

Logistics as a Catalyst for Economic and Employment Growth

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Context

South Africa (SA) desperately needs accelerated and shared economic growth to combat the triple challenge of inequality, poverty, and unemployment. Unfortunately, after a decade of economic mismanagement, the toolbox is bare: our fiscal position is denuded, the institutional and balance sheet capability of the state and the most important (Schedule 2) state-owned entities has been severely degraded, moral authority and trust have been destroyed, and the conceptual space and energy to craft and implement a unifying economic vision is at best limited. Our situation is made more onerous by the demographic youth bulge which should represent a dividend; instead we have high and rapidly growing rates of youth unemployment, offering a genuine existential crisis to our Republic. We need mature spaces and a collective long-term imagination. While we have big problems, we also have huge opportunities. So, how does this relate to the topic of logistics as an enabler of economic growth and employment creation?

Dutch-disease of the mind

SA consistently imports more than it exports, and our basket of exports (with a few notable exceptions like in Autos) tend to be relatively low value. We rely on commodities, and our industrial production base is narrow. And we have failed to demonstrate a credible ability to diversify our production base into high value manufactured goods and/or employment-intensive value chains with a competitive export orientation. This leaves us with a multi-faceted challenge, which I can't fully explore here. Suffice to say, we appear unable to imagine and commit ourselves to be a producer of high value-added/employment-intensive products to address directly or indirectly our dire employment challenge. The most devastating effect of the traditional 'Dutch-disease' may in fact be on the national imagination and imperative to act. Here I'm implicating both the state and big business. Our

political economy is geared to solve the needs of commodity producers and exporters. There's simply not enough agency in the fight for the design and investment into logistics for a small and nascent high value/employment product set with its export requirements. Our logistics capital expenditure will by necessity largely lock us into an existing path-dependent industrial policy.

The faraway land

A cursory glance at the world and SA map is revealing. SA is far away from the globe's major trade hubs: North America, Europe, India, China, South Asia, and South America. Intra-African trade is limited compared to other regions. We reside in a relatively poor neighbourhood, where both markets and competitive alternatives in value chains are small and constrained. Compounded by the not inconsequential practice of Import Parity Pricing with its downstream stunting effect, the gods have further conspired to give us a large geographical canvas (national and regional), and placed major population centres and markets inland and at altitude, all further imposing expensive logistics costs on the country and its producers. Then to add insult, we have the pernicious legacy of Apartheid spatial planning and its constraint on urbanisation, resulting in unnaturally high levels of population dispersion. The implication is stark: our goods must travel a far way.

SA is the default global gateway to several effectively land-locked countries in our neighbourhood. Their export competitiveness is presupposed by our national logistics system. We need to recognise and work with our neighbours to ensure that the design and operations of our mutual logistics interests are as efficient and cost-effective as possible. We are tied into an inescapable mutuality of competitiveness that covers the economic livelihoods of more than 200 million people.

Network infrastructure and the role of the state

In SA, there really is no logistics game without government. Government is the key role player in the provision of our stock of logistics network infrastructure. Roads, rail and ports all pretty much belong to the state. So too do important enabling bureaucratic processes like customs, tax collection, trade and related regulations, and the like. Competitive logistics is an inescapable part of national competitiveness. In this regard, the private sector largely plays on the field created by the state. The private sector relies on this network infrastructure for its operations. Unfortunately, we have several serious hurdles to overcome, some bequeathed by nature and history, and some by the pernicious acts of men.

Six corrective measures must be implemented immediately:

- Appoint serious technocratic, honest and empathetic leaders to the most important state-owned enterprises (SOEs) (this appears to have begun), and give them the political support and space to create genuine world-class institutional capability.
- Appoint serious technocrats to the government bureaucracy with a mandate to design and ensure our national logistics system supports our national competitiveness imperative and to act for the 'missing or nascent economic agents' in the national discourse.
- Create a mandate, framework and spaces for the private sector to effectively partner with the state in both the building of infrastructure and, where appropriate, the running of operations; and seriously harness the capability and imagination of the private sector.
- Remove bureaucratic hurdles to intra-African trade by inter-government relations.
- Ensure a system of accountability within the state to an 'imperative-narrative' that large-scale sustained job creation can only be facilitated by a diversification of our production base with an emphasis on export competitiveness for products that ideally have labour intensive and/or high-value economic chains (competing designs are short-term salves or fiscally dependent).
- Treat every fiscal Rand as sacred. And let no opportunity for employment creation and national competitiveness go unexplored and unexploited.

