



Manufacturing Conclusion

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Last updated 25 April 2024 using IFs 7.84

Conclusion

Today, industrialisation has become one of the most talked about issues among African policymakers. The question of how to make African economies more productive and inclusive is gaining new urgency amid the long lasting effects of the COVID-19 pandemic, Russia's 2022 invasion of Ukraine and the increase in tensions between China and the West.

This analysis has sought to unpack the current state of industrialisation in Africa and to simulate the impact of a manufacturing push scenario on Africa's socio-economic development prospects.

The analysis reveals that since the 1970s, African economies have experienced a limited—as well as limiting—form of structural transformation from low-productivity agriculture to low-end services. Manufacturing and industrial development have never taken off. The continent appears to be de-industrialising at low levels of income. Also, in the majority of African countries, the shares of manufacturing in total employment are very low. The same is true with the shares of manufacturing in the export baskets of most of the countries on the continent.

Africa tends to export unprocessed commodities (e.g. coffee, cocoa, etc.) and to import processed products and finished goods. This trend will likely continue, reflecting the limited value-addition characteristic of most African production and exports.

Economic growth based on increasing commodity exports rather than exports of value-added products cannot induce structural economic transformation. Instead, it has led to economic enclaves in several African countries with few linkages to the rest of the economy. Examples include the oil-producing parts of Angola off the coast of Cabinda, parts of oil-producing Nigeria (in the Niger Delta), sections of Equatorial Guinea and soon the Cabo Delgado province in northern Mozambique with its rich natural gas endowment.

Compare this with the experience of rapidly developed Asian countries such as Japan, the Asian Tigers and Vietnam, where activist governments actively pursued industrialisation, encouraging growth in the manufacturing sector and their entry into global value chains that improved the quality and productivity of the associated goods. They did so deliberately and targeted, working closely with the private sector and adopting an iterative and learning approach. In this manner, these countries steadily upgraded their technical capabilities to meet international standards, often by inviting and partnering with multinational companies to transfer technology, skills and knowledge.[1] Instead, Africa has relied on exporting primary commodities, which has long been conceptually and empirically linked with underdevelopment. A thicket of complex regulations, corruption, and poor infrastructure often hinder foreign manufacturing sector investment.

Today, global value chains are shifting closer to the market and, in some instances, becoming more regional. These developments offer opportunities for Africa, which generally forms only a peripheral part of these chains. Modern technology provides significant opportunities for industrial latecomers to skip over the brick-and-mortar institutions of yesteryear into a world where banking and sourcing of inputs occur remotely while benefiting from a decline in the financial investment required to embark on manufacturing. New technologies enable greater flexibility and customisation, shifting production closer to the consumer.

The most important driver of shifting value chains in the 21st century is the signs of increased manufacturing nationalism and diversification away from the global factory in China. In the US and Europe, the push for energy independence, China's trade surplus and xenophobia led to the election of Donald Trump as president, who routinely scapegoated China for apparent unfair trade practices. The result was that the US imposed tariffs and restrictions on Chinese imports before settling on an uncomfortable trade deal early in 2020. Later that year, the European Union (EU) also released a new industrial strategy for Europe,[2] which set out its ambitions towards reinforcing the EU's industrial and strategic autonomy to delink from China for 'critical materials and technologies, food, infrastructure, security and other strategic

areas.' Shortly after assuming office, President Biden's administration launched a comprehensive [US industrial strategy](#) - the first explicit effort at federal level in several decades.

The increased global geopolitical tensions associated with tension between the US and China and the Russian-Ukraine war have given impetus to the trend towards. Many firms and policymakers are seeking to make their supply chains more resilient by moving production home or to geopolitically aligned countries (friend-shoring).

These developments are all to Africa's potential advantage. With its large and growing population, the continent offers a sizeable future market and labour force and facilitates geography—provided it can unlock the potential of its segmented market, currently divided into 55 national geographies.

Declining agriculture and manufacturing sectors and an increase in the relative contribution of the low-end service sector on the Current Path will likely bring only modest reductions in poverty, with a significantly more significant proportion of the working poor found in services and agriculture. Rapid poverty reduction in Africa is intimately associated with changes to and within the agricultural and manufacturing sectors. The IFs Current Path forecast suggests that most African countries will make only slow progress to reduce extreme poverty, with the bulk of impoverished people increasingly concentrated in countries such as Nigeria, the DR Congo and Madagascar. However, more rapid progress is possible with the right policies and dedicated effort.

To develop, Africa needs to transform its economies to become more productive and to enable more rapid income growth. Traditionally, that has been achieved through industrialisation, although the breakthroughs in improvements in productivity in services also mean that services-led growth can translate more rapidly into improvements in other sectors. Many authors[3] suggest that key manufacturing characteristics, such as tradability, scale, innovation and learning by doing, are becoming features of modern services too. An IMF study[4] indicates that two types of services—transport and communications and financial intermediation and business services (rentals of machinery and equipment, software and data processing, R&D and professional services)—tend to exhibit labour productivity growth similar to or higher than manufacturing.

