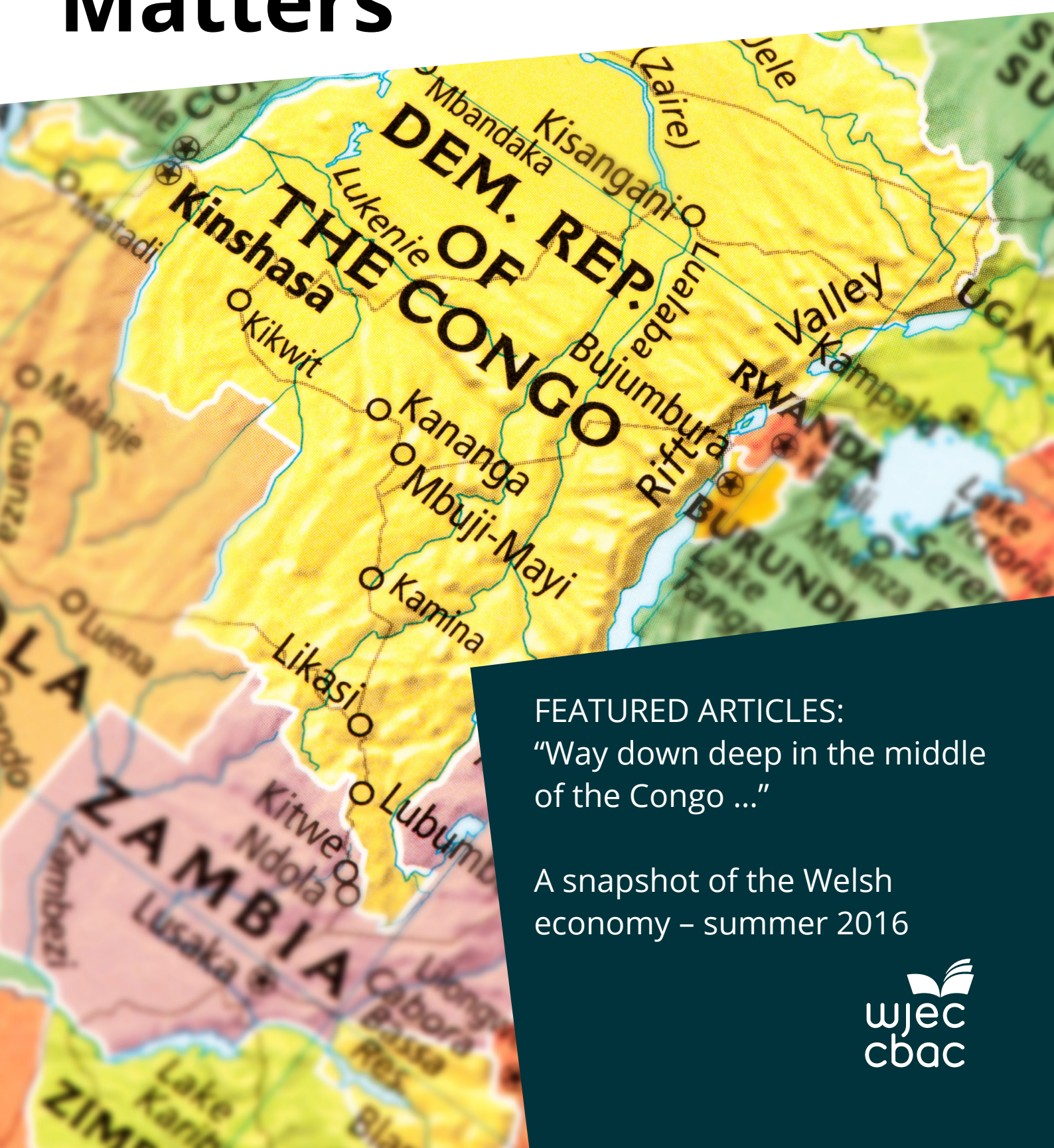


# Economics Matters

ISSUE 2



FEATURED ARTICLES:  
"Way down deep in the middle  
of the Congo ..."

