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Regional Industrialisation in Southern Africa: The Role of African–Sino Partnerships

Report based on a policy research seminar held by the University of Johannesburg Confucius Institute and the United Nations Economic Commission for Africa (UNECA), Southern Africa Office, in collaboration with Oxfam International's Africa-China Dialogue Platform (ACDP), in Sandton, Johannesburg, on 20-21 April 2017

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Regional Industrialisation in Southern Africa: The Role of African–Sino Partnerships

This Policy Brief was developed by the University of Johannesburg Confucius Institute (UJCI) and the United Nations Economic Commission for Africa (UNECA), in collaboration with Oxfam' International's Africa-China Dialogue Platform, Addis Ababa, Ethiopia. It reflects and elaborates on the deliberations of a seminar entitled 'Prospects for SADC Regional Integration through Industrialisation and the Role of China', held in Sandton on 20-21 April 2017. The development of this Policy Brief was guided by Dr David Monyae, Co-Director of UJCI; Prof Said Adejumobi, Director of the UNECA Subregional Office, Southern Africa; and Mr Gedion Jalata of Oxfam International, Addis Ababa, Ethiopia.

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1. Introduction

At an extraordinary Summit of the Southern African Development Community (SADC) held in Harare, Zimbabwe, in April 2015, southern African leaders adopted a new plan of action for industrialisation in the region. Entitled the *SADC Industrialisation Strategy and Roadmap 2015-2063*, the new master plan is indicative of a renewed commitment to regional industrialisation, borne out of the realisation that, in an increasingly volatile and adverse global economic environment, the socio-economic prospects of the region are inextricably linked to its ability and willingness to harness and add value to its diverse natural resources. The strategy and roadmap, therefore, seek to bring about structural socio-economic transformation in the SADC region through beneficiation and value addition as well as deeper regional integration. The responsibility for translating this noble vision into reality rests primarily with southern African leaders. Even so, as an integral part of the global economy, the region would need the support of international partners to anchor a new industrialisation drive. It is in this context that a catalytic role is envisaged for China in SADC's current efforts towards greater integration and industrialisation.

China is not a new player in southern Africa. Although there has been renewed and expanded engagement with the region against the backdrop of China's celebrated economic explosion in the past decade, Beijing has maintained a friendly presence in southern Africa since as far back as the 1960s. It supported many southern African countries in their liberation struggles against colonialism and white minority rule. In the post-independence period, two mutually reinforcing impulses have underpinned China's growing relationship with the region. On the one hand, the shift in the centre of global capitalist accumulation from the West to the East means that, as the fastest growing and industrialising economy in the world, China has needed the natural resources available in large quantities in many southern African countries. China also turned to Africa in search of markets for its manufactured products, and to invest its surplus capital. On the other hand, in their quest for a diversified pool of international cooperation partners in a fairly multipolar world, southern African countries, individually and collectively, have found in China a potential source of support and inspiration for their socio-economic development efforts.

In the post-independence period, two mutually reinforcing impulses have underpinned China's growing relationship with the region.

Against this background, this Policy Brief takes a critical look at China's prospective role in southern Africa's developmental regionalism, with an accent on Beijing's potential contribution to stimulating regional industrialisation. It is based on presentations to and discussions at a policy research seminar co-hosted by the University of Johannesburg's Confucius Institute (UJCI), the Southern African office of the United Nations Economic Commission for Africa (UNECA), and Oxfam International's Africa-China Dialogue Platform (ACDP), held in Sandton, Johannesburg, on 20-21 April 2017. It begins with a review of the context, challenges and prospects for industrialisation in the region, before reflecting on the future role of China in the SADC region's industrialisation drive. In addition to discussions of China's industrialisation experience, the seminar delved into regional industrialisation and economic integration; the extraction of natural resources, including minerals and water resources (the blue economy); and sustainable development and continental and international development frameworks, among others.

2. The lingering imperative of integration and industrialisation in Africa

Collective action, in the form of regional economic integration, is required to transform the fragmented African region into a more coherent and viable economic space.

