



CHAPTER 6
**FOSTERING INDUSTRIAL
DEVELOPMENT IN AFRICA:
MAIN FINDINGS AND
RECOMMENDATIONS**

African countries require high and sustained economic growth to make significant progress in reducing poverty and engender development. But history and econometric evidence have shown that the prospects for high and sustained growth in any country depend largely on the degree of structural transformation of the economy (Rodrik, 2007). No country has achieved high and sustained economic growth without going through a process of structural transformation, characterized by a shift of production and exports from low productivity to high productivity goods. This suggests that what a country produces and exports matter for growth and development (Hausmann, Hwang and Rodrik, 2007).

Furthermore, one of the major challenges which African countries currently face is to generate productive jobs and livelihoods for the 7–10 million young people entering the labour force each year. This is difficult to achieve simply through commodity exports. It requires a complementary process of agricultural productivity growth and development of non-agricultural employment opportunities in both industry and services. If African countries are to achieve substantial poverty reduction and other MDGs, they must go through a process of structural transformation involving a decrease in the share of agriculture and an increase in the share of industry and modern services in output, with a shift between and within sectors from lower productivity activities to higher productivity activities.

African governments are aware of this reality and have taken several steps in recent years to renew their commitment to industrialization. But the question is how they can do this without repeating the mistakes of the past, both hands-on dirigisme and hands-off market fundamentalism.

Against this background, this report examines the status of industrial development in Africa with a focus on the identification of stylized facts associated with African manufacturing. It also provides an analysis of past attempts at promoting industrial development in the region and the lessons learned from these experiences. Finally, it offers policy recommendations on how to foster industrial development in Africa in the new global environment characterized by changing international trade rules, growing influence of industrial powers from the South, the internationalization of industrial production and growing concerns about climate change. The main findings and policy recommendations of the report are as follows.

A. MAIN FINDINGS

- 1. Manufacturing currently plays a limited role in African economies.* The share of manufacturing value added (MVA) in Africa's GDP fell from 12.8 per cent in 2000 to 10.5 per cent in 2008. In Latin America, it fell from 17 per cent to 16 per cent and in developing Asia, it rose from 22 per cent to 35 per cent over the same period. There has also been a decline in the importance of manufacturing in Africa's exports. In particular, the share of manufactures in Africa's total exports fell from 43 per cent in 2000 to 39 per cent in 2008. Factors that have contributed to Africa's weak industrial performance include domestic policy failures, lack of policy space to implement alternative development policies and structural constraints such as poor infrastructure, low human capital and the small size of domestic markets.
 - 2. Manufacturing performance varies across African countries.* In particular, there is a wide variance across countries in terms of both the level and growth of MVA per capita. In 1990, 6 of the 52 African countries for which data are available had an MVA per capita of at least \$200 and in 2010 the number of countries with an MVA per capita of at least \$200 was 9. In terms of manufacturing growth, 23 African countries had negative MVA per capita growth over the period 1990–2010 and 5 countries had an MVA per capita growth above 4 per cent.
 - 3. Africa still accounts for a low share of global manufacturing.* Africa continues to be marginalized in global manufacturing trade. The share of the region in global MVA fell from 1.2 per cent in 2000 to 1.1 per cent in 2008. In developing Asia it rose from 13 per cent to 25 per cent and in Latin America it fell from 6 per cent to 5 per cent over the same period. In terms of exports, Africa's share of global manufacturing exports rose from 1 per cent in 2000 to 1.3 per cent in 2008.
 - 4. Africa is losing ground in labour-intensive manufacturing.* Low technology and labour-intensive manufactures play a limited role in African manufacturing. The share of low technology manufacturing activities in MVA fell from 23 per cent in 2000 to 20 per cent in 2008. Furthermore, the share of low-technology manufacturing exports in Africa's total manufacturing exports dropped from 25 per cent in 2000 to 18 per cent in 2008.
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5. *Africa has made some progress in boosting technology-intensive manufactures.* The share of medium- and high-technology (MHT) activities in Africa's total MVA rose from 25 per cent in 2000 to 29 per cent in 2008. Furthermore, the share of MHT exports in total manufacturing exports rose from 23 per cent to 33 per cent over the same period.
6. *Africa is heavily dependent on RB manufacturing.* Africa is heavily dependent on RB manufactures. In particular, the share of RB manufactures in Africa's total manufacturing exports was 52 per cent in 2000 and 49 per cent in 2008. This contrasts with the situation in Latin America, and East Asia and the Pacific, where the shares of RB in total manufacturing exports in 2008 were 34 per cent and 13 per cent, respectively.
7. *African manufacturing is dominated by small and informal firms.* In most African countries, the manufacturing sector is made up of small or microenterprises operating side by side with a small number of large foreign or State-owned firms. Furthermore, most enterprises are informal firms. Informal firms are smaller in size, produce to order, are run by managers with low human capital, do not have access to external finance, do not advertise their products and sell to largely informal clients for cash. In addition, informal firms rarely become formal as they grow.
8. *Industrial clusters play an important role in African manufacturing.* There is some evidence suggesting that industrial clusters have contributed to boosting the competitiveness of small and medium-sized firms in Africa. These clusters make market access easier, facilitate technological spillovers, and reduce geographical and information costs for firms. They also cover a wide spectrum of areas ranging from resource-based activities to high-technology industries such as automobile parts and computer manufacturing.

