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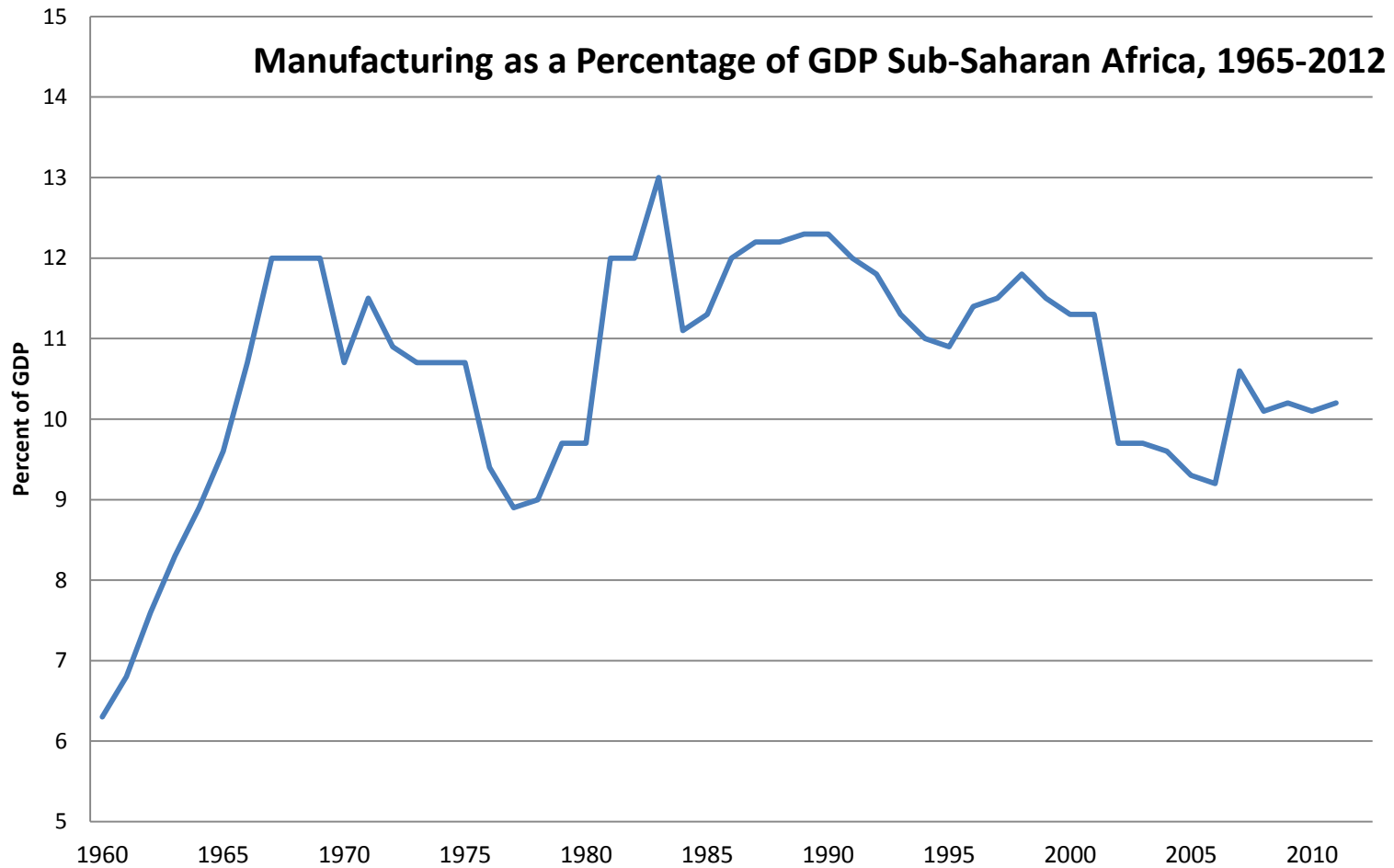
# Reversing Africa's Industrial Decline

## Some Ideas from Learning to Compete

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Overseas Development Institute  
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# Ending Up Where it Started

## Africa has deindustrialized since the 1980s



# Africa's Deficit in Manufacturing

- Africa's share of manufacturing in GDP is less than half of the average for all developing countries
- Per capita manufactured exports are about 10 per cent of the developing country average.
- Africa's share of global manufacturing is smaller today than in 1980

