

# Learning to Compete

## ACCELERATING INDUSTRIAL DEVELOPMENT IN AFRICA

A COLLABORATIVE RESEARCH PROGRAM OF  
THE AFRICAN DEVELOPMENT BANK,  
THE BROOKINGS INSTITUTION,  
AND  
THE UNITED NATIONS UNIVERSITY – WORLD INSTITUTE OF DEVELOPMENT ECONOMICS  
RESEARCH

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# Why Worry About Industrialization In Africa?

- “What you make matters”
  - Africa has experienced little structural change since independence
- The “employment problem”
  - Africa’s most rapidly growing economies are creating few “good” jobs
- Disappointing news on poverty reduction
  - Africa has the lowest elasticity of poverty reduction with respect to growth
- The specter of the “resource curse”
  - New discoveries pose new challenges for diversification

# Rediscovering Structural Change: Africa's Structural Deficit

	VASH	VASH	VASH	VASH		LSH	LSH	LSH	LSH		REL	REL	REL	REL
	AGR	IND	MFG	SER		AGR	IND	MFG	SER		PROD	PRO	PROD	PROD
											AGR	D	MFG	SER
											IND			
<b>BMK</b>	<b>21.7</b>	<b>12.2</b>	<b>21.9</b>	<b>44.2</b>		<b>45.2</b>	<b>6.6</b>	<b>11.6</b>	<b>36.6</b>		<b>0.48</b>	<b>1.85</b>	<b>1.89</b>	<b>1.21</b>
<b>AFR</b>	<b>27.8</b>	<b>11.8</b>	<b>11.1</b>	<b>49.3</b>		<b>63.1</b>	<b>5.1</b>	<b>6.6</b>	<b>25.2</b>		<b>0.44</b>	<b>2.31</b>	<b>1.68</b>	<b>1.96</b>
<b>LIC</b>														
<b>AFR</b>	<b>4.8</b>	<b>10.9</b>	<b>17.1</b>	<b>67.2</b>		<b>8.6</b>	<b>11.9</b>	<b>16.8</b>	<b>62.7</b>		<b>0.56</b>	<b>0.92</b>	<b>1.02</b>	<b>1.07</b>
<b>MIC</b>														
<b>AFR</b>	<b>17.8</b>	<b>29.6</b>	<b>8.3</b>	<b>21.1</b>		<b>45.4</b>	<b>4.8</b>	<b>6.5</b>	<b>43.4</b>		<b>0.39</b>	<b>6.17</b>	<b>1.28</b>	<b>0.49</b>
<b>RES</b>														
<b>RICH</b>														

**Notes:** Africa low income sample (AFR LIC): ETH, MWI, GHA, KEN, MAD, MOZ, SEN, TZA

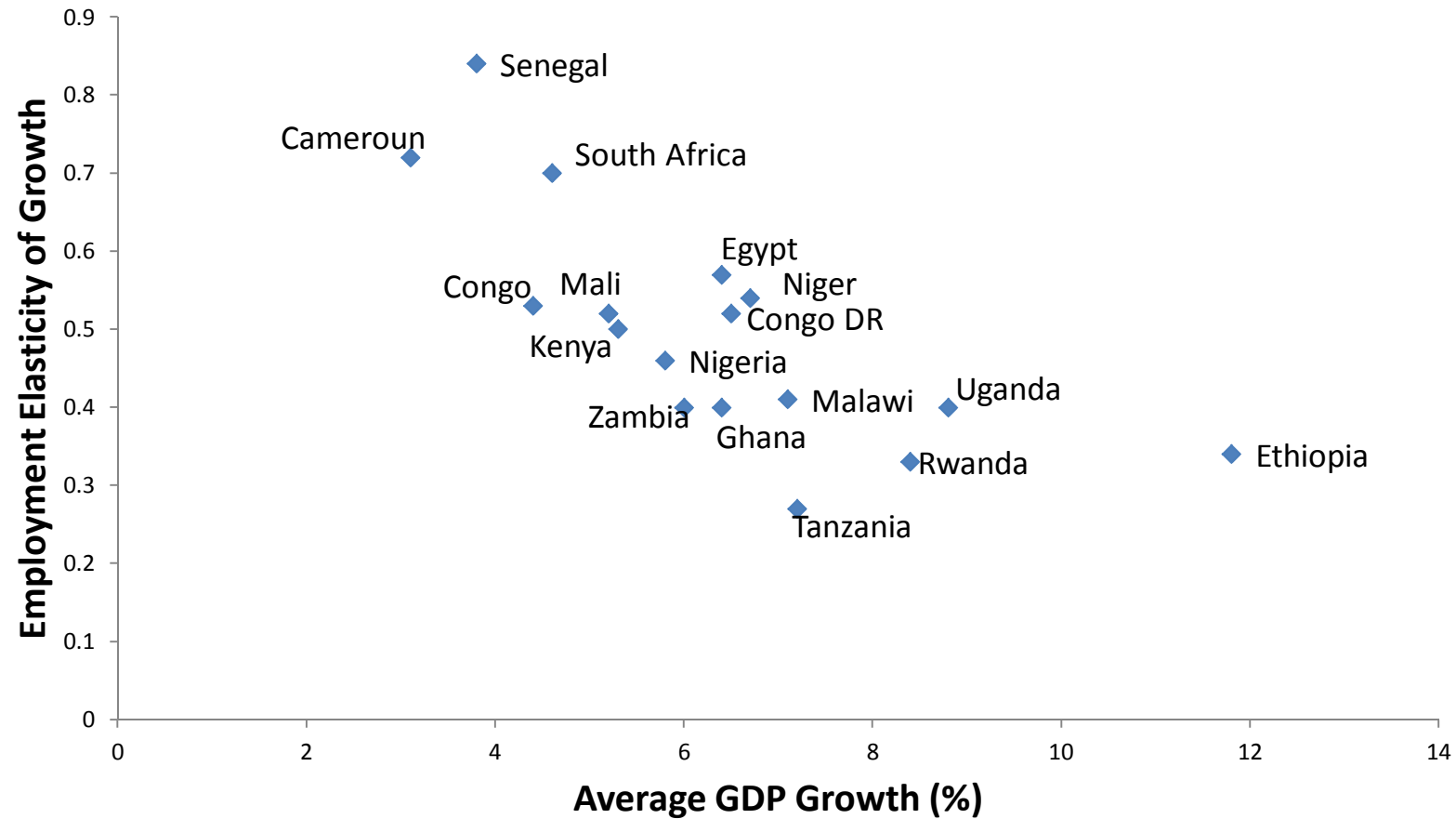
Africa middle income sample (AFR MIC): MUS, ZAF