A snapshot of the Welsh  
economy – summer 2016

# “Way down deep in the middle of the Congo ...”

by George Vlachonikolis

For anyone of a certain age, these words will quickly conjure images of a [brightly coloured animated jungle where the animals drink a fruit juice called “Um Bongo”](#). The real country of the Congo – or, rather, the Democratic Republic of Congo – is quite far removed from that vibrant, happy-go-lucky advert however. The DRC has been called [the worst place in the world to be a woman](#), it is consistently in the twenty lowest-ranked countries on the Corruption Perceptions Index and, as recently as 2011/12, [it was bottom of the UN’s HDI ranking](#) as well as having [the world’s lowest per capita income](#).

The DRC usually features in economics classrooms during the development topic. In the same way that Norway often features at the top of the pile in almost every performance metric, the DRC is often found towards the very bottom. This paper tries to identify some of main obstacles to development facing the DRC in 2016 whilst outlining one potential opportunity for its economy in the near future.

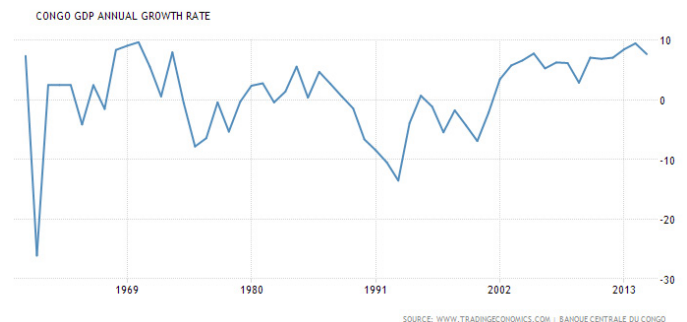


Figure 1 – Maps in general and maps in detail of the DR

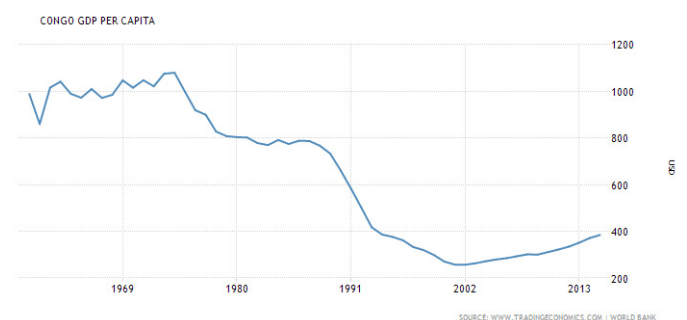
<b>Area</b>	
• Total	2,345,409 km <sup>2</sup> (11th) 905,355 sq mi
• Water (%)	4.3
<b>Population</b>	
• 2015 estimate	81,680,000 <sup>[2]</sup> (16th)
• Density	34.83/km <sup>2</sup> 90.22/sq mi
<b>GDP (PPP)</b>	2016 estimate
• Total	\$68.691 billion <sup>[3]</sup>
• Per capita	\$816 <sup>[3]</sup>
<b>GDP (nominal)</b>	2016 estimate
• Total	\$42.056 billion <sup>[3]</sup>
• Per capita	\$499 <sup>[3]</sup>
<b>Gini (2006)</b>	44.4 <sup>[4]</sup> medium
<b>HDI (2014)</b>	▲ 0.433 <sup>[5]</sup> low • 176th
<b>Currency</b>	Congolese franc (CDF)

**Figure 2 – General figures of the DRC**

and pumped 25,000 barrels of oil per day. Despite such vast mineral wealth, the economy of the DRC has declined drastically since the late-1960s. Growth rates have fluctuated wildly between +10% and -10% and GDP per capita has shrunk to about 40% of its 1970 value. There are numerous causes for this economic tragedy including the collapse of resource prices in the 1980s, the gross corruption of the Mobutu Government 1971-1997 (when the country was called Zaire) and the large number of civil wars that have ravaged the country and its neighbours since 1996.



**Figure 3 – DRC Annual Growth Rate**



**Figure 4 – DCR GDP per Capita (\$)**

## The DRC: A quick guide

The DRC is located in central sub-Saharan Africa and, in terms of land mass, it is 10 times the size of the UK. Despite its size, the DRC has relatively few all-weather paved highways - a total of just 2250 km - whereas the UK has 46,904km. The figure of 2250 km converts to 35 km of paved road per 1,000,000 of population. Comparative figures for Zambia and Botswana are 721 km and 3427 km respectively.

