.

"Cuts in government's investment," argues Azghar Adelzadeh of the National Institute for Economic Policy, "go against all cross-country evidence that higher public social and infrastructural investment leads to higher private investment".

The Ministry of Finance believes the opposite to be true. And it has pegged out the fiscal pen in which Jourdan's team of SDI managers have to operate. The gist of their work is to design so-called "investment clusters" for an area — an ensemble of projects that potentially reinforce one another, making it easier and more attractive for a firm to set up office there.

SDIs are a programme of ventures aimed, as Paul Jourdan puts it, at 'unlocking the inherent and under-utilised economic development potential of certain locations'

Part of Jourdan's work is to identify these overlapping outputs and requirements, and design a cluster of projects accordingly.

"We try and place industries in an optimal place," says Jourdan. "We're not trying to make capital go somewhere for political reasons, but helping them go where it makes economic sense."

The climax of state involvement is usually the launch of the SDI by way of a large investor conference where projects are pitched and, hopefully, initial deals are pencilled in.

To date, 518 investment opportunities valued at R115,4-billion have been identified in this manner. If realised, says the DTI, they could create some 118 000 new jobs. But it's early days still. The bulk of SDI projects are still in the "pre-feasibility" stage — glints in their designers' eyes.

Like riding a bicycle, SDIs are liable to wobble unless momentum can be maintained. "Government calls its role in SDIs an 'exit strategy'," says Business Map's Jenny Cargill. "But drawing in investors isn't done with one conference. It requires consistent marketing — it's like starting a new business. What's unclear is how they're going sustain momentum in the SDI projects."

In the short to medium term, says Jourdan, South Africa will have to achieve international competitiveness mainly on the basis of its natural resources.

Thus the showcase SDI projects tend to be based on mineral extraction and processing. Hugely capital-intensive, these "anchor projects" create few new jobs. Each permanent job generated by the Mozal smelter, for instance, will cost about R90-million.

The hope is that once "anchor projects" take off in an SDI area, they will exert a gravitational pull on other investors, particularly those willing to set up "downstream" industries with greater job creation potential.

Richard's Bay is a monument to the possible pitfalls of this logic. Its Bayside smelter cast its first aluminium ingot in 1971. Around the port today are other mega-plants the apartheid government had hoped would lure secondary industries. They didn't. Today the town is a tale of smoke-belching mineral extraction or processing plants and a compact retail and service sector that feeds off the disposable income of the small band of workers who've landed jobs.

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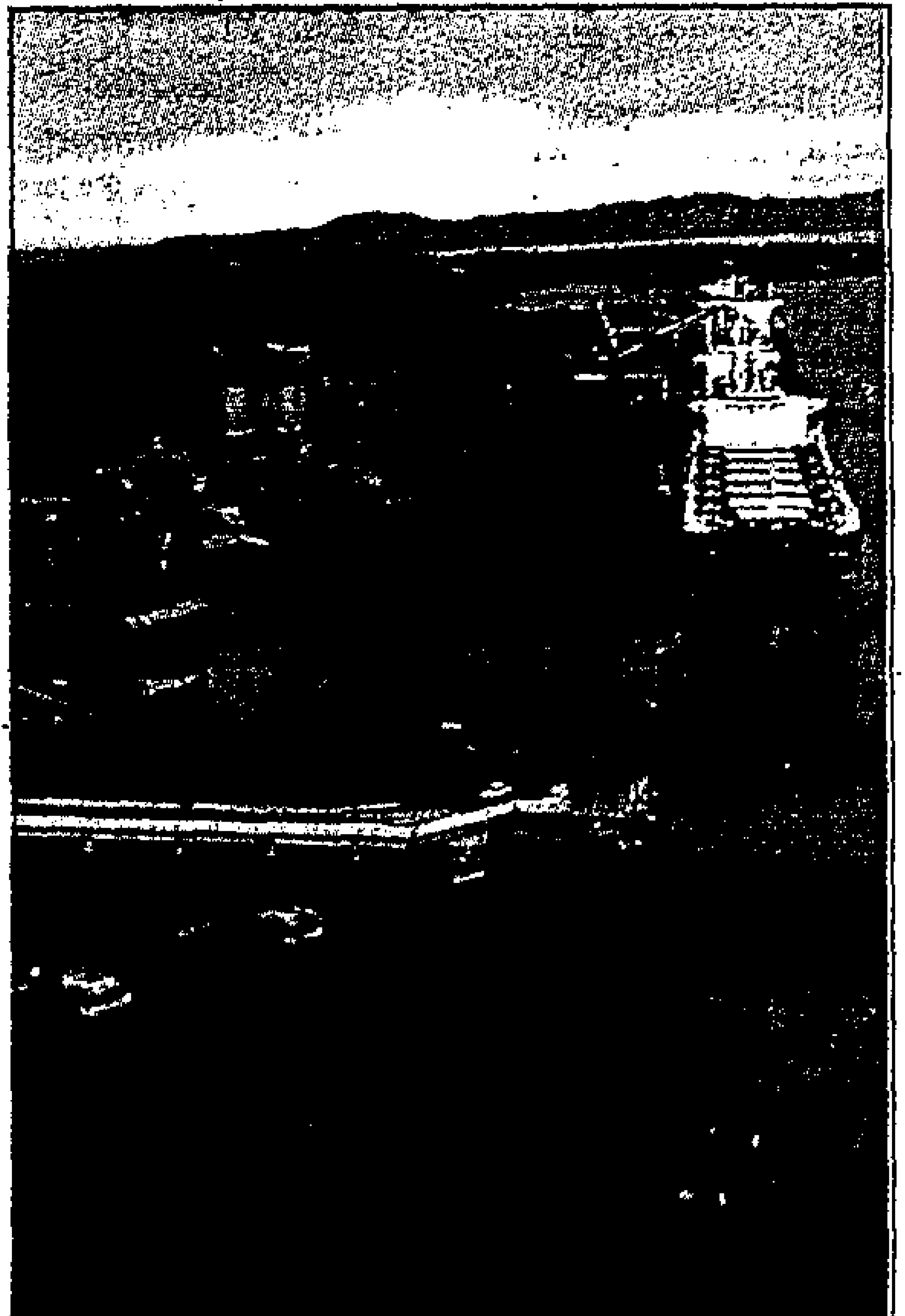

Richard's Bay: a container terminal would go a long way towards drawing manufacturers. PHOTOGRAPHS: STEVE HILTON-BARBER

But complicating the SDI dream is the fact that, internationally, firms tend to set up shop where a high degree of industrial concentration already exists. In South Africa, these zones lie in Gauteng (which produces about 43% of the country's gross manufacturing output), KwaZulu-Natal (21%) and the Western Cape (14%).

Industrial SDIs, particularly, have to reproduce some of their attractions if they're to avoid becoming arrested around a few mega-projects. Yet, even if they don't, we're wrong to judge their job-creating performance by only tallying the workers clocking in at the new plants.

"There's a three to five times multiplier effect," says Jourdan, referring to conventional employment/output ratios. But new studies suggest the employment trigger effect is, in fact, considerably lower in South Africa's economy. Each new job created in the chemical and base metals industries, for example, leads to 1,5 to 2,5 other formal jobs — not the three to five customarily touted.

It's on the jobs front that SDI projections seem most vulnerable.

According to John Mitchell, an economist advising the Mpumalanga government, "seeking to attract 'conventional' capital intensive investment into the Maputo Corridor will result in an acceleration of economic growth, but not create enough jobs to impact significantly on the local labour market".

In most sectors of our economy, it takes about R1,2-million of capital investment to create a single permanent job. This means the R9-billion of investment committed to Mpumalanga's stretch of the Maputo Corridor (80% of it from the private sector), would generate about 7 000 permanent jobs. The province currently has 350 000 unemployed workers. Somehow, SDIs have to stimulate far greater levels of labour-intensive investment if they are to achieve one of their key objectives: job creation.

Another objective highlighted in the SDI strategy is local black economic empowerment. The early indicators are drab. Mitchell's studies in Mpumalanga reveal an equally desultory pattern there. Practically every tourism facility in the province is still white-owned, leading Mitchell to lament that "the 'first generation' of Maputo Corridor projects ... have not significantly changed patterns of ownership in Mpumalanga".

Formidable obstacles still separate SDIs from their objectives. Many, though, are imbedded in policies ensconced beyond the reach of SDI architects and managers. Foreign investors are centrally guided by the enthusiasm of their local counterparts to sink money into productive sectors.

An unpleasant feature of our transition has been domestic capital's marked reluctance to invest in the "real economy", causing an ever-growing reliance on foreign direct investment (FDI). The result is a reinforcing aversion to make long-term investments. FDI flows have see-sawed since 1994 — rising impressively in 1995, plummeting in 1996 and recovering again last year (thanks, in large part, to the partial privatisation of Telkom).

But an ominous trend emerged in 1997, when volatile, short-term capital inflows began outstripping FDI.

Part of the problem lies in the "sado-monetarism" pursued by the Reserve Bank, whose high interest rates make capital extremely expensive and deter domestic private investment: monetary policy is a decisive factor in SDI strategy. So, too, is the government's persistence along a path of fiscal austerity which drastically narrows the state's role as a catalyst for SDIs.

Fiscal and monetary policies have to be synchronised with our industrial strategy. Instead, as Ben Fine of London's School of Oriental and African Studies states, "exactly the opposite is happening in South Africa".

Hein Marais is the author of South Africa: Limits to Change — The Political Economy of Transition, published by UCT Press and Zed Books

A trade strategy that dreams of jobs

M+G 18-24/9/98 (180)

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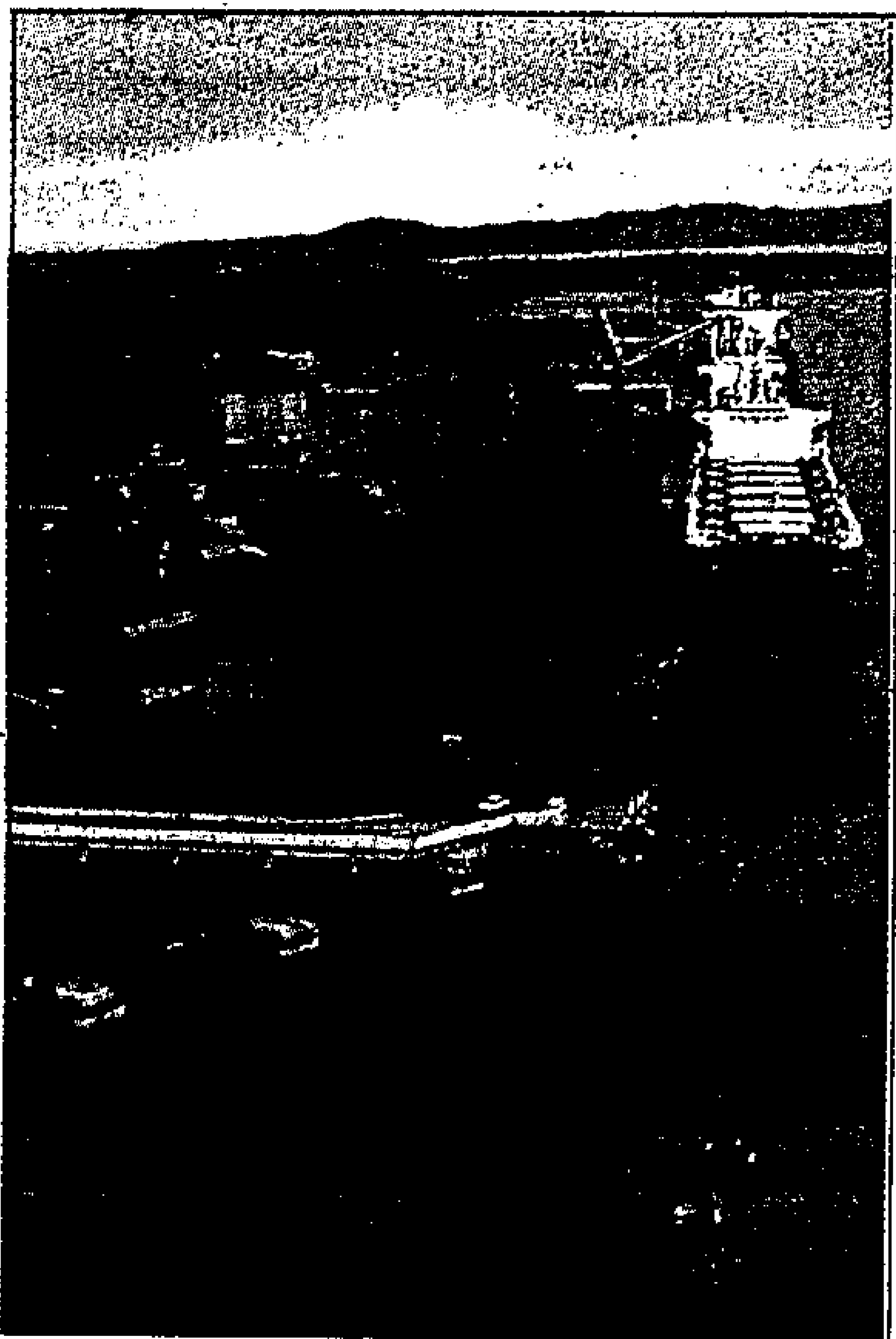

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Formidable obstacles still separate SDIs from their objectives. Many, though, are imbedded in policies ensconced beyond the reach of SDI architects and managers. Foreign investors are centrally guided by the enthusiasm of their local counterparts to sink money into productive sectors.

