

THE SOUTH AFRICAN STRATEGIC DEFENCE PROCUREMENT PACKAGE AND ECONOMIC GROWTH

Are they mutually exclusive?

MARTIN SEHLAPELO

Introduction

In September 1999 the South African government decided to acquire defence equipment valued then at R30.3 billion in order to retain an effective defence capability. Part of this deal included the National Industrial Participation Programme, which was aimed at developing South Africa's manufacturing sector. After the Standing Committee on Public Accounts (SCOPA) report concerning the possibility of corruption in the Strategic Defence Procurement deal, the view that South Africa does not require the equipment gained in prominence. This has often been backed up by reference to the high and rising levels of unemployment and poverty in South Africa. Many citizens seem to be saying that the money should be used to provide water, build houses or finance social upliftment programmes.

In simple terms economic growth refers to the improvement in the economy. In economic terms, it refers to the increase in gross domestic product (GDP) in real terms. Economic growth is, however, not synonymous with economic development, although it is hardly possible to conceive of development in the absence of such growth, since the latter includes key elements such as improvements in the quality of life through access to water, schooling, etc.

Security and development

The new concept of security as accepted by the South African government, expressed in the White Paper on Intelligence, is that:

(t)he main threat to the well-being of individuals and the interests of nations across the world does not primarily come from a neighbouring army, but from other internal and external challenges such as economic collapse, overpopulation, mass migration, ethnic rivalry, political oppression, terrorism, crime and disease, to mention but a few.¹

Within this context, the view that the military is the primary agent of security is no longer prevalent. Schoeman² suggests that security and development are the same thing: one being the condition and the other the process. This is different to how former Deputy Defence Minister Ronnie Kasrils justified the Strategic Defence Procurement in Parliament by arguing that security is a prerequisite for development.³ What should be noted is that in terms of these concepts, additional actors become relevant rather than the traditional agents like the military. In the process, development and security become intertwined.

The vision of the South African Department of Defence includes the provision of modern, affordable and

technologically advanced defence capabilities; this is seen to be in accordance with the provisions of the constitution.⁴ Concepts like affordability and technological advancement are notoriously difficult to measure and can thus give any defence planner freedom of action.

Deterrence

Despite the fact that the Defence Review that was concluded in 1997 does not directly link the concept of a technologically advanced defence force to deterrence, one is likely to lead to the other. Deterrence is the ability to dissuade a potential adversary from resorting to a particular course of action by making him believe that the costs of pursuing that action outweigh the benefits. For deterrence to succeed the potential adversary should be convinced that South Africa has the necessary military potential as well as the political will to use it, should the need arise. Deterrence is a fundamental pillar of the South African government's approach towards defence.

That said, the question is: how far should a country be advanced for military technological advancement to deter a potential opponent and at what cost should this be pursued? Visser⁵ suggests that South Africa should seek a technological advantage relative to its potential opponents. This does not mean that a technological advantage will necessarily deter potential adversaries. Major General (now president) Paul Kagame of Rwanda had this to say on this subject:

We are used to fighting wars in a very cheap way. Our people don't drive tanks. We don't have aircraft, people move on foot and they eat very little food. We can go on like this for many years.⁶

Inasmuch as it is difficult to predict the outcome of any war based on the military potential of any country, it is also difficult to determine the exact contribution of technological advantage towards military power. At the same time most countries rely on acquiring some military power to avert the risk of being threatened.

All things being equal, if the Democratic Republic of the Congo had had an effective and strong defence capability, chances are that Rwanda and Uganda would not have invaded it. Similarly, the balance of mutually assured destruction during the Cold War might have been costly, but it prevented a world war between the major powers while simultaneously restricting and exporting war to those countries on the global periphery.

Offsetting the financial drain

As already alluded to, the procurement will be mitigated by a number of mechanisms to offset the financial drain on the fiscus. These are in the form of Defence Industrial Participation (DIP) and the Non-defence Industrial Participation (NIP) programmes, which were developed in line with the government National Industrial Participation Programmes (NIPP) for all public sector procurement where the imported content exceeds \$10 million.⁷

The government originally expected the offsets to deliver R35.8 billion in investments and R31 billion worth of counter-purchases, all of which—it assured the public—would create more than 65,000 permanent jobs, transfer skills and technology, as well as create opportunities for South African companies to export other goods.⁸ The R35.8 billion that will be invested in South Africa already exceeds the total procurement spending, especially when considering the

Projected defence spending and GDP in South Africa⁹

	2000/01	2001/02	2002/03	2003/04
GDP (Rbn)	897.9	987.2	1069.3	1154.9
Total Defence Budget as % of GDP	1.6%	1.6%	1.6%	1.5%
Arms Payment Programme (Rbn)	2.849	4.220	5.078	5.828
Payment Programme as % of GDP	0.32%	0.43%	0.47%	0.50%

Source: SA Budget Review

multiplier effect and is a sufficient argument to counter arguments that the R30 billion invested on the defence of the country is a waste of resources. The government also emphasises that the defence budget is well below the international norm at 1.5% of GDP, and that after including the strategic procurement package in its calculations, it will still be in the region of two per cent of GDP or below—the World Bank guideline for developing countries. It can be seen from the table opposite that in the short term, the payment programme has a limited effect on the total defence budget as a percentage of GDP of between 0.32% and 0.5% per annum. Without refurbishment and replacement South Africa's defence capability would be reduced and this will impair the country's deterrence potential.

