A Political Economy Perspective to Southern Africa's Capacity Challenges and Policy Responses for Industrialization

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Abstract

This paper explores the political economy of industrialization in Southern Africa. An economic development model that is resource-driven has previously been able to provide a modicum of growth and development but is evidently no longer economically or socially sustainable. The paper analyses the capacity challenges facing the African continent in general and the Southern African Development Community (SADC) region in particular as well as some of the key policy responses that have been triggered by the unattainable state of play. This is the framework within which the paper gives an analysis of the rationale for industrialization which has now arisen as a major policy development aimed at enabling a sustainable transition towards a more enduring economy that is globally competitive. Possible entry points for cooperation with China are proffered while lessons that can be adapted to suit the unique circumstances of the African continent are highlighted. The paper challenges the African state to be more confident of itself and stand ready to make radical decisions in search of solutions to unshackle itself from the past and present in order to build a more prosperous future through industrialization.

Introduction

The economic indicators of the African continent are generally improving from what they were two decades going back. Key indicators such as Gross Domestic Product have gone up by about two percentage points to average 4-5 percent growth per annum. Inflation has generally come down to a continental average of just over 10 percent. Yet these positive economic improvements are not changing the social wellbeing of the general populace. There has got to be something fundamentally wrong with the growth model that the post independent African state has pursued hitherto. It is important to acknowledge from the onset that the continent is made up of 55 countries whose economies are not necessarily homogenous with different levels of development, marked differences in terms of the relative sizes of their economies and demography as well as contrasting governance and democratic dispensations. Still, a number of commonalities exist from which an analysis of some salient features can be made and conclusions drawn on the continent's recent development challenges and policy responses.

This paper takes a political economy analysis of the Southern African Development Community's (SADC) industrialization agenda, looking at the historical conditions which have shaped the sub region's development landscape and the inherent capacity imperatives that have compelled the political leadership of the region to take a new economic policy dispensation which is now pursued through industrialization. Like the rest of the African continent, some salient features can be gleaned in the case of the 15 member states of SADC, with commonalities that paint a picture which is generally consistent with the rest of the continent. SADC's roots lie in what was the Frontline States, a political

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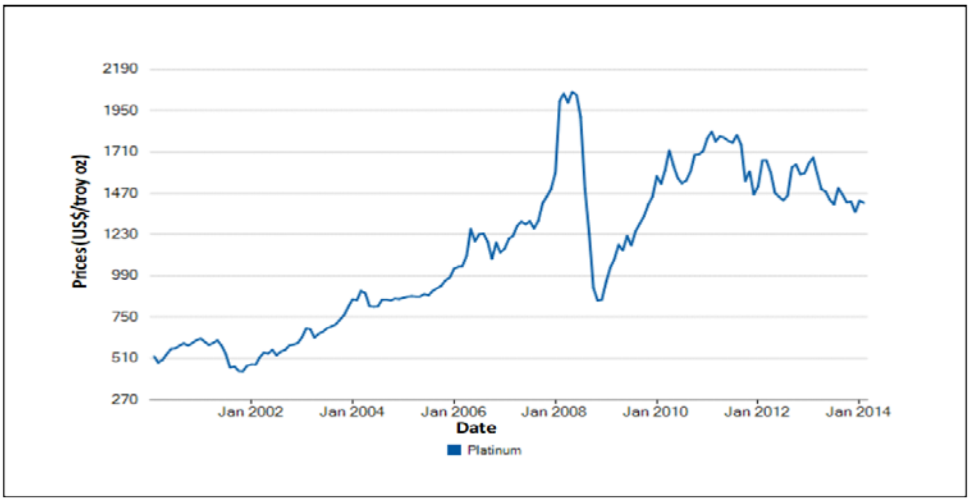
alliance that was united by the struggle for political independence. SADC was founded in 1980 as a functional cooperation of nine then independent Southern African states with each one of them allocated sector coordinating responsibility as a means to minimize reliance on apartheid South Africa. With the transformation of the Cold War global geopolitics and a new political dispensation emerging in South Africa, the membership of SADC increased to today's 15 countries and the regional integration agenda of the region drifted towards deeper economic cooperation, for example seeking greater intra-regional trade among the member states. Individually, the majority of the countries pursued economic structural adjustment programmes in the 90s. Until recently, the development model for SADC member states has largely been predicated on the region's historical past and the policy responses pursued have not sufficiently addressed the region's inherent economic capacity challenges nor put the region on a sustainable development path.

