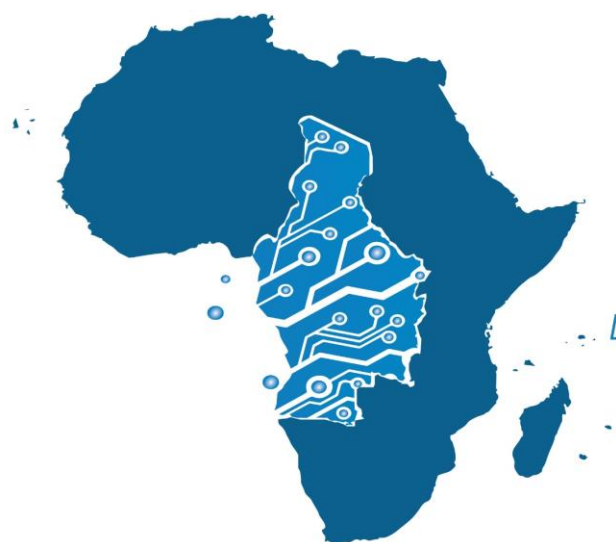




United Nations  
Economic Commission for Africa



# ICE 2019

35th Session of the Intergovernmental Committee of Senior  
Officials and Experts for Central Africa (ICE)

*Digital Transformations and Economic Diversification in  
Central Africa: Issues, Challenges and Opportunities*

MALABO | 23 - 27 September 2019

**Summary - Regional STEPS Profile  
Central Africa  
2019  
STEPS for Sustainable Development**

## 1. Overview

In spite of Central Africa's<sup>1</sup> rich supply of natural resources, which have enabled many of its countries to climb to higher levels of GDP/capita, this sub-region of the continent does not seem, at least for the time being, to be on the path to virtuous structural transformation of its economies. According to the most recent ranking by the World Bank<sup>2</sup>, two countries of the sub-region, namely Gabon and Equatorial Guinea have revenue levels that have hoisted them to the rank of upper-middle-income countries. Four of the countries, namely Angola, Cameroon, the Republic of Congo and Sao-Tomé and Príncipe are ranked among lower-middle-income countries. The five other countries - Burundi, Chad, the Central African Republic, the Democratic Republic of Congo and Rwanda – are ranked as low-income countries. What is more, the region's strategic location in the centre of Africa and the diversity of its natural resources make it a potential privileged area for trade with other sub-regions of the continent. Sadly, there has been no significant diversification of the economies of these countries in recent decades and social indicator levels in Central Africa are akin to those of the poorest countries on the continent. So far, in spite of the drafting, adoption and implementation of various plans and programmes under the umbrella of Bretton Woods institutions and, notwithstanding the huge agricultural, water-resource and forest potentials, the economic situation of Central Africa remains fragile and branded by heavy dependence on a few zero or little processed primary commodities and very vulnerable to international demand shocks (ECA, 2012). This paradox of *de facto* poverty against the backdrop of huge potential wealth challenges the authorities of countries of the area to implement necessary economic reforms to harness fully its economic potential. This presupposes, among other things, the implementation of policies geared towards: i) diversification of economies to reduce heavy dependence on the exploitation and exportation of a very limited number of primary commodities; ii) accelerating regional integration; iii) improved governance and iv) increased investment in infrastructure.

**Production.** Variations over time in the structure of added value in countries of Central Africa do not articulate any diversification and structural transformation process. The most pronounced trend is the general decline of agriculture's contribution to GDP. The share of extractive industries in GDP tends to rise in countries already heavily dependent on oil and mining resources such as Congo, Equatorial Guinea, Gabon and, Cameroon to a lesser extent. Countries that have a relatively significant manufacturing industry such as Burundi, Cameroon and the DRC, have witnessed a drop in the sector's contribution to GDP. Such drop is consistent with the premature deindustrialization trend ubiquitous in many sub-Saharan African countries (Rodrick, 2016, Cadot et al, 2016). Indeed, many state-owned companies were privatized with the advent of structural adjustment programmes of the 1980s and 1990s leading to their gradual disappearance (Cogneau, 1994). Variations of the manufacturing sector's contribution to GDP have especially been influenced by discovery and exploitation of oil deposits. Changes in the structure of added value in the sub-region call to mind the new model of structural transformation observed in Africa and driven by ICT-related services, tourism and transport rather than by manufacturing industries (Page, 2018). However, there is no marked growth trend for these activity branches in Central Africa. Today, most economies of the sub-region are export-driven while imports are predominantly end-consumer goods (ECA, 2018, OECD, 2019). Accordingly, they are not integrated into global value chains (AfDB, 2018). While there has been some significant progress in recent years, Central Africa still has much to do on regional integration (ECA, 2016). Indeed, it remains one of the least integrated regions of the African continent. Over and above institutional concerns, obstacles to integration in the sub-region relate to tariff and non-tariff barriers and a huge infrastructure gap (AfDB, 2018). To entertain any

