The Road Less Traveled: Industrialization in Africa Reconsidered

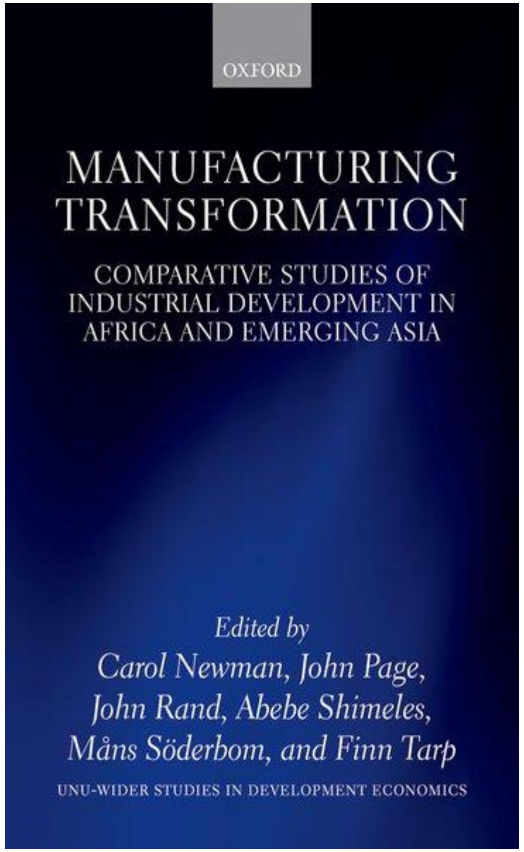
John Page
The Brookings Institution and UNU-WIDER
UNHQ
New York, 19 November 2018

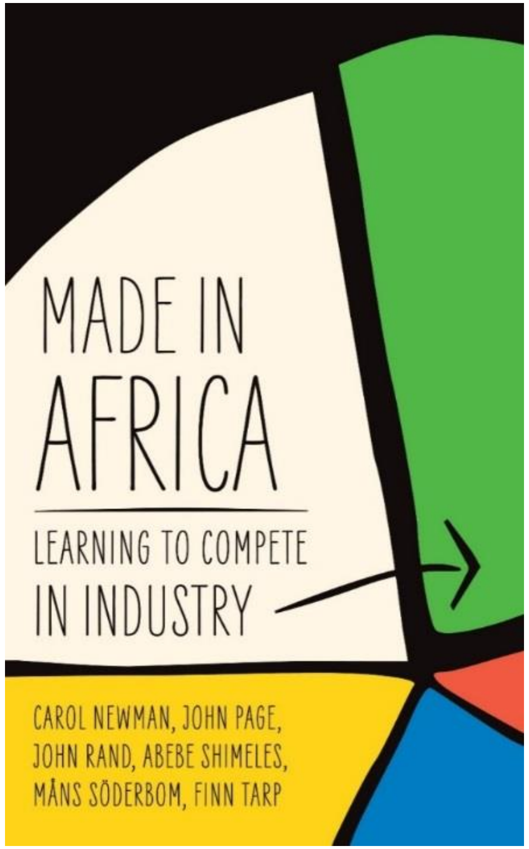
About this MOOC

- Attempting to bring the Brookings-WIDER research program on *Jobs, Poverty and Structural Change in Africa* to a broader audience.
- A multi-year, multi country comparative research program with a focus on firms.
- Use of mixed methods including case studies, quantitative and qualitative analysis

The Brookings-WIDER Research Program

- We began with *Learning to Compete* (with AfDB)
- Which tried to answer a (seemingly) simple question
    - Why is there so little industry in Africa?
- The answer turned out to be sufficiently complicated that we wrote two books!





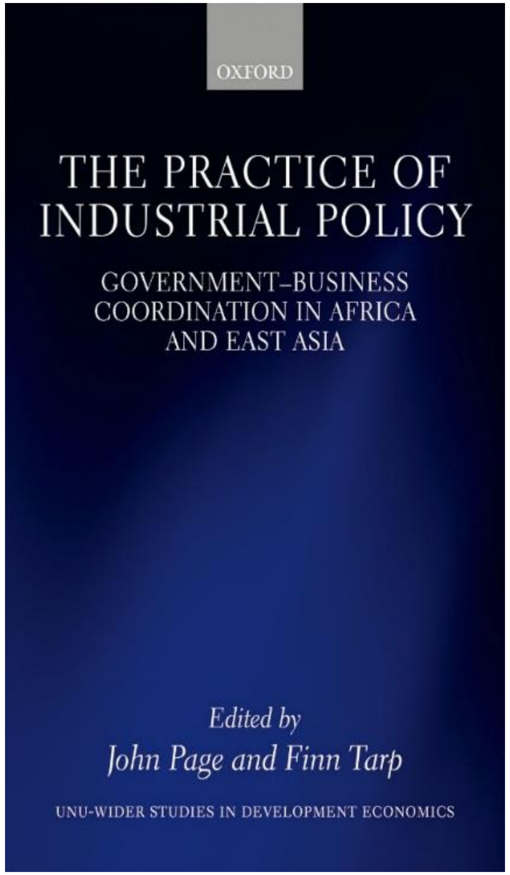
The Brookings-WIDER Research Program

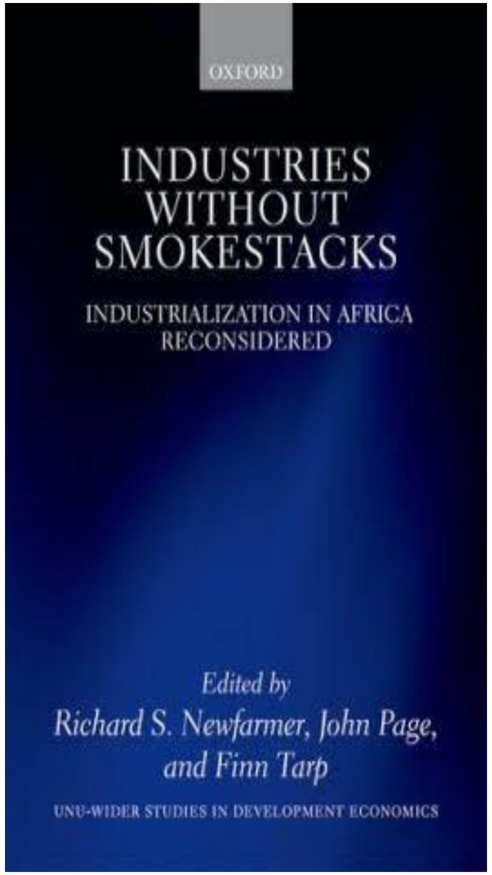
- *The Practice of Industrial Policy* (2017)

  Comparative studies of business-government coordination in Africa and East Asia

- *Industries Without Smokestacks: Industrialization in Africa Reconsidered* (2018)

