

# INDUSTRIALISATION, PRIVATE SECTOR DEVELOPMENT AND ECONOMIC TRANSFORMATION IN AFRICA 28 AUGUST 2016, NAIROBI

## Event Report

Sonia Hoque

Overseas Development Institute, London

September 2016

Sub-Saharan Africa (SSA) industrialisation is critically needed for economic transformation. As an official side event of “TICAD VI” during 27th and 28th August 2016 experts from SSA, UK and Japan discussed potential pathways toward the transformation with a wide range of expertise from broader perspectives regarding industrialisation policy to empirical research in local contexts.

This event was jointly organised by the African Economic Research Consortium (AERC), Institute of Developing Economies (IDE-JETRO), JETRO NAIROBI, and the Overseas Development Institute (ODI). More information on the Supporting Economic Transformation programme (SET) programme at ODI can be found on the [SET website](#).



Brief opening comments welcoming the panel came from Sato Hiroshi, Chief Senior Researcher, Inter-disciplinary Studies Center Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO).

## STEPHEN GELB - SENIOR RESEARCH FELLOW AND TEAM LEADER, PRIVATE SECTOR DEVELOPMENT OVERSEAS DEVELOPMENT INSTITUTE (ODI)

Provided an overview of SET work and economic transformation principles (see slides [ADD LINK](#)).

Graphs on manufacturing share in GDP in Africa shows employment and manufacturing mirroring trends and a steady fall of share of manufacturing in employment. There are positive trends too, such as growth in manufacturing output, employment and exports and increased participation in global value chains.

There are alternative paths for industrialisation: natural resources vs light manufacturing by unskilled labour. Stephen Gelb doesn't think these are necessarily complementary and have different implications for policy, services and macroeconomic. The path chosen will have implications for private sector development potential.



**Missing middle of manufacturing firms** - we need to understand and address the problem for successful manufacturing. Need four policies to improve investment climate / private sector development:

- 1) Competition from new entries (foreign *and* domestic)
- 2) Support for innovation and capabilities development
- 3) Need sectoral focus for policy – for clustering
- 4) Need collective action by firms – business association – which links to political economy of incumbency.

Q&A:

- 1) Why aren't two paths complementary?

SG – light manufacturing relies on importing goods (ER policy), resource based sectors need high capital investments. Following both at same time could affect wage differentials.

- 2) Can other countries learn from Mozambique lessons?

SG – increase in manufacturing exports in Mos. reflects electricity exports via Aluminium plants. But Leadership has clear strategy in successful countries – express unified national policy.

## GERRISHON IKIARA – PROFESSOR, UNIVERSITY OF NAIROBI

Kenya is seen as leading in terms of level of industrialisation in east Africa since 1960s, driven by British settler community. After independence, government felt too much influence of western firms – wanted to become 'Africanised' again.

However, the share of country's GDP, employment, exports etc. have stagnated in last 50 years despite being high priority in development plans. Import Substitution Industrialisation (ISI) and Export Oriented Industrialisation (EOI) strategies have failed to meet expectations on transformation in Kenya.

Kenya's pathways to industrialisation – ISI was focus in 1963-65..This was regarded as transformative for moving the economy from colonial settler to competitive modern economy (high import duties, joint ventures between government and foreign investors, public financial institutions etc.). Poorly implemented strategy resulted in high priced low quality products. EAC are main markets for Kenya – limited success internationally. Firms depended on imported inputs. By 1980's ISI was exhausted. 1972 ILO report showed micro and small sized enterprises were key. Changes in government policy to support small firms to become medium sized. EPZs did not have much impact due to high wages, trade union influence.

Q&A:

- 1) Why are we not performing like Korea etc.?

We should look at what Rwanda, Mozambique etc. has done. Mozambique has less people and resources and yet they are developing like Singapore. They may be one of the first countries in the region to become middle income. Leadership is key, and political stability.

- 2) We should not stifle companies that make use of new technologies.