The combined GDP growth in SADC has averaged four percent over the last two decades. The majority of the economies are agro-based or resource driven, relying on primary commodities in the form of agriculture, minerals or oil to drive economic development. Seven in ten people live in rural areas, largely dependent on subsistent agriculture for livelihoods. Despite modest economic growth recorded in the recent past, the majority of the people still live in poverty, with an average of as many as 60 percent of the population having no access to basic needs such as food, health, sanitation, electricity nor decent shelter. Structurally, the economy remains a dual enclave, as inherited at independence where the formal sector (with the minority population) exists alongside a large informal sector. Trade patterns have largely remained a mirror image of the historical geo-political configuration of the region -- as with most of the continent. To date, SADC countries trade more with their erstwhile colonial powers than they trade among themselves. How sustainable is this economic growth model? What impact does SADC's trade relations have on the overall regional integration project? What prospects does a new economic dispensation presented by an industrialization agenda offer and what lessons can be drawn from China, the current manufacturing factory of the world?

Political economy of SADC and Rationale for Industrialisation

SADC countries inherited a structurally flawed economy with a well-developed and modern formal economy (that employs a small percentage of the population) existing alongside an underdeveloped and backward informal, predominantly rural economy which is home to the majority of the population. The very fact that most of the SADC countries remain among the poorest in the world, despite having an abundance of natural resources and recording positive economic growth rates in recent years, reflects their low level of industrialisation and their peripheral position in global manufacturing. Further, with SADC member states overly reliant on primary commodities and classified as developing economies with few exceptions (notably South Africa and to a less extent, Mauritius), it leaves them vulnerable to economic shocks or geopolitical uncertainties among the major economies.

Fig 1: Fluctuation of Platinum Prices on the Global Market



Source: SADC Secretariat, 2016

The region has generally performed well in terms of GDP growth, averaging three to five percent over the last two decades (SADC, 2015). Yet human development indices have been less satisfactory, with a combined average of 60 percent of the SADC populace still living in poverty.

The geo-political configuration of Africa has been largely determined by the continent's European colonial powers, and as such has little to do with the emergence of nation states, (Hartzenberg, 2011). In fact, the African colonial state was set up to be the source of raw materials, thus feeding the supply chain for the European metropoles. Little has changed with respect to that configuration and mentality.

> *Even the current model of African development, entailing the integration of many previously fragmented post-colonial polities into larger Regional Economic Communities (RECs), has mostly been for purposes of creating larger markets for trade, with little focus on the supply-side aspects such as investment in industrial capability and economic infrastructure. In fact, industrialization strategies have only been either mentioned in passing, or have merely existed on paper, with little having been done to radically transform most African states into globally competitive industrial hubs, for example in the manner that China has transformed itself in the last three decades -- Madakufamba 2014.*

The political will to cede sovereignty to facilitate the establishment of strong, legally based common institutions to oversee the integration process in the region remains a myth. For instance, South Africa is currently implementing a Trade and Development Agreement with the EU that was created to deepen its commercial links with the EU. This was apparently pursued as a bilateral arrangement without the rest of the region's involvement. Even the current Economic Partnership Agreements (EPAs) negotiations in SADC or the Eastern and Southern Africa group raises concerns that EPAs could act as the new catalyst for reconfiguring the membership of existing regional groupings, (Kritzinger-Van, 2017). In some cases, there is apparent lack of political will to drive the regional integration agenda, due to pursuit of national interests. To advance the regional integration agenda, member state interests should transcend national boundaries and move beyond political rhetoric into action to lend credence to the stated objectives and priorities.

The state of play as regards the political economy of the SADC region has thus given rise to calls for a rethink of the development model to deal more decisively with the apparent unsustainable development path. As such industrialization has re-emerged as a necessary survival route out of poverty and to address the inherent inequalities. Although industrialisation has featured in SADC policy in the past (mostly on paper rather than in practice), it has only recently gained new impetus to the extent of dominating the regional integration agenda of SADC. For example, industrialization has become the central theme of the last three SADC Summits namely in 2014 (hosted by Zimbabwe), 2015 (Botswana) and 2016 (Swaziland). The theme for the 2017 SADC Summit to be hosted by South Africa in 2017 has the same focus: “Partnering with the private sector in developing industry and regional value-chains”. Therefore the new development thrust is now an active political decision at the highest level to change the course of development for the region.

Capacity Challenges

While outlining the ten cooperation plans at the 2015 Johannesburg FOCAC Summit, President Xi Jinping said, Africa needs to address three bottleneck issues holding back the continent’s development, namely, “inadequate infrastructure, lack of professional and skilled personnel, and funding shortage” necessary for accelerating “Africa’s industrialization and agricultural modernization, and achieving sustainable self-development.” This observation aptly summarizes the capacity challenges that the African continent faces and must address in order to lay a firm foundation for sustainable development driven by industrialization. Some key capacity challenges can be discussed here.

