Learning to Compete (L2C): Accelerating Industrial Development in Africa

Introduction

Learning to compete (L2C) is a collaborative research project between UNU-WIDER, the African Development Bank, and the Brookings Institution. The project aims to answer the question: why is there so little industry in Africa? Industry—including modern services and agro-industry—is often the key to job creation, poverty reduction, and growth. In order to sustain economic growth, African industries need to learn to compete in global markets. L2C sets out to provide better answers to a number of policy questions relevant to African industries achieving this competitiveness.

Study objectives and key research questions

L2C is a comparative, country-based research project that seeks to answer a seemingly simple but puzzling question: why is there so little industry in Africa? L2C is attempting to provide better answers to five policy questions raised by the region’s experience and the recent academic literature:

- What should the role of exports be in Africa’s industrialization process?
- Does lack of skills constrain Africa’s ability to compete?
- Can Africa compete without industrial clusters?
- Can foreign direct investment help build Africa’s industrial capability?
- How should governments in Africa conduct industrial policy?

These five questions frame the major thematic issues that are being addressed under the project.
Methodology

L2C is currently undertaking research in nine countries in Africa (Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, and Uganda) and two in Asia (Cambodia and Vietnam).

The research project has a matrix structure. One dimension of the research is thematic (or horizontal), resting on a common quantitative and qualitative approach to addressing such issues as learning by exporting, foreign direct investment, cluster economies and the role of skills across all of the economies under study. The second dimension combines the thematic work at the country level with the historical narrative of industrial development and policy in each country to produce a country specific (vertical) study of the issues and options for accelerated industrial development.

Three parallel tracks of quantitative and qualitative methods are being used to carry out the research in each country:

- Using the stock of firm-level surveys, especially panel data, that currently exist in the selected countries.
- Undertaking comparative case studies of firms, industries and industrial policies based on firm level interviews.
- Analytical narrative studies of the development of the industrial and modern services sectors.

Key findings/evidence

Research began in May 2011. Country teams completed first drafts of the country papers and one quantitative paper on a thematic subject by December 2011. During 2012 country teams will revise the country studies and quantitative papers for publication as working papers. They will also carry out the survey with a focus on two areas: foreign–domestic firm interactions and the decision to export. Survey results will be incorporated into the country and thematic studies in late 2012. The project is expected to be completed in 2013.

Because the research is at an early stage the key findings of L2C reflect the initial work undertaken to motivate and design the research—largely by the project management team—and some early results from the draft thematic and country studies. Among the findings (from the outputs listed below):

- Africa has ‘deindustrialized’: today Africa’s manufacturing production and exports are less diverse and less sophisticated than they were in the two decades following independence.
- Firm size matters for growth: small and large firms in Ethiopia use quite different technologies to produce similar products. An increase in the number of large firms would raise value added per worker and ultimately GDP per capita in the country.
• Africa’s ‘employment problem’ is an industrialization problem: there is persuasive evidence that growing unemployment and ‘informalization’ of employment in Africa is due to very slow growth of modern, industrial activities.

• Agglomerations are important: in Vietnam the extent of clustering is over and above that which can be attributed to the legal and regulatory framework, economic zoning, or population patterns.

• Within-industry entry and exit are not the only drivers of productivity growth: in Vietnam firms switching activities from one sector to another are an important component of productivity growth.

• Governance matters: reducing the level and incidence of bribery by public officials facilitates a more efficient allocation of capital.

**Results and impact**

*Building a constituency for change:* Brookings L2C project director and UNU-WIDER external project director, John Page, was asked to organize the May 2011 plenary session of the Africa Economic Research Consortium on the theme ‘Industrialization and Economic transformation in Africa’. The plenary session was attended by African researchers, policy makers, and senior international researchers. Proceedings appear in the Journal of African Economies.

*Speaking directly to decision makers:* John Page was invited by the finance ministers of Nigeria and South Africa and the planning minister of Angola (in their capacity as Governors of the World Bank) to a closed colloquium in Pretoria, South Africa in March 2012 to discuss policy implications of the ‘employment problem’ in Africa. Much of the discussion centered on the implications of L2c research for employment policy.

*Leveraging the partnership:* The African Development Bank has used early results from L2C in background papers prepared for the High-Level Seminar at its 2012 Annual Meetings in Arusha, and for the C10 meeting at the 2012 IMF-World Bank Annual Meetings.

**Research output**


Journal of African Economies (21) supplement 2 January 2012:
*[Industrialisation and Economic Transformation in Africa: Introduction and Overview]*

*Olu Ajakaiye and John Page*

*Can Africa Industrialize?*

*John Page*

*[Firm Size and Structural Change: A Case Study of Ethiopia]*

*Måns Söderbom*
Emma Howard, Carol Newman and Jacco Thijssen

Industry Switching in Developing Countries WP/2011/49
Carol Newman, John Rand and Finn Tarp

Corruption and the Efficiency of Capital Investment in Developing Countries WP/2012/27
Conor M. O’Toole and Finn Tarp

Papers with restricted circulation:
‘Youth, Jobs and Structural Change: Confronting Africa’s Employment Problem’