B. POLICY RECOMMENDATIONS

The report suggests that African countries should intensify efforts to develop manufacturing because it presents great opportunities for sustained growth, employment and poverty reduction. Further, it argues that deliberate government intervention is needed to promote manufacturing development, induce structural transformation and engender development in Africa. The experiences of currently advanced countries and emerging economies indicate that governments have an important role to play in inducing structural transformation. In particular, industrial

policies were used by these countries to redirect resources and production to priority activities deemed necessary to promote industrialization. Consequently, if African countries wish to make significant progress in achieving their industrial development objectives, there has to be a deliberate effort by national governments to promote industrialization through industrial policy.

While there is a case for industrial policy in Africa, there is also the recognition that the past approaches to promoting industrialization did not achieve the objective of economic transformation. Neither the old industrial policies, adopted during a period of import substitution industrialization, nor the market and investment climate reforms are sufficient to induce structural transformation in the region. In this regard, the Report stresses the need for African governments to adopt a new approach to industrial policy based on the following principles: supporting, as well as challenging firms; building effective State-business relations; recognizing the political feasibility of proposed actions; focusing on lifting binding constraints and putting in place a mechanism for monitoring, evaluation and accountability.

The Report advocates a strategic approach to industrial policymaking based on an industrial diagnosis; it proposes a framework for industrial strategy design that takes into account the heterogeneity of African economies and is tailored to specific country circumstances. It also stresses the need for industrial policy to lay emphasis on (a) the promotion of scientific and technological innovation; (b) the creation of linkages in the domestic economy; (c) the promotion of entrepreneurship; and (d) the improvement of government capabilities.

- *Fostering scientific and technological innovation.* The accumulation of technological knowledge and capabilities is critical to inducing structural transformation and gaining competitive advantage in export markets. African countries should provide more support for technology and innovation. This could take the form of stimulating domestic production of technological knowledge through the provision of incentives to entrepreneurs, or it could take the form of facilitating access to existing technology through FDI, licensing and purchasing capital equipment. African countries should also invest in education and skill formation to ensure that firms have reliable access to the skilled labour required to produce high-quality goods that can survive competition in global markets. Particular attention should be paid to enhancing education and training in technical and scientific subjects such as engineering because these are the most relevant for industrial development.
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- *Creating linkages in the economy.* African countries should give priority to the creation or development of linkages in the domestic economy to ensure that the promotion of industrial development yields positive spillover benefits in other sectors of the economy. There are various ways to create domestic linkages in an economy. For example the promotion of agro-industries is one way to develop domestic linkages between the industrial and agricultural sectors of an economy. Furthermore, linkages can be created between domestic and foreign firms by building domestic technological capabilities. Policies to support industrial clusters are also important.
- *Promoting entrepreneurship.* African countries should step up efforts to promote entrepreneurship by creating an economic environment that favours both domestic and foreign investment. In particular, they should reduce policy uncertainty, strengthen infrastructure provision and improve access to finance for firms, particularly SMEs. Efforts should also be made to provide incentives for firms to invest in the discovery of new activities that enhance export competitiveness and diversification.
- *Improving government capabilities.* In promoting industrial development, African countries should ensure that the scope and degree of intervention takes into account government capabilities. Weak State institutions make it challenging for governments to successfully implement their industrial development programmes and policies. In this context, African governments should give priority to enhancing government capabilities to design, formulate and implement policies. This can be achieved by providing training and capacity-building activities for public officials with support from international organizations such as UNIDO and UNCTAD.

