

SECOND ANNUAL PUBLIC-PRIVATE DIALOGUE FORUM ON INFRASTRUCTURE PROJECTS

Tuesday, 17 March and Wednesday, 18 March 2015.
Hyatt Hotel – Rosebank – South Africa

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Second Infrastructure Projects Public-Private Dialogue Forum



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Plenary 1: Social and Economic Development through the Procurement and Implementation of Infrastructure Projects

March 17, 2015

10:45– 11:30

Presentation:

Derek Thomas, Chief Executive Officer, Letsema Consulting
Sipho Nkambule, Chief Executive Officer, Komati Basin Water Authority

Moderation:

Lynette Chen, Manager, CEO, NEPAD Business Foundation

Panellists:

Andrew Shaw, Associate Director, PWC
Kugan Thaver, SBU Head: Strategic High Impact Projects, IDC
Matthias Handschin, Director, Gibela





AGENDA

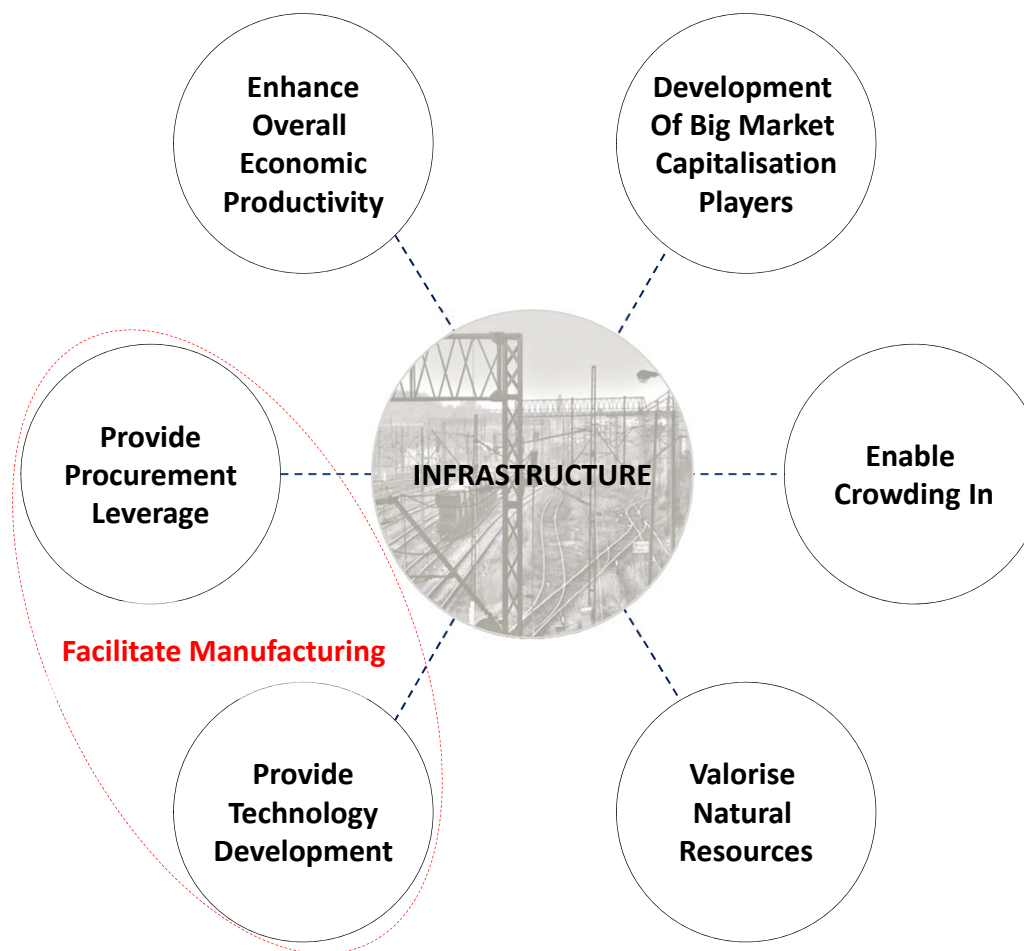


A	Effects of infrastructure development
B	Context
C	Enablers
D	Insights for SA & Continent



