



Finn Tarp

AERC Senior Policy Seminar XIX
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Industrialization in Africa: Setting the Stage & Overview



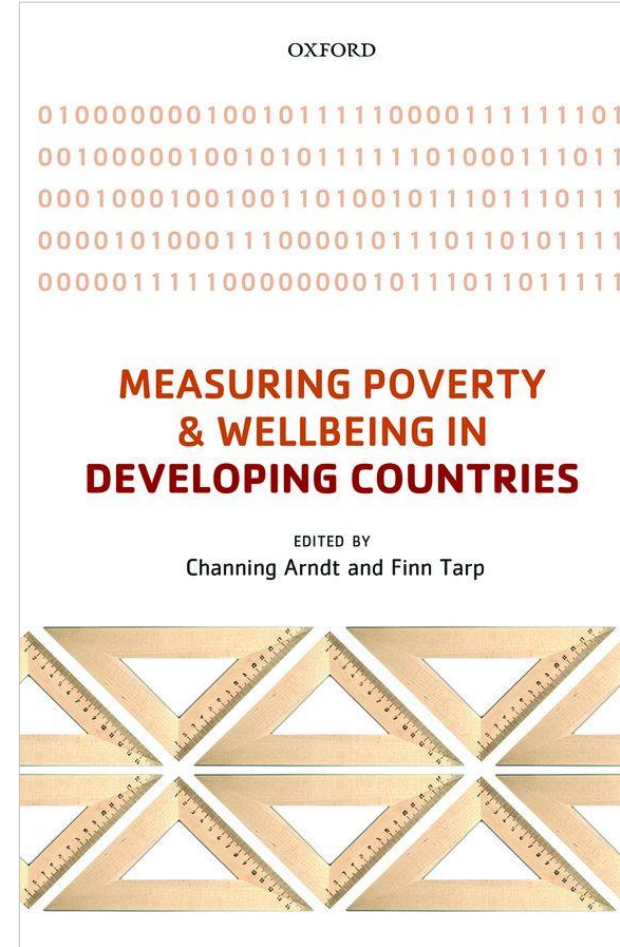
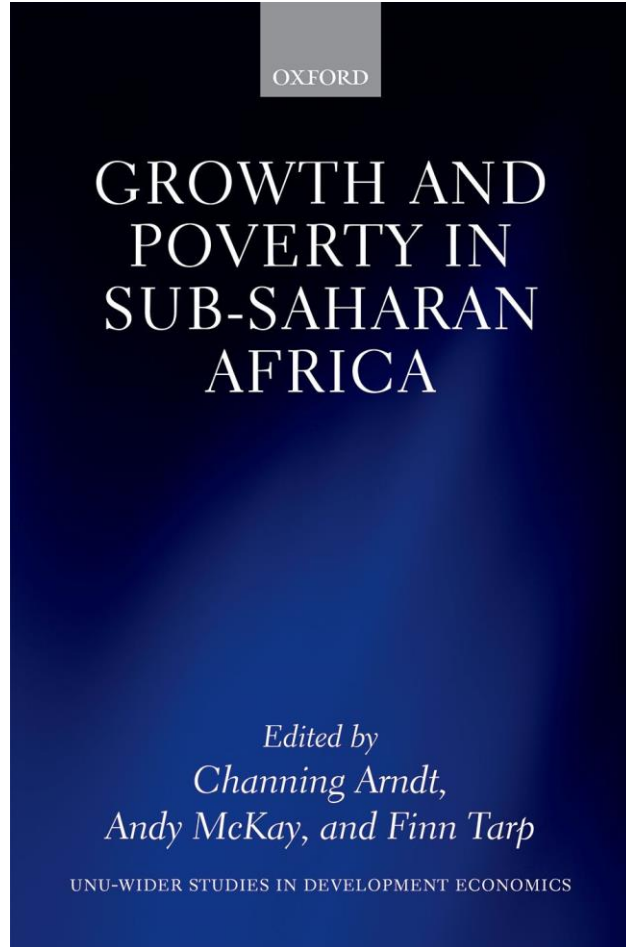
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Introduction

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)



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

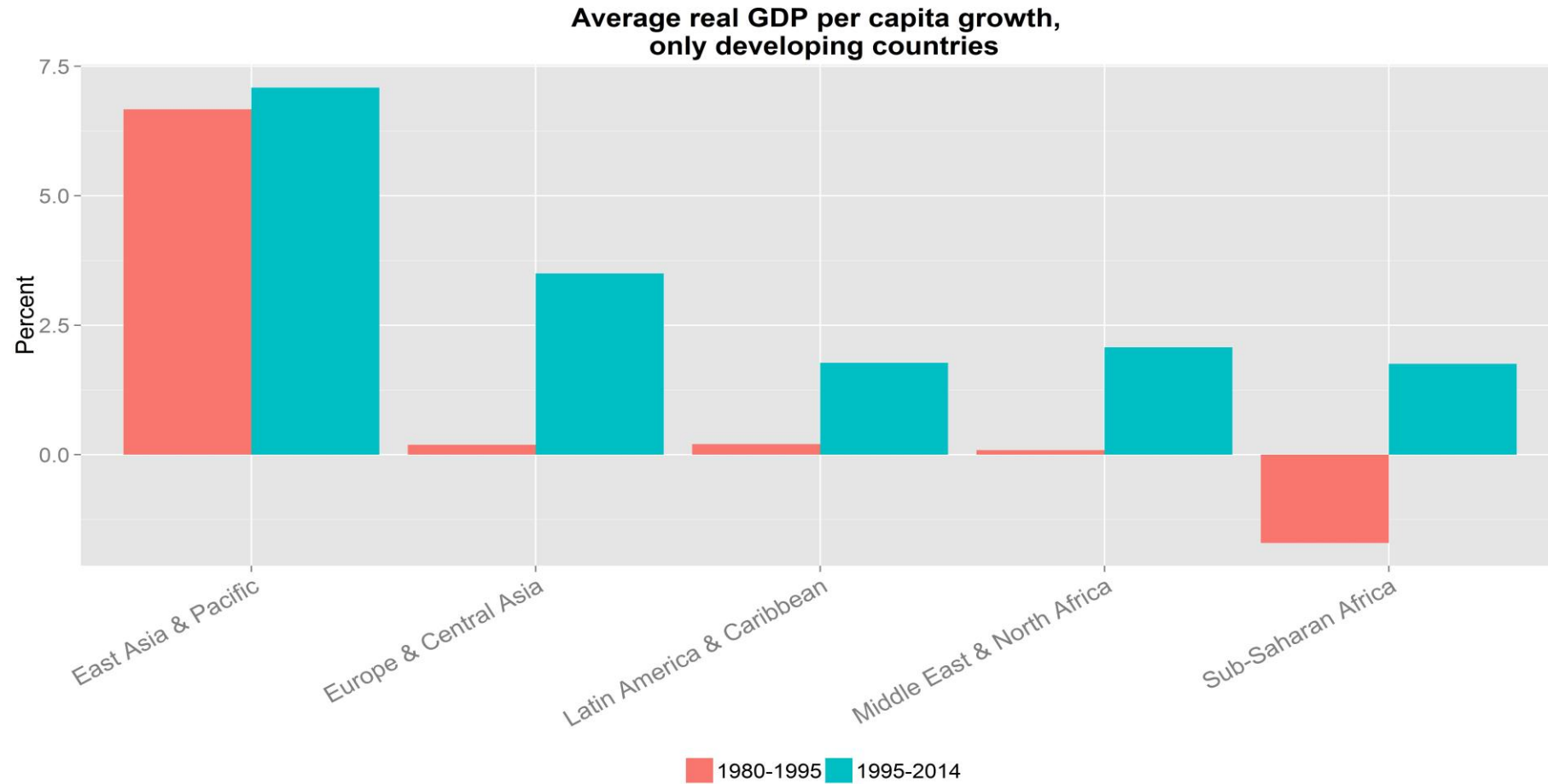
So attitudes in and outside Africa towards the continent's development potential have changed