The case for regional integration as a strategy for socio-economic development and transformation in Africa is as old as early attempts in the immediate post-independence period to restructure the economies of African states, and redress the continent's marginalisation in the global political economy. For example, since the 1980s, there have been concerted efforts to design continental frameworks for Africa's socio-economic development and transformation, underpinned by the Pan-African principles of solidarity, collective self-reliance, and self-sufficiency. Chief among these are the Lagos Plan of Action (LPA) of 1980, the 1991 Abuja Treaty, the New Partnership for Africa's Development (NEPAD) adopted in 2000, and, most recently, Agenda 2063, adopted by the African Union (AU) in 2013. Central to these different frameworks has been the notion of regional integration, born partly from the realisation that the economies of individual African states are too small to compete in the global economy into which they have been unequally integrated. Therefore, collective action, in the form of regional economic integration, is required to transform the fragmented African region into a more coherent and viable economic space.

Africa's economic integration was predicated on a gradualist approach that identified regional economic communities (RECs) such as SADC, the East Africa Community (EAC), and the Economic Community of West African States (ECOWAS) as building blocks of an envisioned African Economic Community (AEC). By offering new trade opportunities, larger markets, and increased competition, these regional economic spaces were expected to serve as springboards for the rapid industrialisation of the continent, thereby transforming the extractive and exploitative economies of the colonial era into industrial engines of

broad-based socio-economic development. This aspiration was anchored on the belief that no society has structurally transformed its economy without a sound industrial base. Thus, for Africa to achieve economic growth and sustainable development, it was imperative to place a strong focus on, and promote, industrialisation.

Southern African countries should collaborate with industry and training institutions to develop skills that are relevant to the needs of industry.

However, over the past four decades, large-scale industrialisation, just like the regional economic integration project itself, has remained an elusive goal in Africa. For example, 86 percent of Africa's trade is still conducted with the rest of the world instead of on the continent. This is in sharp contrast with other regions like North America, the European Union (EU) and Asia, whose levels of intra-regional trade stand at 49 percent, 61 percent and, 62 percent respectively.[1] Likewise, Africa currently accounts for less than 2 percent of global manufacturing exports, and sub-Saharan Africa's share of manufacturing as a percentage of gross domestic product (GDP) declined from 15.4 percent in 1990 to 11 percent in 2013. Africa's economic relations with China also exhibits the weak state of industrialisation on the continent. It is estimated that 90 percent of Chinese exports to African countries constitute industrial products, while 87 percent of African exports to China are made up of raw materials. This lacklustre industrial performance is indicative of the absence of the prerequisites for industrialisation on the continent, including political stability, an autonomous policy space, a skilled workforce, and an willingness to invest in productive infrastructure.

It is not surprising, therefore, that, in the context of renewed efforts towards economic development on the continent, African leaders and policy-makers have once again given priority to the imperative of industrialisation as an anchor of the regional integration process. In this regard, Africa's new blueprint for socio-economic development, Agenda 2063, once again focuses on industrialisation as a vehicle for realising the ideal of a prosperous Africa based on inclusive growth and sustainable development. More importantly, as engines of continental integration, RECs such as SADC have taken up the challenge of stimulating industrialisation in their respective regions, and have elevated the transformation agenda.

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3. Regional industrialisation in southern Africa: progress, challenges and prospects

As on the rest of the continent, the imperative of industrialisation in southern Africa has never been more urgent. The region is endowed with abundant natural resources, including minerals, agricultural land, rain forests, water and labour. However, despite the relatively high rates of GDP growth achieved recently by several southern African countries, the region 'continues to labour under the weight of distinct human development vulnerabilities'.[2] This is primarily due to the fact that the economies of most southern African countries are yet to be structurally transformed. In this context, the region's economic growth has relied predominantly on extractive industries, agriculture, and the export of semi-finished products, with all their vulnerability to fluctuating global commodity prices and weather conditions. Industrialisation, like the process of regional integration, has been painfully slow in southern Africa.

