Made in Africa

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Africa is rising. Since 1995 it has grown faster than many other parts of the developing world. Per capita income has been increasing steadily, and with six of the world’s ten fastest-growing economies of the last decade, Africa has been branded the developing world’s next “frontier market” by Wall Street and the World Bank. Yet Africa’s experience with industrialization has been disappointing. In 2012 sub-Saharan Africa’s average share of manufacturing value added in GDP was about 10 percent, the same as in the 1970s.

This book presents the main results of Learning to Compete (L2C), a research program jointly sponsored by the African Development Bank, the Brookings Institution, and the United Nations University World Institute for Development Economics Research (UNU-WIDER). The L2C program tried to answer a seemingly simple but puzzling question: Why is there so little industry in Africa? Given Africa’s recent economic success, one may reasonably wonder why we chose to focus on industrialization, an area in which the Continent has not performed well. It is not because we wanted to return to the “Afro-pessimism” of earlier decades. Rather, it is because we want to see growth in Africa sustain itself. One worry that motivated us to undertake the project was that since 1995, growth
in Africa has taken place without the changes in economic structure that normally occur as incomes per person rise. This raised concerns in our minds about the durability of the “African growth miracle.”

When we began Learning to Compete in 2010, not many observers of Africa—academics and policymakers alike—were concerned with its lack of structural change. That certainly has changed. Over the last five years, the African Development Bank, the UN Economic Commission for Africa, and the African Union have all voiced concerns with the pattern and pace of structural change. A new Africa Center for Economic Transformation, led by one of the region’s most distinguished economists, K. Y. Amoako, has been established in Accra and has published its first “Africa Transformation Report.” At the urging of African nations, the new Sustainable Development Goals of the United Nations appear likely to contain structural change, employment generation, and industrialization as global development objectives. This book is in part our contribution to that ongoing discussion.

Historically, industry has been a driving force behind structural change, but Africa has abundant land and natural resources. Perhaps it does not need to industrialize to maintain the pace of economic progress. While it is certainly possible for economies to grow based on modern agriculture or natural resources, we are convinced that there is something special about the role of industry in low-income countries. At the most basic level industry is a high-productivity sector into which a large number of workers can flow. This is good for growth, for job creation, and for poverty reduction. It is also the only sector in which poor countries are catching up to rich country productivity levels, regardless of geography, institutions, or policies. This makes industry a potentially powerful driver of economy-wide productivity growth. All of these good things depend on the size and the rate of growth of industry. That is why we have written this book.

We have subtitled it Learning to Compete in Industry because setting out a new agenda for industrial development in Africa is our key objective. Yet, for Africa to succeed, it is critical to understand why few manufactured goods have been made in Africa for the last
forty years. To understand this better we asked national researchers to undertake eleven detailed country case studies—eight from sub-Saharan Africa, one from North Africa, and two from emerging Asia. The eight sub-Saharan studies document industrialization efforts and outcomes in Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, and Uganda. Tunisia was included both to extend the coverage of the research to the Continent as a whole and because—in light of the events of the Arab Spring—it is of considerable interest in its own right. The emerging Asian countries—Cambodia and Vietnam—were chosen because they are East Asia’s newest industrializers. They also had per capita income levels and structural characteristics similar to the African economies studied, as recently as 2005 in the case of Cambodia and 2001 in the case of Vietnam.1

Made in Africa is mainly a story about firms. For Africa to industrialize its firms must be able to compete in global markets. Successful industrializers have been those that over time have managed to raise the productivity of the “typical” firm. For this reason we wanted to understand better what makes firms more productive in low-income countries. We were particularly interested in the roles of exports and industrial agglomerations in firm-level productivity. To address these questions the research team carried out a total of seventeen econometric studies of the drivers of firm-level productivity using statistical data from our eleven case study countries. Much of this book is based on that research.

We were also interested in the role of foreign direct investment (FDI). There is an extensive literature—most of it based on studies of middle-income countries—which suggests that foreign firms can be an important source of knowledge for industrial development. We wanted to understand the interactions between foreign-owned and domestic firms in low-income countries. To address this question

1. The country studies are available as Brookings Learning to Compete Working Papers (www.brookings.edu/about/projects/africa-growth/learning-to-compete) and as WIDER Working Papers (www.wider.unu.edu/research/current-programme/en_GB/L2C-2010/).
we carried out qualitative surveys in Africa and emerging Asia in which we asked the owners and managers of foreign and domestic firms how they interacted and whether they explicitly or implicitly transferred knowledge to their purchasers or suppliers.

We are not alone in our concern that Africa has failed to industrialize. At the same time we carried out our research two other important research projects were taking a close look at African industrialization. The first project, spearheaded by Justin Lin, then chief economist of the World Bank, studied light manufacturing in Africa. The second, led by Professor John Sutton and sponsored by the International Growth Centre, produced a number of Enterprise Maps for African countries. Both projects add substantially to our knowledge of African industry, and we have drawn on them.

This book is an attempt to persuade African policymakers, aid practitioners, and those interested in Africa’s future that Africa can industrialize. For that reason we have tried to write a book that is accessible to a wide range of readers. While a mass of technical research—ours and that of others—underpins the writing, we have tried here to minimize the use of technique and jargon. Those interested in the finer technical details can find them in the publications and working papers to which we refer.

The book is organized in four major parts. Chapter 1 takes up the question of why industry matters. Part II (including chapters 2 and 3) provides a brief history of industrial development in Africa, gives our assessment of past industrialization efforts and outcomes in the countries we studied intensively, and outlines the challenges faced by African economies in breaking into the global market for industrial goods today. Part III (chapters 4, 5, and 6) presents the main results of Learning to Compete. The three chapters discuss the key drivers of firm-level productivity in low-income countries—exports and competition, firm capabilities, and industrial agglomerations—and their relevance to Africa’s industrial development.

In Part IV (chapters 7, 8, and 9) the focus shifts to policy. While traditional concerns such as infrastructure, skills, and the regulatory environment are important, our research suggests that address-
ing these factors alone will not be sufficient. Chapter 7 presents a new industrialization strategy for Africa, grounded in that research, while chapter 8 takes up the question of industrialization in Africa’s growing number of resource-abundant countries. In chapter 9 we suggest changes in donor priorities and practices to support the new approach to industrialization.

Before closing, a final note: the idea that governments can successfully develop and implement strategies for industrial development is at the heart of the decades-long controversy over industrial policy. Often overlooked in that debate over “picking winners” or “leveling the playing field” is the reality that governments make industrial policy every day through the public expenditure program, institutional and regulatory changes, and international economic policy. These choices—sometimes inadvertently—favor some enterprises or sectors at the expense of others, and in Africa they often lack a coherent strategic focus. The relevant question is not: will governments make choices? It is: will they make the right choices? We wrote this book with a view to helping to inform those choices.

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\textsuperscript{2} See (www1.wider.unu.edu/L2Cconf/) for a summary of the conference proceedings.