An unpleasant feature of our transition has been domestic capital's marked reluctance to invest in the "real economy", causing an ever-growing reliance on foreign direct investment (FDI). The result is a reinforcing aversion to make long-term investments. FDI flows have see-sawed since 1994 — rising impressively in 1995, plummeting in 1996 and recovering again last year (thanks, in large part, to the partial privatisation of Telkom).

But an ominous trend emerged in 1997, when volatile, short-term capital inflows began outstripping FDI.

Part of the problem lies in the "sado-monetarism" pursued by the Reserve Bank, whose high interest rates make capital extremely expensive and deter domestic private investment: monetary policy is a decisive factor in SDI strategy. So, too, is the government's persistence along a path of fiscal austerity which drastically narrows the state's role as a catalyst for SDIs.

Fiscal and monetary policies have to be synchronised with our industrial strategy. Instead, as Ben Fine of London's School of Oriental and African Studies states, "exactly the opposite is happening in South Africa".

Hein Marais is the author of South Africa: Limits to Change — The Political Economy of Transition, published by UCT Press and Zed Books

NEWS

22 000 jobs lost in manufacturing

FRANK NXUMALO
LABOUR EDITOR

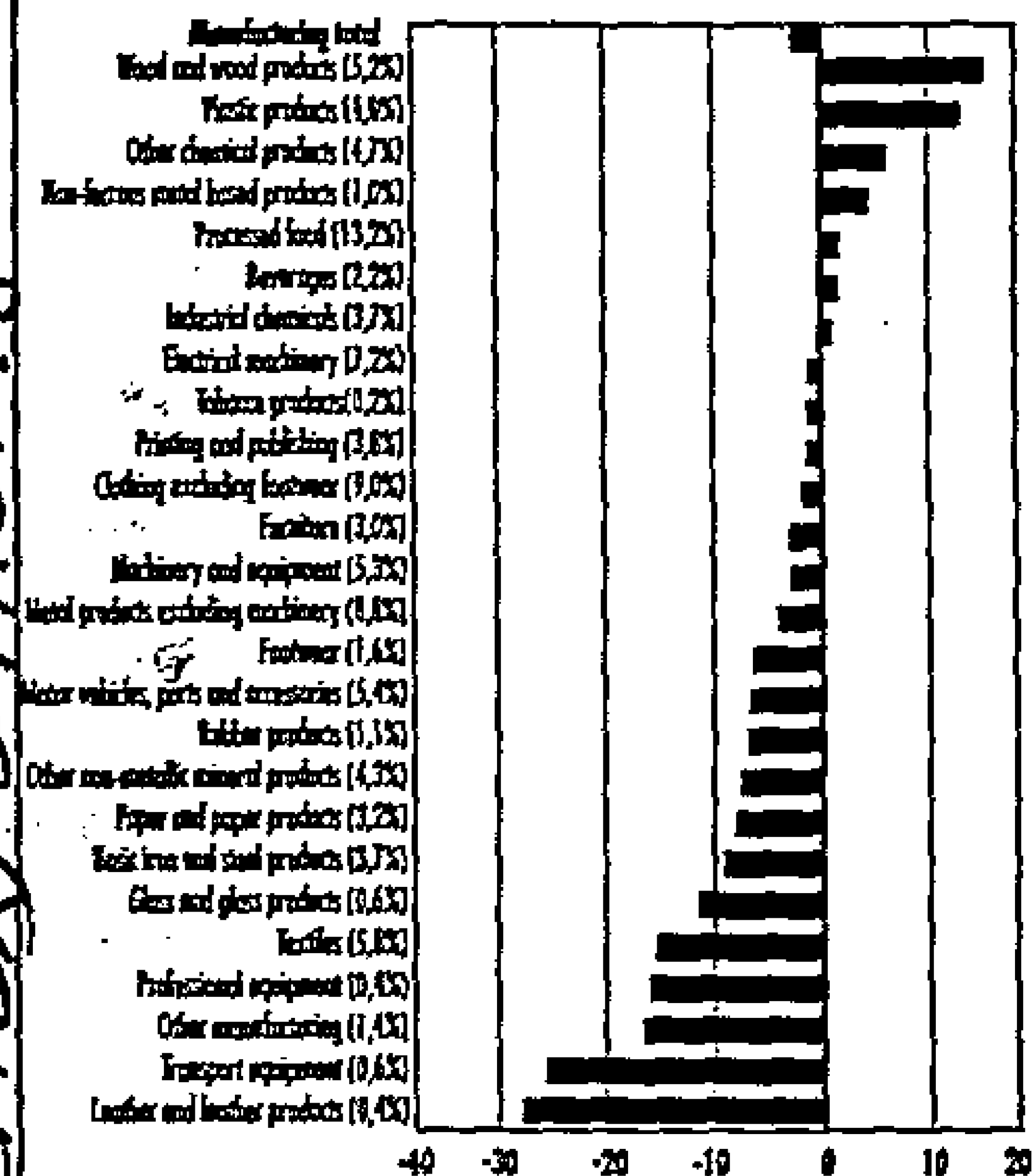
Johannesburg — Employment levels in the manufacturing sector had fallen by an additional 3 percent, representing more than 22 000 job losses during the first half of this year, the Industrial Development Corporation (IDC) said yesterday.

The corporation said this drop was in addition to a 4 percent contraction registered in 1997. The losses were due to adverse domestic conditions including a weakening rand and an ongoing process of upgrading and modernising capital stock to enhance domestic and global competitiveness.

It said the sharply lower levels of business and consumer confidence, propelled by the unexpected hike in interest rates and continued market turmoil, should inhibit employment creation prospects for some time to come.

"However, ongoing efforts to enhance price competitiveness in the global marketplace through productivity improvements and increased efficiency will ultimately place domestic manufacturers in a better position to expand their job creating capacity," the IDC said.

Collectively, most sectors reported almost 56 000 fewer job opportunities, of which 17 000 were in textiles.



(180) 27/10/98

EMPLOYMENT *Bureau mainly blames low economic growth and inflexible labour market*

CT(BR) 3/12/98

Survey says 350 000 manufacturing jobs have been lost

(180)

THABO LESHILO
BUSINESS EDITOR

Johannesburg — About 350 000 manufacturing jobs, or 2,9 percent a year, had been lost in the past nine years because of low economic growth compounded by an inflexible labour market, the University of South Africa's Bureau of Market Research said this week.

The bureau's latest survey shows that employment in the sector fell from 1,5 million jobs in 1988 to 1,1 million last year.

Recent surveys by the Industrial Development Corporation and the South African Chamber of Commerce painted a similar gloomy picture.

Although the number of manufacturing plants had risen, their average employment size fell from an average 74,4 employees per establishment in 1988 to only 60,1 in 1993.

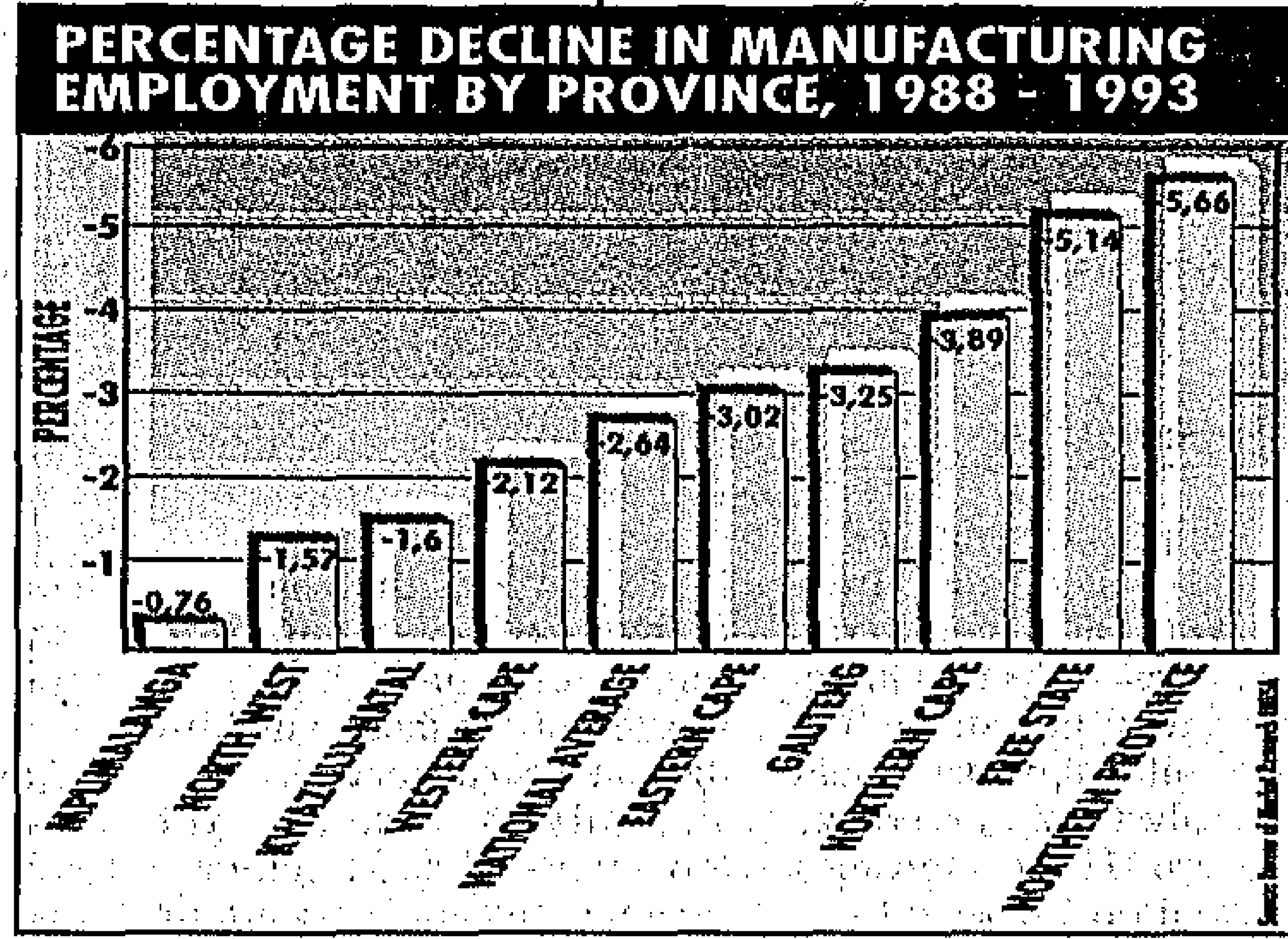
The bureau mainly blamed "a rigid and inflexible labour market and labour union conduct" for the switch to more capital-intensive production.