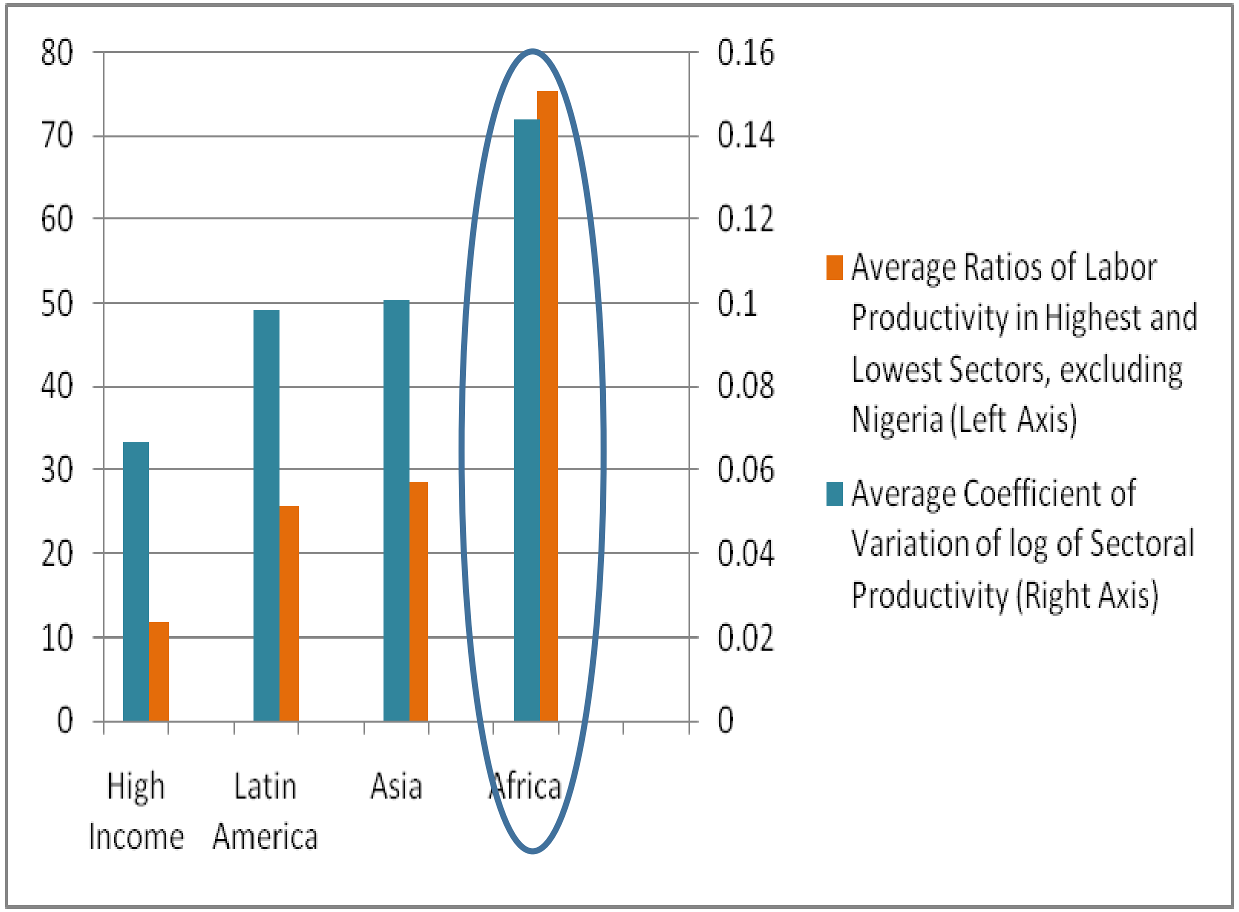
  Expanded the definition of "industry" to tradable services and agro-industrial exports





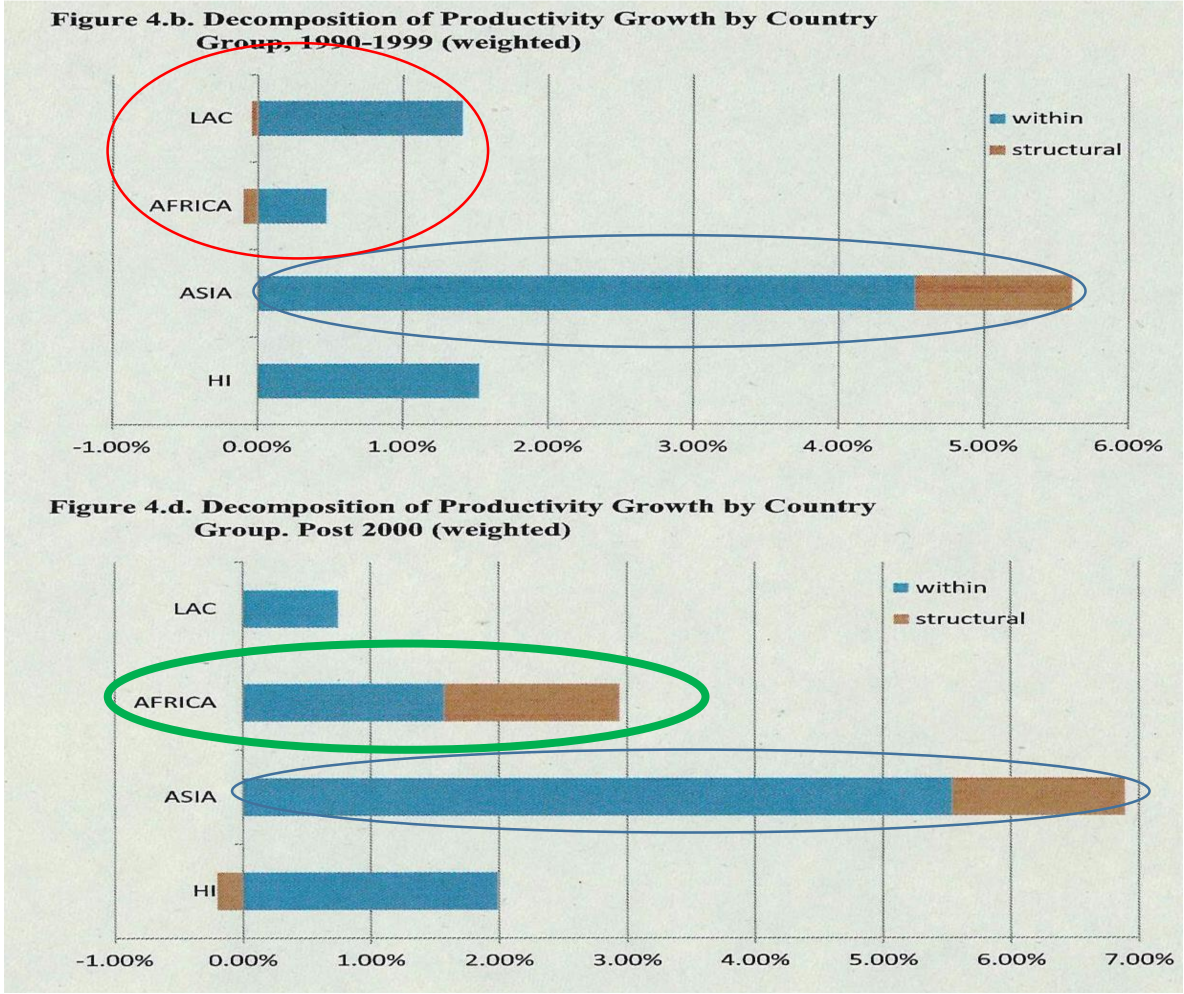
Africa's Potential for Structural Change