First, educational skills and training which most African tertiary institutions offer do not match the trend in global standards necessary for industrialising economies. This is as much a historical factor, where these institutions were set out to produce workers as opposed to innovators nor entrepreneurs, as it is lack of pragmatism by the post independent African state that has neglected or simply taken too long to transform the education system to respond to the current needs for example, consistent with the industrialization needs. Further, many African countries continue to lose vital skills, limited in number as they happen to be, through brain drain which arises mostly as the skilled personnel seek better opportunities in the diaspora, due to structurally weak economies in the region. Industrialization therefore would not only offer a welcome challenge for most of the skilled personnel and persuade them to stay at home, but can provide a more permanent solution out this vicious cycle.

Second, most SADC countries, as with a greater part of the African continent, lack adequate infrastructure particularly in sectors such as railways, roads, regional aviation, ports, electricity and telecommunications, to enhance Africa’s capacity for sustainable development. Infrastructure investment and development is therefore a critical enabler for promoting industrialization that must be prioritized. Addressing SADC’s infrastructure deficiencies therefore becomes a critical imperative for addressing the region’s industrialization agenda.

Third, science and technology is no doubt a prerequisite for any country or region seeking to industrialize. Yet most SADC countries lack relevant technologies to drive industrialization which affects global competitiveness of the goods that are produced in the region. However, opportunities abound especially at two levels. The demographic dividend is notably one level – 60 percent of Africa’s population is made up of the youth, presenting a good opportunity for innovation and adaptation to new technologies. A young population is more adaptable to new technologies as opposed to an aging population. Another level is the extent to which Africa can be more confident in exploiting its indigenous knowledge systems. Unfortunately, the continent tends to look down upon its indigenous knowledge systems and local innovations. If the continent's industrialization agenda is to be sustainable, it must be anchored on home grown solutions, including the exploitation of indigenous knowledge systems.

Fourth, the availability of financial resources with most SADC economies lacking the fiscal space nor political will to fund the industrialization agenda and its critical enablers such as infrastructure. This situation has created a donor dependence syndrome with donors being the chief financiers of national budgets and major development projects. For example, 60 percent of Mozambique's budget is funded by donors. Even at the regional level, as high as 40 percent of SADC's operational budget is funded by donors, a situation that has resulted in the inflation of the regional integration agenda of the sub region. A strategic development agenda such as industrialization cannot rely on donors if it is to be sustainable.

Fifth, policy coherence and consistency are yet another key capacity challenge. Like in many other African countries, economic policy planning and formulation in SADC has faced implementation challenges and policy inconsistency. For example, in the case of Zimbabwe's indigenisation (economic empowerment) policy – different line ministries have often exhibited different interpretations of the policy and its relevant laws. Poor policy harmonisation and more specifically poor coordination between investment and industrial policies at regional and national levels can result in trade and investment agreements constraining the policy space for industrialization. In some cases, there is apparent lack of political will to drive the regional integration agenda, due to pursuit of national interests. The political will to cede sovereignty to facilitate the establishment of strong, legally based common institutions to oversee the integration process in the region remains a major challenge.

Policy responses

The development challenges and more specifically, the capacity deficiencies facing Southern Africa, and indeed the continent in general, are known to the political leadership and have enlisted policy responses at various levels. However, the implementation of the identified policies and strategies has remained a major concern in the majority of cases. At the continental level, the African Union's Agenda 2063 identifies industrialization, along with some of the capacity issues identified above, as a critical pillar upon which the continent's 50-year vision can be attained. At the SADC level, the Regional Indicative Strategic Development Plan (RISDP) was first adopted in 2003 as a multi-sector socio-economic plan for the region. The plan was later revised into the Revised RISDP 2015-2020 and endorsed by the SADC Extra-Ordinary Summit in April 2015 in Harare, Zimbabwe, as the new blueprint that will guide the implementation of SADC programmes over a five year period. The main outcome of the revision was to front load industrial development, which would now be implemented alongside priority areas namely:

- market integration;
- Infrastructure in support of regional integration;
- Peace and Security Cooperation as a prerequisite for regional integration; and
- Special Programmes of regional dimension.

