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John Page | November 20, 2014 10:35am

Africa's Failure to Industrialize: Bad Luck or Bad Policy?



On Thursday, November 20 the United Nations celebrated the 25th Africa Industrialization Day. But perhaps “celebrate” is not exactly the right word. Africa’s experience with industrialization over the past quarter century has actually been disappointing. In 2010 sub-Saharan Africa’s average share of manufacturing value added in GDP was 10 percent, unchanged from the 1970s. At the same time, manufacturing output per person was about a third of the average for all developing countries, and manufactured exports per person about 10 percent. Thus, I pose the question: Is Africa’s failure to industrialize in the 25 years since the first African Industrialization Day due to bad policy or bad luck?

About four years ago the African Development Bank, the Brookings Institution and the United Nations University-World Institute for Development Economics Research (UNU-WIDER) came together to try to answer a seemingly simple but puzzling question: Why is there so little industry in Africa?

We called our program of research *Learning to Compete*, because this was the greatest challenge faced by African industry. Among the projects that we sponsored were 11 detailed country case studies—eight from sub-Saharan Africa, one from North Africa and two from newly industrializing East Asia—done by researchers from the countries involved. The case studies are now available

here. They make discouraging reading for anyone interested in African industrialization.

The eight sub-Saharan countries—Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania and Uganda—were all among the region's early industrializers and are also all among the stars of the region's growth turnaround. Tunisia—along with Mauritius, which we did not study in detail—is one of the brighter lights in the African continent's industrialization story. The Asian countries—Cambodia and Vietnam—were chosen because they are emerging Asia's newest industrializers.

The country studies describe the range of public policies used to promote industrial development and the evolution of industry in each country. Most seek to identify the factors that have constrained industrialization and the nature of public actions designed to relieve those constraints. What is striking about the eight sub-Saharan African countries is that, despite considerable diversity in geographical location, resource endowments and history, they share remarkable similarity in their experience with industrialization. The Asian and the Tunisian stories begin in very much the same place as these sub-Saharan countries with an early drive for state-led import substituting industrialization but diverge substantially in terms of industrial policies and performance in later periods.

Bad Luck

Africa's failure to industrialize is partly due to bad luck. The terms of trade shocks and economic crises of the 1970s and 1980s brought with them a 20-year period of macroeconomic stabilization, trade liberalization and privatization. Import competition forces inefficient firms, both public and private, out of business. Uncertainty with the outcome of the adjustment process and low or negative economic growth meant that there was little private investment overall and practically none in industry. Political instability and conflict also caused investors to hold back. When Africa emerged from its long economic hibernation around the turn of the 21st century, African industry was no longer competing with the high-wage industrial "North," as it had in the 1960s and 1970s. It was competing with Asia. From the point of view of industrial development the timing of the region's economic recovery was unlucky to say the least.

Bad Policy

But the failure to industrialize was also due to bad policy. The eight sub-Saharan countries enacted remarkably similar policies for industrial development: state-led import substitution, Structural

Adjustment and investment climate reform. Import substitution sowed the seeds of its own destruction. High protection and heavy import dependency meant that African industry was poorly prepared for international competition. The tendency of many African governments to assign a leading role to the state in creating and operating manufacturing firms simply made the problem worse. Investments were often made with little regard to efficiency, and the managerial capacity of the state was badly overstretched. While the reforms of the Structural Adjustment period paid off in terms of better macroeconomic management and faster overall growth, the rapid liberalization of trade and some ill-advised conditions—such as freeing up the import of second-hand clothing for resale—probably caused a more severe contraction of industry than was desirable. But, hindsight is always 20/20. The key issue looking forward is: Do the policies African governments now have in place prepare Africa to turn the corner in industrial development?

Around 2000, the World Bank and many bilateral donors shifted their focus in spurring industrial development to the “investment climate”—the policy, institutional and physical environment within which private firms operate. Investment climate reforms reflect the priorities and dogmas of the aid community. Given the importance of development assistance in the eight sub-Saharan economies, it is perhaps unsurprising that all have implemented investment climate reforms since 2000. Our country studies, however, strongly suggest that the donor agenda on the investment climate is both poorly implemented and insufficient.

Although in principle improvements in the investment climate are supposed to cover the whole range of issues from macroeconomic management, to infrastructure and skills, to the policies and institutions that most closely affect private investors, in practice the investment climate agenda has centered too narrowly on regulatory reform. Setting new priorities for the investment climate is certainly possible—and we make some suggestions how to do that in a forthcoming book, *Learning to Compete*, that summarizes the results of the project—but, by themselves, changes in the investment climate are unlikely to be enough to overcome the challenges faced by African economies trying to compete in global industry.

Learning from Success

What is the alternative? Beginning with Japan and moving through the “Four Tigers,” Indonesia, Malaysia, Thailand and spectacularly then on to China, East Asian economies all followed quite similar industrial development policies with striking results. The source of their early industrial dynamism came from rapid growth of export manufacturing, based on an “export push”—a

coordinated set of macroeconomic and structural policies designed to boost industrial exports. East Asian countries also actively supported industry more generally, developing programs to encourage diversification and increase firm-level productivity. Today, Cambodia and Vietnam—the two countries that we studied—are taking the same path. Industrial growth in both has been explosive.

The two African countries—Mauritius and Tunisia—that went their own way in terms of policies for industrialization emulated the East Asian model. While it is fair to say that neither country's industrialization story is an unqualified success—both have had some difficulty in making the transition from low-end manufacturing toward more sophisticated and technology-intensive goods—relative to the rest of the continent they are the “leopards” of industry. Perhaps it is time to think again about investment climate reform.

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Wally Menne • 7 months ago

Why can't Africa be different? Why should it follow an environmentally destructive economic model that has failed dismally elsewhere? In my view Africa has the potential to show the world a way out of the horrific mess created by greed-based industrial over-production and wasteful over-consumption.

Open your mind John!

7 ^ | ▾ • Share >



Mutimba • 7 months ago

In a bid to industrialise Africa identifies the need for affordable cost of credit & widely available & affordable electricity and water as some of the key pillars of transformation. Countries implementing projects like the grand Inga hydro project (target 40,000 MW) Ethiopia's Millenium Dam project (target 6,000MW) have clarity of mind. Others like Uganda are also pursuing internally funded drives to transform their grids & road networks after getting frustrated by external finance mechanisms. They will pursue these internal priorities despite the odds. Africa's story is not complete. This is just the beginning.

Mutimba P

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Tom_B_Sr • 7 months ago

So, Wally Menne, set the example! Stop working or receiving a pension; sell your fuel-consuming vehicle; stop eating meat (as it uses so much more of our resources than vegetables); stop using fuel to heat/cool your residence; oh, and stop breathing out all of the CO2! :)

2 ^ | ▾ • Share >



Gadema Quoquoi • 7 months ago

It is about TIME that Africa used some of her highly SKILLED people, both in the Diaspora and in Africa, for her DEVELOPMENT.

Gadema K. Quoquoi

President & CEO

COMPULINE INTERNATIONAL, INC.

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