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AFRICA'S INDUSTRIALISATION: REVERSING THE DECLINE

Event Report

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INTRODUCTION

On 14th January 2016, JICA in partnership with the ODI SET programme hosted an event with John Page as the lead speaker and a panel of experts to explore the challenges and prospects for industrialisation in Africa. The panel discussed what caused the lack of industrialisation in sub-Saharan Africa and what can be done to improve it.

Manufacturing plays a key role in the process of economic transformation (ET) that is required for high quality growth, job creation and sustained progress. Yet the share of manufacturing in GDP has been falling in Sub-Saharan Africa over the last three decades and was just 11% in 2014. Recent estimates indicate that the role of manufacturing in driving growth and transformation is likely to decline further.

Industrialisation expert John Page links this decline to bad luck and bad policy. But there are also some positive signs. Manufacturing production has been increasing faster in Sub-Saharan Africa than in the rest of the world, and it now makes up a greater share in world manufacturing than fifteen years ago. Recently, several Asian firms have set up new manufacturing operations in African special economic zones such as in Ethiopia.

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Key Points from Session

- Manufacturing in sub-Saharan Africa has declined in recent decades, but different economic strategies, new circumstances and individual effort is expected to help reverse the decline.
- Africa has suffered from two things in the past: bad luck (trying to enter world markets when China was developing) and bad policy.
- There is now a chance to break into the global market for industrial goods - exports, agglomeration and capabilities must be linked strategically.
- Investment climate support is not sufficient. It requires emphasis on skills, infrastructure etc. Aid and trade must be coordinated and focussed on making Africa's Special Economic Zones world class.
- Politics is a further key factor behind weak industry in Africa. Broadly-owned institutions, leadership and vision from the top are essential for industrialisation.
- Africa's market size is an asset. It should increase its own effective demand and consumption aim to enhance the market size (within the region).
- Job creation is key - Africa has a huge young population in need of formal jobs – and China needs to "find people to do jobs". Rising wages in China has led to opportunities for Africa to attract investment.
- Information asymmetry is a problem. Investors may think there is not much opportunity in Africa and it is too difficult to do operate or set up there. However, working directly with supportive ministers and relevant government officers in-country improves the chances of success.
- Despite the major challenges to Africa's industrialisation there are examples to suggest that progress towards industrialisation can be made. It is important to engage in demonstration projects and industrial policy learning.

Dr. Dirk Willem te Velde (Head of the International Economic Development Group, ODI and Director of the Supporting Economic Transformation programme (SET) opened the event held at the ODI in London:

Manufacturing has declined in Africa. Labour has been moving from agriculture to services which is problematic as manufacturing is a key sector in ET – which in turn is needed for high quality jobs both now and in future. Today we discuss industrialisation, which is an agenda led by African countries themselves. Countries have set themselves ambitious, maybe too ambitious, targets. The Sustainable Development Goal's also reflect the importance of this topic, with a target for developing countries to double share of industry in GDP by 2030 and international community is behind this. Today we will discuss challenges around industrialisation and how African countries may reverse the decline of manufacturing.

JOHN PAGE – SENIOR FELLOW, BROOKINGS INSTITUTION

John Page is a Senior Fellow in the Global Economy and Development program, Brookings Institution, and non-resident senior fellow of UNU-WIDER. He was the World Bank's chief economist for Africa until 2008 and has published widely on industrial development and industrial policy in Africa and Asia.

John presented findings from a collaborative research programme of The African Development Bank, The Brookings Institution, and UNU – WIDER which looks to answer the question - **why is there so little industry in Africa?** This question matters. Africa's share of manufacturing in GDP is less than half of the average for all developing countries and smaller today than in 1980.

Economists approach industrial development as a black box of a firm that responds to changes in environment – but we need to unbundle this and look at the firm itself. Hundreds of firms in Asia have succeeded. This has led to two questions: What makes firms more competitive? What makes countries more attractive to competitive firms?