A

Infrastructure as a catalyst for development





A

Manufacturing is the “Zeus” of economic sectors



Sectoral Composition of Output Matters

- 1 The **faster the rate of growth** of manufacturing industries, the **faster the rate of growth of total national outputs**
- 2 There is a **strong positive correlation** between the **rate of productivity growth** in manufacturing and **growth of manufacturing output**
- 3 The **greater the rate of manufacturing output**, the more rapidly **labour** will be **transferred from other sectors** that are either characterized by diminishing returns or in which there is apparent or distinguished unemployment i.e. **inverse relationship between employment and output growth**
- 4 Industrial sector will automatically generate **increasing returns** if there is **factor mobility** and an **increase in its stock capital**

National Sovereignty is a function of Industrial Capability



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A Effects of infrastructure development

B Context

1 Industrialisation

2 Role of the State: historical view

C Enablers

1 Strategic intent

2 Investment

3 Time

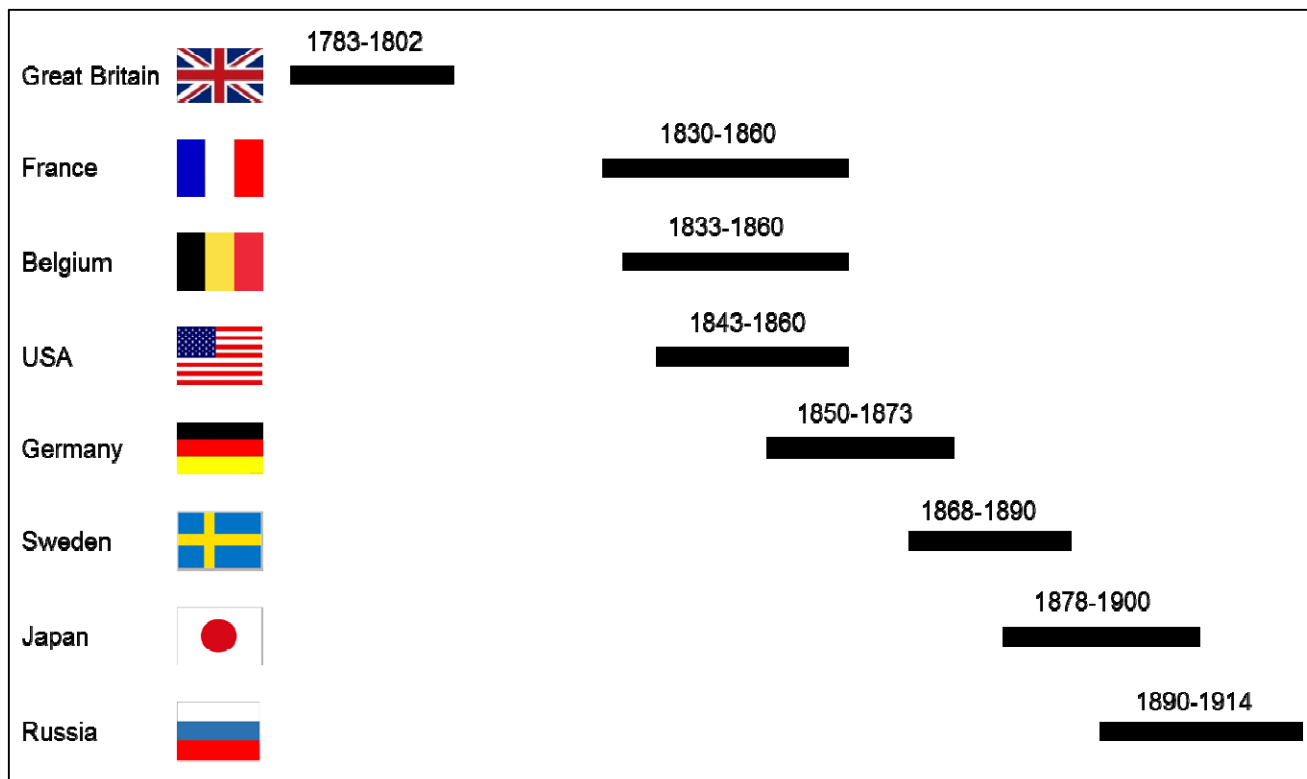
4 Finance

5 Competent State

D Insights for SA & Continent

1

Industrialisation: the first 150 years



Key insights

- Increased complexity of industrial products
- Increased number and size of players
- Increased incumbency power
- Formidable balance sheets, skills and IP
- Speed of innovation



1

Late industrialisation...