While the services sectors in most African countries have grown, manufacturing activities have declined steadily since 2013. Except for a few countries such as Swaziland and the Democratic Republic of Congo (DRC), the share of manufacturing in the region's GDP is generally low, compared to other regions. This is true even for those SADC countries like Mozambique, Namibia, Malawi, and Zambia that have achieved significant economic growth in recent year (see Figure 1). The average share of manufacturing value added (MVA) in GDP in the region currently stands at about 15 percent.[3]

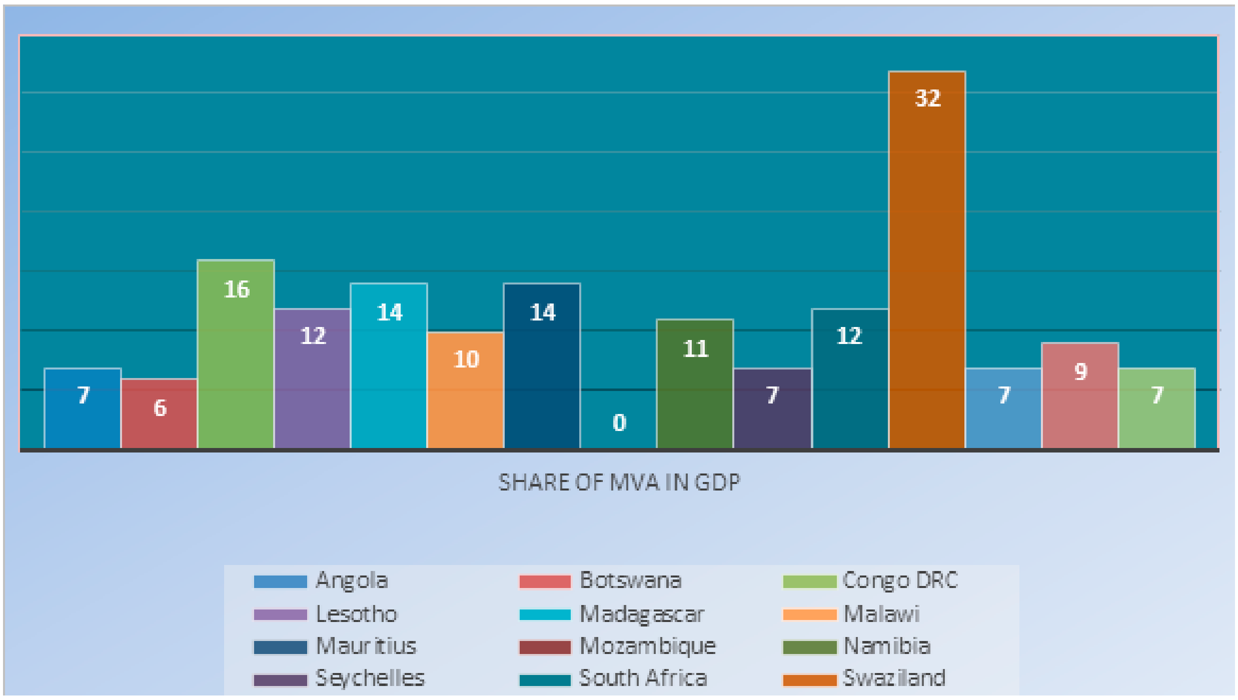
Evidently, the growth dividend has not been utilised to advance the industrialisation agenda in the region. Even South Africa, which is the region's manufacturing hub, does not compete favourably at the global level.[4] Moreover, manufacturing in southern Africa is characterised by low-technology processing that relies on the region's natural resource endowment.

Southern Africa's weak industrial production capacity does not in any way suggest that the region as a collective has not been seized with the question of industrialisation. In fact, SADC was partly founded on the imperative to promote sustainable and equitable economic growth and socio-economic development in the region through, inter alia, efficient productive systems and deeper regional co-operation and integration. Both the SADC Trade Protocol and the first Regional Indicative Strategic Development Plan (RISDP) were aimed at enhancing industrialisation, and diversifying the region's economic activities and exports away from an over-reliance on primary commodities. However, several factors have stood in the way of realising this dream. Chief among these is the liberalisation of the region's economies, which has exposed its fledgling local industries to unfair global competition. Compounding this weak industrial competitiveness is the enduring high cost of doing business in the region, stemming mainly from cumbersome regulatory frameworks, logistics bottlenecks, and a huge infrastructure deficit. Southern Africa's infrastructure challenges resonate with the situation in the rest of Africa. In this regard, NEPAD estimates that an annual investment of $93 billion is required for Africa to meet its infrastructure needs in the areas of energy, water and sanitation, transport, Communication Technology (ICT), and irrigation.[5]

As on the rest of the continent, the imperative of industrialisation in southern Africa has never been more urgent.