The DRC is widely considered to be one of the world's richest countries in natural resources; it is believed that the country has 70% of the world's coltan, a third of its cobalt, more than 30% of its diamond reserves, and a tenth of its copper. In 2015, it produced 995,805 tonnes of copper



## The DRC: What's happening now?

During the period June – August 2016, the Congolese franc fell by 7% against the dollar and reached a record low (1001 Francs to the dollar). The Congolese franc is pegged to the dollar in order to try and improve competitiveness as well as build investor confidence. In 2016, however, the central bank has twice had to sell dollars to meet demand from the banking industry (and, as a consequence, its foreign-exchange reserves have dropped from \$1.5bn to \$1.2bn).



**Figure 5 – Exchange Rate (Congolese franc per 1 US dollar)**

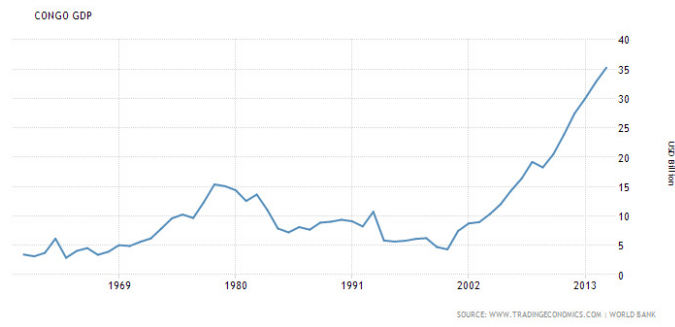
The collapse in the price of copper – the country's biggest export – and other natural resources like cobalt and oil continue to put downwards pressure on the franc.

The Government is busy dealing with other crises too. In June 2016, [an outbreak of yellow fever hit the DRC](#). A total of 400 fatal cases were recorded by the end of July, whilst it was estimated that up to 6000 people may have been infected. At great expense, the Government vaccinated

7.7m in one month in the “high-risk” capital of Kinshasa along with a further 1.5m people in other regions. But they have been warned by the WHO that [“they are not out of the woods yet”](#) as intense population movements before the rainy season across the border to neighbouring Republic of Congo pose a risk of further spread. At the time of writing, a cholera epidemic which has already killed 517 is now sweeping the country too.

Further problems come from the East of the country where a complex assortment of illegal armed groupings operate. In Virunga National Park, these groups [are destroying forest land for valuable charcoal](#); according to one report, the country's illegal charcoal trade is worth an estimated \$35m a year. Not only is it fuelling the widespread deforestation of Africa's oldest national park but it is helping to fund an appalling insurgency. The vast majority of civilians in eastern DRC fear militias more than anything else. Militia members often forcibly take local “wives,” coerce landowners to conduct menial labour and steal harvests from local farmers.

Worse still, in South Kivu province, just below Viruna National Park, [it is gold rather than charcoal that the rebel groups are profiteering from](#). The UN estimates that 400kg of illegal gold leaves the province every month – equating to roughly \$174m in 2015. This not only deprives the state of valuable tax revenue but, again, it helps to fund the armed groups which pose a significant threat to the Government of the DRC, its neighbours and its own people.



**Figure 6 – DRC GDP**

## The DRC: A solution?

Prime Minister Augustin Matata Ponyo was elected in 2012. In a country that has been plagued by corruption in the past, Ponyo has presided over a period of almost unprecedented economic growth (achieving 8.5% GDP growth in 2013 and 9.5% in 2014).

Ponyo's plan has been to diversify the economy away from the extractive sector by investing in energy and agro-industry in order to create sustainable development. He has also introduced widespread economic reforms such as pegging the exchange rate to the dollar, taking a leading role in the fight against crime and corruption and forcing through opportunities for foreign investors through public-

private partnerships. This has led to a significant improvement in the business climate and increased investor confidence. One such enterprise is a \$12 billion Inga III dam hydroelectric project, which has the potential to produce 4,800 MW and should go some way to satisfying the country's increasing demand for energy.

The DRC is a country that has great hydroelectric potential. The Congo River system occupies nearly the entire country and an area of nearly 1,000,000 km<sup>2</sup> (390,000 sq mi). In fact, water transport has been the dominant means of moving around in approximately two-thirds of the country. It goes without saying then that there are other numerous sites that exist throughout the country where the private sector, in partnership with the Government, can invest in the production of hydropower in a profitable manner. As a result, the Inga III project is without a doubt the most likely project to shape the DRC during the 21st century. If it is successful, it will be the key strategic pillar in the aim to help liberate the economy and consistently reduce poverty.