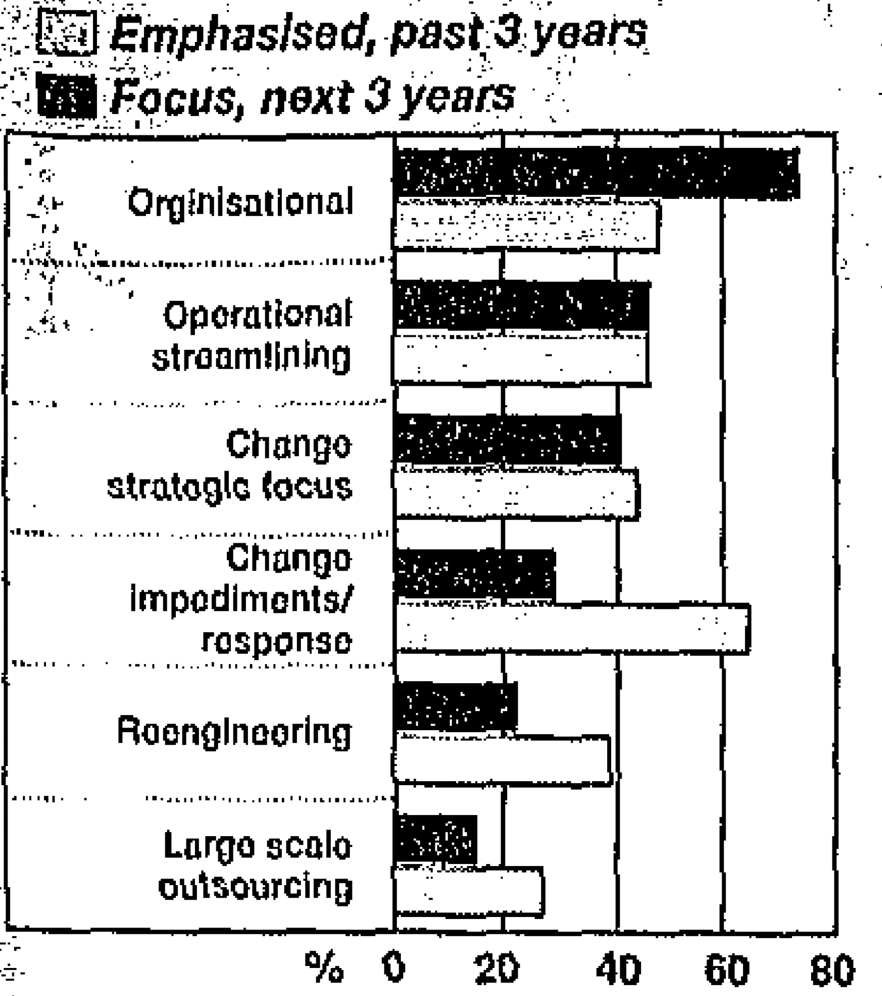
Unfavourable labour market conditions had led to "the use of sub-contractors, the dismantling of companies into smaller units and the creation of smaller establishments as a result of labour shedding".

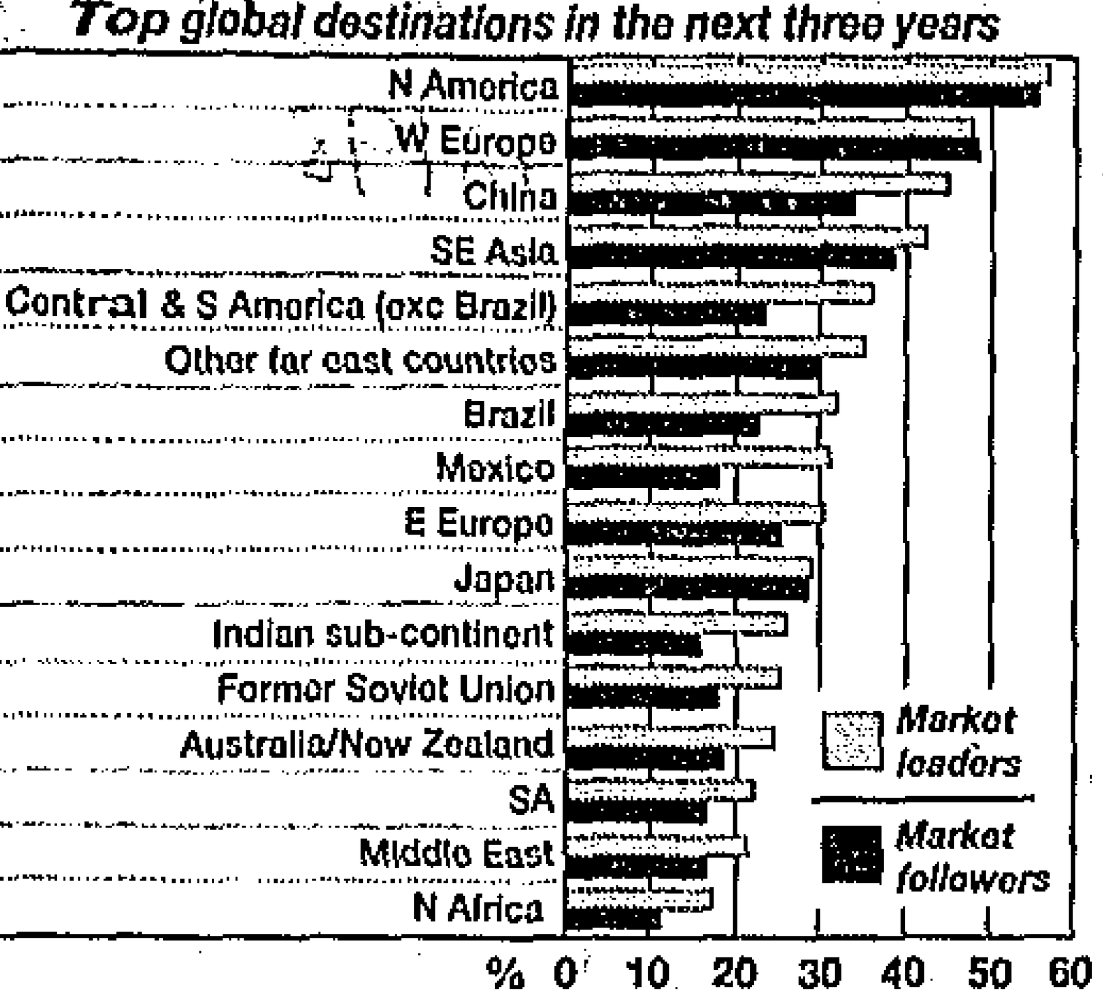
It said the recently approved labour legislation — a reference to the Labour Relations Act, Employment Equity Act and the Basic Conditions of Employment Act — would further fuel the move towards capital-intensive production.

All nine provinces suffered declines in manufacturing employment for the five-year period. The worst hit was Northern Province, at -5,66 percent a year, with Mpumalanga losing 0,76 percent.

The Northern Province, Free State, Northern Cape, Gauteng and Eastern Cape experienced a greater decline than the shrinkage of 2,6 percent for the country as a whole.







KAREN MOOLMAN Source: DELOITTE CONSULTING

Meeting needs of 21st century customers

(180) BD 3/12/98

A new survey finds that globalisation, innovation and supply chain integration require a fundamental shift in executive mind sets

Michael Acott

MANUFACTURERS worldwide are largely unprepared to meet the rapidly changing demands of Internet-savvy customers who want more for less, according to international research conducted by Deloitte Consulting.

The company's survey this year showed that only 27% of manufacturers globally — and only between 10% and 15% in SA — had the capability needed to become market leaders in the 21st century. It found that the imperatives of globalisation, product innovation and supply chain integration "all require a fundamental shift in executive mind sets".

The survey, Vision in Manufacturing, has been conducted every two years since the 1980s. This year about 900 executives in 35 countries were surveyed, and the conclusions highlighted the effect of technology on both manufacturers and consumers.

Globalisation and rapid technological change were rewriting the rules of competition, according to the survey.

Not only had they opened just about every world market to competition from other areas, but consumers now had a rising familiarity with technology and a wider variety of choices.

Manufacturers were about to face the "era of the virtual customer", a period characterised by "customers who will surface wanting products and services delivered when and where they need them and then disappear again".

Darvis Cormier, a senior Deloitte Consulting official based in Singapore, was in Johannesburg to explain the results to SA manufacturers.

He said many of the accepted strategies for competitive advantage, particularly a focus on quality and information technology, were now a given. Those without them could not enter the race; those with them now had to focus on meeting and anticipating the demands of an increasingly internationalised market. "Products or technology alone will not be enough to create competitive advantage.

"Competitive differentiation will be defined by superior delivery, value-added service and customer intimacy, demands which manufacturers are currently largely unprepared to meet."

The capabilities required to become market leaders — world-class manufacturing, customer research and new product development — were focused on a "new breed of customer" with expectations that changed faster than manufacturers were able to comprehend or respond to.

They would also have to deal with the "customer paradox", where the emphasis on quality was going up, but customer satisfaction was going down because of rising expectations.

This meant the whole manufacturing organisation had to become customer-centred, with manufacturing integrated with marketing and sales.

Cormier tells the story of an employee who resisted the idea that manufacturers had to be marketers, too. "I would rather have a sister in a whorehouse than a brother who is a salesman," he would retort.

"That view of life is totally defunct," Cormier said. "The manufacturing world is having to wake up to the reality that manufacturing is a key component of their competitive edge, but unless you find zillions of customers who are clamouring to buy your product, it doesn't matter."

Many manufacturers were going directly to the final consumer, consciously trying to eliminate the middle man, shorten the logistical and supply chain and cut the non-value-added layers which increased costs and prices.

"Growth-minded executives are now shifting their focus from cost-cutting to tightening the links with suppliers and customers."

More than two-thirds of all manufacturers surveyed had undertaken major organisations initiatives in the past three years.

"Past efforts to restructure, streamline and downsize are now giving way to a focus on changing corporate culture that impedes fast response.

"In short, the name of the game is speed and flexibility.

"Leading executives in 1998 are preparing their organisation to respond rapidly to increasingly unpredictable changes in customer demands and market dynamics."

Significant competitive advantage could be gained by investing in people, the survey concluded. Market leaders were investing in programmes that prompted high-performance work teams "ultimately creating a culture that thrives on learning and change".

Goods evolution derails manufacturers

There is evidence to prove that making money from making things is getting more difficult. Success lies in what you can add, says **Tony Jackson**

(180)
BD 23/12/98

Ask the world's veteran manufacturers these days about the main change during their working lives and one answer will stand out. They have lost control, they will say, of their pricing. Most years most of them cannot charge as much for their goods as the year before. Every year they must squeeze out new efficiencies merely to stand still.

There is hard evidence to back that: for example, the record decline in prices of UK manufactured goods leaving factory gates. These saw an 0,8% fall in the year to last month, the largest since records began 40 years ago. Producer prices are dropping throughout the developed world: most dramatically, in two countries best known for their manufacturing, Japan and Germany.

This might be thought just one aspect of a wider deflationary trend, which has pushed raw material prices to levels not seen since the 1970s. In part, it is. But there is another possibility.

In the past couple of centuries, the developed world has cracked the problem of feeding itself. Food is in persistent surplus, even though agriculture, which 200 years ago provided the bulk of every country's output and employment, now accounts for a tiny proportion of both. A mere handful of people now produce more food, more cheaply, from fewer acres than the millions who once tilled the land.

