



# Industries without smokestacks

## – industrialization in Africa reconsidered

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### FINDINGS

Studies of 10 countries in Africa, intra-regional developments, and global patterns of African trade point resoundingly to the fact that the region is relying on a new class of activities different from other regions. These ‘industries without smokestacks’ include high-value agriculture, tourism, business services and other tradable services

Between 2002 and 2015, exports of industries without smokestacks grew more rapidly than traditional non-mineral exports in more than half of African countries. Tourism and transport were the driving force fuelling this growth

Our research shows that structural change in Africa is relying on a new set of economic activities, called ‘industries without smokestacks’, created by recent technological changes and a changing global market place. Adopting a broad concept of industrialization is crucial to recognizing that manufacturing, while important, is not everything. However, a lot needs to be done internationally, regionally and at the country-level to push these unique drivers of structural change.

From today’s industrialized economies to East Asia, long-term productivity growth has reflected the transformation of economic activity from agriculture to manufacturing and service industries, but in Africa, manufacturing has been slow to develop. In fact, on average, the share of manufacturing in African GDP has fallen since 1980. Since 2000, structural change has made a positive contribution to growth, but not because of the emergence of large-scale, manufacturing. Instead, structural change has largely been in the form of labour moving from agriculture to services (where average productivity rates vary widely).

As Africa enters its next phase of development, it confronts a global economy substantially different from previous ‘late industrializers’. Particularly since 2000, internet platforms, smart phones and other technological changes have created new forms of fast, cheap communication and new modalities of exchange. Transport costs have continued to fall. All these factors have given rise to global value chains and new trade in services.

### A new pattern of structural change

Studies of 10 countries in Africa, regional developments and global patterns of African trade point to the fact that structural change in Africa is relying on a new class of activities different from other regions. These include cut flowers and other high value agriculture, tourism, business services, and other tradable services ranging from transport to mobile money, telecommunications and finance, to post-crop harvest processing and mining services. We call these ‘industries without smokestacks’.

Like manufacturing, these industries are tradable, allowing producers to tap into global value chains and have higher income elasticities of demand than traditional exports. They offer high value added per worker, have the capacity for rapid technological change and productivity growth and can employ large numbers of low and medium-skill workers. Industries without smokestacks also benefit from agglomeration.

Between 2002 and 2015, exports of industries without smokestacks grew more rapidly than traditional non-mineral exports in more than half of African countries and performed the same or better in two-thirds. Tourism and transport were the driving force fuelling this growth. In addition, more complex service industries such as construction, telecommunication and accounting reduced the costs of production industries using them as inputs.



Photo: C. Schubert / CCAFS



Photo: Frederick Schmidtke

## Global and regional reforms

The international community, acting multilaterally, can promote Africa's development – both in conventional activities and industries without smokestacks. Preserving the multilateral trading system in the face of an onslaught of protectionism in some of the world's biggest players is a priority. The current, rule-based system protects non-discriminatory market access for the world's

## POLICY RECOMMENDATIONS

**Preserving the multilateral trading system is a priority. The multilateral rule-based system is the best guarantee that African countries can maintain the non-discriminatory market access that has allowed their exports to flourish in recent years**

**At the same time, unilateral trade preference arrangements can be enhanced by eliminating restrictive rules of origin and product exclusions**

**Regional integration is essential to a wider market. Policy reforms to achieve deeper integration include revamping tariffs that discourage exports, eliminating procurement discrimination against neighbours, adopting trade facilitation policies to reduce transit times and border delays, and developing regional infrastructure**

**A sound investment climate is critical for both traditional activities and industries without smokestacks. Infrastructure, skills and competition will raise productivity and accelerate growth**

This Policy Brief emanates from the UNU-WIDER project *Industries without smokestacks* and accompanies the Book *'Industries without Smokestacks: Industrialization in Africa Reconsidered'*, edited by Richard Newfarmer, John Page and Finn Tarp, published by Oxford University Press, 2018.

less powerful countries, including those in Africa, their exports to flourish in recent years. At the same time, unilateral trade preference arrangements, such as the African Growth and Opportunity Act or the Everything But Arms Initiative – and even more important promising new programmes in China, Brazil and India – can be improved by eliminating restrictive rules of origin and product exclusions. Finally, the international community can focus its development assistance on infrastructure, skill creation, and environmental activities to mitigate the effects of global warming.

The small sizes of Africa's economies make regional integration imperative to provide a wider market. Larger markets open the way for larger firms capable of reaping economies of scale. The fact that many African countries are landlocked makes regional approaches central to lowering trade costs. To date, regional arrangements have only begun to scratch the surface of their potential. Policy reforms to achieve deeper integration include revamping tariffs that discourage exports, eliminating public procurement discrimination against neighbours, adopting trade facilitation policies to reduce transit times and border delays, and developing regional infrastructure (e.g., regional power pools and common road networks). Cross border competition in services can boost economy-wide productivity in regional partners.

## Country-level reforms

African governments' own policies hold the key to their destiny. Establishing a sound investment climate – a stable macroeconomy, protection of property rights, low corruption, and a secure environment – is the requirement for accelerating growth.

Along with this, adequate government attention to infrastructure and developing labour force skills is critical for both manufacturing and industries without smokestacks.

Sound principles of modern industrial policy can raise the probability of successful industrialization, with or without smokestacks. These include avoiding policies that protect incumbents and restrict competition; transparency in granting subsidies; using sunset clauses and monitoring the performance of firms receiving incentives in exchange for specific commitments.

