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PROSPECTS FOR INDUSTRIAL TRANSFORMATION IN SADC

Towards a Regional Strategy and Roadmap

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Agricultural and Manufacturing Sectors

Introduction

Industrialisation is the period of social and economic change that transforms a society from being solely agrarian-based into highly mechanised production, involving the extensive re-organisation of an economy for the purpose of manufacturing. As incomes rise for industrial workers, the markets for consumer goods and services of all kinds tend to expand and provide a further stimulus to industrial investment and economic growth.

This situation is characterised by a sustained expansion of the economic development frontier, with supported factory production, division of labour, concentration of industries and population in given localities.

The SADC region is yet to draw such an economic development trajectory. A key challenge is to shift from an economic growth path that is built on consumption and commodity exports to a path of sustainable development based on industrialisation. Most countries in the sub-region are in early stages of industrialisation, given the dominance of the agriculture sector and extractive industry in national outputs.

Therefore, the 34th SADC Summit held in Victoria Falls, Zimbabwe, in August 2014 was themed, ***SADC Strategy for Economic Transformation: Leveraging the Region's Diverse Resources for Sustainable Economic and Social Development through Beneficiation and Value Addition***.

The theme captures the challenges of the sub-region in its quest to industrialise and to enrich its development aspirations. The theme seeks an industrial development path that can cushion regional economies from the vulnerability of global shifts in commodity prices (Madakufamba 2014). Summit requested the SADC Ministers of Trade to review "Industrial Development and Trade Liberalisation" to prioritise industrialisation at the current stage of regional integration.

Most SADC countries depend on the export of primary commodities as a result of poorly diversified production (Bank of Angola 2012). Exports are limited to a small range of products and intra-SADC trade is dominated mainly by food items, with most nations relying on South African imports. The challenge for SADC countries is to focus on industrial diversification, to create a firm basis for intra-SADC trade.

All developing countries that have made the transition from low-income to middle- and high-income status have done so by relying on a strong manufacturing sector as the driver of an export-oriented growth economy. There is an inseparable correlation between industrial productive capacity, economic growth and development (Madakufamba 2014).

Agricultural Sector Scenario and Prospects for Industrialisation

According to the SADC Regional Agricultural Policy (RAP) 2013, the sector remains central to poverty reduction, growth, food and nutrition security; and accounts for the livelihoods, employment and income, and wealth creation for 66 percent of the 281 million people in the region.

The policy notes that the agriculture sector contributes eight percent of the regional Gross Domestic Product (GDP), rising to 28 percent when medium-income countries are excluded.

The sector has been growing at an annual rate of 2.6 percent against a population growth rate of 2.5 percent during the decade to 2012 on account of expanded cereals production which recorded a 46 percent growth as a result of the 40 percent increase in maize production. Cassava production has more than doubled in the last 20 years. Livestock production has increased by an average three percent per annum, while forestry and fisheries have also trended upwards.

Setting aside these positive trends, the region still remains a net importer of foodstuffs, with vulnerabilities to variable climatic conditions remaining a challenge.

The RAP notes that intra-regional trade in agriculture remains subdued at 10 percent in comparison to other regions of the world such as the Association of South East Asian Nations (ASEAN) which records 30 percent.

The SADC region lags behind in industrial development and its exports are dominated by unfinished or semi-processed products, emphasising the significance of the primary agriculture and extractive sectors (mining, timber, etc.). The contribution to GDP is significant but the "value addition in these sectors remains low, on average remaining at 14 percent of GDP in 2009" (World Bank 2011).

In order to ensure long-term food security, the need for structural transformation cannot be overemphasised. The strategy must focus on a re-orientation of the sector to diversify its product range and expand value addition to maximise premiums from regional and global trade.

Supported by a business-oriented operating and regulatory regime that facilitates the inflow of investment, and innovation, agriculture wields great potential to drive economic development. The sector possesses strong growth linkages and multiplier effects that can substantially trigger growth in other key economic sectors such as manufacturing and mining.