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

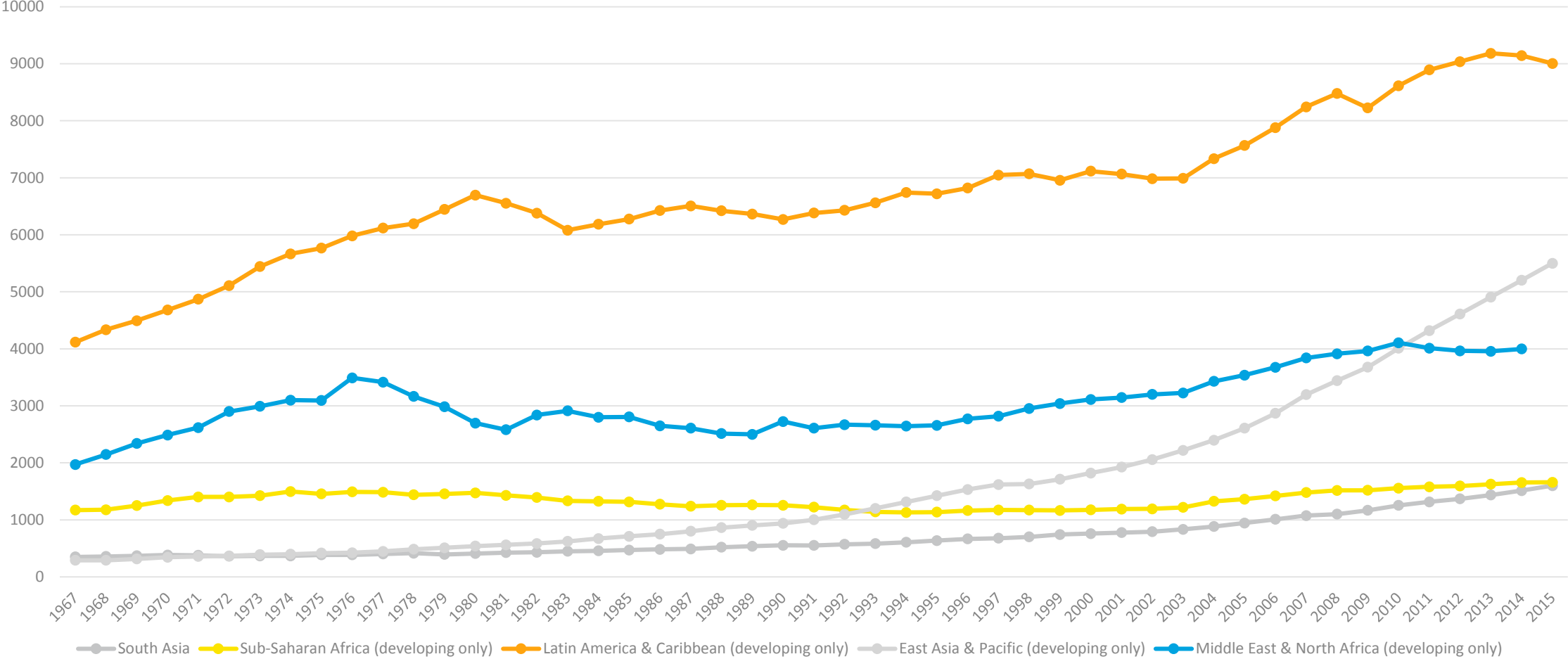
- How to keep up the aggregate growth performance
- How to transform economic structures
- How to diminish the reliance on primary commodities

