Short Contribution to Panel Discussions on Africa’s Industrialisation

Machiko Nissanke
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Issues and Questions Arising

- Industrialisation is a critical part of Africa’s Structural Transformation (ST) Agenda
- The L2C project has generated a rich set of empirical studies at the firm level in case study countries of Asia and Africa
- Main Questions asked in L2C: How to raise firms’ competitiveness: through: “Learning to Export” and Learning by Exporting” and through “Agglomeration effects of Industrial Clustering”. Policy recommendations are not controversial.
- “challenges and opportunities” in Africa’s industrialisation - beyond micro-level question over “raising firms’ competitiveness:
  - What sorts of industrialisation (i.e. the nature) are necessary and feasible: e.g. shallow vs deeper industrialisation in relation to triple “sustainability” questions in three dimensions, i.e. ecological, social and financial sustainability in Africa’s ST processes
  - What sorts of broader policy and institutional environments are required
- reality on grounds in the debate over pessimism vs optimism in Africa’s industrialisation: ST started happening- but still fragmented and isolated success- shallow and fragile
- Requiring a coherent strategic framework at macro and regional levels
Structural Transformation as development processes of creating articulated economies

- Structural Transformation (ST) as purposeful, concerted societal efforts towards creating a well-articulated economic structure, where economic activities are closely linked to each other in a dynamic, coordinated manner. (N.B. to overcome coordination failure see Murphu et al.(1989)
- Diversification into higher productive activities with large positive externalities and dense dynamic spill-overs spatially and overtime
- ST should entail creating inclusive growth ex-ante: inclusive growth through which opportunities are created, and benefits are widely shared ex-ante ➔ Achieving twin objectives of economic and social transformation
- Creation of articulated economies through regional Integration (RI) to overcome small market sizes and economies – global demand is not expanding: with “secular stagnation” in ACs and slow down in EMs
- Forward-looking position to take advantage of demographic dividends as important productive assets and expanding purchasing power/aggregate demand
- Focus on enhancing markets in the region by ↑ in Africa’s effective demand on the basis of growing per-capita income and consumption
Industrialisation as part of Africa’s Structural Transformation Agenda

- Comparative advantages and competitiveness should not be built on impoverished wage labour or their under-consumption in long-run.
- ST should entail active “learning-by-doing” at production units as well as societal level, shifting Africa’s revealed comparative advantages dynamically in integration into the global economy.
- ST involves exploiting region-wide dynamic economies of scale and agglomeration effects for enhancing positive externalities through cross-border production clustering, dense production/supply networks and consumption spill-overs in coordinated efforts.
- Creating cumulative causation effects of RI by attracting both vertical and horizontal FDI for large integrated markets – ‘market seeking’ FDI.
- Attract FDI for technology and knowledge acquisition to enhance skill base, knowledge assets, productive human capital – (in place of resource seeking or foot loose FDI on exploitation of cheap labour).
- Strategic participation in GVCs with constant upgrading and linkage development.
Industrialisation as part of Africa’s Structural Transformation Agenda

- Active and strategic participation in technology-driven globalisation, and leap-frogging to clean **green** and **mobile** technology with smaller sunk costs- not simply emulating the industrialisation paths of the past

- Industrialisation should proceed alongside **agrarian transformation** with linkage developments, increased non-farm employment and food security

- Spatial spread/diversification with new clean technology- to prevent negative externalities (for example, congestion, asset price escalation, pollution, crimes etc. from developing in over crowded cities).

- **Building Blocks** of fundamentals
  - Investing in human resources for capability development
  - Investing in economic and social Infrastructures
  - Institutional transformation:
    - Creating **institutional configuration** for productive private-public coalition
    - Domestic stakeholders - **SMEs** and **small holders** as main drivers/developing agents with their capability development
Fig. 1. Structural Transformation as Development Processes in the 21st Century

**Goals**
- Well Articulated Economy
- Inclusive Society

**Processes**
- Productivity: Enhancing Structural Change:
  - Productive investment within sector & shifting resources to higher value-added activities
- Regional Integration for enlarging market sizes
- Creating opportunities for all through pro-poor investment
- Enlarging and upgrading physical & human productive assets
- "Learning-by-Doing" for skill-technology-knowledge acquisition
- Upgrading revealed comparative advantages
- Adopting "green" technology for sustainable development

**Building Blocks**
- Investing in human development
- Investing in economic and Social Infrastructure
- Institutional transformation:
  - Creating institutional configuration for productive private-public coalition
Fig. 2. Historical Evolution: Policy Framework, Institutional Configuration and Outcome

1. Development Planning
   - Intervention to address "market Failure"
   - Little coordination among policies

2. Stabilisation-cum Structural Adjustments
   - Liberalization-deregulation-privatisation to address "government failure"
   - Exclusive focus on macro stabilisation

3. Low or negative per capita growth
   - Productivity-reducing structural change
   - Macro imbalances-getting under control

4. Aid donors dominated
   - Little coalition between governments and private agents
   - Government-weak and dwindling resources
   - Private agents-disfranchised and fragmented

- Reasonable growth rates
  - Structural change-some sectorial shifts
  - Macro imbalances-developed over time

- Little coalition between governments and private agents
  - Government-dominant in command but weak capacity
  - Private agents-weak and isolated

Macroeconomic and Development Policy Framework

Development Outcome

Institutional Configuration
Fig. 3 Macroeconomic Framework embedded in Development Strategy for Structural Transformation

Development Planning Framework

Building Productive Assets & Institutional Transformation

Structural Transformation as Development Processes (see Fig. 1)

Goals: An articulated Economy and an Inclusive Society

Developmental Nation-State Building

Other development policies
- Trade policy
- Technology policy
- Education & Health policies
- Social policy
- Policy for financial sector development
- Oversight regulatory and competition policies
- Industrial policy
- Agricultural policy
- Other sector-specific policies Etc.

Macroeconomic Framework
- Twin objectives (development and stabilisation) & trade-off

Overarching Agenda
- Scaling up public investment and public goods provision
- Maintaining macro stability to promote private investment/saving
- Investment coordination
- Mobilising resources, tapping new sources and reducing aid dependence
- Securing fiscal sustainability by establishing fiscal legitimacy

Macroeconomic Policy Instruments
- Fiscal Policies
- Monetary Policies
- Financial and Regulatory Policies

Coordination among policies