Africa must industrialise and trade more to achieve the #SDGs

With a lack of clarity around how the Global Goals for Sustainable Development will be financed, LSE Visiting Fellow Olu Fasan argues that it will be up to African nations to mobilise resources through industrialisation and trade.

This post is part of the Africa at LSE, IGC and South Asia at LSE cross-blog series on the Global Goals for Sustainable Development.

The Sustainable Development Goals (SDGs) were adopted by world leaders at the United Nations on 26 September 2015. The new global goals, which will last for 15 years until 2030, replace the Millennium Development Goals (MDGs) that came into existence in 2000. However, while the MDGs had a modest ambition, captured in just eight goals and 21 targets, the SDGs are far more ambitious, with 17 goals and 169 targets.

Proponents of a broad SDG agenda argued that the MDGs were too narrow. For instance, even though reducing poverty was central to the MDGs, nothing in the agenda addressed its root causes. An integrated approach was thus needed to achieve this overarching goal[1]. However, critics were less sanguine about the value of a "bloated" SDG agenda. For instance, *The Economist* argued that the long list of goals "are a distraction" from the central goal of ending poverty, and described the SDGs as "unsustainable"[2].

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However, what seems to be lacking amid the euphoria around the adoption of the SDGs is any clarity on how the goals will be financed. Yet most of the goals cannot be achieved without public money. Take, for instance, Goals (1) ending poverty, (2) ending hunger, (3) healthy lives and child health, (4) quality education, and (6) clean water and sanitation. Meeting these social goals would certainly require huge state resources and budgetary commitments. Then, consider Goals (7) modern energy for all, (9) building resilient infrastructure, and (11) safe cities and human settlements. It goes without saying that achieving these capital-intensive goals is impossible without huge investments. Thus, for *The Economist*, the SDGs "are unfeasibly expensive", estimating that meeting them would cost "$2 trillion – 3 trillion a year of public and private money over 15 years"[3].

But where would the money come from? There is certainly little hope that much of it would come from development aid, and it would be unreasonable to expect that the developed countries would provide any significant financial support towards the attainment of the goals in Africa. This reality was brought home at the UN International Conference on Finance for Development held in Addis Ababa, Ethiopia in July, when the participants stressed the fundamental importance of “domestic resource mobilisation” as the means of financing the SDGs. In other words, it would largely fall to each country to meet the SDGs from its own resources.

The key question, then, is how can African countries mobilise resources to meet the SDGs over the next 15 years? Well, the obvious answer must lie in industrial development and economic growth. Indeed, most experts are now agreed on this: the success of the SDGs, in any country for that matter, depends on sustained economic growth. For instance, in November last year, 18 leading economists wrote[4] to the UN to stress the point that “Without sustained economic growth, the resources required for effective public action (to meet the SDGs) will be limited”.

In this regard, one of the positive aspects of the SDG agenda is that, unlike the MDGs, it recognises the role of economic growth. Goal 8 urges countries to “promote sustained, inclusive and sustained economic growth”, and Goal 9 calls for the promotion of “inclusive and sustainable industrialisation”. Needless to say: Africa’s ability to meet the SDGs depends on the extent to which these two goals, 8 and 9, can be achieved. Africa’s ability to industrialise, trade and achieve sustainable economic growth would put it in a strong position not only to reduce poverty and inequality, but meet most of the other SDGs.

Indeed, there is now a global consensus that Africa must industrialise and trade more to generate the economic prosperity needed to achieve sustainable development. This was, for instance, the central argument in a recent World Bank/World Trade Organisation (WTO) joint publication, “The Role of Trade in Ending Poverty”[5]. Similarly, the United Nations Economic Community for Africa (UNECA), in its 2015 Economic Report on Africa, tiled “Industrialising through Trade”[6], called on African countries to develop coherent trade and industrial policies so as to expand trade and move up the value chains. Finally, in a recent joint communique by the African Union Commission (AUC), the Office of the Special Advisor to the United Nations Secretary-General on Africa (OSAA), the United Nations Industrial Development Organisation (UNIDO) and UNECA, the organisations called for the “operationalisation of the 2030 agenda for Africa’s industrialisation”.[7]

But Africa’s quests for industrialisation and export trade are decades old. The reality, however, is that the continent faces significant obstacles to achieving these goals. The sources of these obstacles are both domestic and systemic, the latter relating to the structure of the global trading system. The most obvious domestic impediment is, of course, Africa’s limited productive capacity. The fundamental determinant of a country’s ability to trade internationally is its productive capacity, but most African countries lack the scalable capacity to diversify their industrial and export bases.