Macro-economic Trends

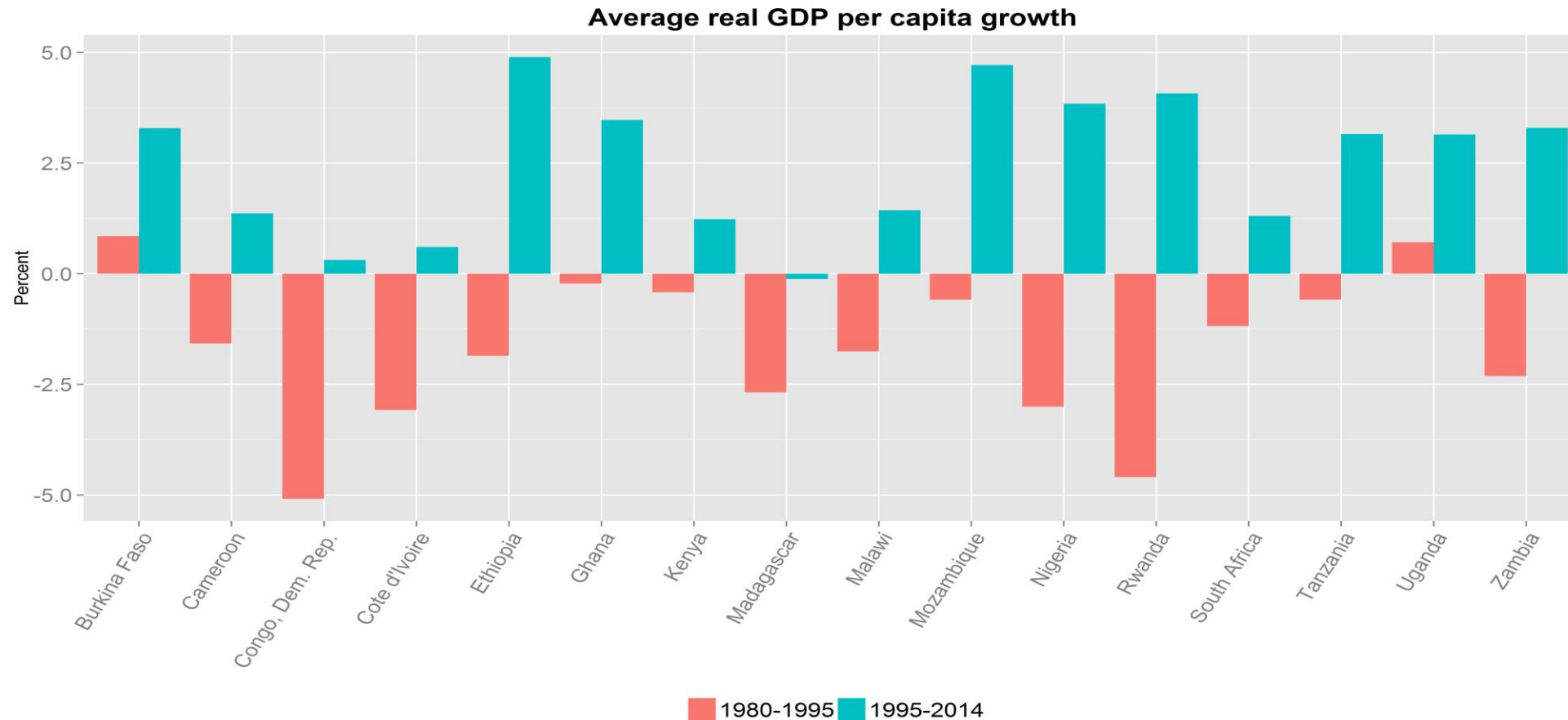
The African Growth Turn-Around



GDP per Capita (real USD2010)