Africa resource rich economies (AFR RES RICH): BOT, LES, NGA, NMB, ZAF

**Sources:** McMillan and Rodrik (2011) data base, World Bank WDI database, Timmer and de Vries (2008) database.

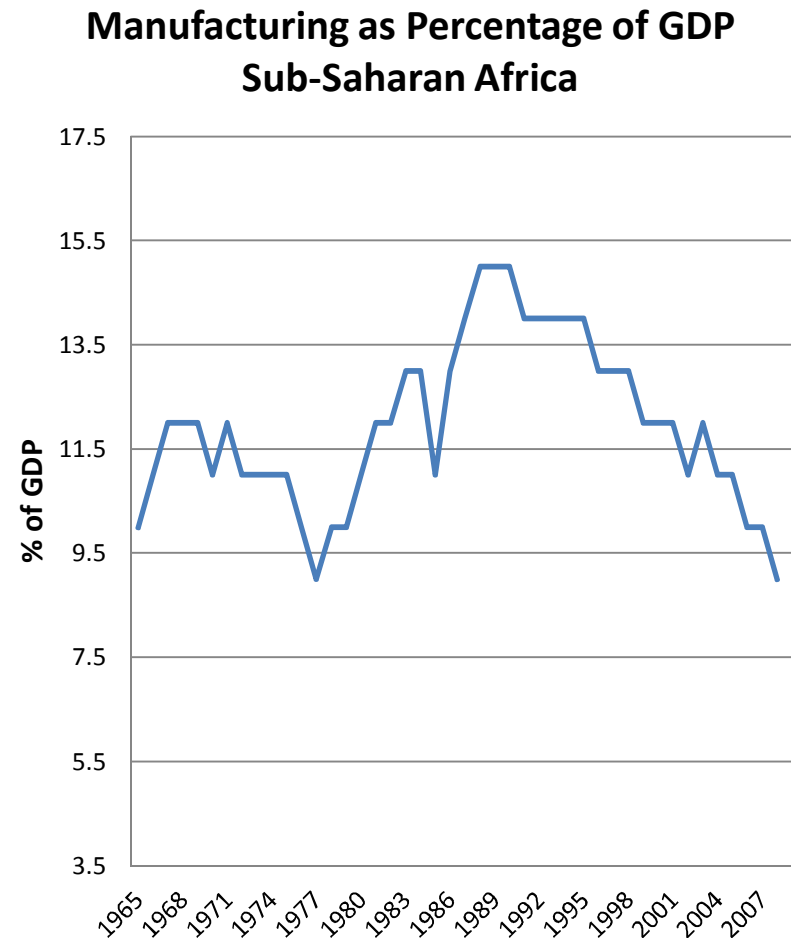
Author's calculations

## Africa's most rapidly growing economies are creating few "good" jobs



# Africa has “deindustrialized”

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



# BEYOND THE INVESTMENT CLIMATE

- Most analysis of Africa's lagging industrial development focuses on the investment climate.
  - “Doing Business”
  - Infrastructure and Skills
- Investment climate studies focus explicitly on the environment *external* to the firm.
- There has been renewed academic and policy interest in what happens *within* (“firm capabilities”) and *between* firms (externalities and coordination failures)
- These are the key issues in the industrial policy debate.

