



National Agricultural  
Marketing Council  
Promoting market access for South African agriculture

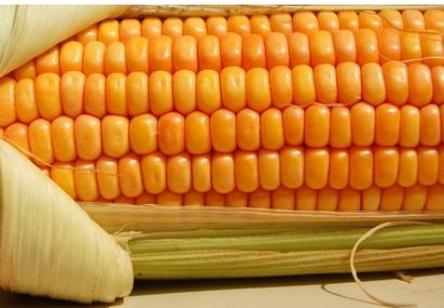
# Economic review: infrastructure investment and an economy

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# Presentation outline

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# 1. Introduction

- **Rigorous policy literature** on the impact infrastructure investment
- **Consensus** – positive externalities for private sector and household wellbeing (employment creation)
- Infrastructure investment as a **public good** (government funded) offer greater positive effects
- **Developmental failures** of a number of countries is attributes to lack of infrastructure development (The African Dummy)
- **Political will** to fund infrastructure investment (AsgiSA and SIPs) by the Presidency

## 2. World overview

- Infrastructure investment should serve the entire society (**public good argument**)
- .....define as the social overhead capital that provide public good and service (Hirschman, 1958 & Perkins et al, 2005) and infrastructure investment is capital in nature and very bulky.
- Infrastructure benefit both the rich and poor - one feature countries that reduced poverty considerable share is infrastructure development (Yoshino et al, 2000)
- It lead to private sector productivity growth and even land rental value improvements
- .....provides positive spill-over to energy and public health efficiencies

# 3. Why infra.... investment (as a public good)

- Public good theory – market forces do not provide enough public good to maximise social welfare (Quere, et al 2007),
  - Public good (theoretically) is available to all (not a single user or no rivalry in use)
  - To address market failures government needs to intervene,
- Infrastructure investments (capital as opposed to consumption good) are capital intensive and bulk in nature
- For economic and equity reasons infrastructure is very paramount
- Infrastructure plays an important (encourages) role in attracting inward FDI,
  - Expansion of economies of transportation,
  - Access to a new market
- Reduction on transportation costs are associated with increased infrastructure investment,
  - Reduces the cost of doing business - **Improves firms productivity.**
  - Visible efficiency gains

# 4. Economic assessment in South Africa

- Discovery of diamond and gold led to the establishment of railway infrastructure (DBSA 2012):
  - From 1875 to 1885 the development of railway lines increased by **29%**,
  - Therefore, transportation of minerals (from areas of production to the harbours) and people was made easier,
- Between 1980 and 2002, the growth in railway infrastructure was a mere **1%** because of shift to the road infrastructure (DBSA, 2012),
  - Road infrastructure development provides better networks to allow for mobility that facilitate regionalised economic development
  - South Africa's road increased from **2000 km in 1940 to 63 000 km in 2001**
- The opening of the port of Richards Bay and Saldanha in 1976 and 1979 lead to increased volumes of traded commodities from 38 million tons to 76 million tons
- The period between 1976 and 2002 saw a period of stagnation in infrastructure investment or interest (a decline of R1,268 in 1976 and R356 in 2002 – per capita).
- **In 2002 RSA 72%** of infrastructure investment was accounted for by
  - Transport, Communication,
  - Power, and Water.
- Trade increased by 158% between 1979 and 2001 – leading to Port congestions
- Between 1970 and 1990 the use of fixed telephony increased by 6.4% and 4% between 1990 and 2002 while the use of cellphones increased by 108%

# 5. Impact

## – Productivity

- Infrastructure plays a positive role in the rate of returns to factors of production (productivity),
- Economic activity (real GDP growth) are associated with infrastructure development or performance
- Monopolies rendering infrastructure service or good tend to offer bad service

## – Trade

- Country's competitiveness on global markets depend on infrastructure, to some degree,
- Availability of infrastructure serves as gravity to FDI,
- Export oriented sectors benefit well from trade infrastructure and consumers benefit from importation of affordable products,

## – Livelihood

- Infrastructure plays an important role in promoting rural employment,
- Improvement of transportation networks reduces the transportation cost (competition),
- Therefore, infrastructure has positive correlation with the quality of life (clinics, education and water),

# 6. Conclusion

- Infrastructure offers economic benefits to the whole economy
- Public funded infrastructure bears higher economic value
- Infrastructure forms part government at high level (indication of Political will)
- Agricultural prosperity depends on well developed infrastructure network