- Entrenching (or Chang's *"kicking down the ladder"*)
- Forced to engage with Global OEMs
 - *What do you have to offer?*
 - *What will they produce in your country? Will they offer you their leading technologies?*
 - *Global linkages ...may not be optimised for your country*
 - *Hard to discipline / exert influence over them (footloose)*
 - *Hard to bargain with and hard for your private sector to partner & engage with*



Your country's level of economic sophistication matters in the engagement



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A

Effects of infrastructure development

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Context

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Industrialisation

2

Role of the State: historical view

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2

Role of the State (Historical Examples)

**Telkom**

1

Prussia model factories set up by the state under Frederick the Great (late 18th century)

2

Meiji Japan (late 19th century) established State Owned Industries

3

POSCO – the **Korean** Iron and Steel maker...against all odds

4

Singapore Airlines – 57% State owned by Temasek

5

Taiwan (key industries should be owned by the State)
- SOE sector – 16% of GDP (1960 and 1970);
privatization started in 1996

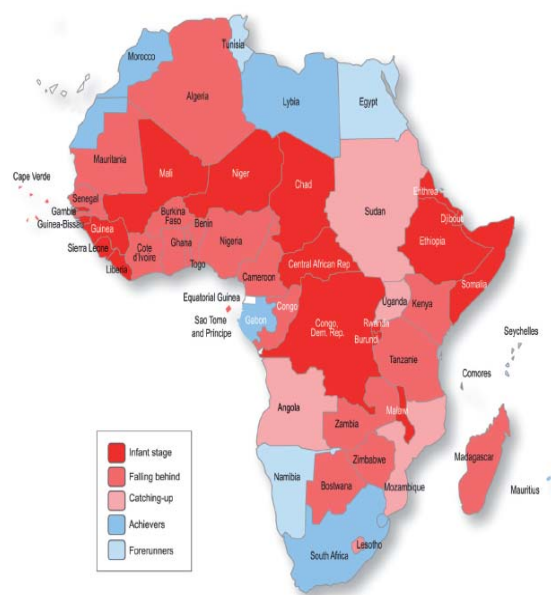
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Brazil – Petrobras, Embraer



2

Role of the State (Strategic Principles)



Source: UNIDO/UNCTAD, 2011

1

Provide the strategic narrative and leadership thereof

2

Provide the vehicles for expressing long term strategic intent

- matched with resources

3

Integrated planning regarding enabling resources (finance, skills & technology)

4

Stable demand signals to the market

5

Rules of the game to avoid bullying

6

Strategic choice selection



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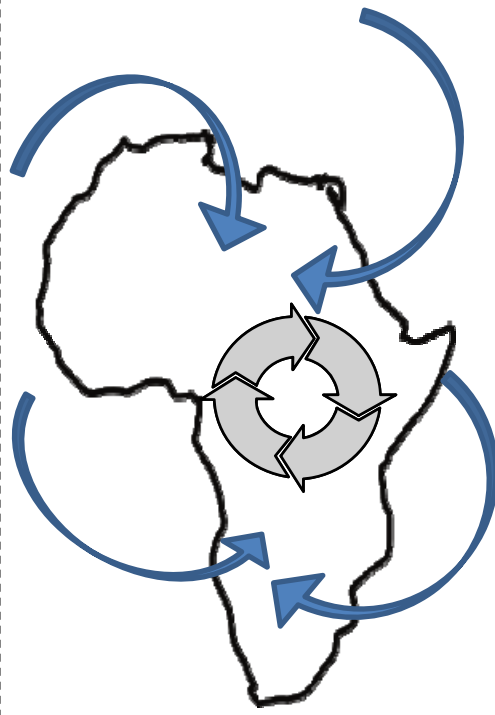
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1