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### Sources / Acknowledgements

Cover : [omersukrugoksu/gettyimages](#)

Figure 1: [Maps of the DRC; Google maps](#)

Figure 2: [General Figures for DRC; Wikipedia Creative Commons](#)

Figure 3: [Trading Economics](#)

Figure 4: [Trading Economics](#)

Figure 5: [Exchange Rate](#)

Figure 6: [Trading Economics](#)

# A snapshot of the Welsh economy – summer 2016

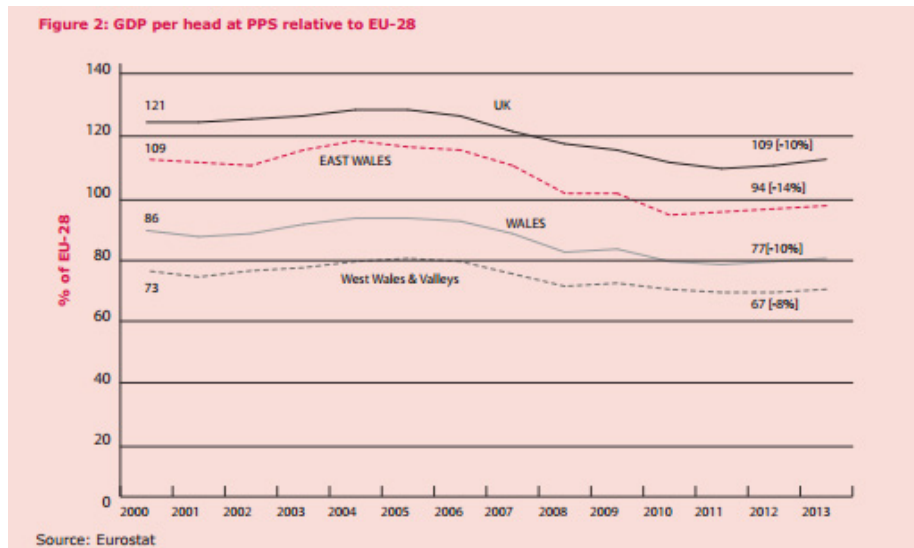
*by Ruth Tarrant*

This article takes a look at some of the key performance indicators of the Welsh economy, comparing it to both the UK and the EU economies. It also outlines some of the possible opportunities and threats to the Welsh economy over the coming years.

## Key Economic Performance Indicators

In a recent review of the Welsh economy's performance, the Welsh Government's Chief Economist Jonathan Price wrote that perhaps the most important economic indicator to look at in Wales was **income**. One reason for this is that the UK is an example of a "**monetary and fiscal union**" – this means that tax revenue from high output areas of the UK can be redistributed to lower output areas of the UK. Therefore, using GDP data related to income rather than output gives us a better idea of living standards in a particular region. For example, if we examine data on Gross Value Added (GVA) – a measure of the level of output in a particular area – then Wales ranks 12<sup>th</sup> out of the 12 UK regions.

However, when we look at disposable income per head instead, Wales then ranks 8<sup>th</sup>. Interestingly, if we consider **wealth** as opposed to income, then Wales ranks 5<sup>th</sup> overall, owing to its high level of house ownership. It's also worth looking at trends rather than static data; since 1999 (when devolution took place) Wales has experienced the 2<sup>nd</sup> fastest increase of household gross disposable income out of all the UK regions, only bettered by London. But, as with all statistics, it is also important to look at the variation within Wales – different Welsh regions have experienced different levels. Figure 1 shows the GDP per head in the UK as a whole compared with Wales as a whole, and the best and worst performing Welsh regions.



**Figure 1: GDP per head, relative to the EU-28**

According to the Welsh Government's Chief Economist the second most important set of indicators to consider when examining Welsh economic performance are those relating to the **labour market**, for example, employment and unemployment rates, and rates of economic

inactivity. Employment rates are very closely linked with a range of broader economic outcomes such as future employment opportunities for children, and general health and wellbeing. Figure 2 displays some key labour market indicators for the Welsh economy.

