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Diversification of the African Rural Economy through Industrialization

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Abstract

Diversifying African rural sector is significant to sustained economic development. One of the strategies of achieving diversification is through industrialization. Without strong industries to create jobs and add value to rural raw materials, African rural sector risk remaining shackled by joblessness and poverty. Accelerating industrialization can potentially contribute to the expansion of trade within Africa and between Africa and the rest of the world through the diversification of exports. Moreover, creating food-processing industries in rural Africa would contribute to lifting a significant number of Africans from poverty. The increased demand for Africa's natural resources, together with increased urbanization and consumer demand for processed goods within the continent provide an opportunity for resource-based industrialization. Using expo facto research design, the study draws literature from secondary sources. The review shows current trend and challenges of rural poverty in Africa. The study advocates the need to significantly transform the economies of African countries from the current low income to middle-income levels. This will significantly add value to Africa's large reservoir of natural and agricultural resources and tremendously boost economic performance as well as uplift many Africans out of poverty.

Keywords: Diversification, Industrialization, African Rural Economy, Economic Development

INTRODUCTION

The growth and sustainable development of the African economy depends on several factors. Given the multiplicity of Africa economic based, diversification is necessary for utilizing and maximizing opportunities so as to improve economic conditions of citizens. Strong industrial base is needed to create jobs and add value to raw materials. This will alleviate poverty and joblessness which is presently one of the development challenges of African nations.

Côte d'Ivoire and Ghana produce 53percent of the world's cocoa. But the supermarket shelves in Abidjan and Accra, their respective capitals, are stacked with chocolates imported from Switzerland and the UK, countries that do not farm cocoa. This scenario is repeated throughout the continent in different contexts. For example Nigeria, the world's sixth-largest producer of crude oil, exports more than 80% of its oil but cannot refine enough for local consumption. In 2013 it spent about $6 billion subsidizing fuel imports, estimated Finance Minister Ngozi Okonjo-Iweala late last year.

In such apparently baffling scenarios lies one of Africa's greatest challenges and opportunities. The continent possesses 12 percent of the world's oil reserves, 40 percent of its gold and between 80 percent and 90 percent of its chromium and platinum, according to a 2013 report from the UN Conference on Trade and Development (UNCTAD). It is also home to 60 percent of the world's underutilized arable land and has vast timber resources. Yet together, African countries account for just 1percent of global manufacturing, according to the report.

This disturbing state of affairs creates a cycle of perpetual dependency, leaving African countries reliant on the export of raw products and exposed to exogenous shocks, such as falling European demand. Without strong industries in Africa to add value to raw materials, foreign buyers can dictate and manipulate the prices of these materials to the great disadvantage of Africa's economies and people. It is therefore imperative to diversify the structure of Africa nation's economic base.

Objective of the paper

The paper examines the need to diversify the African economy through industrialization.

Method and source of data

The study uses expo facto research design. Data are drawn largely from secondary sources. Literature from the past studies, government publication and archives are used to examine current trends and prospects of diversifying the African economy through industrialization.

LITERATURE

Diversification means identifying alternative sources of revenue for the country. Economic diversification is when the country has incomes from many different sources that are not directly related to each other. A good example of a poorly diversified economy is that of Saudi Arabia. A very large part of their income depends on the production and sale of oil to other countries. This means that their standard of living sometimes fluctuates wildly in correlation with the price of oil. The US economy is a good example of a better diversified economy. USA gets its income from many different types of economic activity including manufacturing, agriculture, and financial services.

Awolowo (2015) said, diversification through non-oil exports remains the new and only avenue for developing the economy and achieving prosperity – as oil has become unreliable. It succeeds with industrialization. "Industrialization cannot be considered a luxury, but a necessity for the continent's development," said South Africa's Nkosazana Dlamini-Zuma shortly after she became chair of the African Union in 2013. This economic transformation can happen by addressing certain priority areas across the continent.