- Africa has the greatest differences in productivity among sectors, and therefore the greatest potential for structural change
- But Africa's track record of structural change has been disappointing



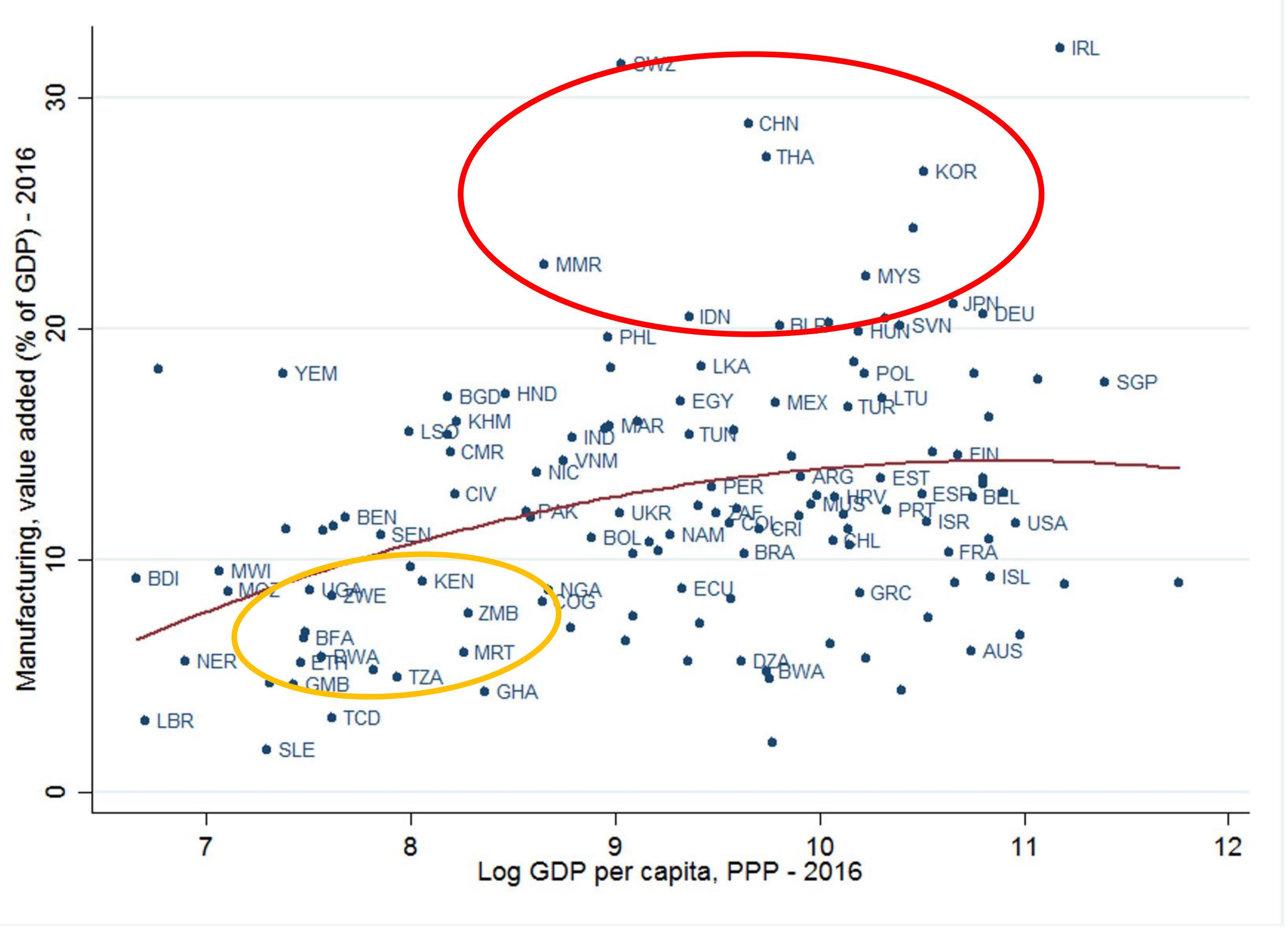
Unfulfilled Promise

- In East Asia within sector productivity growth and structural change were complementary
- Between 1990 and 2000 “growth reducing” structural change slowed overall growth in Africa (and Latin America).
- Recent structural change (2000-2010) in Africa has been “growth enhancing”
  - But mainly reflects a shift from agriculture into low productivity services



Industry and Structural Change

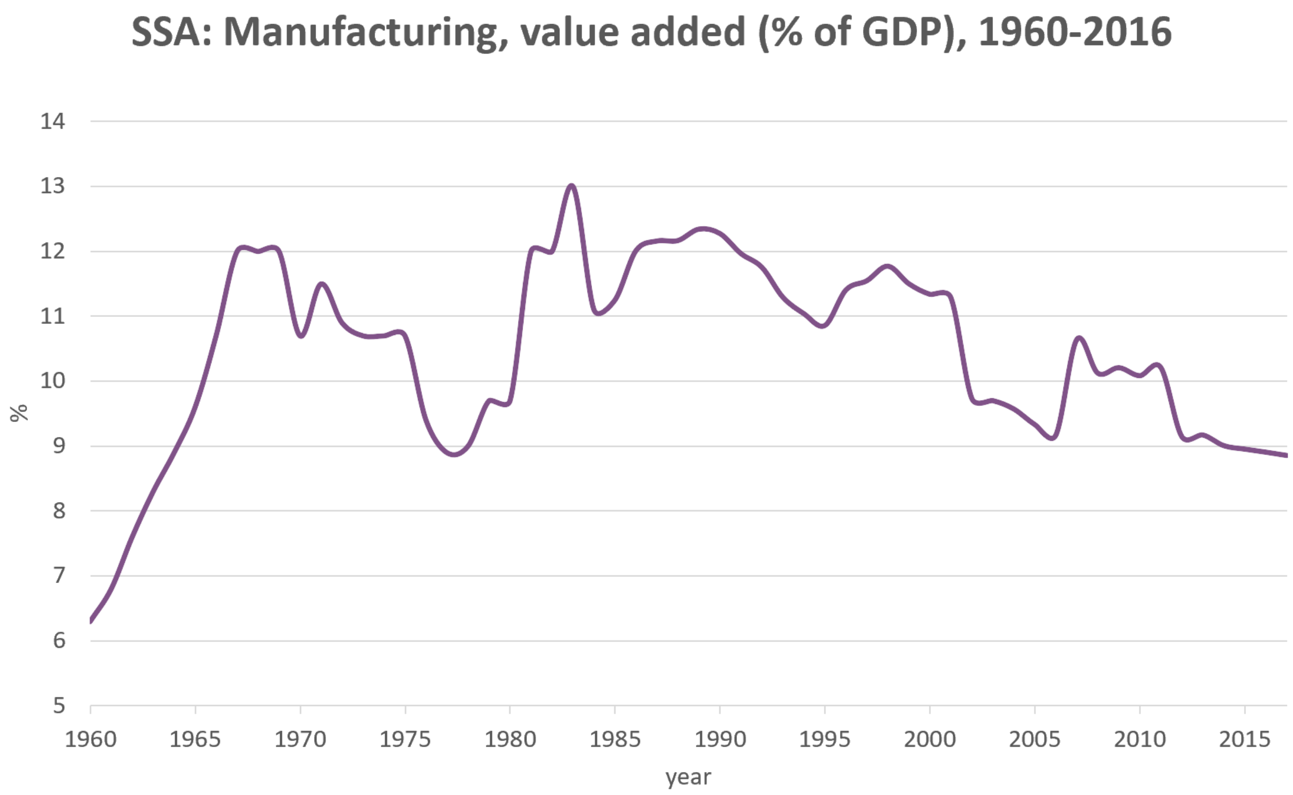
- Historically, industry has led the process of structural change
- It has played an outsized role in East Asia
- But industry has played only a minor role in Africa
  - The region's fast growing economies (ETH, GHA, KEN, RWA, TZA, UGA) are all negative outliers