	Wales		UK	
	Rate (%)	Annual change	Rate (%)	Annual change
<b>Employed</b>	72.6	1.9	74.4	1.0
<b>ILO unemployment</b>	4.6	-2.0	4.9	-0.7
<b>Claimant Count</b>	2.9	-0.2	2.2	-0.1
<b>Economically Inactive</b>	23.8	-0.3	21.6	-0.5

**Figure 2 – labour market statistics for Wales and the UK**

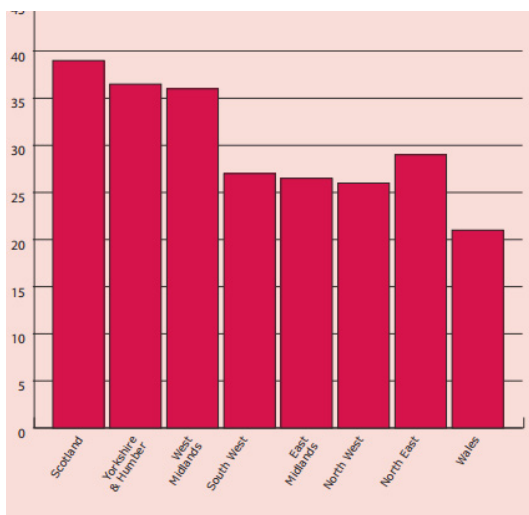
Figure 2 indicates that the labour market is improving in Wales, and generally improving at a faster rate than the UK as a whole. The Welsh economic inactivity rate is higher than that of the UK as a whole as a result of a higher proportion of retired people.

9.4% of Welsh workers work for the public sector, compared with a smaller proportion of 8.3% across the UK as a whole. Any cuts to government spending are likely to have a greater impact, therefore, on Welsh workers than overall UK workers.



Other Welsh labour market statistics shows some interesting gender differences. The employment rate amongst men in Wales increased by 5.8% between mid-2015 and mid-2016 (2.3% of the UK as a whole), compared with a much smaller increase amongst women of just 0.4% over the same period (1.7% of the UK as a whole). Research from WISERD (Wales Institute of Social and Economic Research, Data and Methods) notes further that whilst the hourly median wage for Welsh men at £9.88 is slightly higher than the UK median wage of £9.81, the hourly median wage for Welsh women is only 81% of that for UK female workers as a whole.

Looking more broadly at inequality in Wales, the WISERD research also showed that inequality in Wales is lower than that in the UK as a whole, despite one fifth of the Welsh population technically living in poverty – this is due to fewer high earners in Wales. 13% of those living in poverty are in-work households. Half of all lone parents in Wales live in poverty. Furthermore, the wealthiest 10% of the Welsh population has around £100,000 less wealth than the wealthiest 10% of the overall UK population.



**Figure 3: percentage of population in settlements of over 125,000 people**

## Looking ahead – prospects for the Welsh economy

### City Size and Infrastructure

Economic research suggests that the bigger a town or city, the greater the level of productivity; in particular, doubling the size of a city tends to increase productivity by between 3% and 8%. Many Welsh towns are very small compared with other conurbations around the UK (see Figure 2), and this suggests that Welsh productivity is being held back. More dense populations lead to greater sharing of ideas, and also tend to lead to improved transport links – both are likely to result in increased productivity. However, the geography of much of Wales does not lend itself easily to expansion of towns and cities. That said, the Wales' economy secretary Ken Skate told BBC Wales in July 2016 that he was keen to forge stronger links between Wales and the West Midlands, tapping into the potential of the West Midlands tourist market and promoting Welsh products.

Wales' larger conurbations of Cardiff and Swansea look set, however, to get even bigger, with Cardiff's population expected to grow by a quarter over the next 20 years. Growing cities need sound economic planning. Back in March 2016, the then-Chancellor of the Exchequer George Osborne announced the signing of the £1.2bn **Cardiff Capital Region** deal to bring better public transport and growth over the next 20 years. £734m has been allocated for improving rail and bus transport in Cardiff and the valleys, and £495m



for a range of other projects including the **“Innovation District”**, along with money for public housing. Cardiff is also hoping to experience benefits once the railway line connecting it with London is fully electrified, leading to faster, easier journeys.

