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**Industrialization in Africa:**
Setting the Stage & Overview
Introduction
Setting the Stage

• The *Economist* (11 May 2000): Hopeless Africa

• The *Independent* (15 July 2009): Africa – the lost continent

• The *Economist* (3 December 2011): The hopeful continent – Africa rising

• Some question the growth revival referring to poor data
  – Careful analysis paints a different (more complex) picture
GROWTH AND POVERTY PROJECT (GAPP)

Freely downloadable: see https://www.wider.unu.edu/
Key Findings

• Socio-economic progress in Sub-Saharan Africa has been markedly better than almost anyone expected 25 years ago.

• Progress has not been even; the development process has without exception been highly non-linear; and the fragility of the gains is evident.

So attitudes in and outside Africa towards the continent’s development potential have changed.

At the same time, a series of pressing policy questions present themselves (at both global and national levels) including:

  – How to keep up the aggregate growth performance
  – How to transform economic structures
  – How to diminish the reliance on primary commodities
Macro-economic Trends
The African Growth Turn-Around

Average real GDP per capita growth, only developing countries

- Europe & Central Asia: 1995-2014
- Latin America & Caribbean: 1995-2014
- Sub-Saharan Africa: 1995-2014

UNU-WIDER
GDP per Capita (real USD2010)
Substantial Variability: 16 GAPP Country Cases

Important note: The regional powerhouses of Kenya, Nigeria, and South Africa not among the better performers in terms of growth or poverty reduction.
And Something is Happening to GDP Growth/Capita

Emerging and developing Asia
Latin America and the Caribbean
Middle East and North Africa
Sub-Saharan Africa

Source: IMF WEO
In Trade

Source: UNCTAD
And to Net Financial Inflows

Source: WB WDI, and authors calculations
Structural Dimensions
The Potential for Structural Change

• In countries at low levels of income productivity differences between sectors are large
  – The movement of resources from low productivity to high productivity employment can help drive growth
  – As incomes rise, productivity differences among sectors (and enterprises) tend to converge

• Africa has the greatest differences in productivity among sectors, and therefore the greatest potential for structural change
Going Up the Down Escalator

• In Africa structural change has been going in the wrong direction until recently

• An increasing share of the labour force in lower productivity sectors

• “Growth reducing” structural change has slowed overall aggregate growth
Aggregate Growth Has Occurred with De-industrialization

• 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

• The share of SSA of global manufacturing is smaller today than in the late 1980s
Low Penetration of International Markets

- Africa marginal
  - Even less excluding South Africa
- Asia – 23% in 1990 to 33% in 2012
- Low survival rates in export markets

Source: WTO
Internet Access: Growing in Africa, but...
Africa Continues to Lag in Educational Attainment

Evolution of education attainment across regions, 1970-2010

Average years of education

- Middle East & North Africa
- Europe & Central Asia
- South Asia
- East Asia & Pacific
- Latin America & Caribbean
- Sub-Saharan Africa
- High income: OECD

Note: MENA region in dashed line
Putting Structural Transformation and Industrialization Back on the Development Agenda
Learning to Compete (L2C): A collaborative research programme between the AfDB, the Brookings Institution, and UNU-WIDER together with the AERC network of researchers
Key Questions

Trying to answer a simple question:

– Why is there so little industry in Africa?

Lead to other questions such as:

– Does it matter?
– Is it realistic for Africa to break into global markets?
– What makes firms more competitive?
– What makes countries more attractive to competitive firms?
– What are the policy options available to further industrialization in Africa?
The L2C Country Comparative Framework

• Eleven Countries
  – Nine African: Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, Tunisia and Uganda
  – Two Asian: Vietnam, Cambodia

• 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
Drivers of Productivity

1. The “basics” (“investment climate”)
   - Infrastructure, technology and skills
   - Institutions and regulation

2. Exports, productivity and competition
   - Firms in low income countries increase their productivity by exporting – they learn by exporting
   - Competition increases productivity through entry and exit

3. 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

4. Agglomerations and Special Economic Zones
   - Industrial clusters confer significant productivity gains
   - But virtually everything we know about agglomeration economies comes from middle and high income countries
Learning to Compete: L2C

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African Development Bank (AfDB)
The High Five

- Light up and power Africa
- Feed Africa
- Integrate Africa
- Industrialise Africa
- Improve quality of life for the people of Africa
AfDB’s Industrial Strategy


• Represents a roadmap for implementing priority programmes to scale-up the industrial transformation of Africa

• Addresses key issues such as:
  – Why we need to industrialize Africa
  – What it will take
  – How the AfDB will help

• Points to five enablers: (i) Supportive policy, legislation and institutions; (ii) Conducive economic environment and infrastructure; (iii) Access to capital; (iv) Access to markets; and (v) Competitive talents, capabilities, and entrepreneurship
Two Critical Dimensions

• Regional industrialization
  – Regional integration is a critical priority for supporting industrialization in Africa
  – How to address the major political economy issues?

• Financing industrial development
  – Significant investment resources are required (AfDB industrial strategy makes reference to crowding-in third party resources to the tune of USD 35 to 56 billion over the next decade)
  – Lessons from other regions
Conclusion
Reasons for Cautious Optimism

• Africa has a chance to break into the global market for industrial goods:
  – Changes in Asia; trade in tasks; industries without smokestacks (IWSS)
  – But business as usual will not deliver desired results
  – Comprehensive infrastructure development, skills upgrading, and a major export push are all essential

  • And throughout focus must be on industries that add value, including both processing of agricultural commodities and manufacturing more broadly
But How to?

- Reform the Investment Climate Agenda
- Mount an “Export Push”
- Build Firm Capabilities
- Create Clusters

=> Policy Round Table
Three Big Elephants in the Room

• Trump
• Brexit
• Commodity prices