---

<sup>1</sup> Here, Central Africa corresponds to the 11 ECCAS countries: Angola, Burundi, Cameroon, Congo, Gabon, Equatorial Guinea, Chad, the Central African Republic, the Democratic Republic of Congo, Rwanda and Sao Tomé and Príncipe.

<sup>2</sup> <https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2019-2020>.

hope of sustained long-term growth, Central Africa needs to implement economic reforms that would make its economy more competitive and attractive to investors. Such reforms should also enable the region to leverage its immense natural resources pursuant to development blueprints that should ensure responsible resource exploitation.

**Employment.** Cross-sectoral mobility of labour has not contributed to significant growth of labour productivity in Central Africa over the last twenty years. Observation of the 1995-2016 period reveals that in many countries of the sub-region, cross-sectoral mobility of labour engendered productivity losses, while intra-sectoral mobility resulted in productivity gains. Over the period 2005-2016, these two types of labour mobility (intra-sectoral and cross-sectoral) led to productivity losses in many countries. Labour mobility here is consistent with the changes observed in the production structures of the various countries. Indeed, in several of the countries, we note that labour migrates from agriculture to the low-productivity services sector rather than to the manufacturing industry as in countries that historically recorded success in their structural transformation and industrialization drives. Aggregate productivity gains arising from such cross-sectoral labour mobility are quite limited. With regard to employment structure, own-account workers are predominant, a phenomenon that speaks to the stranglehold of the informal sector in the economies of Central African countries. Additionally, under-employment and youth unemployment levels are very high and are evidence of “jobless growth”, which is the general trend in sub-Saharan Africa during the period under consideration. Regarding education, youth literacy has made significant strides, though school dropout rates are still high, and the average duration of schooling does not permit the economies to equip themselves with a critical mass of qualitative and quantitative human capital to implement ambitious development programmes. Combatting unemployment must become a top economic development priority of Governments of Central African countries. Indeed, with a predominantly youthful working population that accounts for nearly two thirds of the total population, access to decent jobs is an economic transformation and long-term stability challenge for the sub-region. Strengthening regional integration will also help create jobs and drive growth in Central Africa. Recent studies by UNCTAD have revealed that inter-African migration positively impacts GDP growth. The business climate also puts a significant strain on the ability of young entrepreneurs to set up and grow new businesses. The demise of SMEs in Central Africa is due more to the business climate than to the absence of the entrepreneurial spirit.

**Society.** Given that structural changes have not brought about substantial productivity gains, there has been no significant rise in workers’ average income. Accordingly, social indicator levels do not reflect the level of per capita income in most economies in Central Africa. In addition, growth in the sub-region is non-inclusive owing to the lack of diversification of economies in Central Africa (CEA, 2015). Consequently, in spite of the improvement in the major social indicators, progress made in the 2000 decade was not sufficiently fast to achieve millenium development goals. Income inequalities also remain high in the sub-region and challenge the authorities of the various countries to pay attention to the efficiency of policies and wealth redistribution systems. Living conditions of the majority of urban dwellers in Central Africa have improved since the 1990s with the population of slum dwellers dropping down to 22%. However, urbanization management must remain at the centre-stage of development policies in countries of the sub-region (CEA, 2015). In fact, Africa’s urban population is growing rapidly. Such rapid urbanization comes along with huge demand for jobs, services and infrastructure, but also affords the opportunity to create dynamic urban centres that can be drivers of economic growth (CEA, 2017). Industrial value chains have an important geographical dimension, since distance often entails costs in the production chain. Concentration of industries that use similar or complementary technologies also allows for densification of product space. Therefore, urban planning is important to render cities functional and inter-connected in order to support specific industrial sectors. Land use and urban development

policies have to be based on industrialization plans so that cities may serve as production centres rather than poverty and insecurity nests (CEA 2017). More importantly, infrastructure development policies, especially road infrastructure policies, will need to take account of the connectivity that rapid urbanization requires. Moreover, to secure the human resources needed for economic development driven by a wide range of products, countries of Central Africa will need to deploy greater efforts to improve healthcare.