Source: Word Bank World Development Database and World Bank Africa Development Indicators

Africa Has Deindustrialized

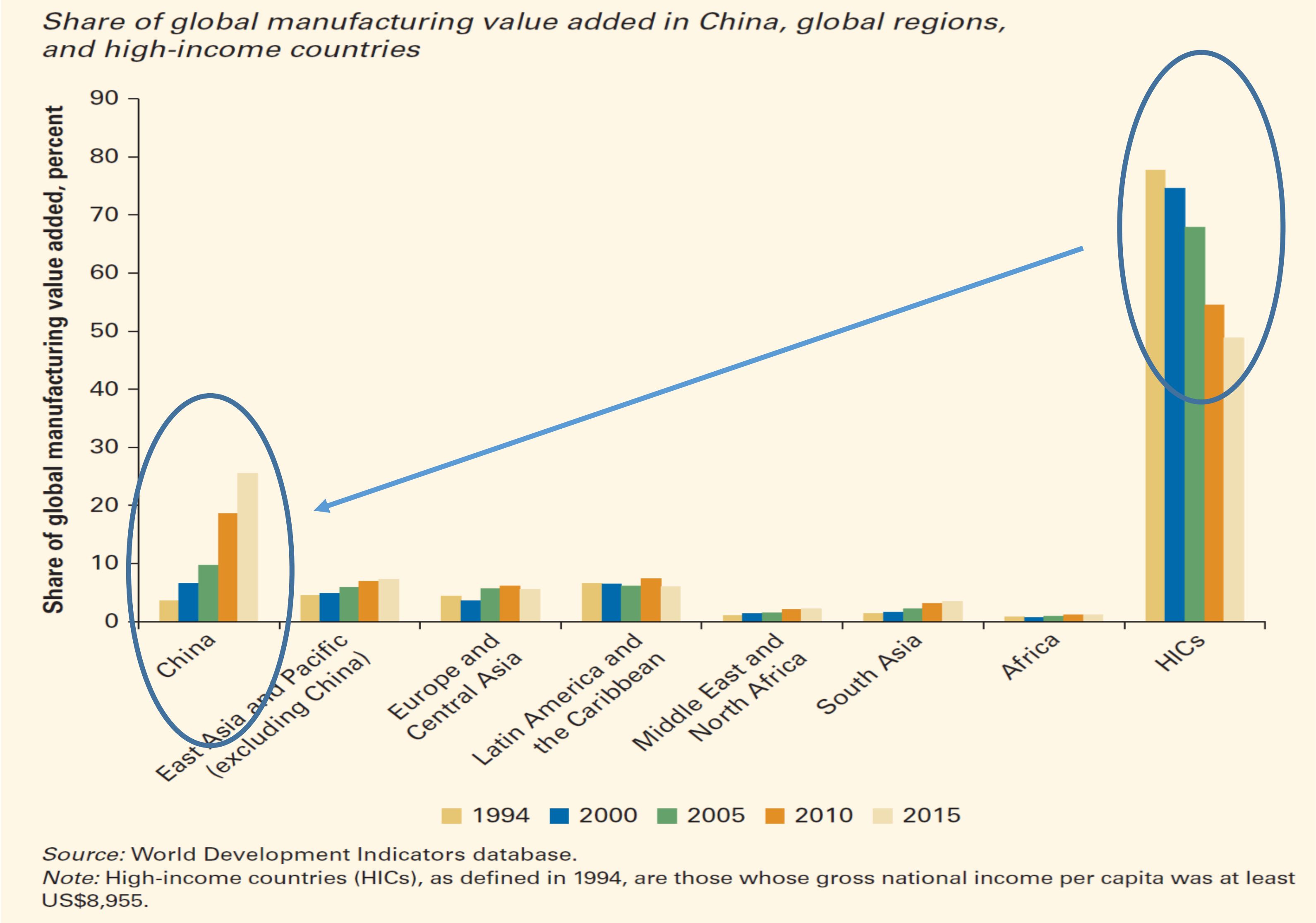
- **Africa's share of manufacturing in GDP is less than half of the average for all developing countries**
- **Per capita manufactured exports are about 10 per cent of the developing country average.**
- **Africa's share of global manufacturing is smaller today than in 1980**



Source: Word Bank World Development Database and World Bank Africa Development Indicators. Author's calculations.
Notes: SSA excludes South Africa.

Three changes in the global economy make industrialization more difficult for Africa....