Additionally, there is a shortage of industrial skills in the region. Two key factors account for this deficit. Firstly, the levels of investment in science, technology, engineering and mathematics education needed to provide the pool of skills required for industrialisation are low in SADC member states. In addition, training is generally not aligned with the needs of industry, and vocational training and institutions have not received the required support. Secondly, poor socio-economic performance has led to the region losing a significant proportion of its highly skilled labour force to the developed economies of Europe and North America. Related to the shortage of technical skills is the limited capacity of many governments in the region to formulate and implement coherent industrial policies. Access to credit and other financial services has also been a major impediment to successful industrialisation in southern Africa. Together with over-regulation and the high cost of borrowing (including by state-owned financial institutions), the difficulty in accessing financial services in particular

Figure 1: MVA share in GDP in SADC (2015) at 2010 USD constant prices



Source: Based on UN Industrial Development Organisation (UNIDO), Industrial Development Report 2016: The Role of Technology and Innovation in Inclusive and Sustainable Industrial Development, 2016.

has worked to stifle entrepreneurship and the growth of small and medium enterprises (SMEs) in the region. Finally, it emerged from the seminar that political conditions in most southern African countries have also worked against the industrialisation drive in the region. The absence of capable states with committed leaders was blamed for the observed failure to match the regional industrialisation rhetoric with concrete action.

The adoption of the SADC Industrialisation Strategy and Roadmap 2015-2063 in April 2015 and the subsequent Action Plan (2017) is expected to address some of these challenges, and reinvigorate industrialisation in the region. Based on greater complementarity between national and regional policies, SADC's new industrialisation strategy seeks to, among other objectives, enhance the productive capacity, productivity and competitiveness of SADC economies, while also developing viable regional value chains capable of interacting favourably with global value chains. However, besides the need for a concerted effort to address the challenges identified above, the success of this new regional framework for industrialisation would depend on the extent to which its implementation embraces certain key imperatives, some of which are outlined below.

Firstly, industrialisation in the region needs to be reconceptualised away from the traditional narrow focus on manufacturing, to take full advantage of the fourth industrial revolution, as well as maximise the productive linkages between manufacturing, the services sector, and innovations in agriculture. Secondly, industrialisation should not be taken as an end in itself; rather it should be seen as a means of improving human development conditions in the region. Consequently, industrial development should be inclusive enough to cater for the millions of poor southern Africans, particularly those from marginalised groups such as women, subsistence farmers, and the digitally savvy youth. Thirdly, due regard must be given to the fact that SADC's effort to industrialise will take place in the context of significant contradictions flowing from the global capitalist system. More than anything else, this calls for an inward-looking approach to industrialisation and regional development, that maximises ownership and policy space, but also allows for strategic engagement with the outside world. This is where the nature of the region's partnerships with China becomes particularly important for its industrialisation efforts.

Access to credit and other financial services has also been a major impediment to successful industrialisation in southern Africa.

4. The role of Sino-African relations

Over the past 15 years, China has taken advantage of its strong historical ties with Africa and its impressive economic growth to locate itself at the centre of the continent's economic and political relations with the outside world. China has emerged as one of Africa's major partners in terms of investments, trade, and financing for development, overshadowing the role and influence of some traditional western actors on the continent. It is from this perspective that Sino-African partnerships have been touted as a possible lever for successful industrialisation and regional integration in southern Africa. Indeed, there is evidence to suggest that through its investments, aid, and preferential market access granted to SADC countries, China may already be playing a vital role in laying the foundations for regional integration and industrialisation in southern Africa, particularly in the areas of infrastructure development and the creation of Special Economic Zones (SEZ) in countries like the DRC, Zambia, Angola and South Africa.