Subsequently, the SADC Industrialization Strategy and Roadmap was approved by an Extraordinary Summit of the Heads of State and Government of SADC that was held in Harare, Zimbabwe, on 29 April 2015. The strategy seeks to engender a major economic and technological transformation at the national and regional levels within the context of deeper regional integration. The context preceding formulation and adoption of the strategy has been characterised by disappointing trends in SADC's intra-regional and global export content and economic growth that has done little to positively change human development in the region. Most SADC economies have relied heavily on the performance of their primary commodities such as minerals and agricultural produce, leaving them vulnerable to the fluctuations of international commodity prices. Thus the primary orientation of the SADC Industrialization and Roadmap is the need for the structural transformation of the SADC region by way of industrialization, modernization, upgrading and closer regional integration. The strategic thrust is a shift from reliance on resources and low-cost labour to increased investment and enhanced productivity of both labour and capital. (SADC, 2015)

Similarly, as a response to capacity challenges confronting SADC, the Regional Infrastructure Development Master Plan (RIDMP) 2012-2027 was adopted as the region's framework for infrastructure development and coordination. It was approved by the Summit of SADC heads of state and government in 2012 in Maputo, Mozambique. The Master Plan provides the strategic framework that guides the development of seamless and cost-effective transboundary infrastructure and outlines priority hard and soft infrastructure needs for the region. The strategic framework, known as Infrastructure Vision 2027, is anchored on six pillars – Energy; Transport; Information Communication Technologies; Meteorology; Trans-Boundary Water Resources; and Tourism (Trans-Frontier Conservation Areas), which constitute the SADC Regional Infrastructure Development Programme and are evidently critical enablers for industrialization.

Possible entry points for China

Although SADC has 15 member states (55 for the African Union) each with its own unique characteristics and levels of development, collectively and individually there are some similarities that can be observed and useful lessons drawn for adoption by African countries in line with their unique circumstances. For example, a number of African countries are establishing Special Economic Zones (SEZs), often learning from the experience of China. In keeping with President Xi's 10 Point Cooperation Plan at the Johannesburg Summit in 2015, China should actively encourage more Chinese enterprises to make business investment in Africa, taking advantage of business friendly laws that are being introduced as part of SEZs legislation. Further, China can also build or upgrade a number of industrial parks already identified by many of the African countries. The SADC Industrialisation Strategy also prioritises three clusters for Regional Value Chains namely: Agro-processing; Minerals beneficiation and Pharmaceuticals. These clusters already resonate with the approach of President Xi's 10 point cooperation plan announced at the Johannesburg Summit.

Second, SADC's new development approach seems to conform with the developmental state approach with the state setting the agenda while the private sector is the major actor and the centrality of implementation of SADC's industrialisation agenda. There is scope for Chinese businesses to build synergies and joint ventures with the private sector in SADC for a sustainable implementation of the region's industrialisation agenda. However, the quest for Foreign Direct Investment, be it from China or any other part of the world, must not compromise the growth of Small and Medium Enterprises (SMEs) which are the heartbeat of several of the SADC economies. China's own growth model can therefore provide useful lessons in this regard, especially as she took deliberate policy measures to create conditions for the growth of the SMEs sector by, among other measures, providing a package of growth oriented incentives.

Third, economic and political engagements between Africa and China have largely remained a bilateral affair. However, in 2012, the African regional integration dimension was added to the scope of multilateral cooperation within the framework of the Forum for China Africa Cooperation (FOCAC). Given that Africa is not a single country but 55 states with multi-level complexities presented by this reality, it becomes imperative to mobilise Regional Economic Communities to further enhance already existing common agendas. This is important for several reasons, including the need to steer away from unhealthy competition among African countries. Other natural benefits presented by an approach that seeks to upgrade China-Africa relations to the sub-regional level include:

- Better coordination, harmonisation and standardization of cross-border projects;
- Collective bargaining or negotiations with a large powerful country such as China;
- Economies of scale and spreading investment risks;
- Strengthened African regional integration; and
- Better alignment through matchmaking based on comparative advantage, for example to take advantage of Regional Value Chains.

Conclusion

The African colonial state was set up to be the source of raw materials, thus feeding the supply chain for the European metropoles. Sadly, little has changed with respect to that configuration and mentality more so as global economic rating methodologies continue to measure growth performance on how well African countries are doing with respect to income, if meagre, as generated from the primary commodities. Further, the historically predetermined trade patterns create a state of play that tends to perpetuate unequal gains from intra regional trade which potentially undermines the political basis and will for regional integration. Consequently, the post colonial polities remain largely fragmented despite the many efforts towards integrating the continent.

Industrialization is the latest rallying cry in SADC although this position is yet to be followed through or matched with equal enthusiasm in respect of resource commitment. The SADC industrialization Strategy and Roadmap is seen as the core mechanism for generating economic transformation in the region. However, only a few countries have followed this agenda with national industrialization policies of their own, informed by the regional policy, nor have any committed the necessary resources in pursuit of this dream. There are a number of potential entry points where China can cooperate with SADC Member States, even starting from the level of experience sharing as well as helping to build industrial Special Economic Zones and the necessary infrastructure, potentially along existing RECs to benefit from opportunities presented by region-wide economies of scale. This is a process that requires long term planning and commitment, which characteristic has been a key factor in China's success story and the SADC region could do well to learn from her development experience and radical approach.

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