Strategic intent (War and Peace)

Japan	Wars between 1850 - 1914		Africa
<p>Commodore Matthew Perry</p> <p>1853 - 1854</p> <p>Nagasaki Port</p> 	Period	War	
	1854-1856	Crimean	
	1857-1858	Indian Mutiny	
	1859	Austro-Sardinian	
	1864	Schleswig	
	1864	Austro-Prussian	
	1870-1871	Franco-Prussian	
	1877-1878	Russo-Turkish	
	1879	Anglo-Zulu	
	1880/ 1902	Anglo-Boer	
	1884-1885	Sino-French	
	1895-1896	Italo-Abyssinian	
	1898	Spanish American	
	1904-1905	Russo-Japanese	
	1912-1913	Balkan	



Key insights

- Thankfully reduced inter-state war
- Where does strategic intent come from?
 -
- Increased **competition within** Africa
- Increased **competition for** Africa
 -
- Increased **cooperation within** Africa



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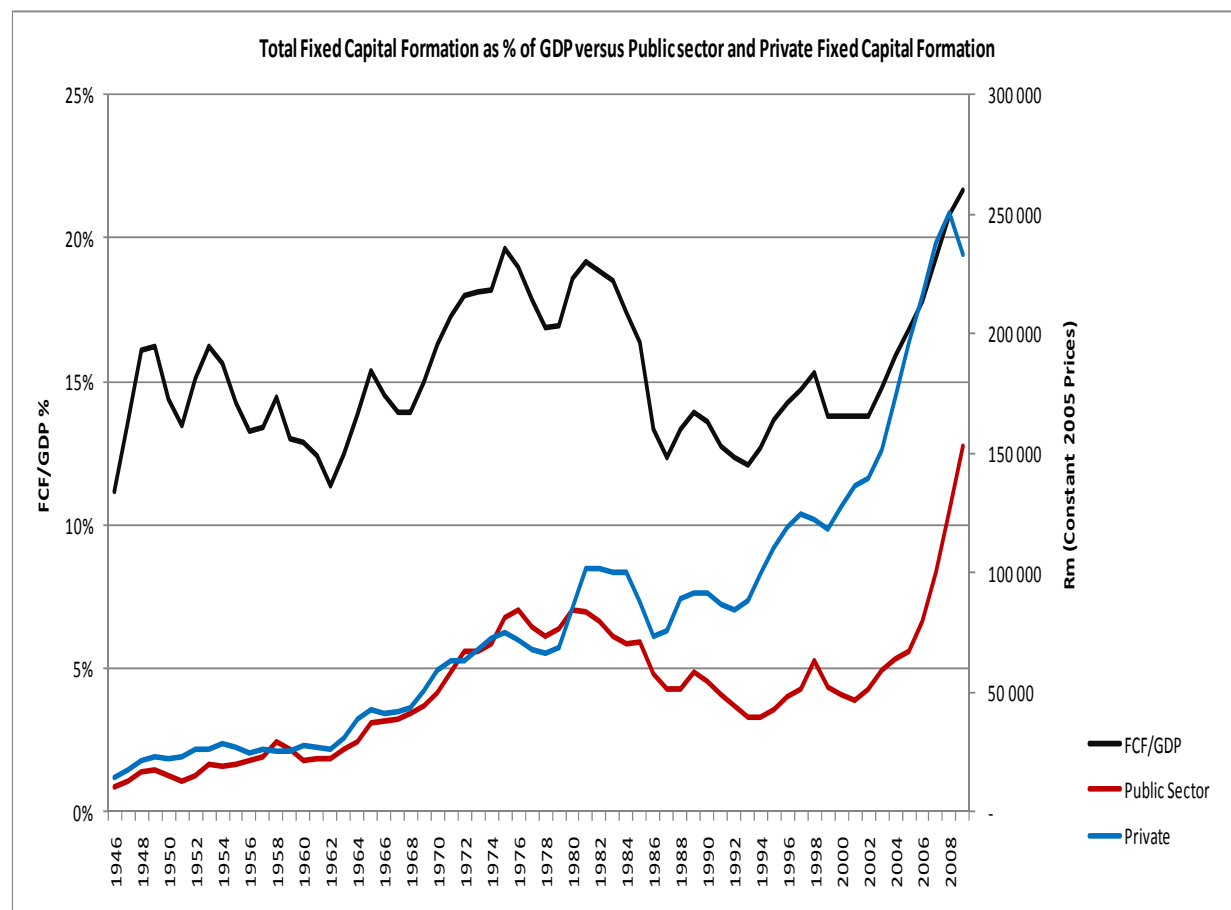
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2 Investments (it takes two to tango or Ghost Busters)