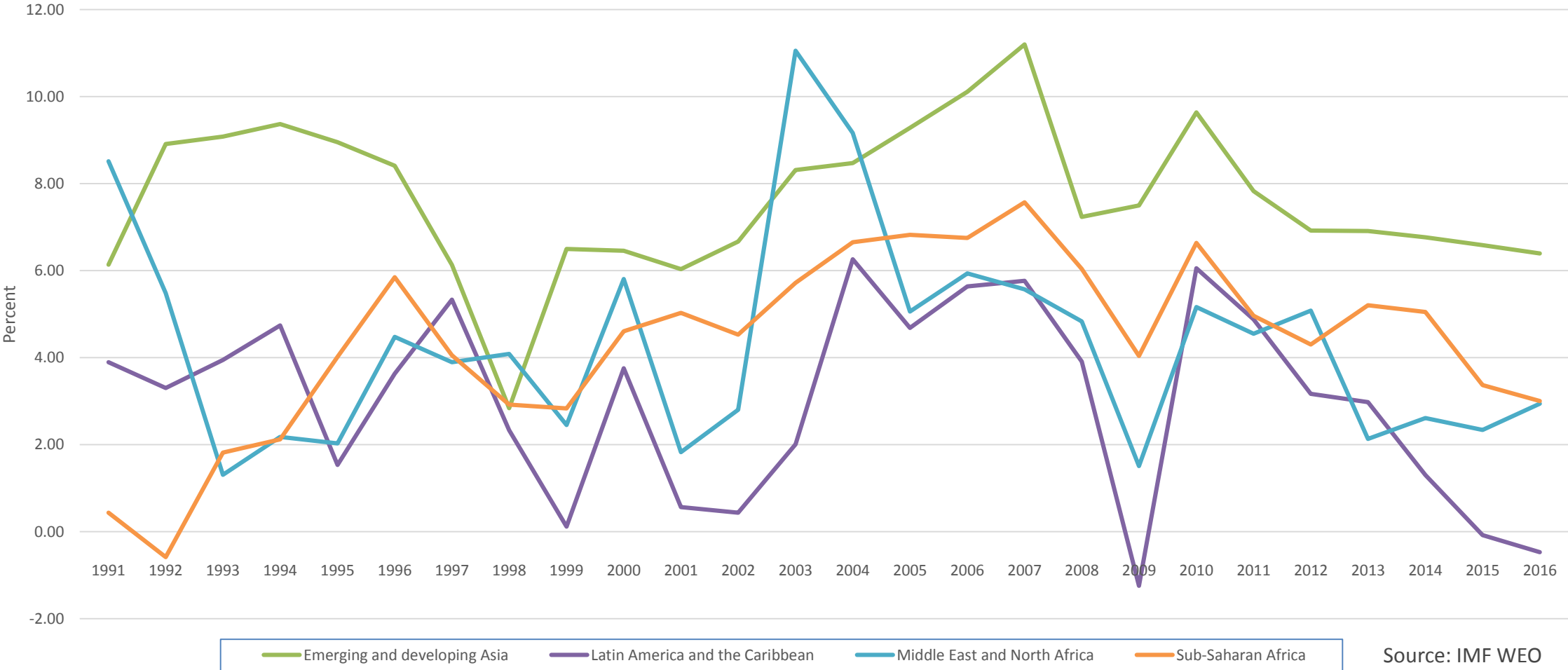


Substantial Variability: 16 GAPP Country Cases



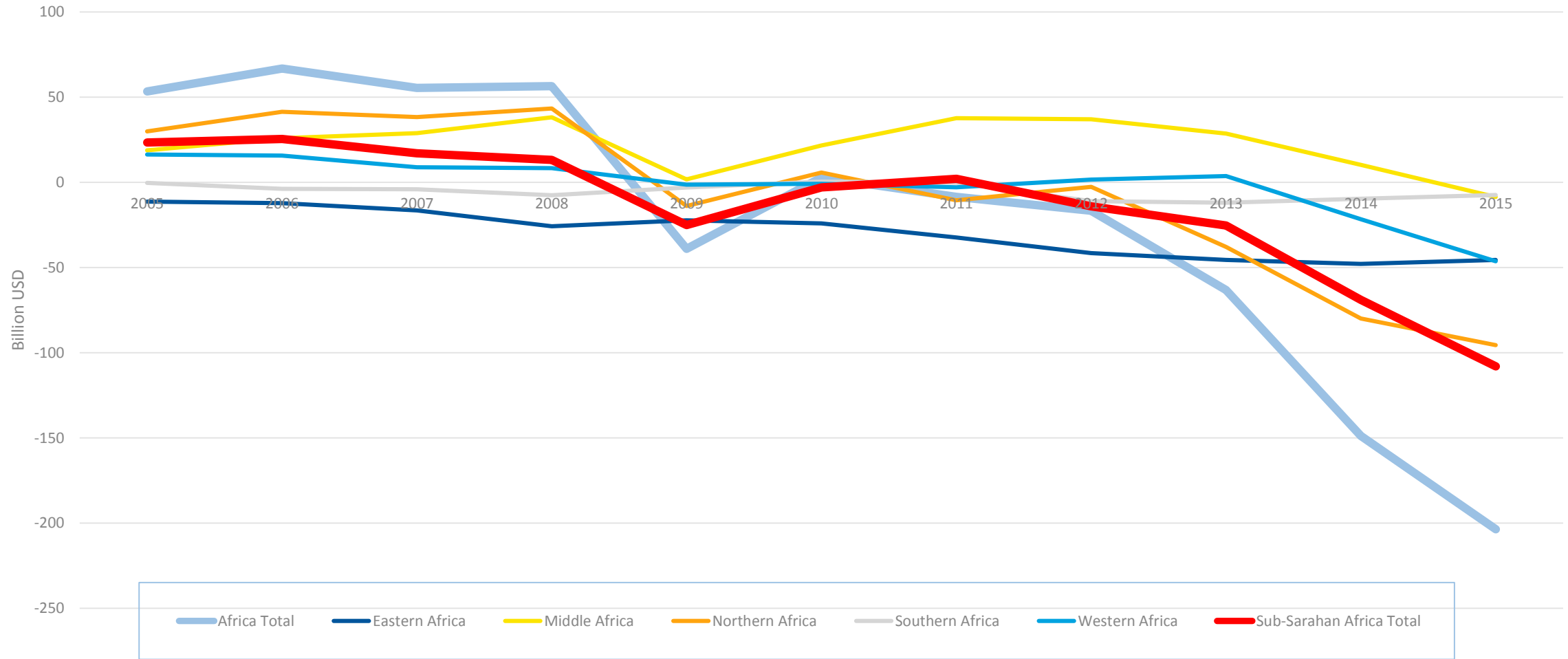
Important note: The regional powerhouses of Kenya, Nigeria, and South Africa not among the better performers in terms of growth or poverty reduction

