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# Economic development in Africa: Fostering industrial development in Africa in the new global environment[1]

## Note by the UNCTAD secretariat

*Executive summary*

The *Economic Development in Africa Report 2011* examines the status of industrial development in Africa, with a focus on the identification of "stylized facts" associated with African manufacturing. It also provides an analysis of past attempts at promoting industrial development in the region, and lessons learned from these experiences. Furthermore, it offers policy recommendations on how to foster industrial development in Africa in the new global environment that is characterized by changing international trade rules, the growing influence of industrial powers from the South, the internationalization of production, and increasing concerns about climate change.

The report argues that a new industrial policy is needed to induce structural transformation and engender development in African economies. The report advocates a strategic approach to industrial policymaking that is based on an industrial diagnosis, and proposes a framework for industrial strategy design that takes account of the heterogeneity of African economies, is tailored to country-specific circumstances, and is produced via participatory and collaborative policymaking with close consultation between the government and the private sector. Furthermore, the report suggests that efforts to promote industrial development in Africa should focus on (a) the promotion of scientific and technological innovation; (b) the creation of linkages in the domestic economy; (c) the promotion of entrepreneurship; (d) the improvement of government capabilities; (e) the adoption of appropriate monetary and fiscal policies; (f) avoiding exchange rate overvaluation; (g) enhancing resource mobilization; (h) strengthening regional integration; and (i) the maintenance of political stability. This note outlines the main findings and policy recommendations of the report.

[1] This note is an overview which should be read in conjunction with the full *Economic Development in Africa Report 2011* (UNCTAD/ALDC/AFRICA/2011).

# I. Main findings

**Manufacturing plays a limited role in African economies.**

1. The share of manufacturing value added (MVA) in Africa’s gross domestic product (GDP) fell from 12.8 per cent in 2000 to 10.5 per cent in 2008. In Latin America, it fell from 17 per cent to 16 per cent, and in developing Asia it rose from 22 per cent to 35 per cent, over the same period. There has also been a decline in the importance of manufacturing in Africa’s exports. In particular, the share of manufactures in Africa’s total exports fell from 43 per cent in 2000 to 39 per cent in 2008. Factors that have contributed to Africa’s weak industrial performance include domestic policy failures; lack of policy space to implement alternative development policies; and structural constraints, such as poor infrastructure, low human capital and the small size of domestic markets.

**Manufacturing performance varies across African countries.**

2. In particular, there is a wide variance across countries in terms of both the level and the growth of MVA per capita. In 1990, six out of the 52 African countries for which data are available had an MVA per capita of at least $200, and in 2010, the number of countries with an MVA per capita of at least $200 was nine. In terms of manufacturing growth, 23 African countries had negative MVA per capita growth over the 1990–2010 period, and five countries had an MVA per capita growth of above 4 per cent.

**Africa still accounts for a low share of global manufacturing.**

3. Africa continues to be marginalized in global manufacturing trade. Its share of global MVA fell from 1.2 per cent in 2000 to 1.1 per cent in 2008. In developing Asia, the share rose from 13 per cent to 25 per cent, and in Latin America it fell from 6 per cent to 5 per cent, over the same period. As far as exports are concerned, Africa’s share of global manufacturing exports rose from 1 per cent in 2000 to 1.3 per cent in 2008.

**Africa is losing ground in labour-intensive manufacturing.**

4. Low-technology and labour-intensive manufactures play a limited role in African manufacturing. The share of low-technology manufacturing activities in MVA fell from 23 per cent in 2000 to 20 per cent in 2008. Furthermore, the share of low-technology manufacturing exports in Africa’s total manufacturing exports dropped from 25 per cent in 2000 to 18 per cent in 2008.

**Africa has made some progress in boosting technology-intensive manufactures.**

5. The share of medium- and high-technology activities in Africa’s total MVA rose from 25 per cent in 2000 to 29 per cent in 2008. Furthermore, the share of medium- and high-technology exports in total manufacturing exports rose from 23 per cent to 33 per cent over the same period.

**Africa is heavily dependent on resource-based manufacturing.**

6. Africa is heavily dependent on resource-based manufactures. In particular, the share of resource-based manufactures in Africa’s total manufacturing exports was 52 per cent in 2000 and 49 per cent in 2008. This contrasts with the situation in Latin America, and in East Asia and the Pacific, where the shares of resource-based manufactures in total manufacturing exports in 2008 were 34 per cent and 13 per cent respectively.

**African manufacturing is dominated by small and informal firms.**

7. In most African countries, the manufacturing sector is made up of small enterprises or microenterprises operating side by side with a small number of large foreign or state-owned firms. Furthermore, most enterprises are informal firms. Informal

firms are smaller in size, produce to order, are run by managers with low human capital, do not have access to external finance, do not advertise their products, and largely sell to informal clients for cash. In addition, informal firms rarely become formal as they grow.