First, African governments, individually and collectively, must develop supportive policy and investment guidelines. Clearly-defined rules and regulations in the legal and tax domains, contract transparency, sound communication, predictable policy environments, and currency and macroeconomic stability are essential to attract long-term investors. Moreover, incentives—such as tax rebates to multinational companies that pro- vide skills training alongside their commercial investments—will help local economies grow and diversify. In addition, each industrial policy should be tailored to maximise a country's comparative sector-specific advantages.

Mauritius, one of Africa's most prosperous and stable countries, provides important lessons for other African countries. In 1961 this Indian Ocean island nation was reliant on a single crop, sugar, which was subject to weather and price fluctuations. Few job opportunities and yawning income inequality divided the nation. This led to conflict between the Creole and Indian communities, which clashed often at election time, when the rising fortunes of the latter became most apparent.

Then from 1979 on the Mauritian government took practical steps to invest in its people. Realising that it was not blessed with a diversity of natural resources, it prioritised education. Schooling became the critical factor in raising skills and smoothing the lingering religious, ethnic and political fractures remaining since independence from Britain in 1968. Strong governance, a sound legal system, low levels of bureaucracy and regulation, and investor-friendly policies reinforced the country's institutions.

Under a series of coalition governments, the nation moved from agriculture to manufacturing. It implemented trade policies that boosted exports. When outside shocks hit—such as loss of trade preferences in 2005, and overwhelming competition from Chinese textiles in the last 15 years—it was able to adapt with business-friendly policies. From being a mono-economy reliant on sugar, the island nation is now diversified through tourism, textiles, financial services and high-end technology, averaging growth rates in excess of 5% per year for three decades. Its per capita income also rose from $1,920 to $6,496 between 1976 and 2012, according to the World Bank (Adeniyi, 2010).

While much responsibility lies with African governments, the continent's private sectors must play their part in improving co-ordination between farmers, growers, processors and exporters to increase competitiveness in the value chain and ensure the price, quality and standards that world markets demand.

Tony Elumelu, chairman of Nigerian-based investment company Heirs Holdings, and Carlos Lopes, the executive secretary of the United Nations Economic Commission for Africa, advocate what they call "Africapitalism", a private sector-led partnership focused on the continent's development. "Private-sector business leaders must also do more to tackle poverty and drive social progress by ensuring that long-term value addition—as well as short-term gain—is built into their business model," they wrote in a joint article for CNN in November 2013 (Diji, 2015).

Next, African countries must pursue beneficial economic strategies with their neighbours. Regional integration would help reduce the regulatory burden facing African industries by harmonising policies and restraining unfavourable domestic programmes. It would boost inter- and intra-African trade and accelerate industrialisation. The right recipe for regional integration requires countries to concentrate on commodities in which they have a competitive advantage. For example, Benin and Egypt could concentrate on cotton, Togo on cocoa, Zambia on sugar—each country trading in bigger regional markets.

Agriculture, which employs over 65 percent of the continent's population, according to the World Bank, could become a springboard towards industrialization. It can provide raw materials for other industries, as well as promote what economists call backward integration, in which a company connects with a supplier further back in the process, such as a food manufacturer merging with a farm. This is already under way in Nigeria. Sustained investment and improvements in infrastructure are also needed throughout the continent. Countries everywhere, not just in Africa, cannot establish competitive industrial sectors and promote stronger trade ties if saddled with substandard, damaged or non-existent infrastructure.

Adebajo (2008) disclosed further that Africa's recent growth performance can be explained by a number of factors including: (a) implementation of prudent macroeconomic policies, such as reduced debt burdens, low-inflationary monetary stance, and an enhanced investment climate; (b) the post-2002 surge in commodity prices and expansion of oil production; and (c) increased inflows of foreign capital, both private capital and foreign direct investment (FDI).

While sustained growth has contributed significantly to rapid economic transformation in other parts of the world, in Africa it has been observed that the relatively good growth performance has not been inclusive as many millions of Africans are caught in the poverty trap due largely to the lack of diversification of sources of growth, including a continued over-reliance on primary commodity exports. Also, growth has been largely jobless and has been accompanied by rising inequality in some countries. In addition, Africa's significant natural resources are being extracted and exported in their raw form and not as finished products. Hence, no value is added to Africa's extractive commodities exports.

