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The Nuts and Bolts of Industrialization in Africa

By Habtamu Legas

Africa has witnessed remarkable economic growth since the turn of the millennium. It has become the second-fastest growing region in the world and continues this path despite the persistent global economic slowdown. Tellingly, the continent is still reliant on agriculture and the exportation of raw materials for economic growth. As such, it remains on the margins of industrialization. It is even less industrialized today than it was four decades ago. For example, the contribution of Africa's manufacturing sector to the continent's gross domestic product declined from 12% in 1980 to 11% in 2013. It is also branded by very low and declining shares of manufacturing value added (MVA) in GDP. In 2014, its MVA accounted for just 1.6 percent of the global total, and its growth has lagged far behind that of all other regions since 1990. Africa also displays the lowest portion of regional medium- and high-tech share in the global arena.

So, how can Africa industrialize given its growing labor force and abundant natural resources? In view of this increasingly important question, the African Development Bank (AfDB) released a new report entitled Industrialize Africa: Strategies, Policies, Institutions and Financing. This report details many lessons that center upon the ways industrialization can lead to a more resilient economy in Africa.

The report underscores that development performance and industrial development are essentially pertinent to political commitment. Strong political commitment and the audacity to implement the right policies, even in the face of strong external opposition, should be the norms for developing countries. It evinces that governments cannot continue business as usual. They must shake off the shackles of orthodoxy.

Selective diversification/resource based industrialization is another issue that received a great deal of attention throughout the report regarding the issue of building a more buoyant economy. Broadening and deepening the industrial and export base would ease the entry and exit of firms and enhance competitiveness and productivity through the elimination of less-competitive firms, while making them less vulnerable to outside shocks. Per the report, the employment opportunities created from the sheer scale and diversity of the manufacturing sector in Asia, can be archetypal for Africa.

The report also highlighted that industrial policy is all about establishing links in an economy. Industrial development fundamentally entails coordinated actions in various areas of an economy, including: investing in infrastructure development in energy production, transport and ICT; implementing reforms to improve the business environment; upgrading labor and entrepreneurial skills; and increasing efficiency in production technology and market access, both inside and outside of Africa.

Quality industrial policy initiatives are as well labelled to be intrinsically grounded in effective business-government coordination. Additionally, it suggested prioritizing home-grown solutions to donor-driven initiatives. In this regard, economists like Ha-Joon Chang, an economist at the University of Cambridge, have indicated that one of the mains reasons for Africa's slow industrialization is that its leaders have failed to pursue bold economic policies out of fear of antagonizing donors. He also calls for policy imagination and urges African policymakers to avoid being bound to any single theoretical policy. Chang has stressed that African countries need to have the self-confidence to develop alternative policies and stick to them. Against this backdrop, Ethiopia, Rwanda and Tanzania were considered to be successful by embracing policies that targeted and favored their own manufacturing industries. Per the report, Governments in these countries control, manage and regulate economies that have adopted investor-friendly policies, and, most importantly, they have shown a commitment to, and ownership of, these policies.

The report also described the kind of structural transformation needed for Africa as one that is moving towards a green economy, a learning society, and an innovation economy. It is further indicated that innovation across the globe – including developing countries – is largely focused on saving labor, which goes in exactly the wrong direction. As such, the report stresses innovation that focuses on saving the planet and protecting the environment and is less involved in saving labor. The experience in Ethiopia does show that industrial policy can work and thrive in a low-income African country, and that the state can and should play an activist developmental role.

In sum, the report noted that smart industrial policy, structural transformations and a move towards processing the continent's raw materials into value-added products can be the nuts and bolts of industrialization in Africa.

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