The lack of productive capacity is, obviously, due to structural supply-side constraints and policy failures. For instance, inadequate ‘hard’ infrastructure, limited access to finance, lack of skills and high-quality inputs, as well as poor quality infrastructure, relating to standardisation and other quality conformity assessments, hinder the ability of most African countries to produce and export more. Then, of course, there are domestic policy and institutional weaknesses that affect competitiveness, business environment and governance, and increase business and trade costs.

However, the domestic obstacles must not hide the huge systemic ones. The truth is that the international trading system is less supportive of Africa’s need to industrialise and trade more. African producers still face significant market access problems due to trade barriers. For instance, the costs of compliance with standards set by the large export markets, such as the EU and the US, prevent Africa’s food and agro-based products from reaching these markets. Tariff escalation is also common. This occurs when developed countries impose high import duties on semi-processed products, and even higher still on finished products, from Africa. The effect is to condemn African countries to exporters of mainly raw materials, which undermines the continent’s potential to industrialise and export manufactured products. Furthermore, there are distortions to international agricultural trade, including product-related subsidies in the developed countries. According to a recent study, the removal of agricultural distortions could reduce the number of extreme poor by 2.7%[8].

The domestic and systemic sources of Africa's inability to industrialise and participate actively in international trade must be addressed if the continent is to achieve sustainable development. And the solutions must come from both Africa and the developed countries. Africa must address the problems that are endogenous to it. It must, for instance, tackle its supply-side problems, including the infrastructure gaps. And it must recognise the relationships between trade, industrialisation and competitiveness by addressing its policy and institutional weaknesses. On their part, the developed countries should remove the trade barriers that limit Africa's integration into the global economy. This must include, crucially, the liberalisation of international agricultural trade.

But aid has a role, if targeted. For instance, the WTO-led Aid for Trade initiative, designed to help developing countries address their supply-side and trade-related infrastructure challenges, should be well-funded and targeted to help Africa tackle some its structural supply-side constraints. The Green Climate Fund, established during the 2010 United Nations Climate Change Conference in Cancun to support climate policies and projects in developing countries, should also be well-financed and targeted to help Africa meet Goal 13 of the SDGs, relating to climate change. Furthermore, bilateral initiatives, such as President Barack Obama's "Power Africa", if well-resourced, could help Africa meet Goal 7 on provision of modern energy for all. Finally, private initiatives from foreign investors and philanthropists, such as Bill Gates as well as Nigeria's Aliko Dangote and Tony Elumelu, can support Africa's efforts to meet the SDGs. The trouble, though, is that none of these initiatives is predictable, and it would be unwise to predicate Africa's attainment of the SDGs on any of them.

To be sure, the SDGs are full of noble ambitions, but Africa cannot meet them unless it can achieve sustainable economic growth through industrialisation and trade. Yet, the continent faces huge obstacles which constrain its ability to industrialise and trade. These obstacles have their roots in domestic capacity weaknesses and systemic structural disadvantages. Only when these obstacles are removed can Africa mobilise the resources to meet the SDGs.

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[1] See, for instance, article by Amar Bhattacharya and Homi Khara, of the Brookings Institution, available at : http://www.economist.com/blogs/freeexchange/2015/04/our-piece-sustainable-development-goals

[2] See, for instance, the article titled "Unsustainable goals" available at: http://www.economist.com/news/international/21647307-2015-will-be-big-year-global-governance-perhaps-too-big-unsustainable-goals.

[3] See http://www.economist.com/news/leaders/21647286-proposed-sustainable-development-goals-would-be-worse-useless-169-commandments

[4] See the open letter here: http://www.theigc.org/news-item/open-letter-to-the-united-nations/

[5] See https://www.wto.org/english/res_e/booksp_e/worldbankandwto15_e.pdf

[6] See http://www.uneca.org/sites/default/files/PublicationFiles/era2015_eng_fin.pdf

[7] See http://www.au.int/en/content/africa-must-industrialize-joint-communique-auc-osaa-eca-and-unido

[8] See Note 5 above.

This post forms part of a cross-blog series on the 2030 Agenda for Sustainable Development run by the **Africa at LSE**, **South Asia at LSE,** and **IGC** blogs. View more posts in this series.

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