- **1- China and East Asia dominate as manufacturing centers...**

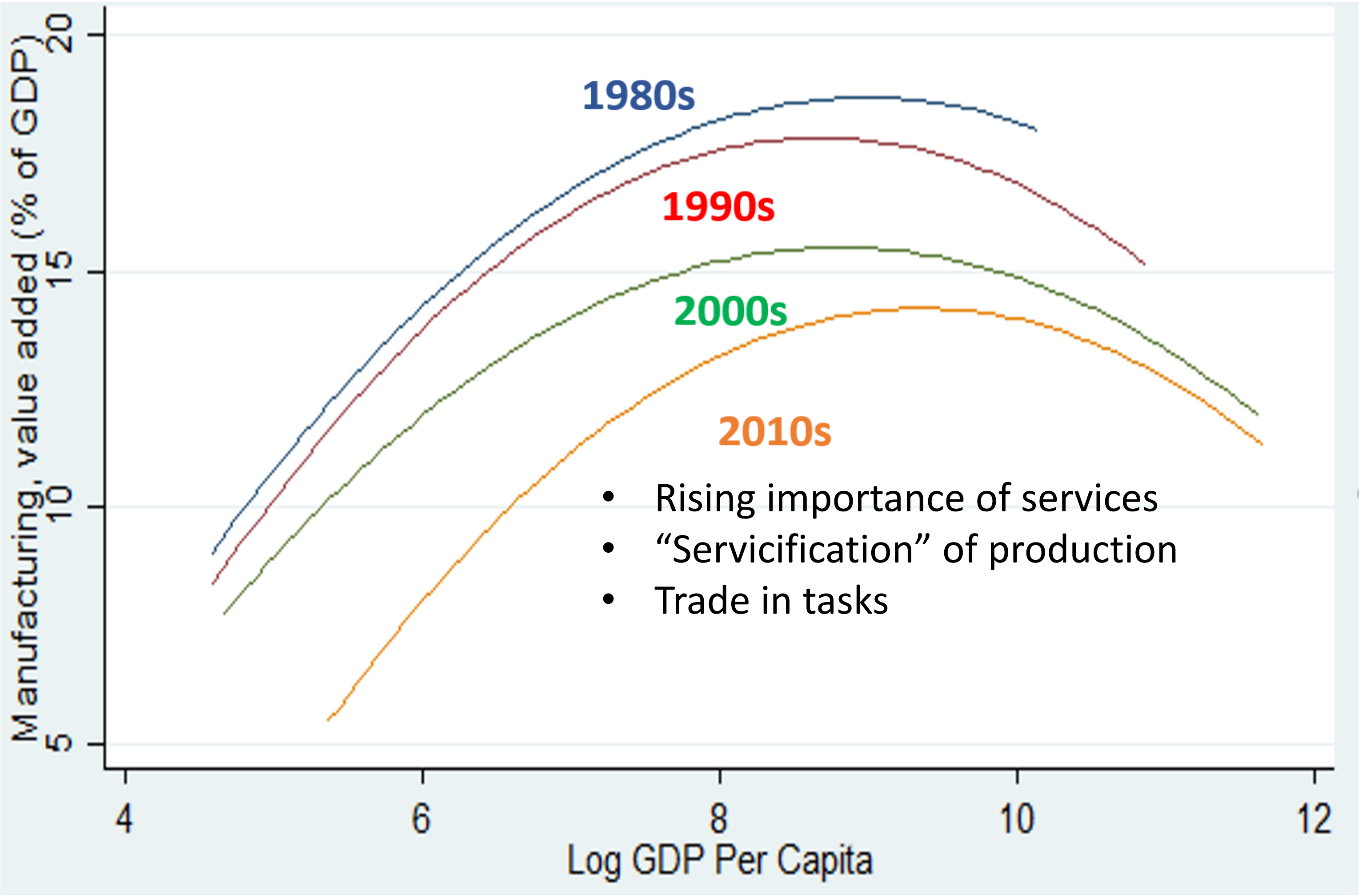


Three changes in the global economy make industrialization more difficult for Africa….

- **1- China and East Asia dominate as manufacturing centers…**

- **2 - Manufacturing as a share of GDP is falling everywhere on average**

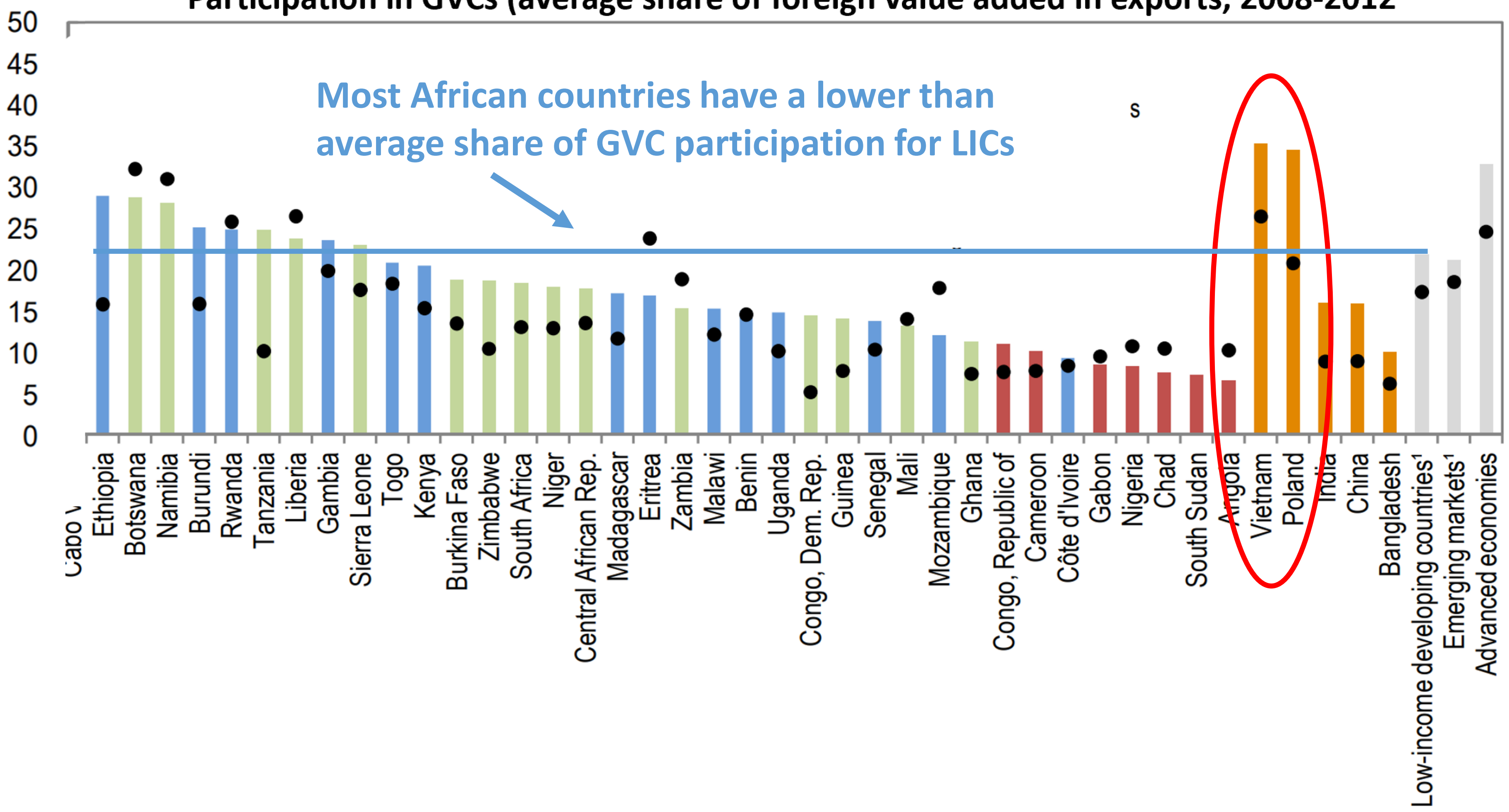
Manufacturing as share of GDP on average declines over four decades



Three changes in the global economy make industrialization more difficult for Africa….

- **1- China and East Asia dominate as manufacturing centers…**
- **2 - Manufacturing as a share of GDP is falling everywhere on average**
- **3 - Selling to the global market increasingly requires participating in global value chains**

Participation in GVCs (average share of foreign value added in exports, 2008-2012



Leading to A Pessimistic Conclusion…

"… it is unlikely that manufacturing export led growth will have the impact that it had in China and East Asia. It cannot be the sole strategy or even at the heart of a country's growth strategy."