	Mfg. Exports PC 2008 (US\$)	Growth Exports PC 00-08 (%)	Mfg. Value Added PC 2008 (US\$)	Share of Mfg. in GDP 2008 (%)
Africa Average	49.0	2.85	138.6	9.4
All Developing Countries	487.2	10.05	412.9	21.7

# Africa's Deficit in Manufacturing

Share of Manufacturing in GDP Relative to Income Per Capita, 2008

- Only 4 of 25 economies exceed predicted values
- The fast growing economies (ETH, GHA, KEN, RWA, TZA, UGA) are all negative outliers
- Resource rich economies are extreme outliers



# Learning to Compete

- A Collaborative Research Program of The African Development Bank, The Brookings Institution, and UNU – WIDER
- Trying to Answer a Simple Question:
  - Why is there so little industry in Africa?
- Lead to two others:
  - What makes firms more competitive?
  - What makes countries more attractive to competitive firms

# Three Drivers of Firm-Level Productivity

- **Exports and competition**
  - Firms in low income countries increase their productivity by exporting
  - Competition increases productivity through entry and exit
- **Firm capabilities**
  - The tacit knowledge and working practices that affect both productivity and quality
  - Capabilities can spill over to other firms through supply chain links
- **Agglomerations**
  - Industrial clusters confer significant productivity gains
  - Virtually everything we know about agglomeration economies comes from middle and high income countries

# The Country Comparative Framework

- Eleven Countries
  - Nine African : Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, Tunisia and Uganda.
  - Two Asian: Vietnam, Cambodia.
- National researchers
  - Teamed with global experts
- Three Track Approach
  - Detailed case studies of industrialization and the evolution of public policies
  - Econometric analysis of the stock of firm level surveys
  - Qualitative surveys of FDI firms and linked domestic firms.

# Exports and Productivity

Cambodia, Ethiopia, Mozambique, Senegal, Tunisia, Vietnam

- Confirming expectations
  - More productive firms select into exporting
  - Large (and foreign) firms are more likely to export
  - Exporting further raises productivity
  - Learning effects are stronger in
    - Domestically owned firms
    - More sophisticated products
    - Higher income (or more distant) markets
    - The initial years of exporting
- Some surprises
  - Many African exporters are “born global” (both FDI and local)
  - Few firms “learn to export” (few partial exporters and fewer switchers)
  - Export activity is highly persistent
  - The productivity premium tends to increase with low national (or sectoral) export participation rates



# Firm Capabilities

(Cambodia, Ghana, Kenya, Ethiopia, Mozambique, Uganda, Vietnam)

- Africa lacks capable mid sized firms (50-70 workers)
  - Management of a growing labor force is a major constraint
- Firms learn capabilities from exporting
  - The positive relationship between exporting and productivity is mainly due to process and quality innovations undertaken by firms
- Firm to firm knowledge transfers are an important source of capabilities
  - FDI is a major source of higher capabilities
  - Vertical linkages along supply chains are much more dense in Asia than in Africa