Expectations that China has a role to play in the industrialisation of southern Africa, and Africa generally are shared on both sides of the partnership. For example, commenting on the outcomes of the summit of the Forum on China Africa Cooperation (FOCAC) held in Johannesburg in December 2015, Tian Xuejun, China's Ambassador to South Africa, noted that:

In the course of next three years, China will commit US$ 60 billion to Africa to carry out practical cooperation in ten major fields, including industrialisation, agricultural modernisation, infrastructure, finance, green development, trade and investment facilitation, poverty reduction and people's welfare, public health, people-to-people exchanges, as well as peace and security.[6]

However, looking at the record of Sino-African economic relations, and against the backdrop of the former's economic slowdown, China's support for southern Africa's industrialisation should not be taken for granted, and should also not be considered as a panacea for the region's challenges in this regard. In the first instance, notwithstanding its positive contribution to Africa's development during the past decade, the model of China's engagement with the continent has not been premised on assisting African economies to break away from their traditional dependence on the export of primary commodities. If anything, Sino-African economic relations have brought additional externalities for the continent in the form of environmental degradation, perceived poor labour conditions, and rising unemployment, as cheap Chinese manufactured products have flooded the African market.

Industrialisation in the region needs to be reconceptualised away from the traditional narrow focus on manufacturing.

What is more, there are signs that the Chinese economy may not be able to help drive Africa's economic growth for the foreseeable future. With China embarking on a new path to economic growth, away from a focus on export-driven investments in infrastructure and heavy industry, Chinese demand for Africa's commodity exports has declined, a trend that is likely to alter the nature of Sino-African relations, notwithstanding the commitments made at the last FOCAC summit. This in itself is a wakeup call for southern Africa and the rest of the continent that the current economic development model anchored primarily in the export of natural resources to China and other developed economies is not sustainable. Southern Africa needs a new economic development pathway in which the extraction and use of the region's abundant natural resources forms the basis of an integrated regional industrialisation drive that cuts across the extractive, manufacturing and services sectors, and is strategically and productively integrated into the relevant global value chains.

In this context, China could play a major role in stimulating southern Africa's industrialisation by outsourcing and relocating its labour-intensive industries as well as low-skilled jobs to the region. Likewise, southern Africa's industrialisation drive could benefit significantly from the Chinese experience of economic modernisation and industrialisation in areas such as the development of human capital and infrastructure, the use of SMEs for inclusive industrialisation, the promotion of a culture of domestic savings, and the strategic leverage of

foreign direct investment for economic transformation and industrial development. The region has to develop appropriate industrial policies and strategies, embrace the right attitude towards economic development, and demonstrate a strong commitment to taking full advantage of these shifts in the global economy while learning from the Chinese experience.

China's engagement with the continent has not been premised on assisting African economies to break away from their traditional dependence on the export of primary commodities

5. Conclusion and summary of policy recommendations

The case for regional industrialisation in southern Africa has never been stronger. Against the backdrop of an increasingly volatile and competitive global economy, diversifying the region's economic activities and developing its industrial capacity constitute the most prudent options for addressing the rising levels of poverty, unemployment and inequality in many southern African countries, and the presence of Chinese companies in the region adds significantly to industrialisation efforts. However, relations with China need to be recalibrated if they are to play a meaningful role in leading southern Africa towards real economic transformation and prosperity. In this regard, while learning from the Chinese industrialisation experience, it is vital for the region to create conditions that optimise the benefits of engagement with Chinese investors.

The lessons from China's industrialisation experience -- which include leadership commitment to change and social transformation; clarity of development vision, direction and strategy; investment in human capital development; creation of policy space and its ownership; investment in trade-related infrastructure; and clear development strategy, including the possibility of rural industrialisation -- are eye-openers for industrialisation efforts in southern Africa. These are the hallmarks of strong democratic developmental states that a number of southern African countries have embraced, but need to act upon.