-- Joseph E. Stiglitz (2018)

…Or Perhaps Not

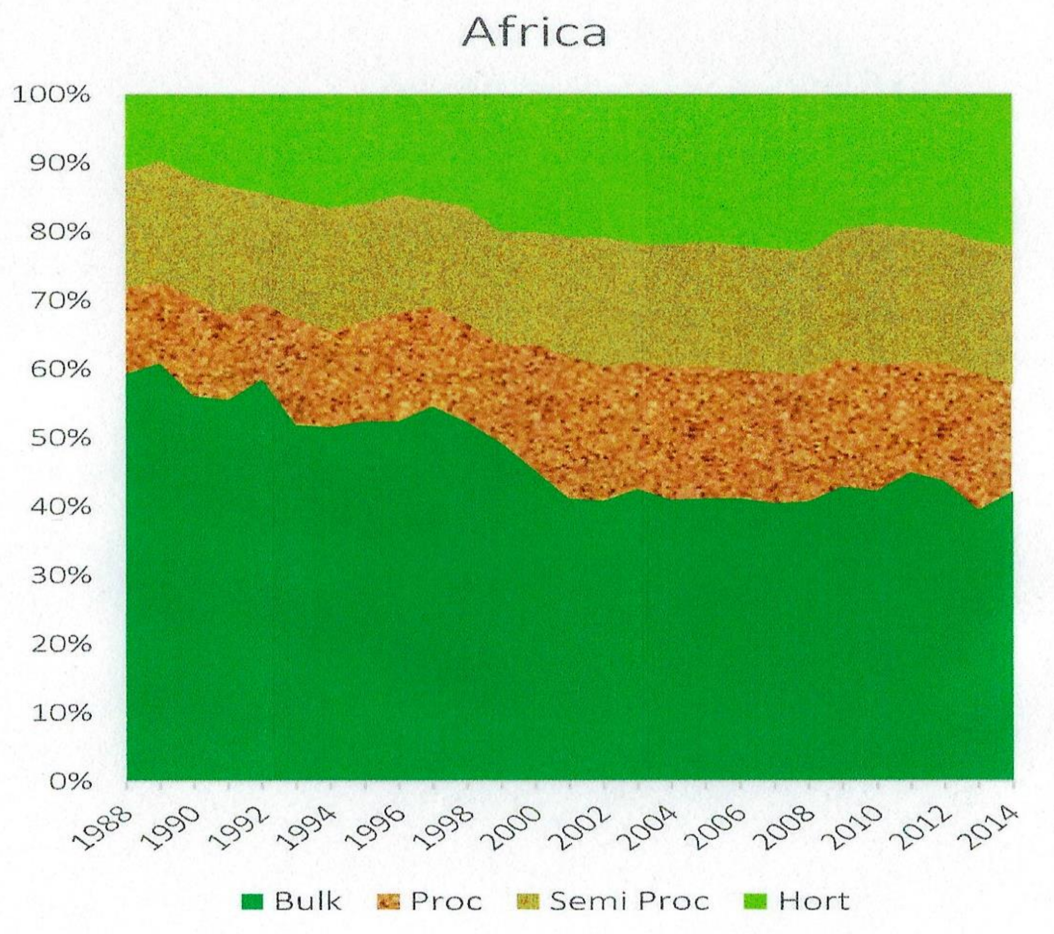
- These same forces create new opportunities for Africa
- Segmentation of GVCs makes production for export accessible
- Services export markets are more dynamic
- Scale barriers in services markets are negligible or absent, so Africa can enter in at an early stage
- These factors, together with sharply falling transportation and communication cost, create opportunities for “industries without smokestacks”

“Industries Without Smokestacks”

- Technology and falling transport costs have created a class of tradable services and agro-industry that are more similar to manufacturing than to traditional services or agriculture
  - Think call centers versus restaurants; cut flowers versus subsistence agriculture
- These “industries without smokestacks” share many of the firm characteristics of manufacturing
  - Technical change, learning, agglomeration
- They also offer a broader array of options for structural change.
  - Horticulture and agro-processing
  - Tourism
  - Tradable services, such as Information and communication services
  - Transit trade and logistics

“Industries Without Smokestacks” Have Become Increasingly Important

- High-valued agricultural exports account for an increasing share of overall exports
    - African exporters are moving from bulk to processed agriculture
    - Horticulture has succeeded in joining GVCs
- Horticulture exports are up in Ethiopia, Senegal, Ghana and South Africa, typically out performing other exports



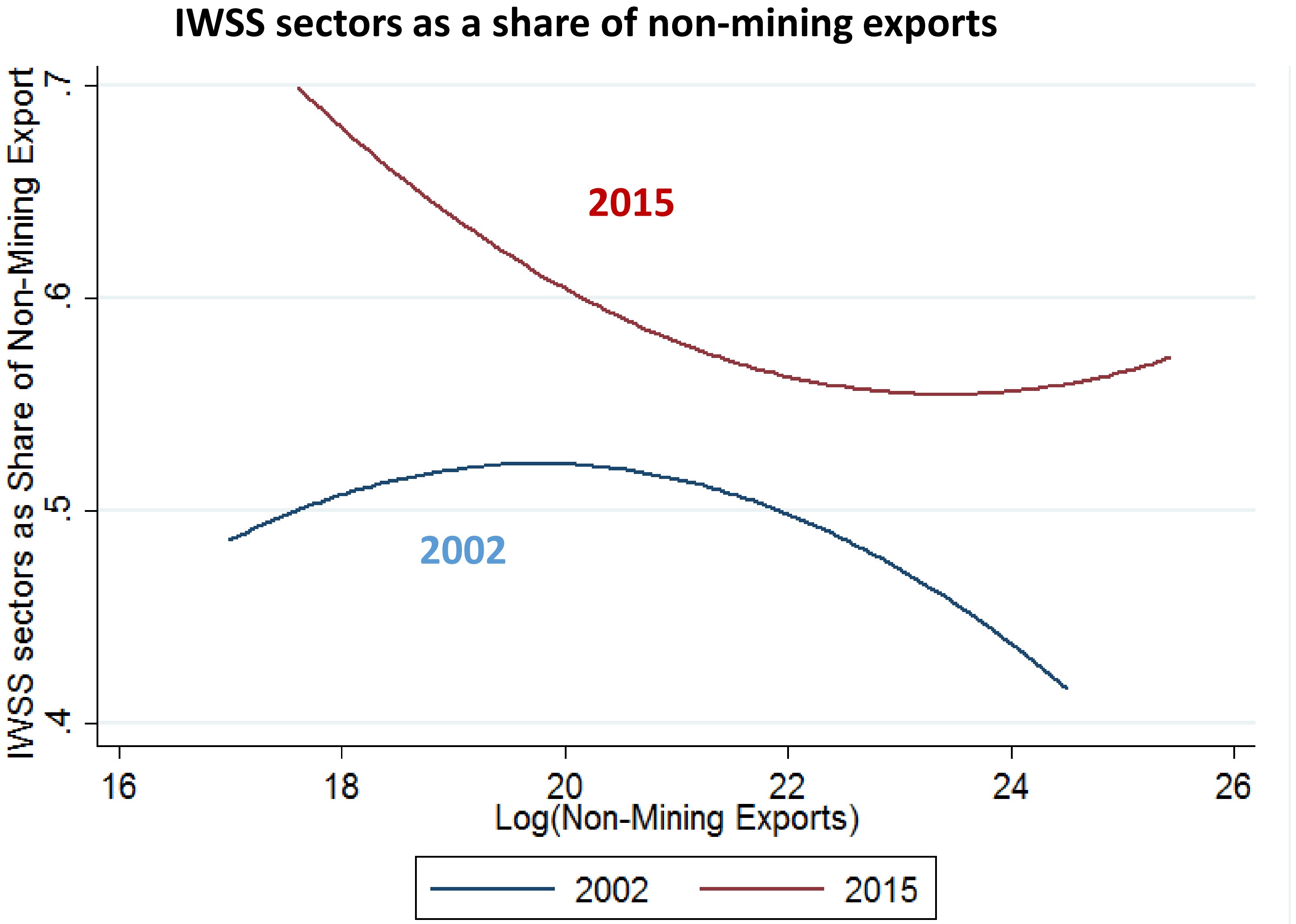
"Industries Without Smokestacks" Have Become Increasingly Important