The question is: what if manufacturing has been cracked in the same way? What if manufacturing techniques are now universally understood and available, so that no one can establish a lasting advantage?

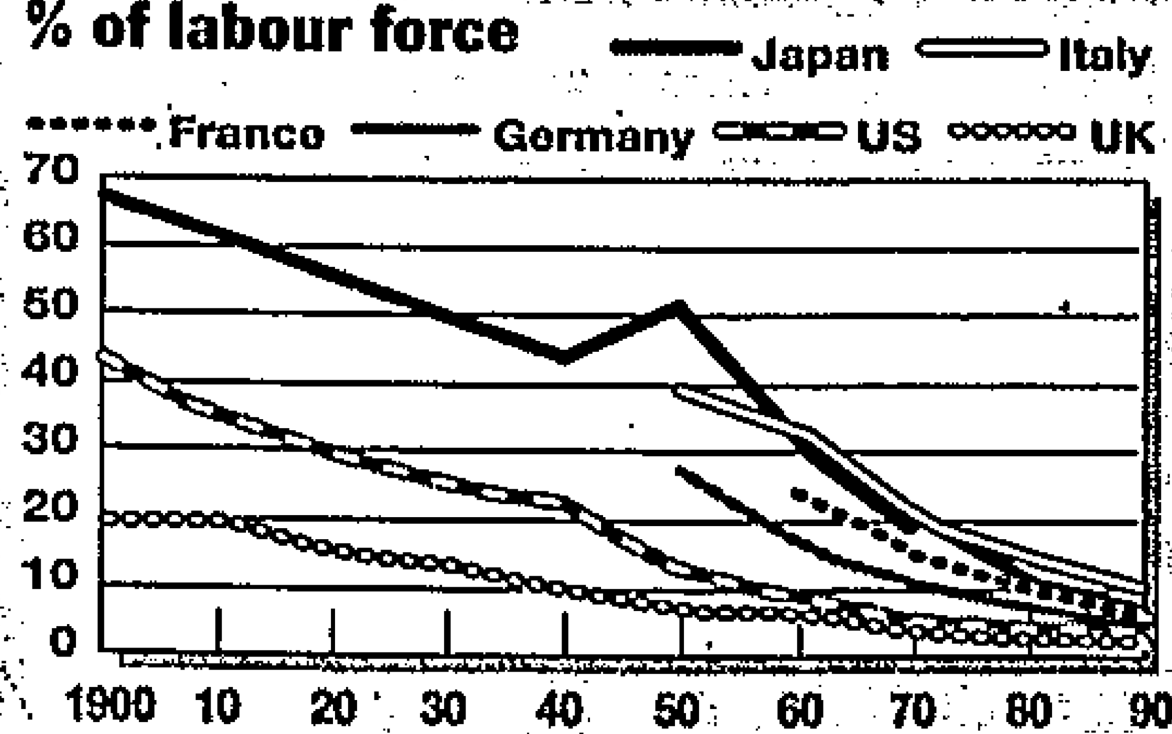
There are signs that industry may be going the way of agriculture. In advanced industrial countries, manufacturers' share of national income is about a fifth and falling. However, there is no shortage of manufactured goods: judging by price behaviour, supply is outstripping demand.

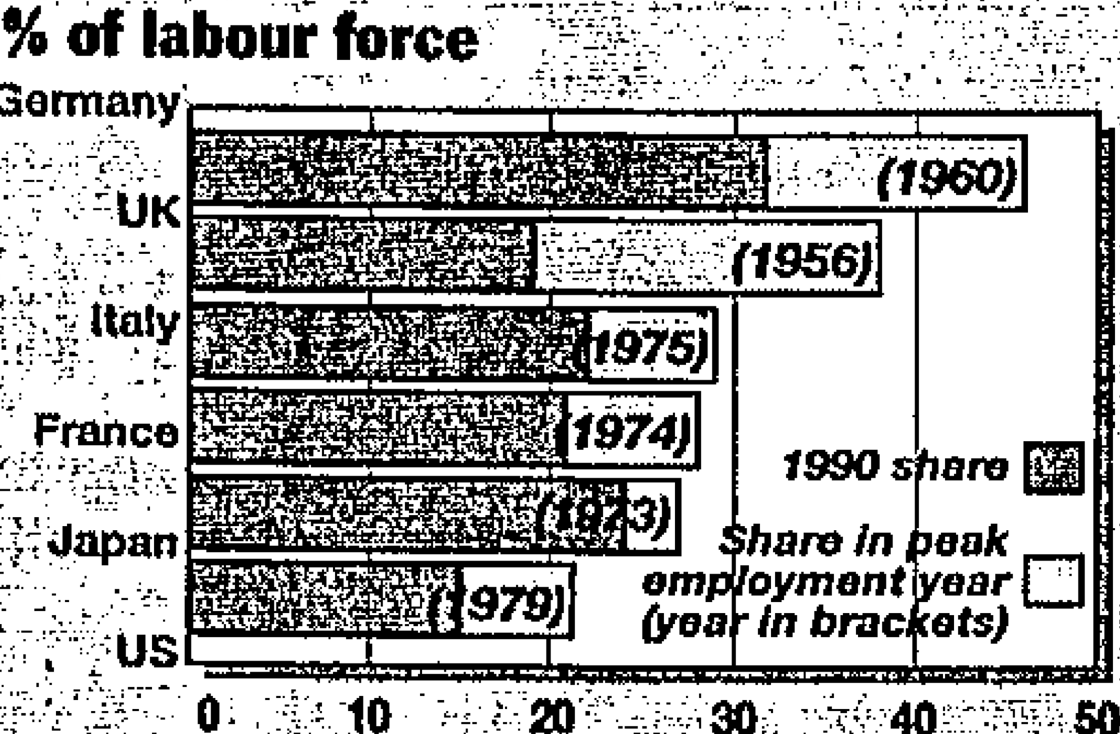
One reason for this is macroeconomic. When today's manufacturing veterans started their careers — say, in the 1950s — the world was different in one essential respect. Goods were short and suppliers had the whip hand. They could get away with shoddy products, since customers had little choice but to accept them. Inefficiency was no problem as the customer would pay.

This came about through two particular circumstances. First, production was massively distorted by the Second World War and it took some time for capacity to be converted back to civilian use.

Second and more important, there was a postwar consensus that the chief goal of economic policy was full employment. This had the effect of stimulating demand, while at the same time hampering supply through inefficient working practices.

It also helped stoke inflation. Hence the reversal in the consensus, in the late 1970s, to emphasising output. Industries were deregulated and privatised, trade barriers were scrapped and high unemployment was tolerated as a necessary evil.





KAREN MOOLMAN Source: FINANCIAL TIMES

In themselves, these policy switches did much to bring pressure on manufacturers. But they also helped disguise revolutionary changes in manufacturing itself. The first and most obvious was lean manufacturing.

Developed in Japan in the postwar years and transferred to the US in the 1980s, this involved a massive reduction of waste through eliminating defects, slashing inventories and making production lines more adaptable.

Equally important were the changes attributable to information technology.

Combined with the opening of world markets, this was explosive. Output could be more readily shifted, since production processes could be transmitted and replicated. Basic manufacturing emigrated to cheap, emerging markets. And since those processes were increasingly standardised, technical advances could be swiftly copied by competitors regardless of location.

Now, some claim, another change is transforming industry again: so-called agile manufacturing.

The thesis is set out by Mansoor Sarhedi of the UK's Brunel University. Granted, he says, lean manufacturing represents a big step in productivity, as did the switch from craft to mass manufacture early in the century.

But lean manufacturing is in one sense inflexible. Since it carries no spare inventory, it cannot respond quickly to surges in demand. Worries about this seem to have surfaced first in the defence industry, which needs to step up production fast in the event of war.

Hence the idea of agile manufacturing, developed first under US government prompting in the early 1990s. In essence, this involves using information technology to stitch lean enterprises into informal alliances. If one participant has a surge in demand, it can exploit any slack remaining in the system as a whole.

This combination of co-operation and competition rings loud bells with management theorists these days. Agility, its proponents argue, will be the future of manufacturing. They point to Airbus, an alliance which from a shaky start now seems to be outperforming its more conventionally structured competitor, Boeing.

Moreover, say its proponents, agile manufacturing is in its infancy. The implication is that as it develops, it will provide a new lease of life for manufacturing as a whole.

Furthermore, they say that by no means all enterprises have caught up even with lean manufacturing yet. There is plenty of scope in the system still for manufacturers to make money.

Maybe so. All the time, though, the pace of evolution is quickening. And within an agile system, what happens when there is no slack capacity left to be picked up?

One unsettling glimpse of the future might be gained from television set manufacture. The world's big television makers are mostly Asian and have lean manufacturing down to an art. For years, they have held the price of their sets steady in nominal terms, while adding all sorts of new and exciting features, each of which is instantly copied by the others. And they have consistently failed to make money.

Not only that: go round the back of a television factory or a personal computer monitor plant and you will find boxed-up sets bearing the names of the other makers. Through plant flexibility and networking, each maker helps out shortfalls in the others' production. They are agile already: and little good it does them.

So does this mean that manufacturers are doomed to life at the edges of the economy, rather like the 2% to 5% of the labour force who are farmers? Not necessarily. The real point is different: that the manufacturing process, taken in isolation, is becoming less and less important in the value chain.

Take Coca-Cola. This company started life as the manufacturer of a syrup and is now in the business of managing a brand. The mystique requires it should still make the syrup itself. Otherwise, Coke could farm the job out with negligible commercial effect.

Similarly, General Electric has seen its product prices fall for several years in a row but has consistently increased its margins. This is partly the result of operating efficiencies. More important, the company has managed to sell all kinds of services to buyers of its aero engines, turbines and medical scanners. Increasingly it is from the services, not the manufacturing, that the company makes its money.

The trouble with the manufacturers of television sets is they are stuck in the middle. For whatever reason, they have failed to achieve the kind of branding which allows one maker to charge significantly more than another. They have also brought their sets to a pitch of reliability which makes it unnecessary for customers to pay for after-sales service.

Even in such cases, charging lower prices — or offering more for the same — is a finite process. As Kumar Bhattacharyya of Warwick University points out, logic suggests the production of television sets will continuously migrate to cheaper and cheaper countries.

But eventually prices will reach the point where no plant, wherever built, can be amortised and no new model funded. At that stage, consumers, assuming they still want the product, will have to stump up.

Subject to that proviso, the long-run outlook for makers of undifferentiated goods — memory chips, microwave ovens, perhaps even certain types of car — is distinctly unpromising.

There is still endless scope for manufacturers to make money. But they had better not try making it from manufacturing itself. — Financial Times.

MANUFACTURING - GENERAL

1999

Lack of incentives hinder development zones' growth

BD 30/11/99

GRAHAMSTOWN — The development of SA's industrial development zones is being hampered by the trade and industry and finance departments' failure to agree on incentive schemes, recently appointed East London IDZ Implementing Authority CEO Peter Miles.

The authority is a Section 21 company established and jointly funded by the national and Eastern Cape governments. Its brief is to develop the development zone, which is centred on East London's harbour, to a stage where it can run profitably on its own.

At that point management and marketing of the development zone will be handed over to a profit-seeking joint venture between the East London municipality and as-yet-unidentified private sector companies.

The municipality will give the land on which the zone will be developed as its equity contribution.

Miles said because the zone would not have to buy its land, significant cost savings would be made which could be passed on to investors. The company also had to market the greater East London area to investors.

Miles said until the development zone legislation and incentive schemes were in place, attracting investors would be impossible. He said SA's investment incentive schemes were inadequate and needed special attention, especially those aimed at attracting foreign direct investment into development zones. — ECN.