## 2. Background

The Central African<sup>3</sup> sub-region comprises the following eleven countries: Angola, Burundi, Cameroon, Congo, Gabon, Equatorial Guinea, Chad, the CAR, the DRC, Rwanda and Sao Tomé and Príncipe. The total population of the Central African sub-region was estimated to stand at 187 million people in 2017 (World Bank, IDM 2019), just slightly less than Nigeria's population. This population is unevenly spread across a total surface area of 6.7 million km<sup>2</sup>. The Democratic Republic of Congo (DRC) concentrates more than half of the population of the sub-region (44%), followed by Angola (16%) and Cameroon (13%). These three countries accounted for more than three quarters of the region's nominal GDP in 2017, that is, 48% for Angola, 15% for the DRC and 14% for Cameroon (World Bank, IDM 2019). Its strategic location in the centre of Africa as well as its huge and diverse natural resource endowments make Central Africa a potentially privileged area for trade with all the other sub-regions of the continent.

Central Africa is endowed with huge natural resources, notably hydrocarbons (oil and gas) and minerals (diamond, copper, iron, manganese, cobalt, etc.), which make it one of the richest sub-regions of the continent in natural capital.

Over the last two decades, GDP growth in Central Africa has been relatively dynamic (or high).

Permanent vulnerability to external shocks is one of the numerous challenges that Central African economies have to grapple with. The recent fall of commodity prices on international markets is a perfect illustration of how much the economies of the sub-region are exposed to external shocks and speaks to the need for countries of the sub-region to rethink their medium- and long-term development strategies to ensure that macro-economic performances are more sustainable and inclusive.

Environmental sustainability is crucial to sustain economic growth and support the structural transformation process.

Compared to other regions of the continent, Central Africa is also a laggard in regional integration.

The main challenges and hazards that may slow the structural transformation process in the sub-region include the risk of stagnating in a weak macroeconomic equilibrium marked by relatively low and fluctuating growth rates, owing to inappropriate economic management and the lack of diversification of the economies. The business climate is also not propitious for promoting investments and creating decent jobs, while the resurgence of terrorism and increased border insecurity threaten the stability of member States.

---

<sup>3</sup> Here, the Central African sub-region refers to the Economic Community of Central African States (ECCAS).

### **3. Production**

Currently, Central African economies do not show any signs of diversification that could lead to successful structural transformation, though there are perceptible changes in the structures of their economies. For many of them, their growth model relies on the exportation of a limited number of unprocessed products and a low level of sophistication. This situation keeps them at the lowest level of participation in global value chains. The heavy dependence by countries of Central Africa on non-renewable natural resources makes them vulnerable to fluctuations of commodity prices and demand. Yet, natural-resource-based industrialization that is the recommended strategy for countries of the sub-region is to be achieved through increased local processing of natural resources – forest, mining, oil, agricultural and livestock breeding – with which the sub-region is endowed.

To these resources may be added tourist and energy potentials which, with a little processing, can drive industrialization (AfDB, 2019). Progress in local processing of commodities is insignificant and primary commodities remain the dominant exports. Further, there is very little trade between countries of Central Africa and hardly any with the rest of Africa.