The Report points out that industrial policy cannot be implemented in a vacuum. It has to be consistent with other economic policies for better development results. In this regard, it recommends the following additional and complementary measures.

- *Avoiding exchange rate overvaluation.* Exchange rate policy affects the development of manufacturing firms, as well as their ability to compete in international markets. In particular, a competitive exchange rate promotes exports and allows domestic firms to seize opportunities created in international markets. When the exchange rate is overvalued relative to its equilibrium value, it represents an implicit tax on exports and a disincentive for firms to invest in the export sector. If African countries wish to make
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significant progress in meeting their industrialization objectives, they will have to avoid exchange rate overvaluation by, for example, controlling inflation, managing natural resource wealth in a manner that minimizes the risk of the Dutch disease and, where appropriate, adopting more flexible exchange rate regimes.

- *Adopting appropriate monetary and fiscal policies.* The effectiveness of industrial programmes and policy also depends in part on the extent to which monetary and fiscal policies are consistent with the objective of promoting industrial development. In particular, the mix of monetary and fiscal policies has to be such that firms have better access to credit and real interest rates are not at levels that deter investment. It is necessary to align the stance of monetary and fiscal policies with the objective of promoting industrial development, while ensuring that measures adopted to achieve such an alignment do not lead to medium- or long-term macroeconomic instability.
- *Enhancing resource mobilization.* The promotion of industrial development requires the mobilization of resources to finance investments in identified priority areas. There has been a tendency for African governments to focus on resource allocation as opposed to resource mobilization issues in the conduct of industrial policy. African countries should pay more attention to the mobilization of resources and strengthen resource mobilization by boosting domestic savings, borrowing from development finance institutions, promoting FDI, harnessing the potential of South–South cooperation as a source of development finance and encouraging traditional development partners to direct more ODA towards promoting industrial development in the region.

The Report also recognizes the importance of regional integration and political stability in developing and sustaining industrialization in Africa. Consequently, it calls upon African governments to strengthen regional integration and enhance political stability.

- *Strengthening regional integration.* Building a robust regional market is necessary to unlock Africa's manufacturing potential and prepare it to compete in global export markets. Regional integration can contribute to building robust regional markets through, for example, cooperation in the development of regional infrastructure, harmonization of policies and maintenance of political stability. Given the small domestic markets of African
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economies, the regional market can be a force for industrial development in the region. This is important because unlike Africa's exports to the rest of the world that is skewed towards commodities and against manufactures, the share of manufactures in intra-African exports is high. In 2009, manufactures accounted for about 40 per cent of intra-African exports while their share of Africa's exports to the rest of the world was about 18 per cent. Further, Africa is among the fast-growing regions of the world both in terms of population and income. As a result, the region is increasingly becoming an important source of export demand that could form the basis for initiating and sustaining industrial development.

- *Maintaining political stability.* Political stability is a necessary condition for industrial development in Africa. Without political stability, even a well-designed and well-implemented industrialization programme is bound to fail. Therefore, efforts should be made by African governments to reduce the incidence of political crisis through better political and economic governance, for example. In addition, the role of regional institutions such as the African Union Commission and the regional economic communities should be strengthened in the areas of crisis prevention, management and resolution.

C. CONCLUSION

Industrial development is crucial for sustained growth and poverty reduction in Africa. Over the past decade, African governments have renewed their political commitments to industrialization and have adopted several initiatives at the national and regional levels to enhance prospects of achieving their objectives. This Report welcomes the new developments and argues that the optimal industrialization path and policies will vary across African countries because of differences in endowments, political conditions and geography. Furthermore, it stresses that a new industrial policy is needed to induce structural transformation and engender development in African economies. The Report also suggests that efforts to promote industrial development in Africa should be centred on (a) promoting scientific and technological innovation, (b) creating linkages in the domestic economy, (c) fostering entrepreneurship, (d) improving government capabilities, (e) adopting appropriate monetary and fiscal policies, (f) avoiding exchange rate overvaluation, (g) enhancing resource mobilization, (h) strengthening regional integration and (i) maintaining political stability.



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