(180)

THE INCENTIVE GAME

Comparing SA and Namibian industrial development schemes	South Africa	Namibia
Sales tax exemption for exports	Probably yes	Yes
Exemption from customs & excise duties on imports into, or goods made and exported from, IDZ/EPZ*	Probably yes	Yes
Stamp duty exemptions for activities or property in IDZ/EPZ	Under consideration	Yes
Transfer duty exemptions of acquisitions on fixed property in IDZ/EPZ	Under consideration	Yes
Income tax exemptions for IDZ/EPZ — based earnings	Under consideration	Yes
Labour Act applicable in an IDZ/EPZ	Probably	No
Requirement for job-creating, or export-earning, investments	Stalled on job creation mechanisms	Yes
Proximity to modern ports	Excellent for all three IDZs	Poor
Exemption from foreign exchange controls	No	Yes

*EPZ - Export processing zone IDZ - Industrial development zone

(180) FM 12/2/99

INDUSTRIAL DEVELOPMENT ZONES

AS NAMIBIA'S SKORPION GROWS, IT'S ZINC OR SWIM FOR COEGA

Thirstland developers show SA bureaucrats a thing or two

SA — the Eastern Cape in particular — could lose the chance to build a zinc refinery that would earn the country billions of dollars a year in foreign exchange and taxes and create thousands of jobs.

That's because government is bogged down in drafting "enabling legislation" for industrial development zones (IDZs). By contrast, neighbouring Namibia is already attracting investment by creating what it calls export processing zones (EPZs).

The appeal of these EPZs derives largely from the virtual suspension of labour legislation at the gate. Contrast this approach with the SA government's reassurances to trade unions that labour law will apply in the IDZs — of which Coega (more properly spelt "Nqura"), East London's West Bank and Richards Bay are the most advanced.

The ball started rolling in 1997 when Gencor (now Billiton) decided to investigate building a zinc refinery in the Eastern Cape. A battle royal ensued between Port Elizabeth and East London, which both developed IDZs to lure Billiton. They formed Section 21 companies to represent local business, the city councils, the provincial capital of Bisho, labour, the Department of Trade & Industry, Portnet and other interested parties.

There was a sense of urgency: Billiton set March 1998 as a deadline for its final decision on the project; business, trusting government's commitment to fast-track the IDZ, took a back seat. That's when things started to go wrong.

In January 1998, Billiton refinery project manager Norman Green and other team members jumped ship to develop the embryonic Skorpion zinc project in Namibia — a joint venture between Anglo American and London-based Reunion Mining Plc.

Green had already discomforted his bosses by criticising the SA government for a lack of urgency over Coega. "If you look around the world at projects like the Coega refinery that have failed, there is one common thread — they don't work when governments get involved," he says.

Green, a Wits-educated mechanical engineer, doesn't like to dilly-dally. He was project manager for Billiton's US$1bn Alusaf Hillside aluminium smelter which was completed five months ahead of schedule and 20% under budget.

The Namibian government didn't hang around either; it granted Skorpion EPZ status within a month of its application.

In Namibia, EPZ companies are exempt from corporate income tax, customs duties, sales tax and transfer and stamp duties. Investors are exempt from foreign-exchange controls. In addition, most training costs are reimbursed and strikes or lockouts are legally prohibited.

The SA Department of Finance has conceded it needs to offer companies more than just tax breaks. But that's tepid reassurance for Coega. Billiton has already lost its technology partner, Mitsui, and disbanded its zinc team until the legislation is passed. By contrast, Reunion Mining said this month it was ready to proceed with its part of Skorpion in Namibia. The loss of Billiton as an anchor tenant will set back the Coega IDZ two to four years. And without legislation, there won't be investment in the East London or Richards Bay IDZs either.

Ed Richardson

Environmental standards are a new trade barrier

BD 5/3/99 (180)

SA does not rate highly in survey of manufacturing companies in various countries, writes **Grant Hatch**

THE link between global competitiveness and the environment is becoming increasingly important as trade barriers are being dismantled and replaced with new and subtler barriers.

US regulators have adopted strict environmental standards to reduce the risk of competitors to US products, following the North American Free Trade Agreement.

Similarly, environment standards in the packaging and car manufacturing industries in Germany were used to exclude competitors who could not meet stringent requirements.

In the light of this, how environmentally competitive are South African companies?

According to The Global Manufacturing Futures Survey, a biennial survey of the environmental competitiveness in manufacturing companies in SA, Australia, New Zealand, Japan, the US, Mexico, China and Europe, SA companies are not environmentally competitive.

The survey, which is represented in SA by the Graduate School of Business at the University of Cape Town, was used to compare companies in terms of past and future expected returns from investment in areas such as environment-improving technology and the use of recyclable raw material.

It shows that SA companies reported the lowest return from past investment in environment-improving technology. And this investment is not enough to compete globally.

To compound the problem, recent draft legislation suggests that SA is adopting the US regulatory approach. Although there are individual examples of environmentally progressive companies such as 3M and McDonalds, US manufacturers show lower returns.

This could reflect a regulation-driven approach to the environment. In other words companies act to comply with regulations rather than to exploit cost savings and see lower direct benefits from investment.

The US was particularly weak at recycling products which is reflected in the high failure rate of recycling programmes.

The European model is incentive-driven (giving companies tax breaks for environmental investments) which elicits a greater response and higher projected returns.

According to the survey, Mexican and Japanese companies have achieved the highest returns from investment in environment-improving technology.

It would seem Japanese investment is driven by a focus on quality improvement to reduce manufacturing costs.

In Mexico, often regarded as the environmental laggard, the incremental returns from environmental investment are high.

Expected future returns were highest for Japan and Mexico with the US falling below the ranking for even SA.

□ *Hatch is a management consultant with Gemini Consulting.*

Malawi in drive for foreign funds

BD 23/7/99 (180)

SA features strongly in plans to build industry

BLANTYRE — Malawi, which traditionally relies on farming as its mainstay, is striving to build a manufacturing base and attract more foreign investors, including South Africans.

The climate has been worsening, and sub-Saharan commercial farming faces severe marketing difficulties.

The National Investment Promotion Agency has, since 1994, attracted more than $78,2m in foreign investment, 85% of all foreign investment, through 53 investment projects.

Agency director Watipaso Mkandawire says another $200m in foreign investment is in the pipeline.

SA companies feature heavily. In one of the biggest deals, Standard Bank of SA is buying 72% of IndeBank Finance which will bring $40m into the country. SA's Investec is to help finance building of a shopping centre in the capital, Lilongwe, in which SA's Pep Stores will be a major tenant. The total value of these deals is $$9,8m.

Illovo Sugar of SA is setting up a factory in competition with the previously state-owned Sugar Corporation of Malawi (Sucoma).

These new projects are expected to create 6 000 jobs which are sorely needed as there are 200 000 new job seekers each year, most of whom have little chance of finding work.

The agency realises there is a danger that investors will pull out because of the worsening economic situation. To minimise the effect of this, it is encouraging labour-intensive investment projects, after advice from SA economic consultants, the World Bank and other agencies that investment can be drawn away from the two main regional destinations — SA and Mauritius — because their labour costs are high.

"We have been working with the World Bank and other consultants. We should concentrate on labour-intensive industries. We can get investment from SA and Mauritius where labour costs are high," says Mkandawire. SA consultants say Malawi's low-cost labour is disciplined because it lacks strong union activity. In addition, there is good agricultural land and water supply and a favourable climate, all of which give the country a distinct advantage. — AIA.

SA fails test in top survey on rivalry

~~232~~ (180)

COMPETITIVENESS

By MARCIA KLEIN

DESPITE retaining its place in the latest World Competitiveness rankings, SA remains one of the least competitive of the 47 major countries in the survey.

The World Competitiveness Yearbook, issued by Swiss-based IMD and arguably the most influential competitiveness scoreboard, ranks SA 42nd out of 47 countries. The only countries below SA are Colombia, Poland, Venezuela, Indonesia and Russia.

The US retains its top position, followed by Singapore. China and Hong Kong, however, slipped to seventh position from third place last year.

According to the results, SA fared really badly on a number of issues. It was ranked weakest or near-weakest in terms of unemployment, skilled labour, the brain drain, discrimination, industrial relations and labour regulations. It was ranked very weak on the question of whether harassment and violence seriously destabilise the workplace.

The IMD report says the SA economy "has not yet solved the problem of spreading economic development to a wider part of the nation". It says SA's competitiveness has been affected by unemployment, violence, and uncertainty created by the imminent retirement of President Mandela.

ST (BT) 27/4/99

42ND MOST COMPETITIVE

FM 30/4/99

(180)

It lacks a certain something

It could have been worse, but only by five places. For the second year, SA ranks 42nd out of 47 countries in the Institute for Management Development's *World Competitiveness Yearbook*. It stayed at 44th for the two years before that, after coming 43rd in 1995. Eight factors were assessed:

- The SA economy: up five places to 35;
- Internationalisation: up three to 42;
- Government: down one place to 32;
- Finance: down one to 32;
- Infrastructure: up one place to 34;
- Management: up three places to 35;
- People: down one place to 47; and
- Science & technology: down five places to 44.

SA's human resources came last for the first time this year, after hovering in 46th place since 1995.

Since 1995, according to the IMD, SA has gained ground in only three areas: the domestic economy ranks seven places higher, and government and management are up three each.

SA is four to five places down in all the other areas, except science & technology, where it has fallen 13 places.

Two-thirds of the verdict is based on statistics and the rest on opinion surveys. Is it an accurate assessment? Hard to say. But good publicity it isn't. ■

Privatisation bid a blow to poor, says opposition

BLANTYRE — The Malawi opposition electoral alliance criticised President Bakili Muluzi's government yesterday for going on a privatisation drive at the expense of the nation's poverty-stricken citizens.

Gwanda Chakuamba, presidential candidate for the alliance, said it was unfair to the majority of Malawians for government to, for instance, sell off the agriculture development and marketing board, the country's principal crop buyer.

"This will lead to an increase in food prices. It's like government selling off its own stomach," he said.

Chakuamba, sentenced to 22 years' jail after falling out of favour with former president-for-life Hastings Kamuzu Banda in the 1970s, said the former government set up the board to control prices of crops, especially the staple food, maize.

"In private hands, the (board's) central policy will be to make a profit, not to service the poor — that will see maize prices spiralling," he said.

Chakuamba promised that once in power after the May 25 elections, an opposition government would see to it that the board was returned to the government stable.

– Finance Minister Cassim Chilumpha confirmed everything was in place to privatise the board. However Chakuamba called that "suicidal", saying the government was prematurely accepting everything donors like the World Bank and International Monetary Fund suggested.

Running mate Chakufwa Chihana decried rising unemployment in the wake of privatisation. —Sapa-DPA.

Nigerian privatisation finally gets under way

William Wallis

Financial Times

LONDON — Nigeria's military government has issued a decree paving the way for privatisation of electricity, telecommunications, oil refining and other companies.

The announcement, made this week at a Financial Times seminar on Nigeria in London, comes after months of uncertainty about compliance with one of the main conditions of the agreement with the International Monetary Fund.

A senior economic adviser at the presidency, Nasir Ahmad el-Rufai, who has been a leading advocate of privatisation, told delegates that Nigeria's ruling Provisional Ruling Council had approved an enabling decree on Monday.

Many Nigerians suspect a last-minute attempt by the outgoing ruling generals to profit from the sale of state assets, but in an attempt to allay these fears, el-Rufai said that the process would be left to the government of the president-elect, Olusegun Obasanjo, which assumes office in three weeks.

"We are convinced that the only way to sustain support for the programme is to implement it with total transparency and accountability. The delays were the result of this deliberate effort," he said.

Nigeria has more than 1 500 state-owned companies, and they have cost the country 200-billion naira a year, equivalent to a third of the federal government budget. The sale of the state power and telecommunications companies, as well as the oil refineries, is seen by the private sector as a vital step to economic recovery. It may also be key to the survival of a democratic system in Nigeria after 16 years of military rule, said el-Rufai, who pointed out that the head of state had the power to appoint more than 4 000 directors, members of boards and executives of the largest corporations.