Central Africa needs to implement economic reforms that aim to make the regional economy more competitive and attractive to investors, on the one hand and, on the other hand, to create upstream and downstream synergies between the resources sectors and other sectors of the economy, in order to promote development of regional value chains, diversification and natural-resource-based industrialization. The following industrial sectors - electric vehicles based on cobalt; smart phones based on coltan; household and office furniture based on wood; petrochemicals and hydrocarbons based on oil; leather based on livestock; chocolate based on cocoa; clothing based on cotton; fertilisers based on phosphate - are areas where the sub-region enjoys potential comparative advantage and should explore, structure and showcase them to investors. The incipient revolution of the 4.0 industry is a window of opportunity, with notably 3D printing and the blockchain that will profoundly transform production processes and value chains. Countries of the sub-region must leverage them to continue to nurture for themselves competitive advantages in addition to the comparative advantages with which nature has blessed them.

Indeed, the non-permanence of competitive advantages is the hallmark of the new global economic environment, while change remains the sole constant. Competitive advantage is based more on knowledge than on physical capital. Accordingly, industrialization and participation in global markets no longer necessarily require heavy investments. Above all else, they rather require flexibility and some anticipation capacity. Central African economies need to make huge strides in the area of skills and internet connectivity to carve themselves a niche in the 4.0 industry. Nowadays, structural transformation is increasingly driven by specific high-knowledge-content services. The importance of digitization and of the digital economy to boost growth and structural transformation as well as to optimize budget performances in Africa cannot therefore be over-emphasized. Such technological developments may have a transformative effect on the economy through the reduction of market entry obstacles, market expansion for business and job creation.

### **4. Employment**

The abundance of natural resources has not contributed to create a sufficient number of decent jobs in the productive and modern sectors of industry and services owing to the absence of economic diversification. SMEs are not able to contribute to improved productivity in many sectors due to an unfavourable business climate. Cross-sectoral labour mobility has not helped to significantly raise productivity levels because of inefficient allocation of revenues generated from commodity exports. Efficiency in the allocation of resources and of benefits secured from job reallocation depends

heavily on prevailing institutional arrangements. However, there are avenues for improving the situation. Promising technologies such as the blockchain that are already revolutionizing the environment of SMEs in many developing countries constitute an opportunity for the sub-region to harness.

Unemployment must be a top economic development priority of Central African Governments. Indeed, with an active population that accounts for more than two thirds of the total population, access to decent jobs is an economic transformation and long-term stability challenge for the region.

Given the youthfulness of the population in countries of Central Africa, the success of any socio-economic development policy will, to a large extent, depend on Central Africa's capacity to provide jobs. This is the more critical as population growth is still strong in Africa and the population of youths is expected to climb in excess of one billion by 2050 (AfDB, 2019). 2013-2022). There is need to craft pioneering solutions and to invest efficiently in human capital development. Countries of Central Africa should no longer count only on their resource endowments to secure advantages in the marketplace but invest in human capital to better carve a niche for themselves and thus avoid marginalization in the emerging value chains of the 4.0 industry. Technological developments can improve working conditions in Central Africa but require new skills that currently do not form part of the production processes in the sub-region. Major-impact investments in education, science and technology are therefore indispensable to climb the value chains and reach the level of economies driven by knowledge and creativity rather than by unprocessed resources. The private sector has a key role to play in providing educational services and in creating jobs and must be involved in such development strategies. Foreign Direct Investments also constitute a productivity driver, notably through knowledge transfer.

There is need to rethink the educational system and anticipate the skills needs of the new industrial era: scientific and technological skills and especially, the capacity to create. National development plans in Central Africa must domesticate the unfolding technological revolution because Africa cannot afford to fall through the cracks of these new developments.

## 5. Society

Social indicators in Central Africa tend to post a positive trend. However, due to the absence of structural transformation, they have not reached the level seen in countries with comparable revenues in other regions of the world. We note a drop-in fertility rates in the sub-region, though there are lingering disparities between countries. The level of dependence is also receding gradually. Given the high unemployment and under-employment rates caused by limited economic diversification, there are fears that such improved population indicators may not permit systematic optimization of the demographic dividend. In general, fertility rates are still high in Central Africa and policies should continue to try to bring them down by tackling the numerous fertility factors identified in Central African countries and elsewhere, which are underpinned notably by the socio-cultural and economic context: women's financial independence, armed conflicts, education, family planning, inter alia. We note that for some countries of the sub-region that are relatively rich with a small population size, the reduction in fertility rate and the attendant demographic dividend it could generate, does not constitute a prerequisite or even a sine qua non for promoting structural transformation of economies.