Case Example: South Africa



Who you gonna call?



Key insights

- GFCF is a two person dance
- Who leads?
- Ultimately the state has to underwrite
- Enabling environment is not good enough
- Magical 20 – 25% requires both players to show up



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3 Time & Reciprocity (Bill Venter and the Altron story)

1950: Defence Resources Board investigates the local supply & manufacture of materials considered to be of strategic / military importance

-Over 20 committees established including the Electronics Committee

-The **three long term contracts** were offered to the **four suppliers in return for developing local manufacturing capabilities**

- **1957 to 1967:** SA Post Office signs 10 year agreements with four companies
- **1968 to 1978:** SA Post Office signs another 10 year agreement
- STC – later bought by Altech & Alcatel France
- **1979 to 1994:** SA Post Office signs 15 year contract with Altech (later bought by Altron)

Long-Term Supply & Manufacture contracts

10 year

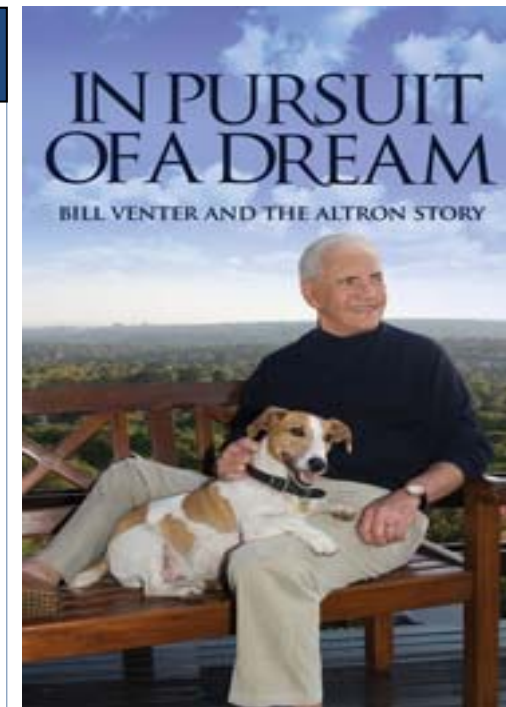
1957 – 1967

10 year

1968 - 1978

15 year

1979 - 1994



““The local manufacture of digital telecommunications products required massive capital investments on the part of the supplier firms. The SA Post Office was therefore persuaded that the length of the agreements should be expanded to allow for a longer period in which to recover the required capital investment. Thus, when the existent agreement expired, **15 year agreements were signed** with the five principal suppliers firms. The Post Master General, Mr. Louis Rive, had earlier stated that, ‘a condition of both contracts [with CIT – Alcatel and Siemens] for switching equipment is that eventually the systems will comprise almost complete local content components’, David Kaplan (1989)



