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The two sharp edges of the infrastructure sword

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SUPPLY-side constraints are wreaking havoc on our country's large public works programmes, and it is likely to get worse as our economy grows, commodities boom and consumption increases.

Stadium construction, infrastructure upgrading (notably public transport) and related expenditure in the region of R40bn for the Soccer World Cup in 2010, and the roll-out of the government's R416bn infrastructure expansion programme, are putting huge pressure on every bit of spare capacity in the country.

As one newspaper noted recently, consumers need to brace themselves for further fuel shortages and electricity blackouts over the next few years, and raw material shortages are likely to continue, notably for cement and steel. In addition, SA is facing a dire shortage of skilled intermediate and higher-end labour, in the construction and built-environment industries in particular.

A recent meeting of Parliament's science and technology portfolio committee meeting on skills shortages heard that the country is importing significantly increasing numbers of skilled personnel monthly.

This, together with the cost of importing raw material and sophisticated machinery and equipment, will have a significant cost burden on the fiscus, but also implies that the World Cup (and other projects involving public works) is likely to create only low- and semi-skilled jobs, most of a temporary nature. This is unlikely to have any significant impact on the formal unemployment rate.

In sum, then, we are importing goods and services at alarming rates. At the same time there is a drive to enhance local supply in productive sectors where there are dire raw material shortages. In addition, labour is being absorbed into vital sectors of the economy, and on-the-job training is occurring, though hardly at the rates required to meet demand.

In addition to potentially compromising the 2010 and infrastructure expansion public works initiatives, these shortages also have an impact on the ability of parastatals to deliver on their infrastructure spending programmes, notably Eskom's five-year capital expenditure plan, and Transnet's plans — also over the same period — to expand capacity of its ports, rail freight and pipeline assets.

The country really is in a catch-22 situation. Vast amounts of infrastructure spending, linked to a rapidly expanding economy, lay the foundation for high consumption levels. Higher levels of demand, however, increase the need for a commensurate level of supply, and so the cycle repeats.

High consumption levels have a negative impact on the inflation rate, force the currency to depreciate (there are other factors associated with this, too, such as the recent knock the local equity market took following the global credit crunch), and lead inevitably to increases in interest rates. The currency depreciation "scenario" is also double-edged; on the one hand a weaker rand makes exports more competitive, on the other it makes imports more expensive.

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One of my biggest concerns in this analysis also relates to the forms of dependence we create in importing skilled personnel, and relying on raw material that needs to be sourced from abroad. In a context where the government's Accelerated and Shared Growth Initiative for SA has been clear about the more "organic" development of productive sectors, and the importance of creating a new generation of skilled workers through the Joint Initiative on Priority Skills Acquisition initiative, for example, the time-bound roll-out of different facets of our infrastructure expansion programme, including 2010, has made it awkward, if not very difficult, to achieve some of these objectives in the short term.

Finally, the deficit on the country's current account — the difference between total exports and imports — remains a huge concern of mine. While it may have narrowed to 7% of gross domestic product (GDP) in the first quarter of the year, the significant levels at which imports have risen since, and exports fallen — occasioned since June by a considerable decline in manufacturing output — imply that by the end of the third quarter this year, this figure is likely to reach about 8% of GDP.

This figure is considerable, and while the treasury may try to convince us that high volumes of portfolio equity/capital inflows and net reserves are likely to mitigate the impact, the global credit crisis of three weeks ago reminds us that this situation is not sustainable.

Economic growth through infrastructure expansion, then, can be a tricky business, and we really need to keep our wits about us over the next five years, lest we undermine the fundamentals around which our economy has been built over the past decade, in the process compromising our target of 6% expansion by 2010.

■ *Dr Pillay heads the Human Sciences Research Council's 2010 Fifa World Cup Research Project.*