The nutritional status of children and healthy life expectancy are improving. Disease burden continues to evolve from communicable diseases to non-communicable diseases, which speaks to

progress made towards better disease prevention and treatment. Abject poverty has gone down in most countries of Central Africa. However, unlike most sub-Saharan African countries, many Central African countries are unable to check growing income inequalities. Progress has also been made on gender equality. Women in Central Africa are reducing the male-female gap in academic success and participation in the job market, though they still have difficulties accessing higher level jobs.

## 6. Key messages

- **Accelerating economic diversification, reducing the heavy dependence on a limited number of unprocessed primary commodities:** Central African States must imperatively reduce their dependence on a limited number of little-processed export commodities if they do not wish to remain vulnerable to external shocks inherent to commodity prices and demand. Indeed, such shocks may cause them to lose in just a few years decades of progress made to improve the living conditions of their peoples. It is thus very important for them to diversify their export products and promote the emergence of a competitive manufacturing industry that will help them climb up the global added value chains. Central Africa must better harness its natural resources and engage on the path to green industrialization (era 2015), which is a prerequisite for sustainable development, leverage the blue economy for those of them that have significant maritime resources, and develop local-content policies (ERA 2015).

- **Improve governance, the business climate, competitiveness and productivity:** Central Africa is among the sub-regions of Africa with the lowest level of competitiveness and most unfavourable business climate. Governance is the primary obstacle standing in the way of improved competitiveness and an improved business climate. This begs the need for strict reforms to improve governance, as a prerequisite for attracting private foreign and domestic investments needed to backup public investments in production capacity and industrial drive. Without improved governance, young bearers of creative ideas will never have access to the resources they need to transform their ideas into pillars for the sub-region's economic emergence. The magnitude of income inequalities in countries of the sub-region underlines the need for more efficient revenue redistribution policies so that revenue generated from commodity exports may also benefit the poorest population segments. In fact, there is need for minimum revenue, education and health to enable the poorest population segments to contribute fully to the development of their countries. It is also important to invest and develop human capital that matches industrialization and emergence ambitions. Training curricula need to be adapted to the needs of the industries to be develop. There is also needed to develop the sciences, technologies, mathematics and engineering.

- **Advancing regional integration, accelerating implementation of the Continental Free Trade Area:** In Central Africa, regional integration is rather slow, whereas it can significantly contribute to achieving diversification and industrialization goals of countries of the sub-region. The countries should take advantage of the signing of the Continental Free Trade Area agreement to establish structures that will permit their economies to better leverage the new given, while fending off possible negative impacts thereof.

- **Develop transport, energy and ICT infrastructure:** The enormous natural-resource potential of Central Africa can only benefit the sub-region's economic emergence if there is quantitative and qualitative supply of infrastructure. Harnessing the sub-region's hydroelectric potential should allow for the production of low-cost energy required for the emergence of competitive industries in

the area. Good road and railroad infrastructure will permit significant reduction of transportation deadlines and costs, thus driving market integration and complementarity between economies. It is especially important to develop ICT infrastructure to ease transactions and communication and, by the same token, overall productivity and competitiveness of the economy in an increasingly digitalized world.

- **Better management of the urban transition:** By 2035, about half of Africa's population will live in urban centres, which will spell huge demand for jobs, services and infrastructure, while creating fresh opportunities for economic growth (ERA 2017). Given that industrial value chains are always nested in a regional context, it is important to plan urbanization in such a manner as to make our cities functional and interconnected to support specific industrial sectors. Land use and urban development policies must be hinged on industrialization plans so that future cities will be levers for improving value chains and productivity rather than poverty and insecurity nests (ERA 2017). In particular, infrastructure development policies, especially road infrastructure policies, must take account of the connectivity that rapid urbanization requires.

- **Addressing crossborder security crises at regional level:** Crossborder security crises pose a serious risk to the sustainable growth prospects of Central African countries. In addition to the strain that these conflicts put on State budgets, they cause a contraction of many social indicators in the affected regions and sometimes annihilate decades of hard-won progress. Given the nature of the crises, the solutions to them cannot but be regional. Central Africa must therefore find regional mechanisms to better prevent and, where need be, efficiently resolve these kinds of crises when they occur.