- Tourism amounts to 3 percent of SSA GDP
  - In South Africa, it generates 680,000 jobs; 36 percent of jobs in the food and beverage industry.
  - In Tanzania, tourism accounts directly and indirectly for 14 percent of GDP, and accounts for 3 percent of employment.
  - In Rwanda, tourism has increased 22 percent annually for last decade and is largest the foreign exchange earner.
- Transport services are also expanding, as costs fall with new investments in ports, roads, and air facilities

"Industries Without Smokestacks" Have Become Increasingly Important

In 33 African countries with relevant data:

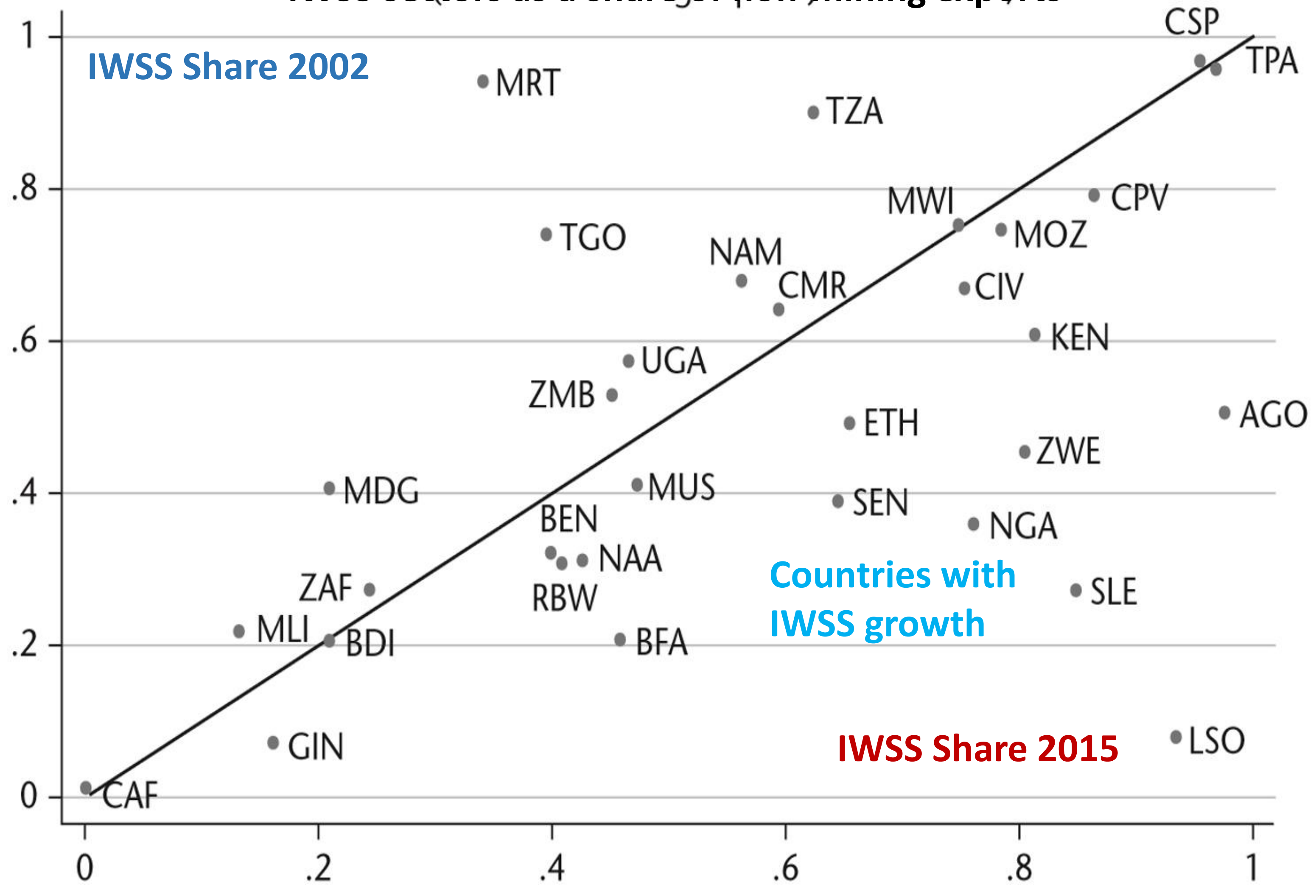
- IWSS became more important in export portfolios
- Both large and small exporting economies saw gains in these sectors



"Industries Without Smokestacks" Have Become More Important

IWSS sectors grew more rapidly, or at least as fast, as traditional sectors in two thirds of African countries – and faster in half of the countries.

IWSS sectors as a share of non-mining exports



Rethinking African "Industrialization"

- Patterns of structural change in contemporary low income countries will differ substantially from historical experience.
- Africa's resource endowments suggest that many internationally competitive activities will be "industries without smokestacks."
- The key challenge for policy makers is to promote the growth of high productivity sectors capable of absorbing large numbers of moderately skilled workers.

"Industrial Policy" for the 21st Century

- Externalities and coordination failures call for a coherent strategy of public action
    - Put differently, Africa needs a strategy for structural change
- Because "industries without smokestacks" share many firm characteristics with smokestack industries, they also respond to broadly similar policies.
- This is good news because it does not mean choosing between manufacturing and industries without smokestacks.