However, an integrated approach is needed that targets policies and interventions to structurally transform the sector while fostering rural development to equitably distribute the gains of such a process.

Factors constraining regional agricultural industrial potential include low labour productivity; weak market linkages; low cereals yields; limited capacity to absorb technology; weak research and development capacity to expand innovation; limited mechanisation; limited financial inclusion weakens access to credit and capital; infrastructure barriers that constrain the access to markets; weak land tenure and regulatory frameworks to facilitate investment and capital accumulation.

Box 1 Global Experiences

The Case of India emphasises how agriculture can be a pillar for building industrialisation. The Punjab State of India achieved remarkable growth during the 1960s, to support a transformation to becoming one of the richest states of India, owing mainly to the adoption of new technology in agriculture. The rapid growth of agriculture translated into an economy-wide expansion in production, propping up the agro-industries that supply both current and capital inputs, and an unprecedented increase in trade and transport.

The Case of China shows that the early stages of its economic take-off hinged on a strategy to ensure a close and mutually beneficial relationship between agriculture and industry. The policy was focused on building industry through agriculture, and using agriculture to develop industry in order to obtain a balanced development of both. This was achieved through undertaking significant land reforms to empower the small-scale peasantry, and creating conditions that provided for the absorption of labour through embracing labour-intensive industries, as well as the adoption of innovative technologies. The accelerated socio-economic development of China, therefore, had its historical foundation in agricultural sector reforms, with poverty reduction a significant goal of national development. This was clearly stated by President Xi Jinping (then Party Chief) during an official tour of poverty-stricken communities in the provinces of Hebei and Gansu (*China Daily*, 28 February 2013).

The Case of Mauritius a SADC member state that gained independence in the 1960s, shows the ability to successfully deploy earnings from thriving sugar production to a highly mechanised industrial sector. Mauritius stands as a regional and global player in the textiles and garment sector, and the economy is now diversified despite a narrow resource endowment.

Manufacturing Sector Scenario and Prospects for Industrialisation

The challenge of a low industrial capacity has been acknowledged in SADC policy. The region needs to increase the manufacturing sector share of GDP to levels above 25 percent to significantly transform the economic and social status of the majority of citizens.

SADC ranks relatively well among other African regions but quite low compared to other regions of the world in terms of industrialisation. "The region characterises developing economy status – a large share of GDP is from primary sectors, mainly agriculture and mining.…With the exception of Mauritius and South Africa, which have sizable manufacturing sectors, the SADC industrial sector remains relatively undiversified" (SADC 2012).

This trajectory posits a gloomy picture for any meaningful expansion in manufacturing to enhance the region's industrialisation prospects, unless significant policy interventions are deployed nationally and regionally.

Box 2 shows the mixed picture in the region during the period 1980-2010, confirming the varied complexion of the scenarios in member states when compared to successful industrialisation initiatives in other parts of the world.

Box 2 SADC Structural Transformation Scenario 1980-2010

The pace of transformation has been very slow, compared to developing countries in other regions of the South such as Brazil, South Korea and Malaysia. The SADC region was virtually at a standstill between 1980 and 1990, with no change in its industrial structure during that decade. There were slight improvements by 2000 and 2010, although the regional growth appears to have stagnated since 2000 (UNECA 2013).

Angola and Botswana shifted their economies from agriculture to industry between 1980 and 2010, accompanied by growth of the services sector in Botswana. Mauritius, Seychelles and Namibia have achieved significant movement towards service-centred economies supported by a low share of quality industrial and manufacturing production. Madagascar, Malawi and Mozambique still have agriculture as a more significant contributor to GDP than industry, although the gap is narrowing in Mozambique.