And Something is Happening to GDP Growth/Capita

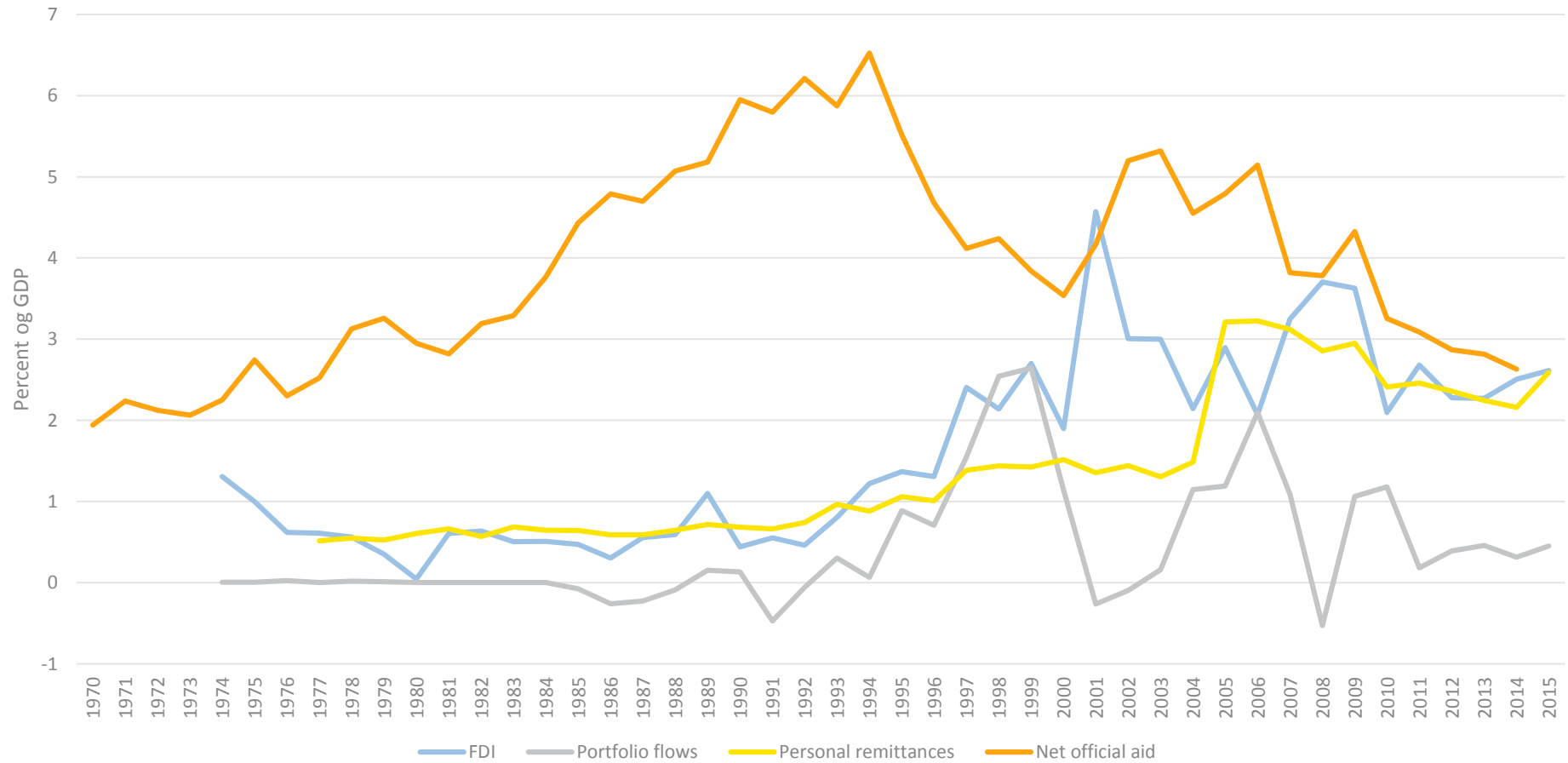


Source: IMF WEO

In Trade



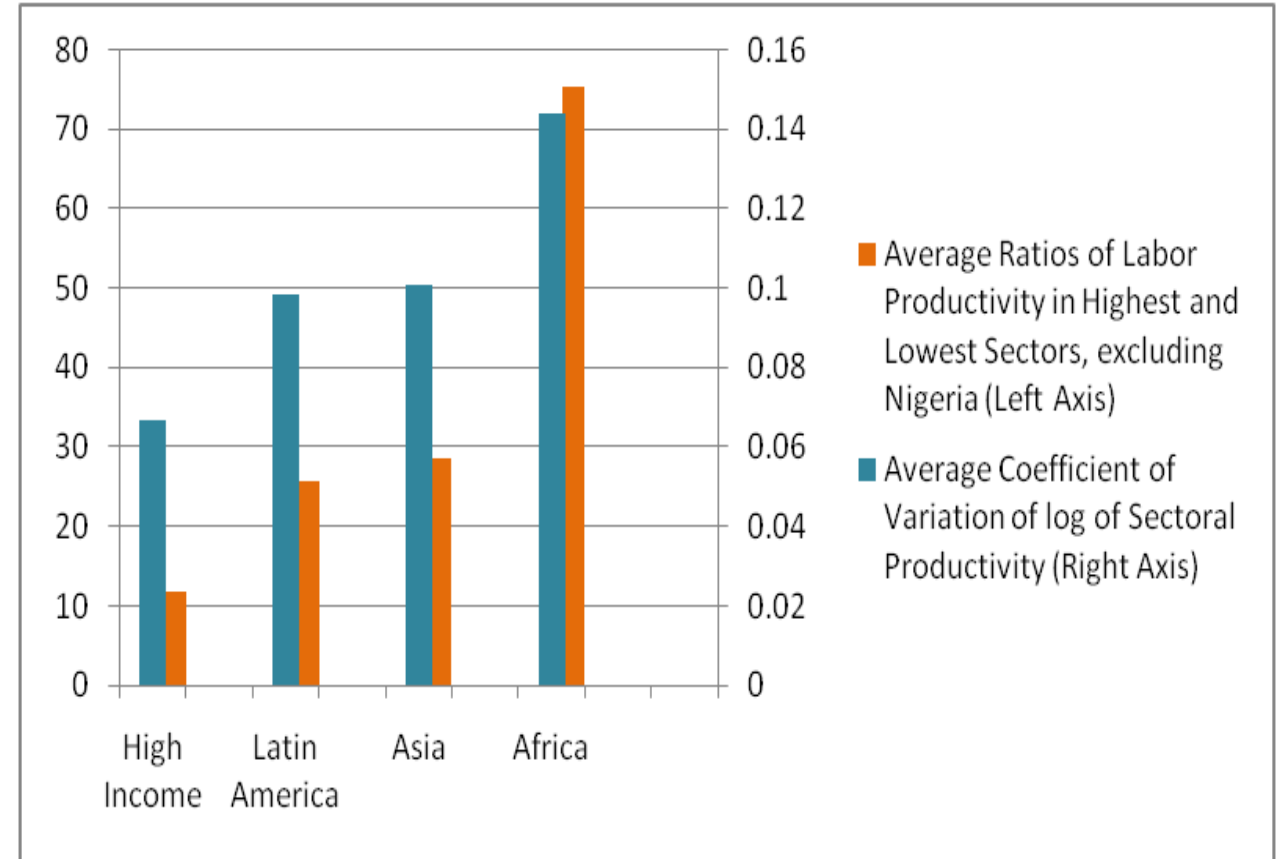
And to Net Financial Inflows



Structural Dimensions

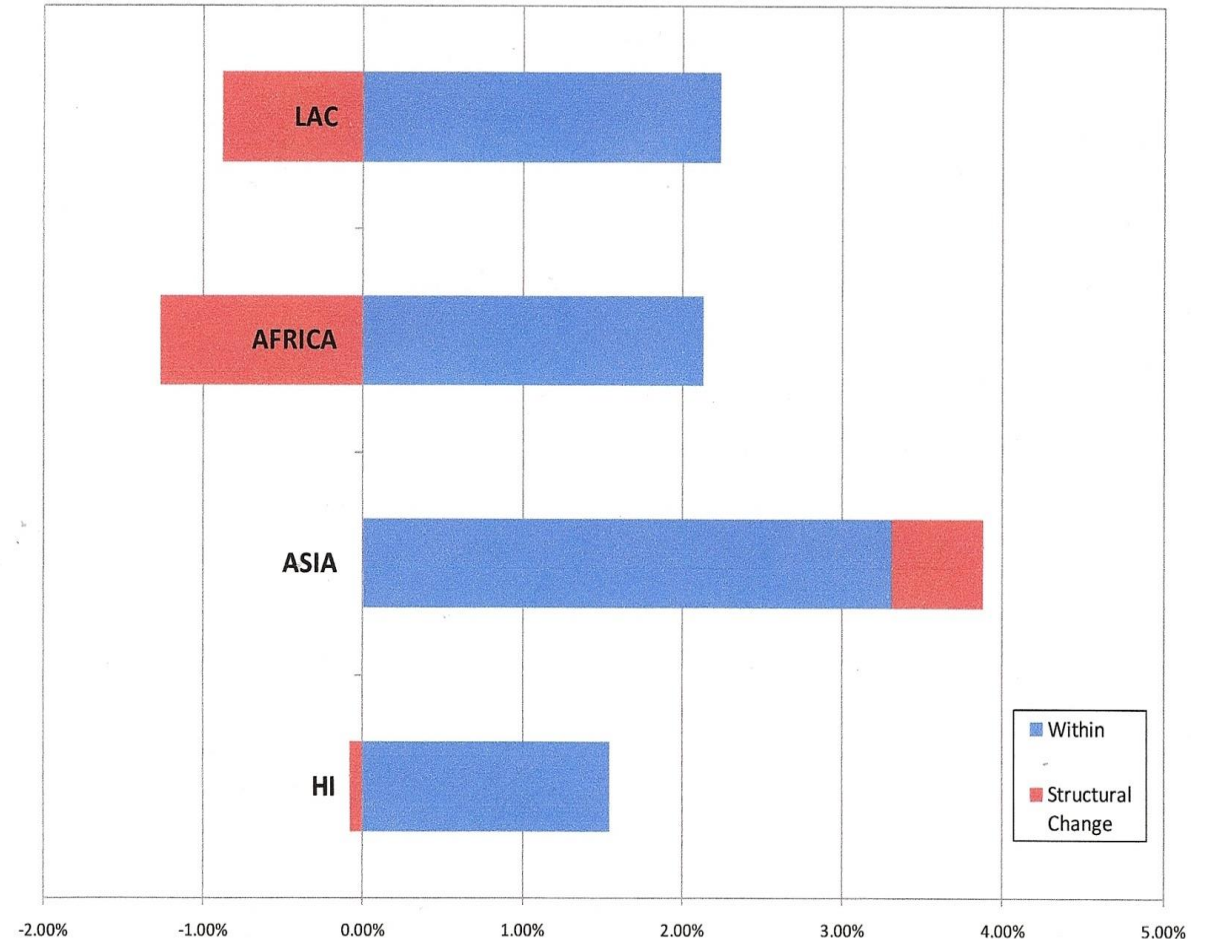
The Potential for Structural Change