A Strategy for Structural Change

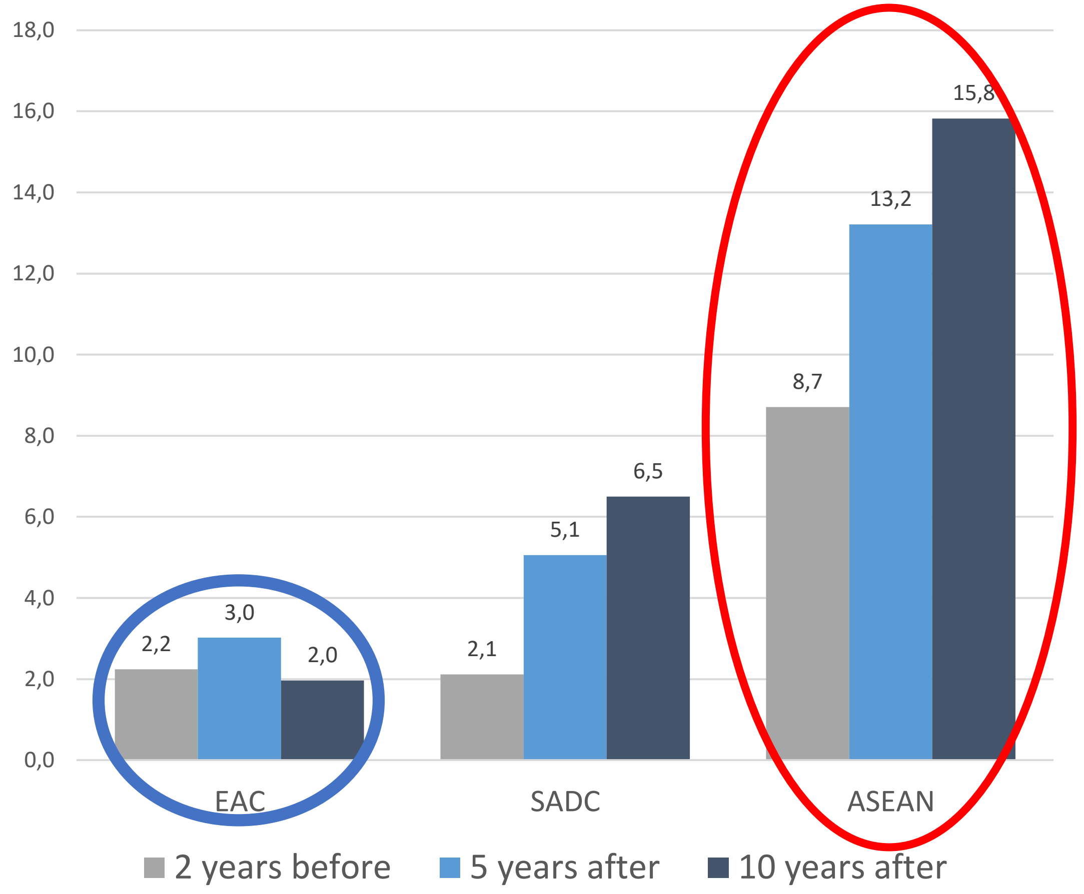
- Country level policies
  - Investment climate (infrastructure, skills, competition)
  - Tilting toward exports
  - Spatial policies
- Regional policies
  - Deeper integration – services
  - Trade facilitation & services regulation
  - Interconnecting infrastructure

Policy Complementarities

- The investment climate
  - Manufacturing, tourism and agri-business all depend on infrastructure
  - Skills related to production constrain firms in manufacturing and tradable services
- Tilting towards exports
  - Appropriate exchange rate management affects all tradable activities
  - Trade logistics have become critically important to GVCs in both manufacturing and horticulture
- Spatial Policies
  - SEZs can be used for agro-industry, tourism and manufacturing
  - Infrastructure, institutions and skills must be world class

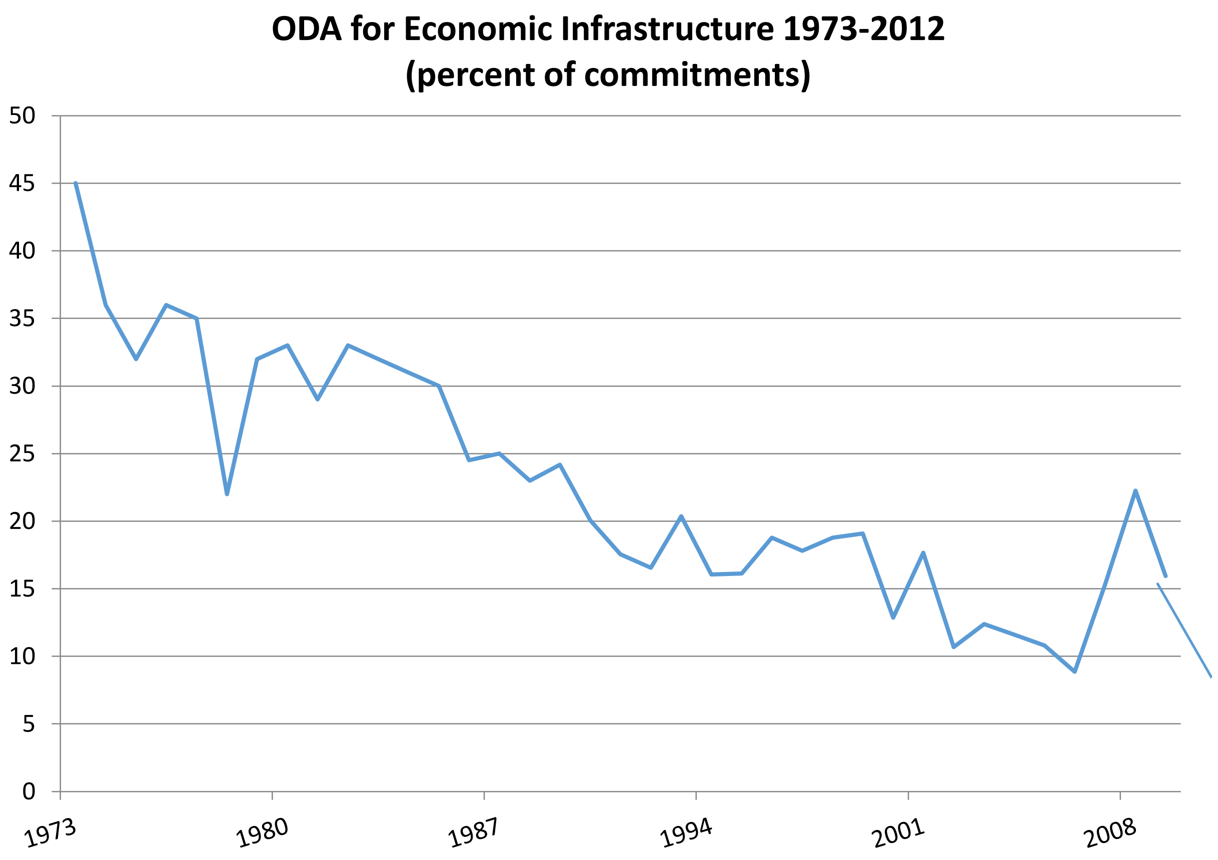
Policy Complementarities

- **Regional Policies**
- Reducing costs of trade will benefit both manufacturing and tradable services
- Competition in services can create larger firms with lower costs
- Regional approaches to infrastructure



An Agenda for Aid

- Focus on power, transport and skills
  - Aid will be insufficient but can be leveraged better
- Support for an export push
  - Fix "aid for trade" and tie it to trade logistics
  - Unify and streamline trade preferences (start with AGOA and EPA)
- Capability building
  - Help create world class FDI agencies
  - Support management information and training



An Agenda for Aid

- Supporting industrial clusters
  - Focus aid for trade first on making EPZs world class
  - Support institutional reforms to integrate and raise the profile of FDI agencies and SEZ administrations
  - Watch China and learn from successes and failures
- Give African governments the policy space to take initiatives and make mistakes!

Summing Up

- Structural change in Africa will be very different from East Asia, relying in part on industries without smokestacks

- Policies should not focus obsessively on manufacturing…nor ignore manufacturing.

- The key to growth and jobs will be policies that promote higher-productivity employment intensive activities and exports… wherever they are found in the economic statistics