# Firm Capabilities: Different Neighborhoods

Vietnam: Supplier Customer Competitor

FDI Firm				Supplier		Customer		Competitor	
No	Province	Investor	Product	No	Inputs	No	Products	No	Products
1	Hanoi	Japan	Porcelain products	1	Chemical	1	Porcelain products	1	Porcelain products
				2	Chemical	2	Porcelain products	2	Porcelain products
				3	Chemical	3	Porcelain products		
2	Hanoi	Japan	Furniture	4	Glass	4	Furniture	1	Furniture
				5	Wood	5	Furniture	2	Furniture
				6	Wood	6	Furniture		
3	Hanoi	Singapore	Tyres and tubes	7	Chemical	7	Tyres and tubes	1	Tyres and tubes
				8	Chemical	8	Tyres and tubes	2	Tyres and tubes
				9	Chemical	9	Tyres and tubes		
4	Hanoi	China	Electrical equipment	10	Copper wire	10	Transformers	1	Transformers
				11	Copper wire	11	Transformers	2	Transformers
5	Hanoi	Japan	Motor components	12	Iron	12	Auto assembling	1	Auto spare parts
				13	Iron	13	Auto assembling	2	Auto spare parts
				14	Iron	14	Auto assembling		
6	Hanoi	Multiple	Rubber components	15	Rubber materials	15	Rubber products	1	Rubber products
				16	Raw rubber	16	Rubber products	2	Rubber products
				17	Raw rubber	17	Rubber products		
7	Hanoi	Japan	Metal components	18	Steel	18	Locks	1	Metal products
				19	Steel	19	Misc. mechanical products	2	Metal products
				20	Steel	20	Antennas	3	Metal products
8	Hanoi	Taiwan	Fibre optic cable	21	Decal, printing ink	21	Optic cable	1	Fibre optic cable
				22	PP bags	22	Optic cable		
				23		23	Optic cable		
9	Hanoi	Japan	Paint	24	Packing bags/bowes	24	Auto assembling	1	Paint
				25		25	Misc. equipment	2	Paint
				26		26	Misc. equipment		
10	Hanoi	Multiple	Paint	27	Chemical	27	Drivers	1	Paint
				28	Chemical	28	Concrete	2	Paint
				29	Products for parking	29	Construction		
11	Hanoi	Multiple	Chemical products	30	Acid	30	Construction	1	Chemicals for construction
				31	Chemical	31	Concrete	2	Chemicals for construction
				32	Chemical	32	Construction		
12	Hanoi	Multiple	Carton products	33	Paper	33	Beer	1	Paper
				34	Paper	34	Milk	2	Carton
				35	Printing	35	Mechanical items	3	Paper bags
13	Hanoi	Japan	Plastic products	36	Amortax	36	Plastic door	1	Plastic products
				37		37	Plastic door	2	Plastic products
				38		38	Misc. plastic products	3	Plastic products
14	Hanoi	Singapore	Electrical equipment	39	Electric wires	39	Transformers	1	Electric wires
				40	Misc. electronic products	40	Transformers	2	Electric wires
				41	Misc. electric equipment	41	Radioes	3	Electric wires
15	Hanoi	Japan	Printing products	42	Printing paper	42	Misc. printing products	1	Printing
				43	Printing paper	43	Misc. printing products	2	Printing
				44	Printing paper	44	Misc. printing products	3	Printing

Note: Out of the 88 identified none refused to participate in the survey. An additional 3 FDI/MNCs were interviewed but their interlinkages were not traced.

Kenya: Supplier Customer Competitor

FDI Firm				Supplier		Customer		Competitor	
No	City	Investor	Product	No	Inputs	No	Products	No	Products
1	Nairobi	India	Packaging	1	Thaise and hygiene products	1	Dairy/Food processing	1	Carton packaging
				2		2	Dairy/Food processing	2	Packaging
				3		3		3	Packaging
2	Nairobi	Switzerland	Footwear	4	Textiles			1	Misc. Rubber products
				5				2	Food and Footwear
				6					
3	Nairobi	USA	Automotive Industry	7		2	Cement	1	Automotive Industry
				8					
				9					
4	Nairobi	UK	Pharmaceuticals	10				1	Pharmaceuticals
				11					
				12					
5	Nairobi	Mauritius	Iron and Steel Industry	13				1	Steel
				14				2	Steel
				15					
6	Nairobi	Taiwan	Textile	16	Carton manufacturer				
				17					
				18					
7	Nairobi	UK	Tobacco	19	Prisms			1	Tobacco
				20					
				21					
8	Nairobi	Netherlands	Petroleum	22	General plastics	1	Sugar		
				23	Misc products				
				24					
9	Nairobi	USA	Beverages	25				1	Beverages
				26					
				27					
10	Nairobi	France	Cement	28				1	Cement
				29				2	Cement
				30				3	Cement

Note: Out of the 14 identified for interview 9 refused to participate in the survey.

# Agglomeration Effects

Cambodia, Ethiopia, Tunisia and Vietnam

- Broad evidence of productivity gains
  - Large (formal) firms appear to benefit more than small (informal) firms
- Localization (“cluster”) effects are strongest in lower income countries
- Where markets are poorly integrated competition offsets productivity gains
  - Prices tend to fall, reducing incentives to cluster