# BREAKING IN, MOVING UP AND DIVERSIFYING

- Breaking In and Moving Up:
  - New entrants to global markets are competing with Asia
  - Middle income countries face the challenge of moving up the value chain
- Diversifying in resource rich economies presents a special challenge
- A window of opportunity?
  - Rising costs in Asia
  - Growing domestic demand in Asia
  - Industry no longer need smokestacks

# THE DRIVERS OF INDUSTRIAL LOCATION

- **TRADE IN TASKS**

- Technical change has brought about “vertical disintegration” of production.
- A chance for a foothold, but many low wage economies have not attracted task-based production

- **FIRM CAPABILITIES**

- Capabilities are the tacit knowledge and working practices needed for production and product development
- Capabilities can spill over to other firms through FDI or supply chain links

- **AGGLOMERATIONS**

- Industrial clusters confer significant productivity gains
- Starting a new industrial agglomeration is a form of collective action problem



## FOUR RESEARCH THEMES

- Learning by exporting and learning to export
  - Data is scarce and the econometrics fragile
- Understanding agglomeration in low income countries
  - Undertaking the *first* quantitative studies in low income countries
- Foreign direct investment and firm capabilities
  - Do domestic firms learn from foreign investors, and how?
- Implementing industrial policy
  - Successes and failures in close coordination

## TWELVE COUNTRY STUDIES

- The industrialization experience of each African economy has been influenced by resource endowments, policy choices and external markets.
- The research program has undertaken detailed case studies of the industrialization process in a range of African and non-African countries.
- The case studies document the history of each country's industrialization process and the evolution of public policies designed to influence industrial development.

# Country Coverage

- Ten African Countries: Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Rwanda, Senegal, Tanzania, Tunisia and Uganda.
- Two Non-African Economies: Vietnam, Cambodia.

# A Three Track Approach

- Identify and analyze the stock of firm level surveys that currently exist using an agreed common analytical approach.
- Undertake analytical case studies of firms, industries and industrial agglomerations, using a common qualitative, survey based approach.
- Country level studies of the development of the industrial and modern services sectors.

# Where Do we Stand?

- Eleven of 12 country case studies are in draft.
- Eight quantitative studies of learning by exporting in draft (4-5 are likely to be of journal standard).
- Six quantitative studies of learning by exporting in draft (3-4 are likely to be of journal standard).
- Four case studies of Presidential Investors' Advisory Councils in Africa in draft.
- Qualitative surveys of FDI-domestic firm interactions in the field.

# Some Early Results

- African firms learn from exporting but we know much less about how they learn *to* export (Ethiopia; Kenya; Mozambique; Tunisia; Vietnam)
- Agglomerations raise the physical productivity of firms, but in localized markets they also increase competition and reduce prices (Ethiopia, Vietnam)
- Within industry entry and exit are not the only drivers of productivity growth: firms switching activities from one sector to another is an important component of productivity growth (Vietnam).
- Small enterprise is not a net “job creator”: high firm mortality rates offset higher growth rates (Ethiopia)
- Reducing the level and incidence of bribery by public officials facilitates a more efficient allocation of capital (Vietnam)
- Presidential Investors Advisory Councils have been successful at focusing attention on externally (World Bank) identified reforms, but not at addressing industry or sector specific constraints to competitiveness (Ethiopia, Senegal, Tanzania, Uganda)

# Impact

- L2C has increased the capacity of national think tanks to carry out industrial policy analysis.
- The May 2011 plenary session of the Africa Economic Research Consortium was organized on the theme “Industrialization and Economic Transformation in Africa”.
- The implications of L2C research for employment policy were discussed by the Ministers of Finance of Nigeria and South Africa and the Minister of Planning of Angola at a colloquium in Pretoria South Africa in March 2012.
- The African Development Bank used early results from L2C in the Ministerial Level Seminar at its 2012 Annual Meetings in Arusha and in the C-10 meeting at the 2012 IMF-World Bank Annual Meetings.
- L2C is feeding into the policy debates on natural resources and diversification in Mozambique, Tanzania and Uganda and more generally in Vietnam and Cambodia.
- Upcoming conference in June 2013: [http://www.wider.unu.edu/events/2013-conferences/L2C-2013/en\\_GB/24-06-2013/](http://www.wider.unu.edu/events/2013-conferences/L2C-2013/en_GB/24-06-2013/)

# Thank You

Contact us:

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

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