One of the key lessons is that China's role in SADC's industrialisation efforts should primarily be guided by the SADC industrialisation agenda, and go beyond material and technical assistance. Chinese investors must contribute to structural transformation, and help deepen the link between the resources sector and other economic sectors through beneficiation and value addition. The accelerated implementation of the SADC Industrialisation Strategy and Roadmap through the recently finalised Action Plan and in a fully participatory process will provide a framework for the engagement of member states with Chinese companies. National industrialisation policies and strategies should be guided by and aligned with the regional industrialisation framework. Furthermore, to create a seamless and uniform operating environment in the region, SADC member states should develop harmonised policies and legal and regulatory frameworks for regulating the operations of Chinese companies, and ensure that those companies comply.

China's support for southern Africa's industrialisation should not be taken for granted, and should also not be considered as a panacea to the region's challenges in this regard.

In this regard, there should be a regional China policy in southern Africa or the continent as a whole, to enable countries to speak with one voice and avoid unhealthy competition. Through such a regional approach, analyses could be undertaken to identify strategic products in the different SADC countries which could then form the basis of engagements with relevant markets in China. In a similar way, the speedy domestication of Agenda 2063 and Agenda 2030 and the development of appropriate funding mechanisms, implementation strategies and monitoring and evaluation mechanisms will create the necessary platform for industrialisation in the region. The collection of quality data on industrialisation and on progress on Agenda 2063 and Sustainable Development Goals (SDGs) and its dissemination will provide the support required for proper monitoring. Thus, SADC member states should design mechanisms for the collection and timely dissemination of high-quality data in order to facilitate evidence-based analysis and the tracking of progress against set targets.

The region's trade with China needs to be oriented towards strengthening economic development cooperation through the development of commodity

value chains that enhance the global competitiveness of the region's products through value addition and beneficiation. The beneficiation of minerals should, where feasible, prioritise those minerals that are vital for the region's development, such as minerals that help the region to produce steel, fertiliser and energy. The changing Chinese investment pattern, which is now focused on food self-sufficiency and agricultural development, should inform the region in crafting policies for investors from China.

The services sector and the blue economy are emerging as key sectors for anchoring development in the region.

In developing a conducive environment for engagement with Chinese companies, member states should recalibrate their macroeconomic policies in order to support the industrialisation agenda by introducing preferential interest rates to support targeted industries, including domestic SMEs, and reduce the cost of doing business, in order to spur manufacturing growth. Strong domestic SMEs can then partner with Chinese companies to support various activities along the industrialisation value chain. Furthermore, in order to address the paucity of skills, southern African countries should collaborate with industry and training institutions to develop skills that are relevant to the needs of industry, and revamp the education curriculum in order to promote digital literacy and other skills required for industrialisation.

Southern African countries should ensure that special economic zones (SEZs) are developed in ways that benefit not only foreign investors but also local businesses and communities, and serve as conduits for entry into global value chains. SEZs must have clear objectives, and be well-crafted and sectorally targeted. They must also have an ecosystem approach that incorporates a comprehensive development strategy. Ethiopia's emerging experience is instructive in this regard.

it is vital for the region to create conditions that optimise the benefits of engagement with Chinese investors

The services sector and the blue economy are emerging as key sectors for anchoring development in the region. Therefore, they should constitute a major part of a southern African industrialisation strategy. However, efforts to develop the blue economy should be comprehensive, encompassing blue economy-related infrastructure, institutions, human capital needs, and technology.

ENDNOTES

1 UNECA, Intra-African trade and Africa Regional Integration Index Progress report on intra-African Trade, September 2015, pp 2-4.

2 Garth Le Pere, 'Assessing the SADC Summit in Maputo', SAFPI Policy Brief, No 8, September 2012, p 1.

3 SADC Industrialisation Strategy and Roadmap, 2015, p 14.

4 Eugenie du Preez, 'SA losing ground in global manufacturing stakes'. Fin24, 10 August 2016.

5 See NEPAD, Programme for Infrastructure Development in Africa (PIDA), at http://www.nepad.org/programme/programme-infrastructure-development-africa-pida.

6 Tian Xuejun, 'Ambitious Goals and Bright Prospects: A New Era for China-Africa Relations', *The Thinker*, Vol 68, 2016, p 23.

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