### TAKAHIRO FUKUNISHI TAKAHIRO FUKUNISHI DIRECTOR, AFRICA STUDIES GROUP (IDE-JETRO)



There are constraints of manufacturing exports (such as garments). Research suggests relatively high urban formal sector wages is a critical constraint. Others suggested include business environment, human capital, first-mover advantage of Asian countries etc. Policy interventions depend on type of constraint. Export oriented garment industry is a good reference because it is a common entry point of industrialisation. Garment export from Kenya to US is increasing. Madagascar has sustained growth.

Global production network is important - US retail firms place order with Asia, and garment firms in Africa procure textiles from Asia (India), do the sewing etc. and send to US. Unit cost in Kenya is twice as high as in Bangladesh, mainly due to wages of skilled/semi-skilled workers. Madagascar/Cambodia have higher productivity, which compensates for slightly higher wages (than Bangladesh).

Wage and export competitiveness – why are wages higher in Africa? Because better quality goods need higher skills for machinery operation. Concludes: neither business or education constrains development. High wages are relative to business environment and cost of materials are high.

### KEIJURO OTSUKA CHIEF SENIOR RESEARCHER, INTER-DISCIPLINARY STUDIES CENTER (IDE-JETRO)

There are many issues here: Wages in formal sector, labour market interventions, the missing middle, and absence of medium sized enterprises. Believe micro enterprises could grow if supported by industrial policies.

Role of business associations is important as small enterprises tend to cluster. Business associations tend to form voluntarily to collect market information, knowledge and inspect quality (local public goods).

Collective action is key to development of industrial clusters. They should be politically supported to nurture development of industrial clusters.

## DIRK WILLEM TE VELDE, HEAD OF INTERNATIONAL ECONOMIC DEVELOPMENT GROUP AND DIRECTOR OF SET, ODI

There are gaps in wages and productivity. In the past we have seen bad policies, first mover advantages... but there are advantages.

Lots of heterogeneity in quality of implementation (e.g. SEZs). Need right political incentives in place. Central coordinating agencies etc. Could Africa learn from Japan? How to centralise actions in particular.

Summary of Kaizen event (see slides [ADD LINK](#)).



### Q&A

- 1) What is your view of lobbying of government?

KO: Most important function of business associations is to learn from other countries. KAIZEN is one form of learning.

SG: think business associations could give a voice to small organisations, there is a political role. Push governments to work more effectively, reduce costs of inputs etc. Provide some political pressure.

GI: government is appreciative of role of business associations. Ideas on introducing new technologies.

DWTV: Lots of linkages. Important to structure. Mauritius has table sessions where government looks at proposals, and discussed in a democratic way. Provides link between public and private sector.

- 2) Audience member: when we discuss as aggregate, we sometimes miss the points in particular industries.
- 3) Audience member: How do you sanitise 'bad politics' in context of missing middle (large company owners are often well connected, and smaller ones less so)?

SG: democratising and making government discussions more transparent. Popular discussion in media, online etc. can be crucial.

HS: the gap between large-small, urban-rural, formal-informal.

TF: we don't know why prices in African countries are high.





- 4) Audience member (John Page): what is the panel's thoughts on idea that it is not about 'skipping a stage' like India, but rather diversifying economies for growth on Africa?

SG: people are being forced into low level service sector jobs. Light manufacturing has to be focus.

TF: not sure how much employment agriculture can absorb. Some countries more than others (land restrictions). Heterogeneity amongst informal sector. The people working in those sectors should fill the missing middle.



DWTV: to sell to customers, good to be close to customers. In African continent, market size should increase.

### LEMMA SENBET, EXECUTIVE DIRECTOR, AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)

Africa rising narrative is real. It is an outcome of economics, initiatives in commodities, and capacity building. Language has gone from growth to sharing that growth – inclusiveness. Many people in poverty and large unemployment.

I see agro-processing as critical as well as empowering youth, women, farmers etc. Capacity building, governance, sustainability. You may create unsustainability with industrialisation. Need to think about top-down, and leadership and how sustainable is this.

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