**Industrial clusters play an important role in African manufacturing.**

8. There is some evidence suggesting that industrial clusters have contributed to boosting the competitiveness of small and medium-sized firms in Africa. These clusters make market access easier, facilitate technological spillovers, and reduce geographical and information costs for firms. They also cover a wide spectrum of areas, ranging from resource-based activities to high-technology industries such as automobile parts and computer manufacturing.

# II. Policy recommendations

9. The report suggests that African countries should intensify efforts to develop manufacturing, because it presents great opportunities for sustained growth, employment, and poverty reduction. Furthermore, it argues that deliberate government intervention is needed in Africa to promote manufacturing development, induce structural transformation, and engender development. The experiences of currently advanced countries, and of emerging economies, indicate that governments have an important role to play in inducing structural transformation. In particular, industrial policies have been used by these countries to redirect resources and production towards priority activities deemed necessary to promote industrialization. Consequently, the report recommends that governments in Africa make deliberate efforts to promote industrialization through industrial policy.

10. While there is a case for industrial policy in Africa, there is also recognition that the past approaches to promoting industrialization did not achieve the objective of economic transformation. Neither the old industrial policies, adopted during a period of import substitution industrialization, nor the market and investment-climate reforms are sufficient to induce structural transformation in the region. In this regard, the report stresses the need for African Governments to adopt a new approach to industrial policy based on the following principles: (a) supporting, as well as challenging firms; (b) building effective State–business relations; (c) recognizing the political feasibility of proposed actions; (d) focusing on lifting binding constraints; and (e) putting in place a mechanism for monitoring, evaluation and accountability.

11. The report advocates a strategic approach to industrial policymaking based on an industrial diagnosis; it proposes a framework for industrial strategy design that takes into account the heterogeneity of African economies and is tailored to specific country circumstances. It presents a typology of industrial performance of African countries, which might be used at an initial stage to consider possible strategic options for different countries. The typology presented in box 1 is based on two indicators: their industrialization level in 2010, and industrial growth performance in the period 1990–2010.[2]

[2] In order to focus on the most critical features, a third indicator, namely the share of individual countries in total African manufacturing, is excluded here. This dimension is less critical for our analysis, because we are focusing on the current situation of individual countries rather than the impact of individual countries on African manufacturing. However, it must be noted that, due to their large population and high per capita MVA, South Africa and Egypt alone account for more than 50 per cent of African manufacturing capacity today.

12. The report also stresses the need for industrial policy to lay emphasis on (a) the promotion of scientific and technological innovation; (b) the creation of linkages in the domestic economy; (c) the promotion of entrepreneurship; and (d) the improvement of government capabilities.

**Fostering scientific and technological innovation**

13. The accumulation of technological knowledge and capabilities is critical to inducing structural transformation and gaining competitive advantage in export markets. African countries should provide more support for technology and innovation. This could take the form of stimulating the domestic production of technological knowledge by providing incentives to entrepreneurs, or it could take the form of facilitating access to existing technology through foreign direct investment (FDI), licensing, and purchasing capital equipment. African countries should also invest in education and skill formation to ensure that firms have reliable access to the skilled labour required to produce high-quality goods that can survive competition in global markets. Particular attention should be paid to enhancing education and training in technical and scientific subjects such as engineering, because these are the most relevant for industrial development.

**Creating linkages in the economy**

14. African countries should give priority to the creation or development of linkages in the domestic economy to ensure that the promotion of industrial development yields positive spillover benefits in other sectors of the economy. There are various ways to create domestic linkages in an economy. For example, the promotion of agro-industries is one way to develop domestic linkages between the industrial and agricultural sectors of an economy. In addition, linkages can be created between domestic and foreign firms by building domestic technological capabilities. Policies to support industrial clusters are also important.

**Promoting entrepreneurship**

15. African countries should step up efforts to promote entrepreneurship by creating an economic environment that favours both domestic and foreign investment. In particular, they should reduce policy uncertainty, strengthen infrastructure provision, and improve access to finance for firms, particularly small and medium-sized enterprises (SMEs). Efforts should also be made to provide incentives for firms to invest in the discovery of new activities that enhance export competitiveness and diversification.

**Improving government capabilities**

16. In promoting industrial development, African countries should ensure that the scope and degree of intervention takes into account government capabilities. Weak State institutions make it challenging for governments to successfully implement their industrial development programmes and policies. In this context, African Governments should give priority to enhancing government capabilities to design, formulate and implement policies. This can be achieved by providing training and capacity-building activities for public officials with support from international organizations such as the United Nations Industrial Development Organization (UNIDO) and UNCTAD.

17. The report points out that industrial policy cannot be implemented in a vacuum. It has to be consistent with other economic policies for better development results. In this regard, it recommends the following additional and complementary measures:

**Avoiding exchange rate overvaluation**

18. Exchange rate policy affects the development of manufacturing firms, as well as their ability to compete in international markets. In particular, a competitive exchange rate promotes exports and allows domestic firms to seize opportunities created in

international markets. When the exchange rate is overvalued relative to its equilibrium value, it represents an implicit tax on exports and a disincentive for firms to invest in the export sector. African countries should avoid exchange rate overvaluation by – for example – controlling inflation, managing natural resource wealth in a manner that minimizes risk of Dutch disease, and, where appropriate, adopting more flexible exchange rate regimes.[3]

**Adopting appropriate monetary and fiscal policies**

19. The effectiveness of industrial programmes and policy also depends in part on the extent to which monetary and fiscal policies are consistent with the objective of promoting industrial development. In particular, the mix of monetary and fiscal policies has to be such that firms have better access to credit, and real interest rates are not at levels that deter investment. It is necessary to align the stance of monetary and fiscal policies with the objective of promoting industrial development, while ensuring that measures adopted to achieve such an alignment do not lead to medium- or long-term macroeconomic instability.