"This patronage power is enormous, and constitutes the main attraction of holding political office in Nigeria and one of the causes of our political instability," he said.

El-Rufai also disclosed that the 1999 budget deficit had already reached 60-billion naira in the first quarter of 1999, and could reach as much as 200-billion naira by the year's end. The government had planned to finance at least a part of this through the privatisation process. However, infighting about control of the programme, and resistance from individuals who derive influence from state ownership, has led to months of delays.

The privatisation decree includes provisions for the sale or commercialisation of 61 state companies in which the government has invested about $70bn.

At the seminar, many delegates, including el-Rufai, argued that the sale of government shares in the oil-producing joint ventures was inevitable both as a means of raising badly needed revenues and to solve funding problems in the sector.

FM 18/6/99 (180)

INTERNATIONAL COMPETITIVENESS

THE GOVERNMENT CONTRACTS BUSINESS TO MAKE BUSINESS

Trade & Industry turns to the private sector at last

A small Argentine company becomes a large exporter by adding a single ingredient to a jam-filled biscuit. A llama-wool weaver in Buenos Aires creates a fashion craze in New York. These are stories SA exporters wish they could dine out on more often.

The opportunity may be beckoning, as the Department of Trade & Industry (DTI) launches a R100m Competitiveness Fund this week. In doing so, it will be breaking with entrenched DTI behaviour. For the fund will be the first scheme that the department, which has always favoured a centralised approach, has contracted out — outsourcing the fund management to a consortium of four consultancies. The contract confirms the DTI's stated commitment to partnership between the public and private sectors. But it may also be a tacit acknowledgment that the department lacks the staff and resources to put some of its vision into action.

With the equivalent of about US$17m to disburse, SA's Competitiveness Fund is the second biggest cost-sharing grant scheme ever. The biggest, Argentina's $25m export promotion scheme, was concluded last year by the private sector Trade Development Institute of Ireland (TDI), which specialises in this kind of scheme.

The SA management contract was awarded at the end of last year to a consortium of four consultancies: TDI, Labat Africa (formerly Labat-Anderson), KMMT Brey and Tru-South. The national launch of the fund was to take place on Thursday and the first grant, to a manufacturer, was to be finalised this week.

The money comes from a World Bank loan facility of roughly $70m raised in 1996 by the DTI and earmarked for three projects, of which this is the first. The DTI has given the fund R100m to disburse in the form of cost-sharing grants — a technique increasingly being used to stimulate innovation. The idea is to make 50% grants available to companies who undertake "market-led development projects aimed at international competitiveness".

The scheme is open to private-sector manufacturing and service companies that may want to export more competitively or compete more effectively with foreign firms in the local market. Companies of all sizes qualify, though 60% of the grants will go to small, medium and micro enterprises.

Nahor Meenan, Competitiveness Fund manager and co-founder of TDI, says the sort of company which typically gets best value from this type of scheme is a medium-sized firm with a track record.

There is no "perfect project", as companies' needs differ. But Meenan expects the grants will typically be used in areas like quality management, quality certification, product development, and related production engineering (see table).

"Competitiveness is an abstract notion," says Meenan in an immaculately measured Irish lilt. "In the end, it's a measure of how successful companies are in the marketplace."

"Success can be measured in four ways: improved market share; higher sales; reaching new markets and upgrading product quality," says fund regional manager Martin Dellavedova, who was part of the Argentine scheme.

One example of that scheme's success was Nutriciom De Vida, a small company that manufactured a jam-filled biscuit called an *alfajor*. The company approached the Argentine export development scheme for assistance. They decided to upgrade the *alfajor* by adding enough protein to meet a child's daily requirement, and the scheme offered a grant, most of which was spent on product testing. The company's break came when it became a supplier to the UN, which uses the product to supplement disaster aid packages.

The fund also enabled a Buenos Aires firm that makes llama wool jackets to break into the New York market, where they became a popular fashion statement.

There's no reason why SA shouldn't generate similar success stories; cost-sharing grant schemes don't vary much from country to country. The process is

DIAMONDS AND THE CSO

RUSSIA'S DIAMOND RUSE

Gem sales planned

Russia's Finance Ministry is getting ready to sell on world markets a stockpile of diamonds worth up to US$1,5bn. The stones are being released for export because they allegedly have "special qualities" that make them unsuitable for jewellery.

But this technical classification, once developed for electronics and military applications of diamonds, is a ruse Russian officials are using to evade their trade agreement with De Beers, which bars any export of rough for gem cutting outside the single marketing channel of the Central Selling Organisation (CSO).

Sources within the Russian Premier's office, which has been studying the project for more than six months, say a new export company has been created, called Russian Special Technologies (RST). It has been supplied with diamonds from the State stockpile, supervised by Deputy Finance Minister German Kuznetsov.

Several weeks ago, Kuznetsov endorsed a request from RST to begin exporting the low-carat diamonds. First Deputy Prime Minister Yury Maslyukov disapproved of this, but his objection was removed with his dismissal on May 12.

His successor, Nikolai Aksyonenko, is said to be personally much closer to the Kremlin than Maslyukov and, according to the Russian media, much more likely to use the sale of State assets to generate funds for President Boris Yeltsin's plans for

CORRECTION

CHRISTO WIESE

In last week's report on the Basle Committee's proposals on banking practices (*Economy & Business*, June 11, page 45), a photograph of Pepkor chairman Christo Wiese was erroneously printed in place of his namesake, the head of banking supervision at the Reserve Bank. The *FM* regrets the error. ■

straightforward: a firm would simply approach one of the fund's offices.

"We go to meet the company, we discuss the project. If they want our help we'll help define the problem, suggest solutions and approaches and develop a project which meets their needs and would be eligible for a grant," says Meenan. The fund's services are free of charge, but the company doesn't have to enlist the fund's advice if it prefers its own consultants.

After the fund has approved a project, the company implements it and gives the fund evidence of completion and payment. The fund then reimburses it for 50% of the agreed cost of the project. "The essential element is that the company has complete ownership. And because it is paying for the project, the company requires good value and effective input," says Meenan.

The fund can award up to R600 000, implying a maximum project cost of R1,2m. Is this enough to make a difference? Easily, says Dellavedova. "Of the 1 100 projects initiated in Argentina, the average grant amount needed was $27 000 (about R160 000). The limit was $125 000 (R750 000)." The reason is the nature of the expenditure. The fund covers management projects; not capital costs or recurrent costs like salaries. Management fees cost less and go further.

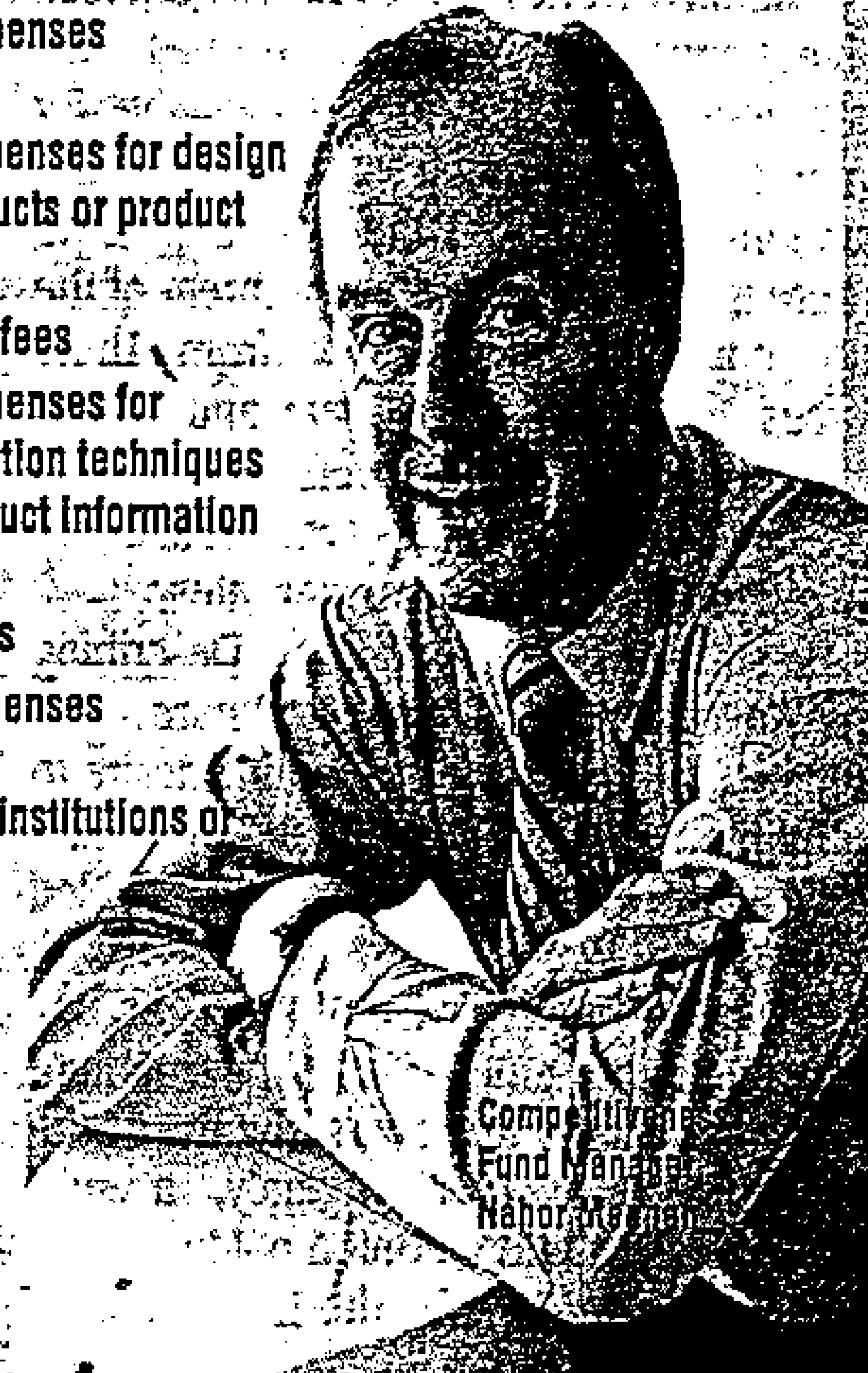
The fund will have a three-year lifespan. "A cost-sharing grant scheme is a technique used for impact and change," says Meenan. "If it exists for longer than 3-5 years, it tends to become tired and, in effect, becomes a subsidy; it loses its impact and punch."

Belinda Anderson and Adrienne Roberts

LINING UP THE GRANTS

Eligible activities and costs

ACTIVITIES	COSTS*
Market research (by outside consultants)	Consultancy fees & expenses
Market visits	Travel costs (economy air fares, public transport fares) to potential or existing customers, subsistence
Advertising & promotion	Consultancy & design costs
Sales brochures, Website development or promotional videos	Consultancy & design costs
Bringing customers to SA	Travel costs to customers (air fares, public transport) subsistence
Quality management improvement	Consultancy fees & expenses for installing or improving quality management systems
Acquisition of quality standards	Consultancy fees & expenses
Product development	Consultancy fees & expenses for design audits, designing products or product ranges
Product testing	Testing organisations, fees
Production efficiency	Consultancy fees & expenses for improvement of production techniques Fees for design of product information systems
Packaging design	Design fees & expenses
Service development grants	Consultancy fees & expenses Market research Study tours to suitable institutions or organisations Promotional materials
TRAINING TO BUILD COMPETITIVENESS *Product development *Marketing *Production management *Quality management *Study tours	Course fees Travel



*this list is not comprehensive

SOURCE: COMPETITIVENESS FUND

the parliamentary elections in December and the presidential poll in June next year. Kuznetsov's role as a paymaster for electioneering during the 1996 presidential campaign was revealed in published wiretaps of his and other telephones that year.

