Davies notes infrastructure, productive capacity as barriers to overcome, writes Mark Allix

Is an African industrial revolution on cards?

RADE and Industry Minister Rob Davies says lack of infrastructure and productive capacity are the biggest barriers to trade within Africa.

To overcome this, he told the SA-Turkish Business Forum in Istanbul this week, Africans needed to launch a significant industrialisation drive, something he hints might soon be a reality.

But in the case of the continent's most powerful economy, rigid labour legislation, escalating fixed prices and reams of red-tape have had a negative effect on the functioning of markets.

Productive capacity in Africa as a whole is constrained by poor productivity, and distorted levels of competition, as a result of rampant bureaucracy and inconsistent policy implementation.

Unless red tape is cut and domestic markets are freed up, African companies will struggle to survive against imports from places such as Pakistan, India, China, Brazil and Turkey.

Tito Mboweni, former Reserve Bank governor and now chairman of AngloGold Ashanti, this week at the company's record results presentation lambasted the state for stultifying SA's mining industry.

"From time to time I get the sense of a tendency to regulate the



industry to death instead of regulating it in order to improve productivity and economic development," he said.

In this regard, there are also many material realities Africans need to take into account when making economic and industrial policies. Base industrial products such as cement often do not travel well, or cost-effectively, and investment in new plants costs billions of rand, with an investment horizon of up to 50 years.

This means political, legal and economic risks need to be

ameliorated, along with concerns relating to costs, timeous product delivery and quality.

"For construction projects it is critical that you use cement products that are fit for purpose," says Hanlie Turner, marketing manager at the Cement and Concrete Institute.

At a time when SA's biggest construction and engineering groups are seeking opportunities elsewhere in Africa, the costs of manufacturing and transporting cement and steel must be carefully weighed against a country's port

charges, tariffs, exchange rates and infrastructure budgets.

In addition, repatriation of profits, security of tenure and investment, employment of foreign expertise, and latitude in hiring and firing are critical elements in the global value chain.

In SA, primary steel maker ArcelorMittal SA has seen the cost of steel sales per ton rocket 19% of late, while major SA-based cement companies such as Pretoria Portland Cement (PPC) have seen regional trade dry up.

"As with any business, the cement industry needs to make a specific level of margin to generate adequate returns for its shareholders," says Kevin Odendaal, executive of corporate strategy and communications at PPC.

Margins are calculated by taking the product's selling price and deducting the cost of sales, of which transport is a significant portion, Mr Odendaal says.

He says the transport cost, which is about 30%, is high proportionately because cement is a low-value product, with a low selling price per unit of weight.

"The further you transport, the higher the cost, the lower the margin," he says.

While Mr Davies says there has generally been improved economic governance across Africa, which is "underpinning the fact that Africa is experiencing a growth spurt", he says Africa cannot continue to simply supply raw materials to fuel industrialisation elsewhere.

But while efforts are being made to bring down trade barriers across the continent, and to clarify everything from taxes to intellectual property law, difficulties and costs attached to cross-border and intercontinental trade remain considerable.

The South African government is insisting Kumba Iron Ore and ArcelorMittal SA supply the domestic industry with steel at "developmental prices".

But apart from eroding investor confidence, such a policy and the politics around it have only led the parties to court. Cheap steel to help downstream manufacturing will just make both Kumba and ArcelorMittal SA less competitive.

"We can't do things that will weaken our business," Arcelor-Mittal SA CEO Nonkululeko Nyembezi-Heita says.

"We would like to come to some sort of agreement with the government to make this price thing go away," she says.

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