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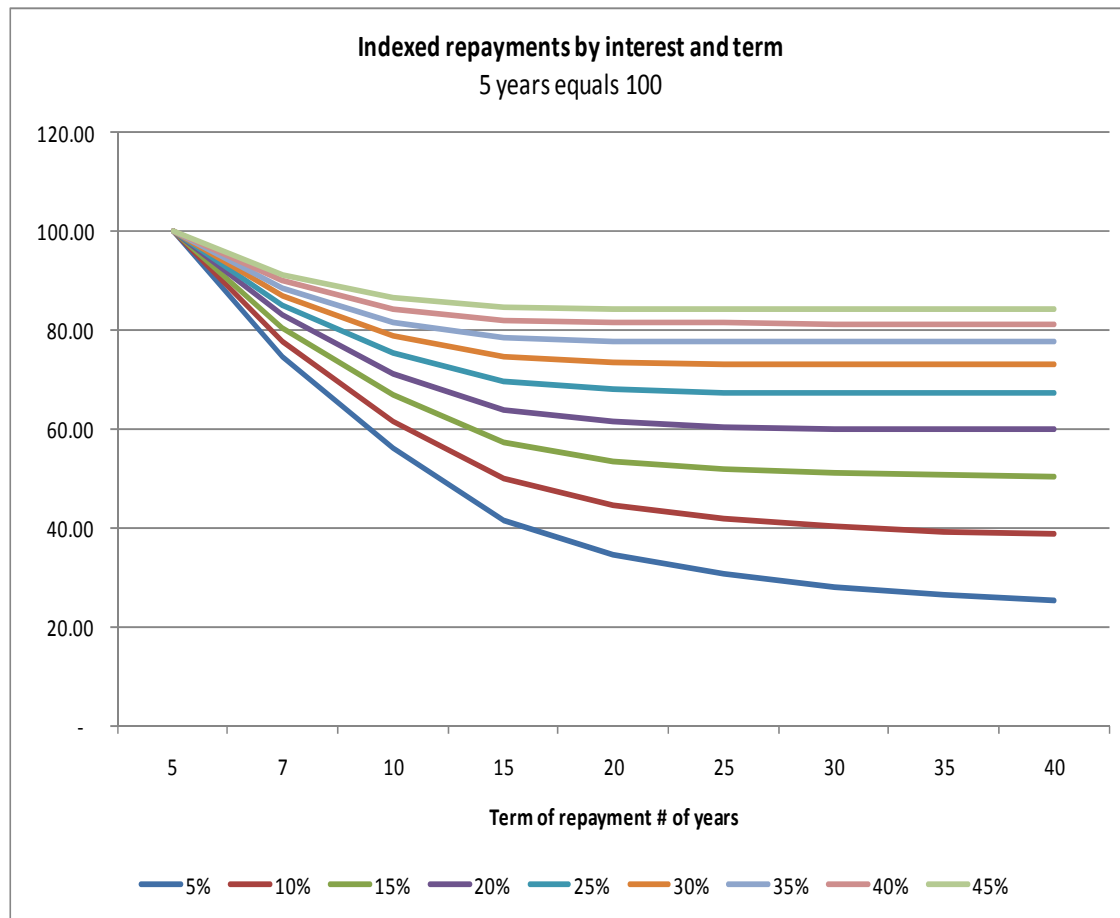
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4

Finance (& Power and Plumbing)



Key insights

- **Term is critical**
- **Working Capital**
 - Long inventory cycles
 - Power differentials
- **Investment capital** (denuded or non-existent)
- The **role of state** as part of financing solution?
- **Profitability?**



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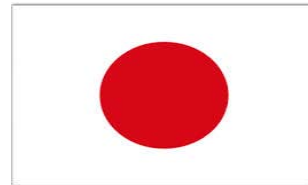
Japan



Korea



Japan



Korea



Vietnam



Key insights

- Global geo-politics
- Deep history
- Learning by doing
- Importation of skills
- Rotation between business and government

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A What effect does infrastructure have?

B Context

C Enablers

D Insights for SA & Continent



D

Key insights for SA & Africa



- 1 An independent modern state by definition commands an **manufacturing based economy**
- 2 South Africa and Africa are relatively **late to the industrialization party** are **coming off a low base**
- 3 African economies have to **design a game plan** which involves a **strategic engagement with large global companies (infrastructure OEMs)**
- 4 The uneven engagement needs to be premised on the goal of a **competent state bureaucracy**
- 5 This is achieved by having the **ambition, learning by doing** and **luck**



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