An informed source claims Kuznetsov has deliberately fudged the parameters of light-transmission, optical density and ultra-violet wave absorption to allow gemstone-quality stones to be included in the category for export, known as special quality stones. The prices for these stones, apparently way above those for industrial stones, are a further indication that they are of actual gemstone quality.

The diamond policy decree Yeltsin issued in July 1997 forbids the sale on consignment of gem-quality rough, or semiprocessed rough, to cutting factories in Antwerp, Israel or India.

That consignment trade — called leakage by De Beers officials — was valued at about $500m/year and had continued for several years before De Beers managed to get the Russian government to agree to stop it.

The trade agreement, which the Russians and De Beers renewed last year, forbids consignment exports and preserves the CSO's exclusive position.

Government officials say sections 3 and 5 of the Yeltsin decree allow exports of "diamonds with special qualities" if the Kremlin gives its approval. Kuznetsov has refused to answer questions about the quality of the diamonds, and about permitting RST to export them. According to the insider, categorising the diamonds this way provides an easy method for restarting exports of diamonds for jewellery production outside the CSO.

Under the trade agreement with De Beers, Russia's exports may not exceed 26% of the CSO's sales each year. When the total fell 28% in 1998 to $3,3bn, the ceiling on Russia's rough exports dropped to $870m. About a quarter of that amount came from State stocks.

Kuznetsov has refused to say what share of this year's total Russian shipments to the CSO will come from the State.

To mollify the Russians, De Beers officials agreed in London earlier this month to buy $100m worth of diamonds above the quota level.

If Kuznetsov does attempt to break out of the CSO trade limits, the new supply is likely to disrupt the CSO's market strategy of curtailing supply and firming price, especially in the volatile lower-carat market.

John Helmer, Moscow

State launches R100m fund for business competitiveness

CT(BE) 18/6/99 (180)

Bontle Headbush

Johannesburg – The trade and industry department launched the R100 million Competitiveness Fund yesterday, a cost-sharing grant scheme aimed at promoting the competitiveness of South African business.

This cost-sharing grant scheme, the second biggest of its type in the world, would assist companies in gaining competitiveness by granting them an amount of up to R600 000 to enhance their development projects.

All private sector companies were eligible to apply for the grant equalling 50 percent of the total cost of their project, regardless of their size.

Since this was a grant, and not a loan, the security or control element for the funders of the scheme would be that companies paid the full cost of the activities in advance and only claimed the 50 percent payment afterwards against proof of payment.

Nahor Meenan, a manager of the fund, said: "A company will not pay good money for something that is foolish, so by making the company pay for the whole cost of the project and reimbursing them only after completion ensures that the company undertakes results-orientated development projects."

Clem Sunter, a director at Anglo American, said the fund would help develop the country's small, micro and medium-sized (SMME) sector, and enable it to penetrate export markets and drive the process of job creation.

"We have to change the current nature of capital distribution in the country and focus it on the SMME sector because this sector is the future engine for the creation of growth in the country," Sunter said.

The fund, financed fully through a R100 million World Bank loan, would have a three-year life span and provide grant assistance for private sector enterprises through a single grant or through multiple applications. However, it would not support either capital investments or recurrent costs.

"Although the normal user of such a fund would be a business that already has a track record and the ability to finance its own projects, it also won't exclude start-up businesses," Meenan said.

"An applicant could use the grant approval as a form of security when applying for a loan from the bank to carry out the project."

Management of the project was subcontracted by the trade and industry department to a consortium of four private sector consultancies.

These included KMMT Brey (SA), Labat Anderson (SA), Trade Development Institute of Ireland (Ireland) and Tru-South (SA).

Fund will boost global competitiveness

(180) BD 18/6/99

Patrick Wadula

THE competitiveness fund, a multi-million-rand grant scheme aimed at improving the global competitiveness of SA private sector companies, was launched yesterday.

The fund, with a three-year lifespan, is an initiative by the trade and industry department, which was granted a R100m loan by the World Bank to boost competitiveness among SA companies through the use of foreign and domestic development services.

The trade and industry department has subcontracted the management of the fund to a consortium of four private sector consultancy firms that include KMMT Brey Chartered Accountants, the Trade Development Institute of Ireland and SA's Tru-South.

World Bank country director for SA, Pamela Cox, said yesterday the central objective of the new fund was to help alleviate burgeoning unemployment. "With only 30% of the poor having jobs, everybody recognises the urgency in unlocking this door to poverty alleviation," she said.

Competitiveness Fund manager Nahor Meenan, left, and Word Bank country director (SA) Pamela Cox at the launch of the fund yesterday. Picture: ROBERT BOTHA

Fund manager Nahor Meenan said the fund, a cost-sharing grant scheme, was an internationally proven technique for stimulating change and innovation.

It would not support either capital investments or recurrent costs such as salaries or rents.

It was a grant for company development projects that focused on penetrating export markets or on enhancing their market share in the domestic market.

A broad range of services would be covered by grants and eligible companies could be from both manufacturing and service industries. A company could receive up to R600 000 in assistance, said Meenan.

The scheme would guard against misuse by insisting on a 50% contribution by the firm itself and by paying grants only on a reimbursement basis, conditional on meeting certain agreed obligations.

Mbeki aims at competitive SA

ARG. 5/7/99

(180)

INDEPENDENT FOREIGN SERVICE

Durban – Addressing 800 business leaders at the World Economic Forum's southern African summit here, President Mbeki committed the Government to further opening up the economy and increasing competitiveness.

This would include a review of elements of the labour market,he said yesterday.

"We will take new initiatives or enhance the impact of existing policies further to open up the economy,to modernise it and to make it internationally competitive," Mr Mbeki said in his first key address to the international business community since becoming president.

"This will relate to such issues as raising our investment and savings ratios, competition policy, a focus on key sectors of the economy, the development of small, medium and micro-businesses, the promotion of public-private partnerships, the restructuring of state assets and a review, with our social partners, of elements of the labour market."

Turning to the region, he said he was convinced that Parliament would ratify the Southern African Development Community trade protocol in time for it to be implemented by January 1, 2000.

His government was determined to transform the region into a free trade area. South Africa would soon be presenting a five-year integrated regional development plan to its SADC partners.

BD 9/7/99

Business conditions improving

(180)

CAPE TOWN — The poor business conditions in the manufacturing sector are bottoming out, according to the Bureau for Economic Research at Stellenbosch University.

The bureau, in its second-quarter survey of the sector, said that while the year-on-year decline in domestic sales and order volumes had persisted, the situation was less serious compared with the first quarter and respondents expected the improvement to continue in the third quarter.

"The same is true for export sales and order volumes... and prospects for demand conditions are improving," it said.

The bureau said current conditions were still far from satisfactory. It cited production cutbacks that were continuing but at a reduced rate. It said the factory employment situation remained more or less stable and working hours had not changed.

"The decline in volumes has apparently come to an end as the sector embarks on the recovery road."

The bureau said the generally peaceful and stable June elections should be a boost for political stability that could have a favourable effect on business confidence. —Sapa.

Labour, crime drag SA down global index

(180)

Ranking on World Economic Forum competitiveness scale slides to 47th

BD 14/7/99

John Dludlu

SA WAS ranked 47th in terms of global competitiveness yesterday, dropping five places from last year's position, and was seen by global executives as one of the five least secure countries of the 59 surveyed in this year's study.

The 1999 edition of the Global Competitiveness Report, published yearly by the World Economic Forum and the Harvard Institute for International Development, placed SA last in terms of labour practices such as firing and hiring workers, labour relations, work ethic and labour regulations.

The labour component of the competitiveness index — which is made up of eight indicators — seeks to measure the efficiency (ease of hiring and sacking workers) and competitiveness of the country's labour market, including costs relative to international norms.

Responding to SA's placing in 59th position in this category — suggesting competitiveness problems in the labour market — Themba Mhlongo, chief director for industry and technology strategy at the trade and industry department questioned the basis of this ranking. He recalled a recent report by the International Labour Organisation which noted that SA's labour market was not as onerous as often thought.

Other indicators making up the competitiveness index are management, institutions, the state's role in the economy, the trade and investment regime as well as infrastructure. The index seeks to show that competitive countries are those that have underlying economic conditions to achieve rapid growth over a number of years.

The study forecasts that SA, ranked 45th in growth terms, will have 2,3% annual gross domestic product growth per capita in the period 2000-2008.

This year's study added six more countries, with Mauritius making its debut in 29th position.

Zimbabwe slipped to 57th position from the 51st slot it occupied in the previous two years.

Competitiveness – 1999 rankings

Country	1999	(1998)	(1997)	(1996)
Singapore	1	(1)	(1)	(1)
US	2	(3)	(3)	(4)
Hong Kong	3	(2)	(2)	(2)
Taiwan	4	(6)	(8)	(9)
Canada	5	(5)	(4)	(8)
UK	8	(4)	(7)	(15)
Australia	12	(14)	(17)	(12)
Malaysia	16	(17)	(9)	(10)
Chile	21	(18)	(13)	(18)
Germany	25	(24)	(25)	(22)
Mauritius	29	(n/a)	(n/a)	(n/a)
Thailand	30	(21)	(18)	(14)
China	32	(28)	(29)	(36)
Indonesia	37	(31)	(15)	(30)
Turkey	44	(40)	(36)	(42)
SA	47	(42)	(44)	(43)
Egypt	49	(38)	(28)	(29)
Brazil	51	(46)	(42)	(48)
Zimbabwe	57	(51)	(51)	(n/a)
Russia	59	(52)	(53)	(49)

KUBEN DAVID Source: GLOBAL COMPETITIVENESS REPORT 1999

The authors note that poor performers like Zimbabwe are characterised by low rule of law, uncertainty of property rights and poor infrastructure.

Singapore maintained its leading position as the most competitive country ranked, with Russia taking the dubious honour of being the least competitive.

The authors of the report, including outspoken Harvard University academic Jeffrey Sachs, justify their continued choice of Singapore on the basis of its high savings and investment rates, open trade regime, fairly high quality education and a flexible labour market, as well as an efficient government supported by low marginal tax rates.

SA ranks 58th for organised crime — beating Colombia — as one of five countries where organised crime "imposes significant costs on businesses".

The report also includes a microeconomic index which highlights the importance of microeconomic factors in competitiveness. Using this measure of company level practices, it ranks SA favourably at 26 (its 1998 ranking was 25th) and notes competitive advantages as including the quality of port infrastructure, stock market access and financial market sophistication. Disadvantages, though, include adequacy of schooling years, personal safety and quality of scientists and engineers.

Government cautiously welcomed the report as a "wake up" call, but Mhlongo pointed out weaknesses in the survey's methodology, including the fact that people's views were used as the basis of ranking a country.

While useful in raising an alarm, the report did not contribute to policy-making, he said.

With labour and business partners, government was working on an alternative competitiveness benchmark that would widen the scope of indicators used in measuring competitiveness, he said.

The report's findings prompted calls for a shift in government's industrial policy. Ben van Rensburg, economic policy director at the SA Chamber of Business, called for an education policy designed to encourage people into value-added economic sectors such as hi-tech industries.

Mike Schüssler, an economist at FBC Fidelity, called for rigorous implementation of Gear, government's macroeconomic framework and an industrial policy that used supply-side measures to support small businesses.

He also suggested a shift into growth sectors such as tourism and electronics from the focus on heavy industries.

This study follows two pieces of bad news for South Africans: IMD, a Swiss-based school, published a competitiveness report this week showing that SA suffers a big brain drain; while SA dropped 12 slots down the United Nations' human development index.

Police force the most ineffective of all 59 surveyed

SA slips in global competitiveness

CT (BR) 14/7/99 (49) (180)

Lukanyo Mnyanda
Economics Editor

Johannesburg – South Africa had slipped five places to 47 out of 59 countries in the World Economic Forum's (WEF) latest global competitiveness report.