We set up cross country comparisons using national researchers in 11 countries to look into three broad drivers of firm-level productivity. For **exports and competition** the results that confirmed expectations (large foreign firms are more likely to export, exporting further raises productivity etc.) and some surprises (very few firms in African context learn to export – they are 'born global'.). For **firm capabilities** we mapped firms and found capable mid-size firms limited, firms learn capabilities from exporting, and firm-to-firm knowledge transfers are an important source of capabilities. Finally on **agglomeration** we found productivity gains and "cluster" effects are strongest in lower income countries *but* you need to convince a critical mass of firms in the same supply chain to move to the same location.

What does this all mean?

There is a pessimism amongst Rodrik and others – saying Africa's opportunity to break industrial economy has passed. We do not believe that. We believe Africa has a chance to break into the global market for industrial goods. Investment climate reforms are necessary but not sufficient and exports, geography and capabilities must be linked strategically. We need **new directions** for industrial policy to reform the investment climate agenda, countries should mount an "export push" and focus on building capabilities and clusters.

There are not as many competitive firms in Africa as in Asia – we need to find a way to create more competitive firms. SEZs for example fall short of world standards in infrastructure etc.

Finally, a point on **aid and trade –** it must be coordinated and focussed on making Africa's SEZs world class. It should also help to develop a new "practice area" in firm capabilities and give African governments the policy space to take initiatives and make mistakes!

NICK LEA - DEPUTY CHIEF ECONOMIST, DFID

When talking about this topic we need to ask - **why is industrialisation in Africa important?** This is because it is the only path *we know of* that can give fast track convergence to high income countries. The other way we know of is a discovery of resources e.g. oil and diamonds. Countries need an unconditional convergence in productivity.

Industrialisation has an effect on jobs and creates multipliers. It also has an effect on politics - increased jobs and incomes diversifies the balance of payments and it is harder to have an autocracy in a sophisticated economy.

Seems that there are seven prescriptions from John Page's presentation for industrialisation in Africa:

1. Good Infrastructure
2. Trade facilitation
3. Special Economic Zones (SEZs)
4. Integration with domestic value chains
5. FDI attraction
6. Increasing skills
7. Deal facilitation

However these do not answer the research question (**why is there so little industry in Africa?**)**.**

You need **broadly owned institutions** and leadership from the top. This is fundamental in the whole issue being discussed. We need to ask why African countries have not created leadership from top and broadly owned a strategy. DFID has found **lack of alignment between politics and economy** is the bottleneck.

So why has industrialisation been low? Because export manufacturing requires sacrifice – there are costs involved and means you need to defer current consumption. It also creates many winners – and African elites may not want this. In fact we find very few elites are involved in manufacturing which shows a lack of convergence of interest.

MACHIKO NISSANKE – PROFESSOR OF ECONOMICS, SOAS, UNIVERSITY OF LONDON

Asks the question – **what kind of industrialisation is feasible**? Need to think about ecological, financial and social sustainability.

What sort of broader policy and institutional environment is required? There is a need to overcome coordination failure. Diversification is needed Diversification into higher productivity activities. Need to create inclusiveness through creating opportunities.

Need to create a continent-wide market – Africa's size is an asset. It is important to enhance market size in region by increasing Africa's own effective demand and consumption. In the long run we have to **think big, and then start something feasible.**

KIMIAKI JIN CHIEF REPRESENTATIVE, JICA ETHIOPIA

Discusses what JICA is doing in Ethiopia/Africa:

1. Policy level planning – we had a request from Ethiopia to learn from Asian experience. Industrial policy dialogue. 4 times a year. Analysing development of agricultural industrialisation and Kaizen promotion.
2. Capacity development – kaizen (mainly in manufacturing) done by Ethiopian Kaizen Institute. Looking at introducing national approach of resource allocation and using calculations to reallocate resources in the best way for growth. Also looking at bottom-up approach to motivate workers.

Kaizen is a set of tools to introduce 1) rational way of thinking and 2) participatory utilization of tacit knowledge of floor workers.

HELEN HAI – CEO HUAJIAN COMPANY IN ETHIOPIA, GOODWILL AMBASSADOR FOR UNIDO

Helen Hai has set up one of the biggest shoe manufacturing plants in sub-Saharan Africa (Ethiopia) before helping establish a garment export factory in Rwanda. She began by talking about the great growth in shoe factory (exporting to U.S. within three months of starting, and creating 4000 jobs in two years). For her, **job creation is key** and that was the secret for ET in China and Asian tigers – they captured a window of opportunity and created millions job. African countries need to create jobs quickly too.