- 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



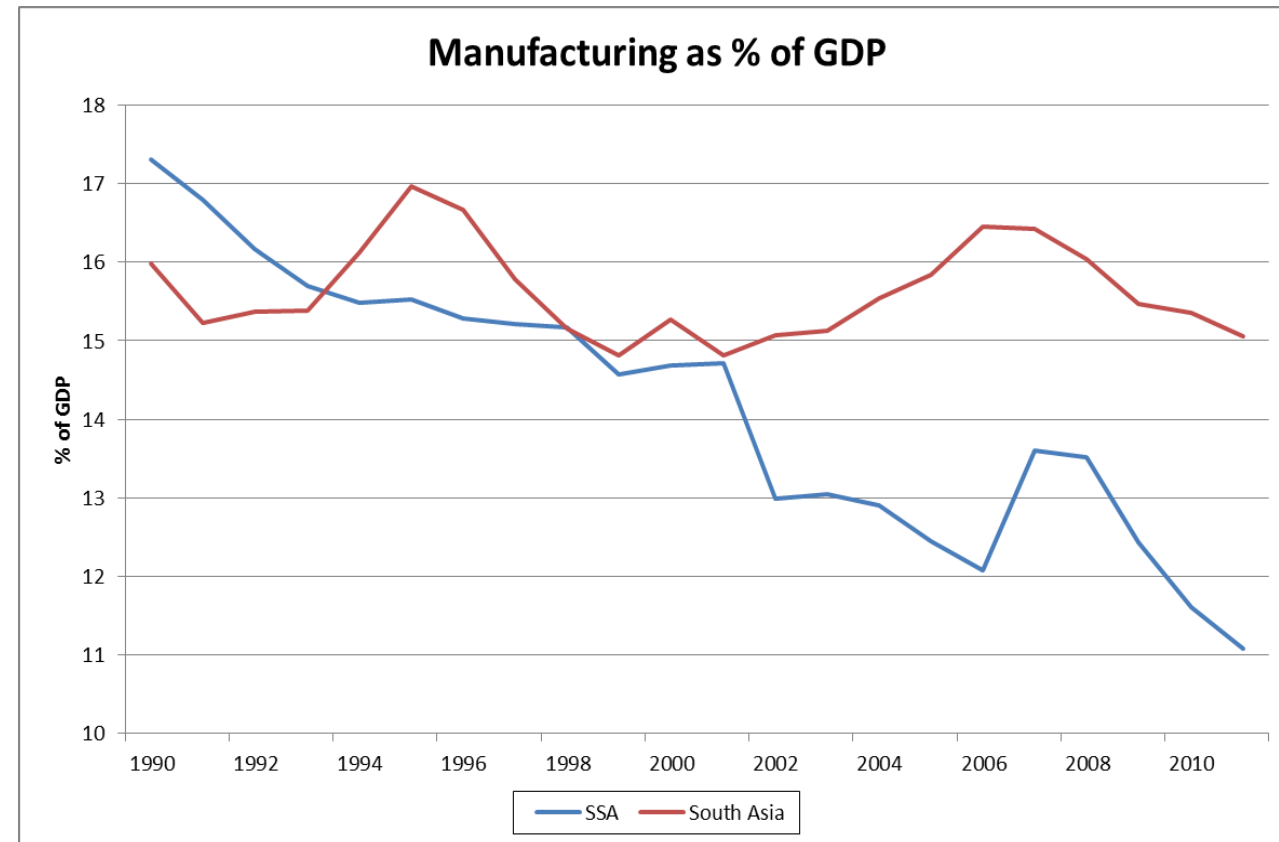
Going Up the Down Escalator

- 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

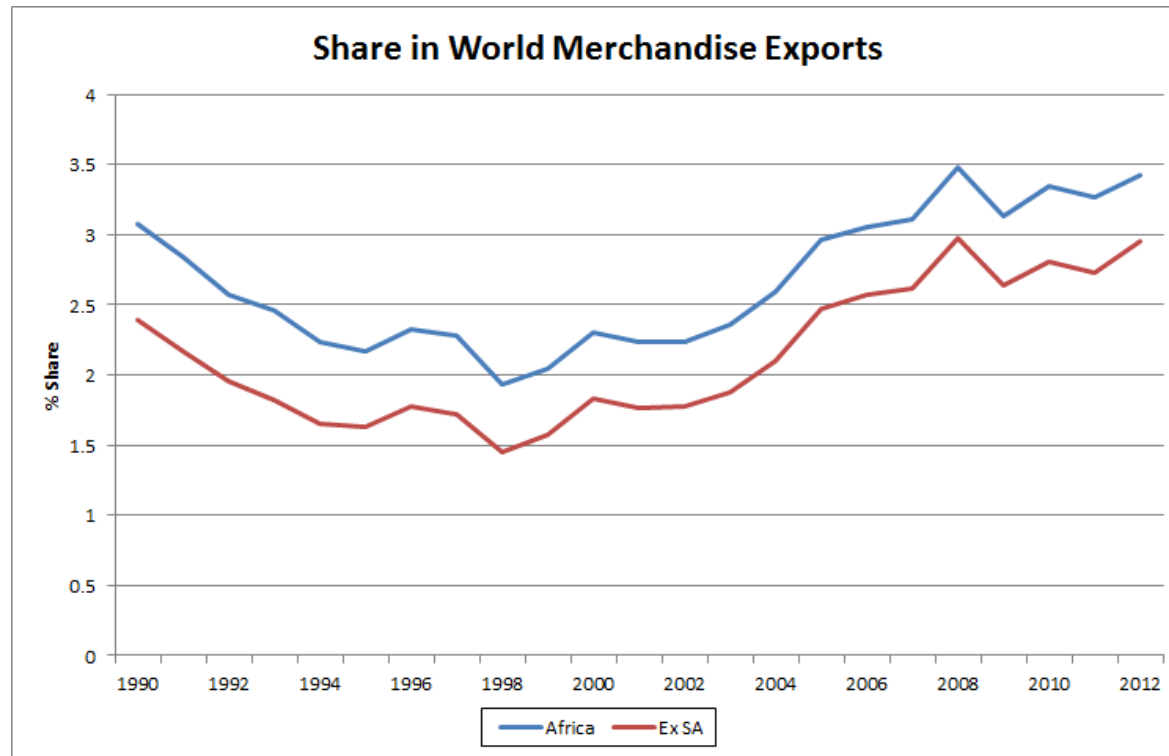


Aggregate Growth Has Occurred with De-industrialization