What we can do with an empathetic and capable state

Let's allow our imagination to run free for a moment with a capable state in the logistics arena. Five key opportunities can be exploited:

- Investment in increased/improved logistics network infrastructure and their respective interfaces (rail-port, road-port, road-rail etc.) to drive broad national competitiveness, but also for targeted geographies and commodities to drive employment-intensive growth (an example of which is explored below).
- Unlocking the African neighbourhood and intra-African trade by ensuring seamless bureaucratic process and efficient network infrastructure (part of our mutuality is of course bequeathed through the Cape gauge rail network).
- Training: Use our large SOE to train artisans at scale and beyond their narrow requirements; no TVET can compete with their 'live-laboratory' and scale; partnerships can be mandated/built in this arena.
- Programmatic Procurement:
 - Standardised specifications for all major fleet procurement with designated local suppliers and maintenance, repair, and operating supply (MRO) built into asset's useful life design;
 - Long-term logistics assets procurement with visibility; no panic and short-term rush procurement, especially not at scale; this requires much deeper hard infrastructure planning capability within the state;
 - Systematic and programmatic procurement to ensure every Rand of logistics-related investment is effectively spent;
 - This, in turn, allows for private sector investment in the manufacture of productive inputs like steel-derivative products and importantly ongoing maintenance capabilities to be optimally located in SA by virtue of a signalling and visibility effect; and
 - Optimise the degree of local content procurement into logistics network infrastructure.
- Commuter rail:
 - Integration of planning between commuter passenger rail and large employers to ensure safe, cost-effective transport to and from work (remember commuter transport in our spatial context also eats badly into disposable income in this country);

- › Free and/or subsidised transport on commuter rail for the unemployed (youth) to help with job search;
- › A strategic and investment plan to take us into the Green economy in logistics, to ameliorate potential risks to our 'tradables' from any moves based on our high carbon footprint; and
- › Harnessing of digital technologies to ensure better planning and operations of complex logistics systems.

Playing a big game: unlocking agri through logistics and partnerships

Agriculture has great employment intensity through the value chain. We should get serious about exploiting this. SA has large untapped productive agriculture opportunities that could create significant amounts of jobs. Unlocking this productive capacity is about, inter alia, logistics-related connections from distant parts of the country to global markets. Sophisticated cold and other high-value chains for speed, traceability, visibility, predictability, and lowest possible value-lowering stress to produce are key. It also means taking historical redress seriously. An obvious example: no honest scholar would dare to suggest that the success of large-scale agriculture in SA was achieved without the preceding

investment into enabling infrastructure by the state over a sustained period. We could contemplate an interesting game of partnerships between established agri-business, the state and new or emerging farmers in areas of the country with untapped potential or which have endured under-investment historically. Now, in some cases, this means a serious discussion around land rights. But large-scale logistics and network infrastructure investments by the state are key. So too is the role of large agri-business who are the only players who can secure the complementary inputs (credit, industrial organisation for farming operations, and global market access). Importantly we can unlock empowerment and employment at scale.

Conclusion

Logistics enables competitive connectivity with the world. Our employment imperative can only be solved by using logistics with complementary investment to drive a broad-spectrum diversification of the economy. We are a far away land with prohibitive logistics costs, but thankfully there are enormous untapped opportunities. Institutional reform is imperative, and of course, a capable state is essential. Without a committed state, the game is up. The private sector can be invited, cajoled, encouraged and crowded-in to the planning and implementation of a world-class national logistics system. Our employment future could be bright. We need a change in narrative.