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Combined Scenario

Governance and unlocking Africa’s human capital

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Governance and unlocking Africa’s human capital

Africa needs strong, developmentally minded governments and associated leadership that regulate, empower and support small and medium-sized businesses, the primary wealth and employment creator in the 21st century. In poverty alleviation, governments need to offer an enabling hand that shapes the market in a pro-poor manner while alleviating extreme poverty through grants, work schemes, education, housing and other measures for those who cannot adequately provide for themselves. It requires the precise allocation of poverty alleviation resources, such as done in China, seeking to help families and communities in ways that address their immediate needs and enable them to wean themselves out of poverty eventually.

Experience from around the world highlights the need for growth policy not only to emphasise institutions and policies that promote strategic collaboration between the government and the private sector but also on the clear understanding that the market will not resolve poverty. That requires a capable government committed to harnessing and regulating all resources to that end and that monitors and helps directly to the need [1]. In many senses, development is about eventual independence from the helping hand of others.

The continent needs governments that consistently invest in knowledge creation. The Norwegian scholar and economic philosopher Erik Reinert concur with others such as Joseph Stiglitz and Bruce Greenwald in describing what lies at the heart of development: ‘The global economy,’ Reinert writes, ‘can in many ways be seen as a pyramid scheme of sorts — a hierarchy of knowledge — where those who continually invest in innovation remain at the apex of welfare.’ Reinert points to the importance of ‘going up the productivity and technology curve’, generally a function of investments in research - development and expanding the manufacturing sector more than others.

In a different context, the McKinsey Global Institute argues that ‘all global value chains are becoming more knowledge intensive’.[2] The associated response could take many forms, but only deliberate efforts to unlock the promise of digitisation and the Fourth Industrial Revolution will achieve this in the 21st century.

In the aftermath of the great global recession of 2008/09, globalisation briefly deepened until the COVID-19 pandemic. Then, competition between the US and China changed things even before the disruptive effect of Russia’s invasion of Ukraine on global food markets. Today, growth and trade within regional trading blocs (as opposed to between these blocs) have become particularly important.[3] Global value chains are shortened as production moves closer to consumers - partly due to efforts to improve the speed of getting goods to market. It is also a reaction to global tensions caused by a growing sense of nationalism, like the obvious efforts by Europe and the US to constrain technology transfer and competition from China, as well as the reactions to Russia's war on Ukraine. Previously, labour costs were a deciding factor in manufacturing location. But in the last two to three decades, non-labour costs — including the costs of managing complex global value chains — have increased in importance.

Regional value chains and localised production closer to the end market have become more attractive in advanced and emerging economies alike, with some even talking about manufacturing on-demand based on technologies such as 3D printing. This is the emergence of a decentralised, cottage-industry model of industrialisation, referred to in the theme on manufacturing.

Africa must integrate regionally and into global supply chains to facilitate knowledge transfer. To that end, Africans must actively encourage foreign companies to invest and locate on the continent and attract skilled foreigners. Part of that process is to manage debt levels, eradicate financial leakages, mobilise domestic resources, efficiently allocate funds, and curb capital flight. Some refer to instituting ‘radical transparency’, such as to ensure that all debt — not only sovereign debt but also debt directly or indirectly guaranteed by African governments such as that held by special financial vehicles — is recorded on the World Bank’s Debtor Reporting System.

Technological knowledge transfer and steadily expanding local content requirements are crucial to ensure these companies are embedded in local value chains. Over time, local value chains will allow African companies to become part of international value chains. Whatever the exact point, Africa must subscribe to an approach that enhances the mantra of 'designed in Africa, grown in Africa, made in Africa'.

In this regard, there is much that Africa can learn from China and South Korea, which have perfected the art of setting up a subtle ambush by requiring foreign companies to partner and transfer technology to local partners. In the process, China emerged as the global manufacturing hub. It achieved these goals by making technology transfer and skills requirements of the law, including them in every agreement and then negotiating hard. China intends to rival the US as the technology leader in several key areas, including artificial intelligence. It has been so successful that the West now scrambles to constrain its growth.

Instead, many African countries such as Kenya and Nigeria specialise in so-called 'foreign ambush'. Their primary orientation is not to attract and nurture foreign businesses but to entice and trap them. Once a foreign company has been attracted by a liberal legal framework and fiscal incentives to invest, the rules are changed to extract greater profits and benefit particular nationals or families. Nothing scares private investment more than uncertainty, and the threat of changes to their legal or tax status is often a substantial disincentive. The result is that the companies that do invest eventually capitulate and leave, as many South African (and other) companies have done in these countries. In another example, South Africa has made it particularly difficult for skilled foreign nationals to obtain work permits or for companies to invest while adding one compliance burden on top of another. The result is disinvestment and slow growth.

Many of Africa's post-independence efforts at industrialisation failed because of efforts to effectively create islands of technological sophistication and prestige projects in a sea of informal, low-technology economies. Without forward and backward linkages to the domestic economy, these projects depended on government subsidies and handouts in terms of access to foreign markets, for instance, through the US African Growth and Opportunity Act. Some recent investments in heavy-duty infrastructure (as opposed to basic infrastructure) threaten to replicate these mistakes. When these agreements ended, the investments proved unsustainable, and the company inevitably folded or left. For the same reason, highly capital-intensive projects such as gas and petroleum extraction in northern Mozambique, Angola, Nigeria, Equatorial Guinea and Gabon provide little spillover effect to the wider economy. All provide a money stream to elites fighting to control that money. But oil or gas income does not develop a country, and its importance will decline given the threat of climate change. Above all, Africa needs appropriate government policy, ethical leadership and oversight that unlocks the one thing we have in abundance, our human resources.

Eventually, the transformation of Africa is less about grand schemes and ambitions (of which there have been many) and more about the mundane functions of improving food security through land reform and support of small-scale farming, ensuring a hassle-free and facilitative investment environment, holding one another to account; and facilitating foreign investment in clear terms. It requires a technical and bureaucratic process, where governments must meticulously go through every impediment that deters or inhibits innovation, entrepreneurship and doing business. It is about governments that get behind success, offering support and helping to facilitate growth in a sector already showing potential rather than merely shovelling money in that direction. For long-term growth, policy predictability is a prerequisite.

Endnotes

1. United Nations Economic Commission for Africa, Making the most of Africa's commodities: Industrializing for growth, jobs and economic transformation, Addis Ababa: UNECA, 2013.
2. S Lund, J Manyika, J Woetzel, J Bughin, M Krishnan, J Seong and M Muir, Globalization in transition: The future of trade and value chains, New York: McKinsey Global Institute, 2019, 1.
3. McKinsey Global Institute, Digital globalization: The new era of global flows, New York: McKinsey & Company, 2016, 3.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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