Services are emerging as a key sector in most countries, with manufacturing being pulled along to serve the growing and more sophisticated consumer tastes. *UNECA 2013*

Box 3 Factors Constraining Manufacturing Sector Potential

- The role of the development state in tackling market failures;
- Lack of a shared political vision with economic actors, which are negatively affected by policy adjustments;
- Limited coherence in industrial policies across member states that has reduced flexibility to allow response to trends;
- Dual economies inherited at independence have subsisted to date. Policies have underplayed the significance of the non-formal economy, which has nurtured Micro, Small and Medium Enterprises (MSMEs), yet industrialised nations understood this nexus earlier and have benefitted from MSMEs;
- Huge reserves of untapped natural resources have not been leveraged to unleash a resource-led industrialisation transformation model in which industrial hubs can emerge to support related manufacturing capacity; and,
- Lack of regional capital markets for the support of value-chain projects by firms that link production at the national and regional levels.

Key Policy Considerations for SADC

A viable and durable regional industrialisation programme must be informed by the political economy that has shaped the post-independence development nexus. This development nexus has underestimated the significance of structural barriers inherited at independence that have sustained the growth of a small formal economy, at the expense of the non-formal economy, largely subsistence, yet growing in size and population, creating a dual economy.

This is the same sector that harbours thriving MSMEs activities. The region should anchor an industrialisation strategy within an integrated and inclusive business model involving the private sector, Public-Private-Partnerships (PPPs), and an active role by political leadership and national institutions (ZimConsult 2011).

Based on an integrated development value chain, production clusters in industry should be viewed as inter-dependent networks comprising of raw material providers, machinery suppliers, transporters, buyers, sellers and support institutions that face common challenges and opportunities, nationally and regionally.

This will create the conditions for a structural shift in production from low-value production towards value addition and beneficiation.

Specific Agriculture Sector Considerations

- Equitable distribution of the means of production such as land, resources and capital;
- Support to smallholder agricultural production models, benchmarked on the Chinese agrarian reforms and benefits thereof;
- Agriculture-related infrastructure investments such as dams, irrigation, feeder-road networks to enhance productivity and market access;
- Development of regional commodity value-chains to guide development of specific regional agro-production chains;
- Addressing climate change vulnerabilities; and
- Research and development for new production technologies and innovation.

Specific Manufacturing Sector Considerations

- Move production to high-value frontiers that produce a wide range of products, with capacity to transform and adopt technology with ease, and remain innovative to recapture the market share.
- National policies for education, science and trade should expand to regional scope and

create conditions for private sector participation in an inclusive industrialisation agenda, thus strengthening ownership by all economic agents. The state should take a more developmental role.
- National policies should align with regional policy initiatives to cover both horizontal and vertical linkages in the production systems, providing space for active participation by the informal economy and MSMEs in the intricate production chain. The policy framework should facilitate linkages institutionally between large and small enterprises.
- Regional economic frontiers/hubs should be developed to maximize competitive and comparative advantage for a broad-based, shared-growth model.
- A trading regime should be developed in the region that allows private capital to thrive, encouraging business innovation and technology development, as well as transfer of capital to complement local capacities. This holds the key to industrial transformation in the region. Locally developed technologies must be given more priority.

Conclusion

Regional economies should pursue strategies that diversify production as part of a structural transformation agenda, as a building platform for sustainable industrial growth. Industrial intensity is low, with industrial output heavily concentrated on low technology products such as food, beverages, textiles, clothing and footwear (SADC 2012).

Most SADC countries remain among the poorest globally, despite having an abundance of natural resources and recording positive economic growth rates in recent years. This reflects the low level of industrialisation and the peripheral position in global manufacturing (Madakufamba 2014).

"Even the current model of African development entailing the integration of the many previously fragmented post-colonial polities into larger regional economic communities 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, industrialisation strategies have 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 thrust of value addition and beneficiation to natural resources can bear durable revenue streams and premiums for the generality of our populace only if the strategy is grounded in a broadly based development framework that embraces the interests of all layers of society, including the government, private sector, labour and other non-state actors for a shared vision of ownership.

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