Africa has 1.2 billion mostly young people desperate for jobs – this is an opportunity for them. China needs to find people to do jobs. She believes it is the leadership and vision which brought industry into Africa. "The private sector does not come to provide aid. They come to do business. Through business you can achieve development goals".

She also points out it is by no means easy to do manufacturing in Africa. As an entrepreneur she personally met the people involved and worked to get them in the same room. "You have to tell them who you are and what she you want to do – even invite them to production floor." For her, **information asymmetry** is the problem. Before going to Africa she knew little about it, just war, conflict and famine. But once inside she saw that they do not want charity – but they want to be 'taught how to catch fish'. As long as you have ministers and relevant government officers supporting you as an investor, you may succeed.

STEPHEN GELB – SENIOR RESEARCH FELLOW TEAM LEADER, PRIVATE SECTOR DEVELOPMENT, IEDG, ODI

Firm capabilities will be the focus on the Private Sector Development (PSD) team at ODI in next years - it takes time and resources for firms to build these. A few important points:

- It takes time for the small number of managers in these firms to become capable whilst also look after the day-to-day firm processes and operations.
- The costs of doing business are also much higher in Africa and undermines profitability.
- We need to think about linkage between FDI and global/regional/domestic value chains.

DISCUSSION

AUDIENCE POINTS/QUESTIONS:

- Skill development is essential – European companies should focus on skill development and that is more than enough to help poor countries.
- What do you think is the role of diaspora and remittances in industrialisation?
- Economists are entering the field but not opening the 'black box' (firms). How do we do this? Countries that have industrialised should align micro and macro planning. How do we address problem of organisational capabilities? Leadership not only condition.
- What is role of product design and user experience to bring up quality and Africa demand?
- You mentioned negative competitiveness effects of being engaged in external markets. What are they?
- You talk about infrastructure development – energy is essential too – what are the blockages?
- What is the role of procurement rules in assisting PSD?

PANEL RESPONSES:

John Page:

On competition – when serving the domestic market you get local competition. Once you switch to export markets, most firms face elastic demand curve. SEZs allow you to put people together doing same thing and avoid problems when just with domestic firms.

On answering if we answered our research question – not here in this presentation but we found the answer was that Africa has suffered from two things: bad luck and bad policy. Bad luck – they hit adjustment period just as china took off as the manufacturing engine of the world. Bad policy – the donor community has influenced this and policy has not been good for growth.

Helen Hai:
You need quick examples of success in industry to attract further growth.

Nick Lea:
Believe diaspora is incredibly important – it is the bridge between technology and LDCs. A big constraint is lack of knowledge. Firms started by diaspora e.g. in Ghana are more technologically advanced. More cautious of remittances – it can lead to Dutch Disease etc. It really depends what the money is spent on.
On donors being a part of problem – there is some sympathy with this point but there is a big pressure on donors to spend money on consumption. Aid money is often be spent on areas which are easily communicated. It is hard to get support to build a crane at a port or a tax office... it can be an uphill struggle. Multilaterals on the other hand are one step removed from accountability.

Kimiaki Jin
Learning process is important (for promoting industrialisation). At government level JICA studies found industrialisation policies are important as well as flexibility and creating linkages with private sector. Through these elements governments can keep learning. At a firm level we should think about technical skills and management skills.

Dirk Willem te Velde:

Summary: today we heard about challenges to manufacturing in Africa and we agree we need to overcome them for industrialisation. Support needs to move beyond investment climate and include support for skills, infrastructure, SEZs, agglomeration etc. There are a range of things that need support at the same time, and that is a tall order. But the example of the shoe factory in Ethiopia suggests that progress can be made. It will be important to have demonstration projects and to engage in industrial policy learning.

PHOTOS


odi.org
Machiko Nissanke
Professor of Economics,
SOAS, University of London
Nick Lea
Deputy Chief
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The story of Felix
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