Hot on the heels of the Cardiff project is Swansea’s own **“City Deal”**, with proposals being put forward for £500m to be spent on achieving the vision of the **“internet coast”** with superfast broadband and the development of digital industries. This could result in a further 33,000 jobs being created and a £3.3bn boost to the local economy, which would help to reduce the **“prosperity gap”** between the Swansea region and other Welsh regions. Similar plans are afoot in North Wales too – a campaign (Growth Track 360) was launched in mid-2016 to secure £1bn in funding to help connect the area properly to the new HS2 rail network, with an estimated increase in employment of 70,000 by 2035.

### ***The possible impact of Brexit***

In August 2016, the Bevan Foundation (a **“think tank”**) warned that the Welsh economy would need a **“significant overhaul”** following the Brexit vote in the June 2016 referendum. 52.5% of Welsh voters opted for Brexit rather than Remain. The Foundation wrote *“it is likely that only in the most optimistic circumstances would Wales be better off as a result of Brexit”*.

The Welsh Assembly, once the UK has fully left the EU, will lose £860m each year in EU funding – to compensate, it will have to use its increased powers of fiscal policy to raise taxes and increase

investment spending.

Furthermore, the Foundation noted that over 500 EU-based businesses are responsible for nearly 60,000 Welsh jobs, and that in each quarter Wales exports around £1bn worth of goods and services to the EU. So, to retain its trend rate of growth, Wales will need to increase its trade with non-EU countries, find a way of supporting vulnerable industries such as agriculture, steel and automotive manufacturing once EU funding is lost, and also look at innovative ways of supporting small Welsh businesses.

On the plus side, the fall in the value of the pound following the referendum vote has meant that tourism in Wales is likely to receive a boost, both from **“staycationers”** (British holidaymakers who can no longer afford to go on holiday abroad) and foreigners taking advantage of the weak pound. Tourism in Pembrokeshire alone is estimated to be worth around £525m each year. The Welsh government is aiming to increase the contribution of tourism to the Welsh economy by 10% by 2020.

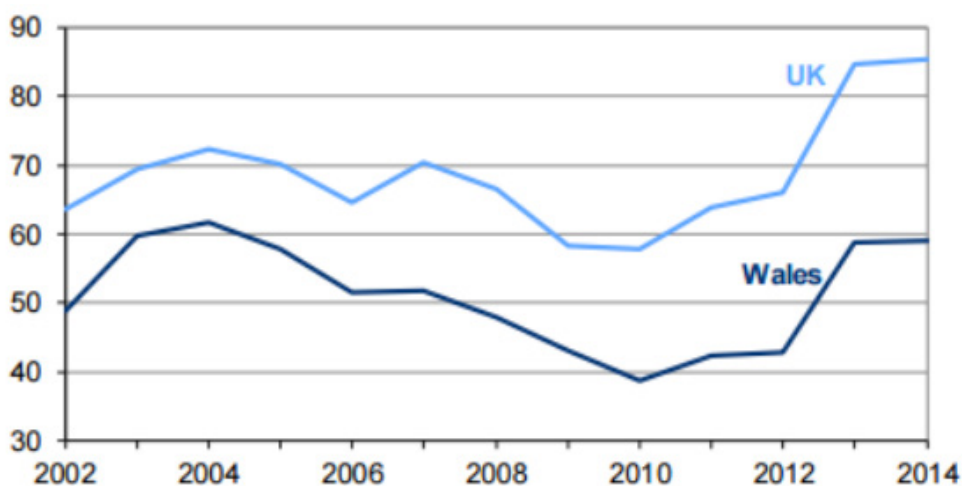
### ***Entrepreneurial activity***

Relatively recent research from the GEM UK project shows that there are decent prospects for entrepreneurial activity in Wales – see Figure 4 for a summary. However, when we look closely at the number of new business start-ups we see that the proportion per 10,000 people is much lower in Wales than the UK, with 59 per 10,000 people in Wales compared with 85 across the UK. Figure 5 provides more detail on the trend in start-ups.