This is a serious, missed opportunity for more robust, diversified and sustainable economic development. Moreover, some of these resources represent an irreplaceable, non-renewable asset, and their exploitation generally has weak linkages to the rest of the economy and, consequently, lower contribution to GDP than could be achieved. Furthermore, Africa's dependence on primary commodity exports exposes it to volatile global commodity prices and resulting economic instability.

In order to significantly transform the economies of African countries from the current low income to middle-income levels, it is paramount that value is significantly added to Africa’s large reservoir of natural and agricultural resources. This will tremendously boost economic performance as well as uplift many Africans out of poverty through employment and wealth creation. The increased demand for Africa’s natural resources, together with increased urbanization and consumer demand for processed goods within the continent provide an opportunity for resource-based industrialization. Indeed, Africa has the potential for increasing its production of higher value-added products.

Accelerating industrialization can potentially contribute to the expansion of trade within Africa and between Africa and the rest of the world through the diversification of exports. Moreover, creating food-processing industries in rural Africa would contribute to lifting a significant number of Africans from poverty. Evidence shows that a number of African resource rich countries have remained poor, while other resource-poor countries have become richer through the implementation of polices that promote value addition, demonstrating that prosperity and poverty alleviation are consequences of smart policy choices. Hence, African countries should take advantage of the growing opportunities to promote industrialization.

Challenges and prospects of effective industrialization in Africa

Despite the progress made in a number of countries, industrialization in Africa remains a challenge. First, agriculture has not been sufficiently modernized and the manufacturing base is very low around the continent. Manufacturing is dominated by artisanal activities in mostly in the informal sector and is therefore insignificant in most African economies. Africa therefore lags behind other developing regions in its industrial performance. Second, the degree of export diversification is very low as most African countries continue to export unsophisticated commodities. At the moment, only a small group of countries dominate African manufacturing (South Africa, Tunisia, Morocco and Egypt) and they have managed to diversify to some extent. Third, a number of African countries are landlocked and face high transport costs, low economic density and geographic isolation from high-growth clusters. Markets are small and fragmented in most parts of Africa.

Industrial agglomerations and diversification are also not very common in Africa. The Economic Report for Africa 2007 indicated that most African countries were still at a very early stage of industrial development. The Report recommended that African countries should strive for diversification into higher-valued products, capitalizing on its mineral and agricultural riches. To capitalize on its mineral and agricultural resources, Africa needs to increase its participation in a broad range of global value chains (GVCs), starting with natural resource extraction and agro-industry and moving later into other manufacturing GVCs to create wealth and employment. For Africa to be successful with its diversification efforts, new industrial policies are needed that support the exploitation of its industrial potential.

The success of any industrialization programme requires the creation of an enabling environment that enhances the required domestic capacity and capability, particularly in respect of physical and social infrastructure, human capital, financial systems, research and development (R&D), technology, and governance. In addition, Governments should put regulatory frameworks in place for tackling market failures. The creation of such an enabling environment will help to realize the full potential of the African private sector in an industrializing economy. Deepening regional integration also offers potential for Africa to tackle some of the challenges it faces in pursuing an industrialization programme.

It has to be recognized that entrepreneurs in Africa continue to face greater regulatory and administrative obstacles. Compared to other regions of the world, the protection of property and investor rights is weak. Although there are improvements in some countries, doing business in Africa is not easy as entrepreneurs face high transaction costs, due to small and fragmented markets, protracted and cumbersome administrative procedures and bureaucratic bottlenecks, and poor physical and financial infrastructure.

Hence, there is a need for appropriate policies to encourage the development of Africa's private sector. This is because a credible private sector impacts positively on economic growth and poverty reduction through ability to contribute to the modernization of underdeveloped rural and urban informal economies. Moreover, Africa's vast unexploited resources and abundance of labour provide opportunities for development of the private sector and for attracting private investment. Africa also offers large untapped markets and all the benefits of emerging economies as well as attractive possibilities for investment diversification.