- 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

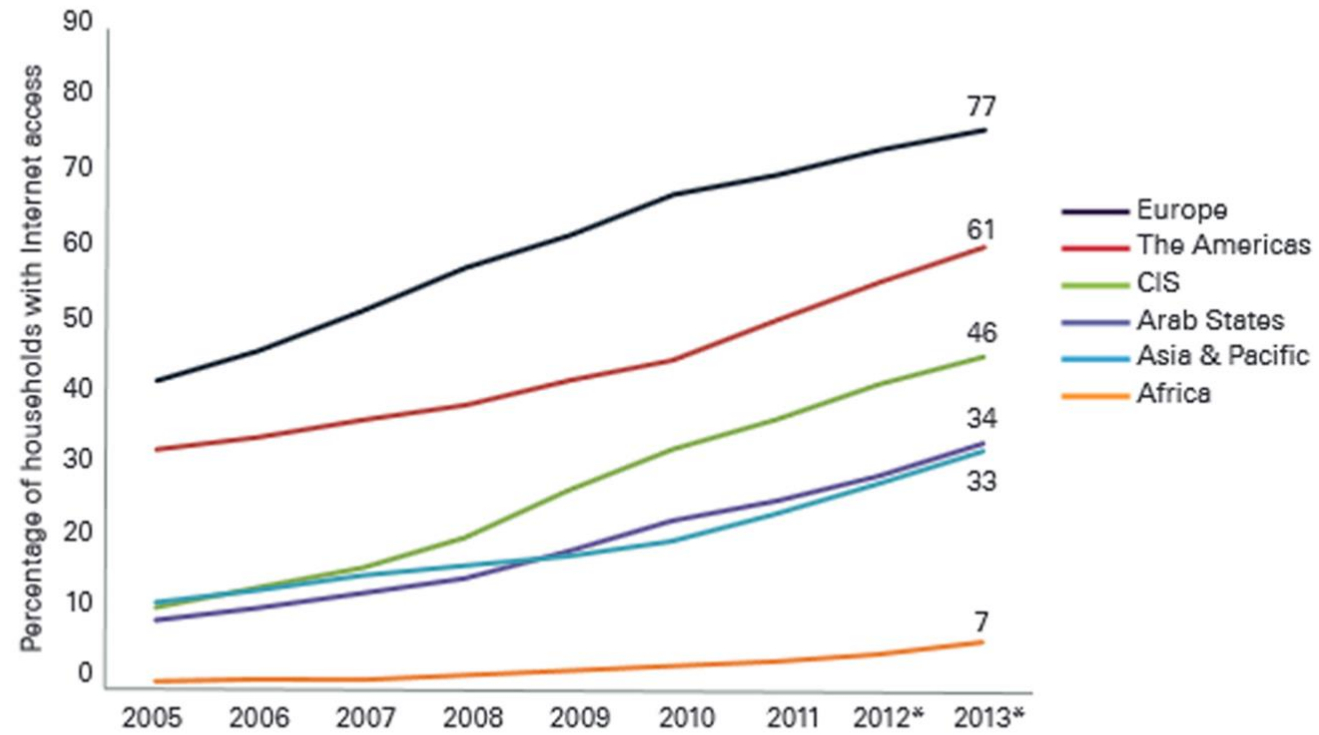


Source: WTO

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

Internet Access: Growing in Africa, but...

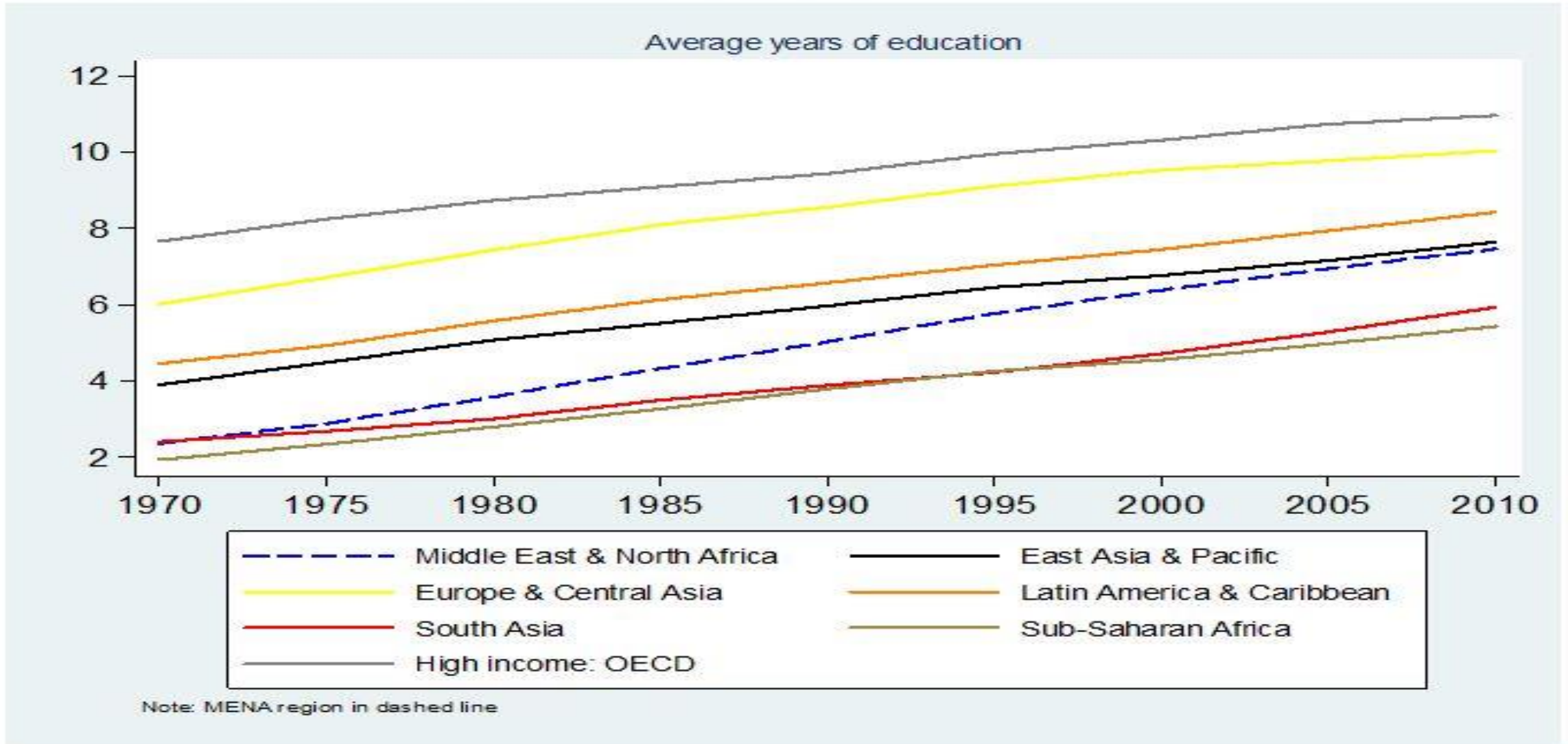
Households with Internet access, by region



