Five roots to Central Africa's industrialisation

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21 Sep 2018

Four years after the oil boom ended and Central African countries faced a sudden reverse in their fortunes from the strong growth of the early 2000's, the subsequent oil glut and nose-dive of commodity prices have left a bitter taste of over-dependence on oil and other extractive industries in the mouths of many people in Central Africa.

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The challenges are real because unfortunately, countries in Central Africa, as producers of unprocessed raw materials, are perennially exposed to external shocks and locked in the lower end of global value chains, as many higher value activities are carried out elsewhere.

The extractive industries in the sub-region remain, in general, enclaves with inadequate linkages with the local economy. Macro-economy instability has become a reality. Meanwhile, Central Africa needs to tackle many other pressing issues, such as high unemployment and inequality, to name just a few.

It is no wonder therefore that most of the countries in Central Africa currently receive or seek budget support from the IMF, sometimes referred to as the 'lender of last resort'. These support packages will require tough decisions from our member States to get Central African countries back on their feet.

Some argue that the solution is simply to impose fiscal discipline, cut expenditures, address policy failures, strengthen the rule of law, reduce red tape, curb corruption and other dysfunctionalities, as well as eliminate market failures and inefficiencies that are hindering progress.

We don’t dispute these stabilisation measures. In fact, we could add more of our own to the menu, including the need to close loopholes in existing contracts, improve tax administration and enlarge the tax base, fight illicit financial flows, and use incentives wisely.

But all of these measures would not mask the fact that sufficient fiscal space needs to be maintained for longer-term high-yielding investments to boost productive capabilities, enhance the competitiveness of local economies and foster structural transformation. While the current focus on short-term measures to restore macro-economic stability is of course understandable, it is equally important to continue investing in sustainable growth and structural transformation to enable the sub-region to break the cycle of booms and busts and reduce their vulnerability and exposure to commodity price fluctuations.

Economic diversification

The good news is that it is nowadays hard to find anyone who disagrees on structural transformation as the way out. Economic diversification in general and industrialisation in particular have proven to be the success formulae for countries as diverse as South Korea, Thailand, Qatar, Ireland, Estonia, and indeed pretty much every country that has managed to successfully transform their economy and provide a high-level of development and quality of life for their citizens.

Investment opportunities for industrialisation are widespread, and the opportunities are enormous in this sub-region, which not only boasts fantastic natural riches but also a young and highly educated workforce.

The bad news, though, is that countries are faced with a vexed problem: Debt stress looms large but current investment levels in Central Africa fall far short of what is needed for meaningful industrialisation to take place and to drive sustainable growth. So, who is going to cover these gaps? What should the region do? We offer five roots to addressing the problem.

Root 1: Make it jobs, jobs, jobs!!!

Investment in industrialisation (and in extension, economic diversification) creates a lot of jobs, and good ones too! At a time where unemployment levels among youths are as high as one in five (Angola, Congo) to even more than one in three in Gabon, there is an urgent need for public investment in areas as diverse as infrastructure, education and healthcare and public support for sectors such as financial services, transportation, tourism, ICT and smart industries, that have the potential to lead the way towards private sector driven growth. The high-quality jobs that will be created through this investment will help Central Africa’s young and ambitious population to grow and contribute to future growth.

Root 2: Harness the power of big city life

Central Africa’s cities are growing at break-neck speed as more and more people move from their villages to the already overcrowded urban centres in the hope of finding a decent job and a better quality of life. While this rapid urbanisation comes with a lot of challenges, such as congested infrastructure, societal pressures and the ageing of the rural areas, it also presents unique opportunities for knowledge spill-overs, as new movers learn from existing populations and vice versa, and provides a great testing ground for young entrepreneurs.

It is, of course, no coincidence that innovative start-ups and creative industries tend to be found close to urban hubs, where the dynamism of the city life provides both a steady supply of talent and a continuous flow of ideas and inspiration.

Meanwhile, the reduced competition for the remaining farmers in rural areas may give them some breathing space, allowing them to scale-up and specialise their trade in higher yielding niches (such as in organic agricultural produce). Public and private investment in industrialization can give direction to this otherwise unconstrained process, while managing the negative consequences thereof.

Root 3: Push Africa's integration

You can see the continuous integration of Africa everywhere. Not just in the newspapers, as high-profile events such as the recent signing of the instruments of the African Continental Free Trade Area (AfCFTA) in Kigali dominate the headlines, but also in our everyday lives, as we connect with family and friends all over the continent.

Regional integration comes in many flavours, and industrialisation is going to take an enormous boost from the increased connectedness and overtures for trade in industrially produced goods and high-level services.

Think visa free travel, free roaming, studying abroad, and doing business with people all over Africa as easy as you would back home. It is now up to national policy makers in Central African countries to quickly align their national visions with the instruments of regional integration, by starting first with a full operationalisation of the ECCAS-CEMAC harmonised preferential tariff, then moving toward continental integration instruments.

More countries in Central Africa should emulate Chad and ratify the AfCFTA. It makes business sense as any project that wants to locate in Central Africa would see its fundamentals strengthen with the prospect of a market of 1.2 billion people now and 2.5 billion in 2050. That's China and India combined.

These numbers will begin to make a real difference when the right environment is created to harness all the creative potential of the entire African continent and the consumer-driven growth it can sustain.

Root 4: Go green

We are Central Africa. We host unique biodiversity stocks and incredible natural riches. Those need to be protected. So, as we think industrialisation, we should think green. As such, industrialisation and economic diversification will not only create high-quality jobs and contribute to urbanisation and regional integration but also reduce the dependency of Central African economies on oil and other extractive industries, thus contributing to a cleaner growth path.

Policy makers should identify the sectors that have the greatest potential to create jobs and promote the competitiveness of their economies while limiting the strain on both the invaluable human and the natural riches of the sub-region. By the way, this would be a smart move because socially responsible investors, more particularly the so-called ethical, impact and/or positive investors, including pension funds, mutual funds, faith-based organisations and other institutional investors are increasingly looking for green projects.

Root 5: Widen the net

Should we rejoice with the announcements made in Beijing about the availability of US$60 billion to invest in Africa in the next three years? Should we look with hope to the EU new External Investment Plan and its quest to foster industrialisation in Africa as a means to creating more jobs for our youth? Yes and no.

Of course, these are opportunities not to be missed and we should do our homework to get the most out of it. But our financial needs go beyond what we could possibly get from these great outside investors.

While foreign investment in infrastructure and other requirements for industrialiation is indeed very welcome, the current levels of investment still fall far short of what are needed for our economies to fully realize their potential. Africa's infrastructure funding gap alone has already been put at US$130-170 billion a year!

We are told that there is enough money in the world to finance development. Indeed, institutional investors (including pension funds) and commercial banks manage more than US$100 trillion, some of which is patient money looking for high-yielding long-term investment opportunities. We need to be able to access these resources as fast as we can. The basics must be right: good and credible bankable projects are needed to crowd in finance.

We also need to improve domestic resource mobilisation and encourage our citizens from within and in the diaspora to channel their savings into productive investments. Our capital markets need to grow and we need to be able to offer other simple and attractive financial products to our citizens. It is a future we need to build. The rate of subscription of Kenya first infrastructure bond shows that this is not an impossible proposition. We can do it in Central Africa too!

Financing industrialisation in Central Africa is the topic of the 34th session of the Intergovernmental Committee of Experts (ICE) for Central Africa, convened in N'Djamena, Chad, from 18 to 21 September 2018 by the Central Africa Sub-regional office of ECA.

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