It was dragged down by low scores on the key indices of crime, unemployment and the effectiveness of its public sector, the organisation said yesterday.

The country was among the top five countries in which the police did not effectively safeguard personal security and organised crime imposed "significant costs" on business.

Its police force was found to be the most ineffective among the countries surveyed. On this score it was grouped together with countries such as Russia, Colombia, Venezuela, Mexico and El Salvador.

Jeffrey Sachs, the co-chairman of the advisory board of the report and a director of Harvard University, said it ranked countries according to the presence of factors conducive to sustained economic growth.

"A healtny market economy is a sine qua non of competitiveness, with private sector-led growth, rule of law and well functioning markets as keys."

South Africa was ranked at the bottom on the politically sensitive issue of labour regulations, a result that should strengthen the hand of the opponents of the government's labour laws.

The country fared slightly better on employment levels, with its unemployment rate of 29,3 percent the third highest among the 59 countries.

The WEF said South Africa had been among the worst performers on most issues related to labour, coming at the bottom of the pile in labour/employer relations, work ethics and hiring and firing practices.

Its labour force was among the least skilled, coming in second last on average years of schooling.

But it was not all gloom, with South Africa's financial markets and physical infrastructure getting top ratings. The stock market was rated in the top 10 while domestic air travel was deemed to be the cheapest among the 59 countries.

Rudolf Gouws, the chief economist at Rand Merchant Bank, said the report was "just another reminder" of the need for the government to stick to and implement its market-friendly economic policies in the growth, employment and redistribution (Gear) strategy.

Crime, education and social stability were among the challenges facing the government.

Mike Schussler, an FBC Fidelity Bank economist, said: "The crime (safety and security) and justice ministers have their work cut out. The time for talk is over."

1999 competitiveness rankings

RANK 1999	(1998)	
1	(1)	Singapore
2	(3)	United States
3	(2)	Hong Kong
4	(6)	Taiwan
5	(5)	Canada
6	(8)	Switzerland
7	(10)	Luxembourg
8	(4)	United Kingdom
9	(7)	Netherlands
10	(11)	Ireland
11	(15)	Finland
12	(14)	Australia
13	(13)	New Zealand

RANK 1999	(1998)	
47	(42)	South Africa
48	(39)	Vietnam
49	(38)	Egypt
50	(45)	Venezuela
51	(46)	Brazil
52	(50)	India
53	(n/a)	Ecuador
54	(47)	Colombia
55	(n/a)	Bolivia
56	(n/a)	Bulgaria
57	(51)	Zimbabwe
58	(53)	Ukraine
59	(52)	Russia

Our ability to compete

South Africa's ability to compete with the rest of the world drops to 47 out of 59 countries, but this assessment may be challenged, writes **Sharon Chetty**

(180) Sowetan 14/7/99

SOUTH Africa's ability to compete with the rest of the world has once again been ranked at the lower end of the scale, with this year's rating showing a a further decline in standing.

The annual Global Competitiveness Report (GCR), compiled by the World Economic Forum (WEF) in conjunction with the Harvard Institute for International Development, has ranked South Africa 47th out of a total of 59 countries surveyed. South Africa dropped from 42 last year.

Mauritius, Egypt and Zimbabwe are the only other African countries to be included in the survey.

The island state was placed 29th but since it was not on last year's list, there is no immediate comparison. Egypt went from 39th to 49th place, and Zimbabwe from 51st to 57th.

Number one in the world is Singapore, followed by the United States, Hong Kong, Taiwan and Canada.

Despite the Asian markets crisis, the prognosis for the economies of Singapore and Hong Kong was that the economic conditions essential for long-term growth had not declined dramatically.

The rankings are calculated, in addition to quantitative data, with information gleaned from a major survey done in January and February by the WEF, which measures the perceptions of leading business executives about the country in which they operate.

This year about 4 000 executives responded from the 59 countries. The eight categories under which information is classified are: openness to foreign trade and investment; government policies and expenditure; the stability and efficiency of the financial markets; infrastructure like quality of roads, ports and railways, cost of air transport and telecommunications; technology, especially computer usage; quality of management; the efficiency and competitiveness of the domestic labour market; and the quality of legal and other institutions, especially in relation to their vulnerability to corruption and organised crime.

South Africa's per capita gross domestic product (GDP) growth was minus 1,4 percent, with unemployment at 29,3 percent, compared with Singapore, whose growth was 0,1 percent and unemployment 2,4 percent.

Granted that society is smaller (with a 3,5 million population) and does not have such an unstable recent history as South Africa. Nevertheless, it is worth comparing the two to understand just how much of a backlog South Africa still is.

While the local agenda is geared to addressing the basic inequalities in society, there is still pressure to improve the technological and other needs that will make the country more globally competitive.

South Africa's spending on research and development, as a percentage of GDP, is 0,7 percent as opposed to Singapore's 1,1 percent, in a country where there are already 315,5 computers per 1 000 people (locally there are a mere 31,4).

When examining a balance sheet of competitiveness for South Africa, the liabilities outnumber the assets in the report. In several sectors, the negatives outweighed the positives.

While collective bargaining and unemployment insurance schemes were seen as pluses for labour, the unemployment rate, strikes, minimum wage regulations, lack of schooling, hiring and firing practices, work ethic, labour regulations and labour-employer relations were listed under the liabilities.

In the finance sector, stocks and bond markets, sophistication of the financial market, soundness of banks, entry into the banking industry and financial regulation and supervision were among the positives.

Change in gross domestic savings, interest rates, high financial sector risk rating and low gross domestic investments and savings are the negatives.

As far as infrastructure is concerned, the cost of domestic travel, railroads, ports and air transport are seen as the assets, while only the low number of telephone lines (compared to more developed countries) and lack of investment in infrastructure were seen as problems.

In the technological sector, the use of electronic mail (e-mail) in corporations, access to the internet and licensing were seen as positives.

However, the country scored consistently badly when assessed on openness in relation to its export position, foreign exchange, average tariff rate, exchange rate alignment, cross-border ventures, index of capital controls, exchange rate volatility and access to foreign capital markets.

The Government got the thumbs down for the composition of its spending, tax evasion (most likely the losses suffered from the numerous businesses and individuals who do not pay), administrative regulations, general government surplus, civil service independence, public sector competence and government savings.

However, the exact nature of Government's transgressions are not spelt out.

In the examining of institutions, questions were raised about government commitments, additional payments, government favouritism, public sector contracts, institutional stability, organised crime and the effectiveness of the police force.

Besides a country like Singapore scoring highly for the education level of its workforce and for its technological advancement, it is worth noting that trust in politicians' honesty is among their assets.

The labour market is also more attractive for business, with unemployment insurance, strikes, labour-employer relations, regulations, work days lost to labour disputes, the social welfare system and minimum wage regulations not being seen as a problem.

Government influence, litigation against government and litigation costs are among the few liabilities of doing business in Singapore, according to the report.

Without doubt South Africa's ranking will be contested by the Government (it has been in the past) and questions will be raised about judging a fledgling democracy next to other economic superpowers.

It is also worth remembering that the views and perceptions of executives hold sway in the survey.

And in this country, the race of those who responded and the timing of such a poll (a few months before the general election, when there were major disputes over electoral procedures like the voters' roll) no doubt had a bearing.

Since less than 10 percent of Johannesburg Stock Exchange listed companies are black controlled, respondents are likely to have been mostly white males, and that will surely have had a bearing on the perceptions expressed.

SA records rise in real manufacturing wages

BD 6/9/99 (3ff) (180)

ILO survey finds that developing countries have high joblessness

Reneé Grawitzky

SA IS one of three countries in sub-Saharan Africa that have recorded a rise in real manufacturing wages since the 1990s, according to an International Labour Organisation (ILO) study on key labour market indicators released today.

The report, mapping 18 key labour market indicators in more than 200 countries, found that wage trends were diverse across the globe.

Most of the 83 countries from which data was received experienced unemployment rates greater than 7%.

Developing countries had particularly high rates of unemployment, while Spain had the highest (20%) among European countries.

Algeria and Botswana recorded unemployment rates in excess of 20% in Africa. Wages were rising steadily in major European countries, but were declining in all parts of Africa, except SA, Mauritius and the Seychelles.

The rise in European wages was evident in a comparison of hourly rates of 29 countries, which showed that Germany paid the highest ($28 an hour) as compared with $18 an hour in the US.

The lowest hourly rate was found in Sri Lanka ($0,48), followed by Mexico ($1,75). The lowest hourly rate in an industrialised country was paid in Portugal ($5,29), followed by Greece ($6,76).

Higher productivity levels might have compensated for higher wage rates in Europe, with the report indicating that labour productivity growth had increased at a faster rate than in the US.

Asian countries (excluding Japan) also showed significant improvements in productivity, particularly between 1980 and 1997, with production growing 2% faster than in the advanced countries.

Workers in developing countries still worked more than a 40-hour week. However, of the developed industrialised countries, US workers worked the longest hours, totalling nearly 2 000 a year. This contrasted sharply with Europe and Scandinavia, where the total for the year ranged between 1 399 and 1 552.

Workers in Singapore still worked the most of all countries (2 300), followed by Bangladesh, Sri Lanka, Hong Kong, Malaysia and Thailand.

In respect of sectors that were dominant in the various economies, the proportion of wage and salaried workers was highest in developed countries while very low in sub-Saharan Africa.

The southern Africa region was an exception, with more than 50% of employed people characterised as wage and salaried workers.

Employment trends worldwide shifted from agriculture and manufacturing to the services sectors. The shift was more pronounced in developed and transitional economies but less so in Africa and some Asian countries.

SA was one of a number of exceptions in sub-Saharan Africa, where the service sector was now responsible for at least half of total employment in the country.

The other countries were Botswana, Ghana, Kenya, Nigeria and the Reunion island.

In line with the growth in the number of casual workers, the report found that out of 43 countries, part-time workers were on the increase, with between 10% and 20% of those employed characterised as part-time workers. The Netherlands employed the highest number of part-time workers (29%).

Legal aid dries up in Malawi

BD 30\9\99 (180)

BLANTYRE — A combination of poor working conditions for lawyers and the rising cost of living means that free government legal services are not available in Malawi. Suspects who have been arrested usually wait for years to be tried.

Solicitor-general Steve Matenje admits that many staff in the ministry of justice have left because of low salaries. The ministry has 22 lawyers but there should be 100. Of these only 13 are available for court cases, either as public prosecutors or providers of legal aid to the poor majority. The legal aid department says it has no choice but to turn many people away.

Former chief advocate Viva Nyimba, who now runs his own law firm, says civil service salaries are meagre compared with those in the private sector, for example, $70 a month compared with $465. The only advantage of being in government, he says, is that one can get help with further education.

Nyimba's successor, Anaclet Chipeta says: "We have four advocates in Lilongwe and one in Blantyre. Because I am alone in Blantyre, I am almost in court almost everyday." Chipeta has a backlog of hundreds of cases, which include those left by colleagues who resigned from the government and joined the private sector. He says he cannot take on fresh cases unless it is apparent that a person needs urgent assistance.

Chief state advocate Gaston Mwenelupembe says that although the police are doing a good job of ensuring that those arrested are taken to court, the main setback is that prosecutors are not readily available.

"It is pathetic," he says. "The congestion in the prisons is related to how we do our work. But how do you keep a person in jail for four years — and he is not compensated when he is acquitted?"

High Court registrar Bitiku Quoto says of the 90 cases listed in the last session of courts, almost three-quarters were not heard because either the lawyers failed to appear or witnesses were not available.

The public relations officer for prisons, Liwewe Mahamadu, says there are about 3 000 people awaiting trial. The law society is setting up a resource centre to assist the ministry with free legal services. — AIA.