	England	Wales	Scotland	Northern Ireland	United Kingdom
I know someone who has started a business in the last 2 years	24.7	27.0	24.1	23.8	24.7
I have the skills, knowledge and experience to start a business	37.5	29.5	38.1	25.2	36.8
Fear of failure would prevent me from starting a business (for those who agree there are good start-up opportunities)	38.4	39.3	38.0	36.1	38.4
There are good start-up opportunities where I live in the next 6 months	43.2	39.4	42.2	43.7	43.0
Most people consider that starting a business is a good career choice	57.8	56.2	54.7	51.5	57.3
Those successful at starting a business have a high level status and respect in society	78.3	77.2	79.2	80.4	78.4
You will often see stories about people starting successful new businesses in the media	58.6	57.5	59.2	63.0	58.8

**Figure 4 – entrepreneurial attitudes in the UK**



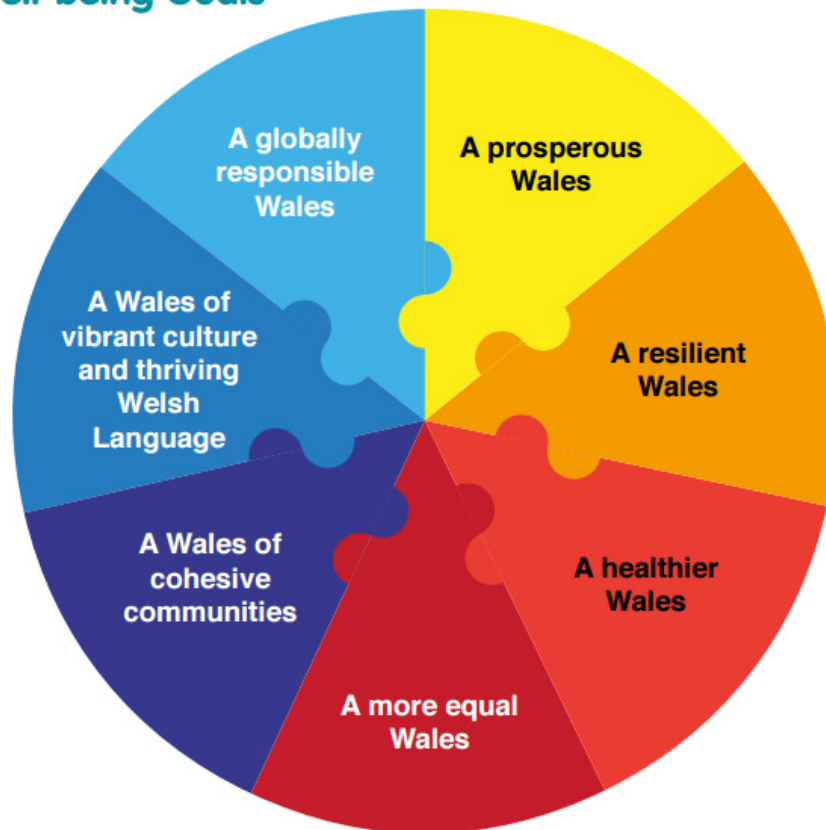
**Figure 5 – VAT/PAYE registered "enterprise births" per 10,000 people aged 16-64**

## Sustainable Development

An innovative new law was passed in 2015 – the Well-Being of Future Generations (Wales) Act. This Act is focused on improving the economic, social, environmental and cultural well-being of Wales by requiring a large

range of public sector organisations in Wales to take into account sustainable development in all of their decisions. The Well-Being goals contained in the Act are outlined in Figure 6 below. It is too early to really have any sense of the likely impact of this Act, but is certainly one to follow!

### Well-being Goals



**Figure 6 – the wellbeing goals in Wales**

## Conclusions

There are lots of positive signs about the health of the Welsh economy and the closing of the gap between its performance and that of the UK economy as a whole. However, much

of that “gap closing” has been as a result of EU funding and infrastructure spending. The Welsh economy is now heading firmly into the Brexit headwinds, making it difficult to see the course that the economy will end up following.

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Figure 1: [GDP per head; Eurostat](#)

Figure 2: [Information gathered from StatsWales, Office for National Statistics and The Economist Intelligence Unit](#)

Figure 3: *Population*; Office for National Statistics licensed under the Open Government Licence v.1.0.

Figure 4: *Global Entrepreneurship Monitor United Kingdom 2014 Monitoring Report, P9*; Mark Hart, Jonathan Levie, Karen Bonner, Cord-Christian Drews.

Figure 5: *Business Demography*; Welsh Government Intellectual Property Office, Crown copyright 2015

Figure 6: *Well-being goals*. Source: Welsh Government Intellectual Property Office. Crown copyright 2015