Africa’s poor roads, railways and other transport networks, faulty communications, and unreliable and insufficient energy result in high production and transaction costs. It takes 28 days to move a 40-foot container from the port of Shanghai, China to Mombasa, Kenya at a cost of $600, while it takes 40 days for the same container to reach Bujumbura, Burundi, from Mombasa at a cost of $8,000, explained Rosemary Mburu, a consultant at the Institute of Trade Development in Nairobi. “This represents double the time at 13 times the cost,” she said.

Public-private partnerships (PPPs) should be developed to stimulate massive investments in infrastructure, which could have a multiplier effect on economic growth. Finally, without education the continent cannot succeed in its drive towards industrialisation. PPPs should be pursued in this arena too, because governments often lack the skills and finances to carry out technical training. Private sector companies would benefit from a skilled and competent workforce.

The country would benefit from a stronger economy blessed with less unemployment and higher incomes. Countries have succeeded by focusing on education in science and technology and promoting research. For example, in the 1960s and 1970s South Korea —like Singapore, Taiwan and Hong Kong—reformed its education system and made elementary and high school compulsory. From an adult literacy rate of less than 30 percent in the late 1930s, South Korea now boasts a literacy rate of nearly 100% and has one of the highest levels of education anywhere in the world, according to UNESCO, the UN's education agency. Its highly- skilled population has helped South Korea to become one of the world's foremost ex- porters of high-tech goods.

Africa, the world's youngest continent, is currently undergoing a powerful demographic transition. Its working-age population, which is currently 54 percent of the continent's total, will climb to 62 percent by 2050. In contrast, Europe's 15-64 year-olds will shrink from 63 percent in 2010 to 58 percent. During this time, Africa's labour force will surpass China's and will potentially play a huge role in global consumption and production. Unlike other regions, Africa will neither face a shortage in domestic labour nor worry about the economic burden of an increasingly ageing population for most of the 21st century.

This "demographic dividend" can be cashed in to stimulate industrial production. An influx of new workers from rural areas into the cities, if harnessed correctly and complemented with the appropriate educational and institutional structures and reforms, could lead to a major productivity boom. This would then increase savings and investment rates, spike per capita GDP, and prompt skills transfers. Reduced dependency levels would then free up resources for economic development and investment.

Without effective policies, however, African countries risk high youth unemployment, which may spark rising crime rates, riots and political instability. Rather than stimulating a virtuous cycle of growth, the continent could remain trapped in a vicious circle of violence and poverty.

More so, developing industries require sustained electricity supply, smooth transportation and other very basic infrastructure facilities, which at present are still not enough to ensure operations. African countries must take the path of industrialization. A strong and positive growth trajectory, rapid urbanization, stable and improving economic and political environments will open windows of opportunity for Africa to achieve economic transformation.

CONCLUSION

The current state of Africa's economies can be reversed with the pursuit of strong industrialization strategies, with greater emphasis on value addition to the extractive sectors and modernization of agriculture. The over whelming majority of the poor in Africa live in rural areas and depend on agriculture for their livelihood. A modernized agriculture sector which is labour intensive, creates jobs and generates value added in agro-processing activities would uplift many Africans from poverty. A modernized agriculture sector also entails significant forward and backward linkages to the domestic economy. Such linkages do not exist to the same extent in the extractive industries.

Indeed, an agribusiness-led development strategy involving higher value added and stronger productivity growth throughout the entire value chain system of the economy offers strong potential and promise for rapid and broad-based economic growth and wealth creation, and for poverty alleviation for Africa's rural dwellers. It should be noted that Africa's transformation agenda will not succeed without efficient industrial capacity in place, as well as affordable infrastructure including energy, technology-based innovations, improved external and intra-African trade, sound financial mechanisms and enhanced agricultural supply chains.

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