**Enhancing resource mobilization**

20. The promotion of industrial development requires the mobilization of resources to finance investments in identified priority areas. There has been a tendency for African Governments to focus on resource allocation as opposed to resource mobilization issues in the conduct of industrial policy. African countries should pay more attention to the mobilization of resources, and should strengthen resource mobilization by boosting domestic savings, borrowing from development finance institutions, promoting FDI, harnessing the potential of South–South cooperation as a source of development finance, and encouraging traditional development partners to direct more official development assistance towards promoting industrial development in the region.

21. The report also recognizes the importance of regional integration and political stability in developing and sustaining industrialization in Africa.[4] Consequently, it calls upon African Governments to strengthen regional integration and enhance political stability.

**Strengthening regional integration**

22. Building a robust regional market is necessary in order to unlock Africa's manufacturing potential and prepare it to compete in global export markets. Regional integration can contribute to building robust regional markets through, for example, cooperation in the development of regional infrastructure, harmonization of policies, and maintenance of political stability. Given the small domestic markets of African economies, the regional market can be a force for industrial development in the region. This is important because, unlike Africa's exports to the rest of the world which are skewed towards commodities and against manufactures, the share of manufactures in intra-African exports is high. In 2009, manufactures accounted for about 40 per cent of intra-African exports, while their share of Africa's exports to the rest of the world was about 18 per cent. Furthermore, Africa is a fast-growing region of the world, both in terms of population and income. As a result, the region is increasingly becoming an

[3] UNCTAD. Trade and Development Report 2010: Employment, Globalization and Development (chapter 1) and Trade and Development Report 2009: Responding to the Global Crisis & Climate Change Mitigation and Development (chapters 2 and 4).

[4] UNCTAD. Economic Development in Africa Report 2010 – South–South Cooperation: Africa and the New Forms of Development Partnership and Economic Development in Africa Report 2009: Strengthening Regional Economic Integration for Africa's Development.

important source of export demand that could form the basis for initiating and sustaining industrial development.

**Maintaining political stability**

23. Political stability is a necessary condition for sustainable industrial development in Africa. Without political stability, even a well-designed and well-implemented industrialization programme is bound to fail. Therefore, efforts should be made by African Governments to reduce the incidence of political crisis – for example through better political and economic governance. In addition, the role of regional institutions, such as the African Union Commission and the regional economic communities, should be strengthened in the areas of crisis prevention, management and resolution.

**Box 1. A typology of African countries based on industrialization level and industrial growth performance**

The industrialization level of each country is captured by its manufacturing value added per capita. This indicator allows us to identify African countries which have a substantially higher manufacturing capacity than the regional average, as well as those that do not yet possess any sizeable manufacturing activities. Since the regional average MVA per capita is $100, African countries that have an MVA per capita level of $200 and above are considered to have a relatively advanced industrialization level. It should be noted that the threshold level used is twice the regional average.

Industrial growth performance is captured by the compound annual growth rate of MVA per capita. This indicator allows us to identify the most dynamic African industrializers, as well as stagnating and de-industrializing countries. Countries that have an MVA per capita growth rate higher than 2.5 per cent are regarded as having relatively very high growth performance. The 2.5 per cent threshold is about 3.5 times the African average MVA per capita growth of 0.7 per cent.

Based on these indicators, African countries can be divided into five groups (see fig. 1):

(a) The first group of countries (forerunners) is on a long-term sustained growth path, with an industrialization level at least twice the African average, and an industrial growth performance of at least 2.5 per cent;

(b) The second group of countries (achievers) also attained a comparatively high industrialization level in per capita terms. However, their industrial growth performance is below the 2.5 per cent threshold;

(c) The third group of countries (catching-up) is on a fairly promising fast growth path which, if sustained, has the potential to take them to a substantially higher industrialization level in a relatively short timeframe;

(d) The fourth group of countries (falling behind) has a relatively low industrialization level, and unlike the catching-up countries, did not manage to achieve an industrial growth rate high enough to significantly improve their situation; and

(e) The final group of countries (infant stage) has a very low industrialization level, as well as very poor industrial growth performance. Many countries in this group have had negative MVA per capita growth in recent years. It is not clear whether or not they can manage to initiate an industrialization process successfully. So far, their manufacturing capacity amounts to less than one tenth that of the achievers and forerunners, and there are very few signs of improvements in manufacturing growth performance.

Source: UNCTAD.

**Figure 1.**
**African countries' industrial performance**