# A Strategy for Industrial Development

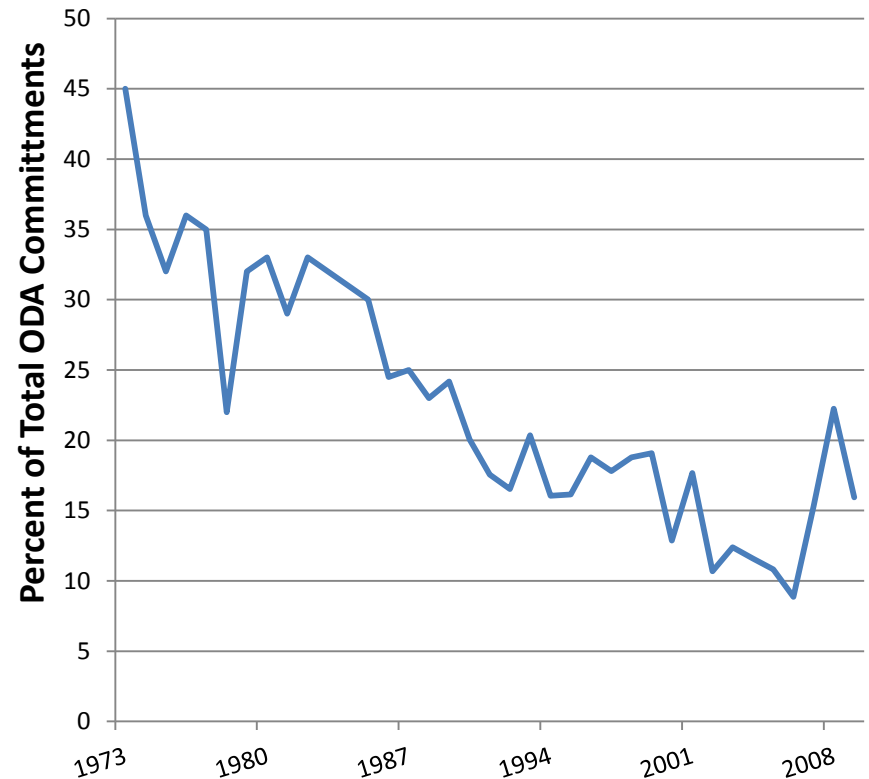
- Africa has a chance to break into the global market for industrial goods
  - Changes in Asia
  - Trade in tasks
  - Industries without smokestacks
- But while some firms in some countries are competitive many others are not
  - This places a premium on policies to raise firm-level productivity
- Investment climate reforms are necessary but not sufficient
  - Drivers of firm-level productivity are interdependent
- Exports, geography and capabilities must be linked strategically
  - They cannot be addressed piecemeal

# New Directions for Industrial Policy

## Reform the Investment Climate agenda

- Stop *Doing* (monkey) *Business*
- Focus on infrastructure and skills development relevant to industry
- Support institutional development for FDI and SEZs

ODA for Economic Infrastructure 1973-2009



# New Directions for Industrial Policy

## Mounting an “Export Push”

- Productivity gains but high private costs of entry
  - Knowledge of potential markets’ is the most serious constraint for international market entry.
- Entering global markets will need an “East Asian style” export push
  - A broadly owned strategy and effective institutions (leadership from the top)
  - Trade related infrastructure and trade logistics
- Support for regional institutions and infrastructure

# New Directions for Industrial Policy

## Capabilities and Clusters

- **Building Firm Capabilities**
  - An export push is a major source of capabilities (demanding buyers; repeated relationships)
  - Build effective FDI agencies
  - Strengthen domestic value chain relationships
- **Creating Clusters**
  - Agglomeration economies create a collective action problem
  - SEZs are a means of creating clusters
  - Bring Africa's SEZs up to world class
  - Strengthen the links between firms in the SEZ and domestic suppliers/purchasers

# An Agenda for Aid and Trade

- Coordinating trade and aid is essential
  - Aid will be insufficient but can be leveraged better
  - Trade and aid policies sometimes work at cross purposes
- Supporting an export push
  - Fix “aid for trade” and tie it to trade logistics
  - Unify and streamline trade preferences (start with AGOA and EPA)
  - Support regional economic communities through both aid and preferences



# An Agenda for Aid and Trade

- Focus “aid for trade” first on making Africa’s EPZs world class
- Develop a new “practice area” in firm capabilities
  - Management training seems to pay off
- Give African governments the policy space to take initiatives and make mistakes!



# Thank You

Working papers at:

<http://www.brookings.edu/about/projects/africa-growth/learning-to-compete>

[http://www.wider.unu.edu/research/current-programme/en\\_GB/L2C-2010](http://www.wider.unu.edu/research/current-programme/en_GB/L2C-2010)

And Two Shameless Book Plugs:

*Made in Africa: Learning to Compete in Industry* Brookings Institution Press

*Manufacturing Transformation: Comparative Studies of Industrial Development in Africa and Emerging Asia* Oxford University Press