Manufacturing

Reasons for Africa’s under-industrialisation

Kouassi Yeboua

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Reasons for Africa's under-industrialisation

Initial attempts at developing manufacturing in African countries were through import-substitution industrialisation strategies in the immediate post-colonial period of the 1960s and 1970s. Efforts were made to substitute imported manufactured goods with locally produced goods in domestic markets by first manufacturing intermediate inputs with the aim of upgrading to capital goods. Many African countries achieved modest levels of industrialisation by manufacturing low-value consumer and intermediate goods.

However, this early wave of industrialisation was derailed by various internal and external factors, such as the absence of clear industrial development planning, lack of commitment, poor leadership, debt crisis and the subsequent structural adjustment programmes.[1] In the 1980s, many African states lost interest in industrial policy; factories closed as the IMF and World Bank pressed governments to focus on what they already had an 'advantage' in—often commodities—and to open their markets to foreign competition.[2]

1. The reasons for Africa's under-industrialisation mentioned in the literature can be summarised as follows:[3] It is widely believed that the initial conditions for industrial development did not exist in Africa, including core infrastructure (such as roads and rail) and an educated, productive workforce. Bureaucracy and a seemingly small and unsophisticated financial sector were seen as barriers to entry. Without greater financial depth, many African countries have struggled to attract larger investments.

    However, these initial conditions did not exist at the beginning of industrialisation in Japan, the so-called Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) or China. Greater financial depth, core infrastructure and a better-educated workforce developed in response to incentives, policies and effort. Governments are responsible for creating the right incentives to allow physical, human, social and knowledge capital to develop. That, in turn, requires a governing elite committed to economic growth and sufficient government capacity to formulate and implement policy. Many African leaders govern in the interests of their tribe, ethnic group or region and struggle to keep broad interests and coalitions together. The result is that they either have to extend huge resources to their small band of followers or need a vast system of patronage spread over multiple power brokers to stay in power.

1. Few African countries set out and implemented a concerted package of public investments, appropriate policy and institutional reforms to increase the share of industrial exports in GDP (Mauritius is a rare exception). In most African countries, little or no consistent effort was made to boost non-traditional exports, which still mostly consist of commodities.

2. Providing improved social services and infrastructure in a contained physical area attracts foreign companies and high-quality staff.[4] In low-income countries, the domestic industry generally benefits from positive knowledge spillovers from foreign-owned firms, especially if it is part of the same value chain. Because African governments did not pursue the establishment of local value chains, African firms did not benefit from the few special economic zones (SEZs) that were set up.[5] Instead, manufacturing firms have been dispersed across urban areas (instead of located close to one another), with limited requirements or incentives to source locally, train locals and establish local value chains.[6] Ghana has gone as far as establishing a 'one district, one factory' initiative, with little apparent recognition of the associated requirements or benefits of locating factories closer together.

3. African governments also did not invest in high-quality SEZ infrastructure, promote these zones or bring in professional management. Weak infrastructure drives up the costs of making things. Electricity, a high cost for most manufacturers, costs three times more on average in Africa than it does even in South Asia. Poor roads and congested ports also drive up the cost of moving raw materials about and shipping out finished goods. African SEZs are generally not connected to domestic value chains since the practice (if not policy) of governments has been to treat them as stand-alone enclaves.[7]

4. There is no real commitment and implementation support for FDI.[8] For this reason, most African countries linger at the bottom of various indices concerning the ease of doing business and attracting foreign investment.

5. Several African countries (e.g. Ghana, Kenya, Mozambique, Nigeria, Senegal and Tanzania) have embarked on investment reforms in an effort to improve the physical, institutional and regulatory environments in which firms operate. However, concerted efforts to improve the competitiveness of domestic industries or practical measures to reduce trade friction costs resulting from poor trade logistics have not accompanied these reforms.[9]

6. It is also argued that East Asia's string of successes happened under the 'flying geese' development model, where a 'lead' country creates a slipstream for others to follow. This happened first in the 1970s, when Japan moved labour-intensive manufacturing to Taiwan and South Korea. Similarly, light manufacturing is leaving China for neighbouring Bangladesh and Vietnam. Africa seems to have missed the flock. 'We don't have a leading goose, a Japan,' says Ngozi Okonjo-Iweala, Nigeria's former finance minister.[10]

7. Bad luck has also played a part. When African economies spluttered back into life at the end of the 20th century after decades of poor growth, they not only had to compete with the industrial North but also with a number of countries in East Asia, including China. Import tariffs and nontariff barriers, including import quotas, local content requirements and export subsidies, were often used by the currently industrialised countries during their industrialisation process to protect their 'infant industry'. However, the current global trading regime restricts these instruments. The result was so-called 'premature deindustrialisation' because of employment in the manufacturing sector and manufacturing's share of GDP falling in Africa.[11] For many commentators, the structural constraints on industrialisation were simply too large.

In summary, contrary to successes achieved elsewhere, most African governments have paid little to no attention to making SEZs work, nor have they integrated their approaches to SEZs into a comprehensive policy framework. SEZs have played a large part in the successful industrialisation in Asia. They allowed export-oriented industrial agglomerations to benefit from the advantages of being close to knowledge-intensive institutions, including foreign and domestic companies, research institutes and universities.

Endnotes

1. K Yeboua and R Wait, Free trade deal could boost manufacturing, ISS Today, 8 December 2020.
2. *The Economist*, How manufacturing might take off in Africa, 11 June 2020.
3. C Newman et al, The pursuit of industry: Policies and outcomes, in C Newman et al (eds.), *Manufacturing transformation: Comparative studies of industrial development in Africa and emerging Asia*, Oxford: Oxford University Press, 2016.
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8. C Newman et al, The pursuit of industry: Policies and outcomes, in C Newman et al (eds.), *Manufacturing transformation: Comparative studies of industrial development in Africa and emerging Asia*, Oxford: Oxford University Press, 2016, 17–20.
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10. *The Economist*, More a marathon than a sprint, 7 November 2015
11. D Roderick, Premature deindustrialization, *Journal of Economic Growth*, 21, 2016, 1–33.

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About the authors

Dr Kouassi Yeboua is a senior researcher in African Futures and Innovation programme in Pretoria. He recently served as lead author on ISS studies on the long-term development prospects of the DR Congo, the Horn of Africa, Nigeria and Malawi. Kouassi has published on various issues relating to foreign direct investment in Africa and is interested in development economics, macroeconomics, international economics, and economic modelling. He has a PhD in Economics.

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