Source: ITU World Telecommunication /ICT Indicators database
Note: * Estimate

Africa Continues to Lag in Educational Attainment

Evolution of education attainment across regions, 1970-2010



Putting Structural Transformation and Industrialization Back on the Development Agenda



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Learning to Compete (L2C):

A collaborative research programme between the AfDB, the Brookings Institution, and UNU-WIDER together with the AERC network of researchers



Partners



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

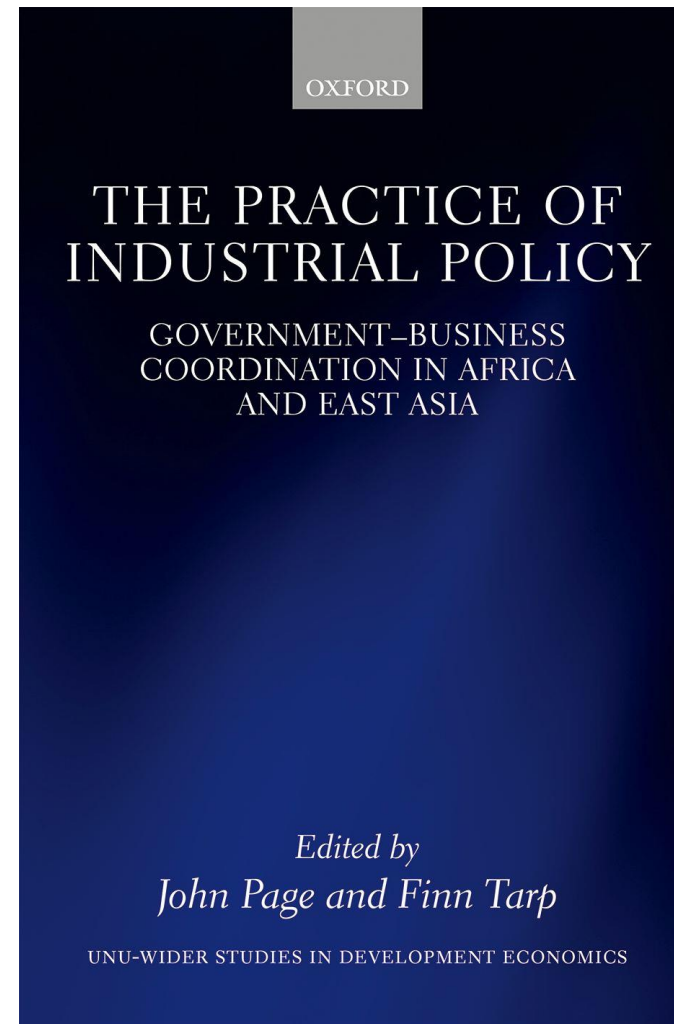
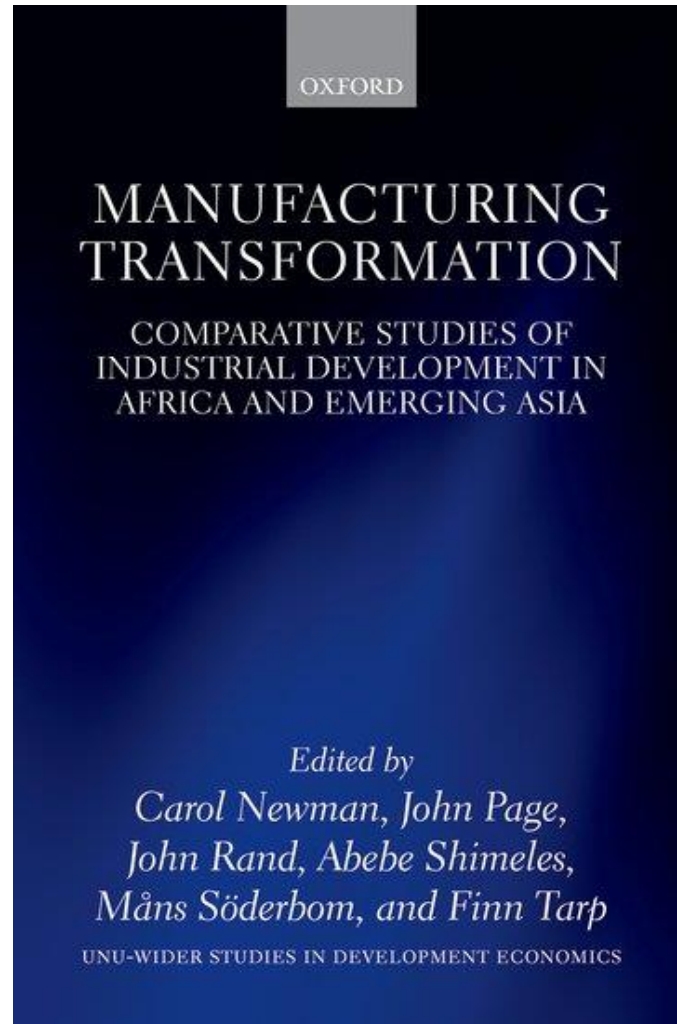
3. Firm capabilities

- 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



African Development Bank (AfDB)

The High Five



AfDB's Industrial Strategy

- Approved 16 July 2016: <https://www.afdb.org/en/news-and-events/board-approves-afdb-groups-industrialisation-strategy-for-africa-2016-2025-15981/>
- 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 for 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