Starting from a low base, where most workers engage in subsistence farming or informal services, Africa has more to gain from structural economic transformation than other developing regions. But it has yet to manage to achieve this. Industrialisation in Africa will create more formal direct and indirect jobs because it will change the productive structures of African economies and unlock more rapid growth. The continent needs to invest in lowering transport and infrastructure costs, ensure policy certainty and work towards a low regulatory burden to compensate for Africa's relatively high labour costs. It must also ensure the success of trade integration to provide larger markets and rapid digitisation. Collectively, this will attract and grow manufacturing. All of this requires an explicit industrial policy, the deliberate steering of industry 'to capture learning and innovation externalities', in the words of Harvard economist [Dani Rodrik](#).

In a future where more goods will be produced and consumed in regional rather than global markets, and possibly in a much more distributed manner, Africa has considerable opportunities for industrialisation and regional trade. However, this will happen only if Africa embarks on a deliberate effort to go up the manufacturing curve and establish and support SEZs, sets clear industrial policies, provides relevant education and invests in the necessary digital backbone. Digital production will play a role in this journey, highlighting the importance of investing in ICT.

The Manufacturing scenario modelled in this theme shows that an industrialisation push in Africa has the potential to unlock more rapid economic growth rates, increase jobs in the formal sector, and reduce poverty.

However, industrialisation takes time and effort. It requires deliberate policies and visionary and determined leadership to embark on this journey, especially in resource-rich countries where the abundance of petrodollars makes importing

various goods and services easier. Industrialisation requires constructive relationships between the state and the private sector, which it encourages and supports. Firms need a state with solid capabilities in setting an overall economic vision and strategy, efficiently providing supportive infrastructure and services, maintaining a regulatory environment conducive to entrepreneurial activity, and making it easier to acquire new technology and enter new economic activities and markets.

African leaders should learn from the Asian countries where governments played a significant role in their industrialisation. The leading 'hand of the state' steered labour and capital into activities the market would not necessarily undertake. For instance, in the 1960s, South Korea exported rice, silk, wigs and tungsten.[5] With the ambition to industrialise hard and intelligent work, the country embarked on developing shipbuilding, electronics and car industries. South Korea has today a dynamic industrial base with flagship products like televisions, cellphones and, among others, motor vehicles. South Korea's path would have been quite different without its developmentally oriented leaders with an appetite for risk-taking.

This is not impossible for Africa which needs to learn from experience elsewhere. There is a need to re-galvanise political leadership for accelerated inclusive and sustainable industrialisation in Africa. Reforms should be undertaken to boost manufacturing to capture a large part of the growing demand for processed goods and other products such as motor vehicles, manufactures of metals and industrial machinery on the continent. Africa's natural comparative advantage in agro-business, solid minerals and metals, and oil and gas could be leveraged through commodity-based manufacturing.

To this end, African authorities should continue their reform efforts to improve the business climate and economic freedom to attract domestic and foreign investment to the manufacturing industry. Public procurement should be used strategically to patronise domestically produced goods.

Also, African countries should develop their people's skills to produce intermediate and final goods of high quality. To this end, partnerships with the private sector should address the vast skills mismatch and promote productivity in manufacturing processes. Investing in good 'hard' and 'soft' infrastructure and energy and developing a continental financing platform that supports industrialisation is also necessary. They should equally ensure macroeconomic stability and the success of the African continental free trade agreement (trade integration) to provide larger markets and create economies of scale.

Finally, domestic revenue mobilisation should be prioritised with a particular emphasis on fighting illicit financial flows, depriving the continent of approximately US\$90 billion annually that could advance industrialisation through more investment.

Chart 16: Summary of key recommendations

Africa must

1. Ensure constructive relationships between the state and the private sector, which it encourages and supports
2. Ensure policy certainty and work towards a low regulatory burden and the rule of law to attract more manufacturing FDI
3. Invest in good 'hard' and 'soft' infrastructure and energy
4. Provide a stable macroeconomic environment
5. Embark on a deliberate effort to go up the manufacturing curve by setting clear industrial policies
6. Ensure the success of trade integration for larger markets and to create economies of scale
7. Leverage its natural comparative advantage in agro-business, solid minerals and metals, and oil and gas should through commodity-based manufacturing
8. Develop the skills of its people for the production of intermediate and final goods of high quality
9. Develop a continental financing platform that supports industrialisation
10. Enhance domestic revenue mobilisation to advance industrialisation through investment and spending on research and development

Endnotes

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Cite this research

Kouassi Yeboua (2024) Manufacturing. Published online at futures.issafrica.org. Retrieved from <https://futures.issafrica.org/thematic/07-manufacturing/> [Online Resource] Updated 25 April 2024.

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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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