Economic growth

Roux¹⁰ identifies four factors that contribute towards economic growth: land and natural resources; labour; entrepreneurship; and capital. He correctly argues that should any of these increase, the GDP is also expected to increase.

With regard to natural resources, former Deputy Minister of Defence Ronnie Kasrils argued that maritime resources are plundered by foreign vessels within the economic exclusion zone of South Africa.¹¹ This is one example of how the country can exploit additional resources, leading to economic growth.

South Africa's problem with labour is that most of it is unskilled.¹² By creating 65,000 or more jobs, the skills base of South Africa will increase. With the increase in the labour force, GDP will increase and with the new skills acquired other jobs will most likely be created. Government spending guidelines encourage the development of entrepreneurs, which is not only for this procurement, although there seems to be no direct link with increasing entrepreneurship.

Creating regional peace

South Africa has to be interested in regional

peace in order to create an environment conducive to investment. As a regional power the country will have to play a bigger role in peace efforts. This involvement will require South Africa to have some reasonable capability. Internationally, the more prosperous a country, the more it is likely to spend on defence,¹³ although this spending must be managed in order that it not reduce the amount of capital available for investment. This is done by focusing less on imports; as such, GDP is not negatively affected. The nature of the current deal creates the potential that this trend may also be possible in South Africa within the next 20 years.

Batchelor, Dunn and Saal's¹⁴ research on South Africa's growth and military spending between 1989 and 1995 supports the idea that military spending can have a positive effect on the economy. In evaluating the above argument it should be taken into consideration that South Africa requires both economic growth and a deterrent capability. The question should therefore not be whether the R30 billion, or whatever the actual amount is, should be used for defence procurement or other opportunity costs, but rather how to maximise the benefit of any defence procurement for economic growth.

Conclusion

- Economic growth on its own will not lead to economic development: simply targeting economic growth is therefore not enough.
- A technologically advanced defence force contributes positively to deterrence and hence to avoid the economic destruction associated with armed conflict.
- These latest procurements will not represent a significant change in defence spending as a percentage of GDP. South Africa will therefore still remain within the acceptable defence-spending ratio for countries in its category.
- Even though it cannot be quantified, the defence procurement, if properly managed, will contribute towards

economic growth: procuring defence equipment does not stall economic growth.

- It is important for the South African National Defence Force to be more technologically advanced than its potential adversaries and this should be consistently maintained rather than engaging in expensive one-off programmes.
- Irrespective of whether corruption existed within the current procurement process, South Africa requires the equipment it has ordered. The programme should therefore continue, especially considering that the longer it takes to implement it the harder the fiscal impact of the deal.

Notes

- 1 RSA, White Paper on Intelligence, Government Printer, Pretoria, 1994.
- 2 M Schoeman, An exploration of the link between security and development, in H Solomon and M Schoeman (eds), *Security, development and gender in Africa*, ISS Monograph, 27, Institute for Security Studies, Halfway House, August 1998, pp 12-13.
- 3 RSA, Parliament, Appropriation Bill. Hansard. Government Printer, Pretoria, 1996, p 2316.
- 4 RSA, Department of Defence, *Annual Report 1999/2000*, 2000, <www.mil.za/Articles&papers/AnnualReports/AnnualReport1999_2000/Report.htm> (11 April 2001).
- 5 J C Visser, An investigation into the South African technology policies with respect to their efficacy to enhance the national power base, 2000, <www.mil.za/CSANDF/CJSupp/TrainingFormation/DefenceCollege/an_investigation_into_the_south.htm> (11 April 2001).
- 6 SANDF, Joint Warfare Publication 101: Levels of War, [Draft], 2001, p 1-15.
- 7 RSA, Background notes on the strategic defence procurement package for the press statement issued by the ministers for defence, finance, public enterprises and trade and industry, 2000, <www.gov.za/projects/procurement/pressbrief/background.htm> (20 April 2001).
- 8 RSA, Economic and fiscal impacts of the procurement, 2000, <www.gov.za/projects/procurement/background/impact.htm> (13 April 2001).
- 9 This is an adaptation and some calculations by the author from the Budget Review at RSA, National Treasury, *Budget Review*, Pretoria: Communications Directorate, National Treasury, 2001, pp 38 & 132 and unpublished statistics from D Faurie, DOD budget from 1989/90, 2001.
- 10 A Roux, *Everyone's guide to the South African economy*, 6th edition, Zebra, Rivonia, 1999, p 37.
- 11 RSA, Parliament. Appropriation Bill, op cit, p 2317.
- 12 W M Gumede, Quality, not just quantity, counts, *Financial Mail*, 5 January 2001, p 11.
- 13 Roux, op cit, p 4 and E Hazelhurst, Star Wars again, *Financial Mail*, 12 January 2001, p 15.
- 14 P Batchelor, P J Dunne, and D S Saal, Military spending and economic growth in South Africa, *Defence and Peace Economics*, 11, 2000, pp 556-7.