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Towards Inclusive and Sustainable Structural Transformation in Africa: The Role of Industrialization

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Outline of the Presentation

- I. Growth in Africa
- II. Structural Transformation and Manufacturing
- III. Africa's Manufacturing Sector Performance
- IV. Key Bottlenecks
- V. Existing Opportunities for Industrialization
- VI. The Need for Comprehensive & Realistic Industrial Policy
- VII. The African Development Bank's Hi-5 Priorities



Key Messages

- Sustained and inclusive development requires a structural transformation in which manufacturing plays a key role.
- Africa's manufacturing sector is still in infancy in most countries.
- Bold and Transformative Industrial Policy is needed.
- The African Development Bank is a natural partner through its Hi-5 Priorities.



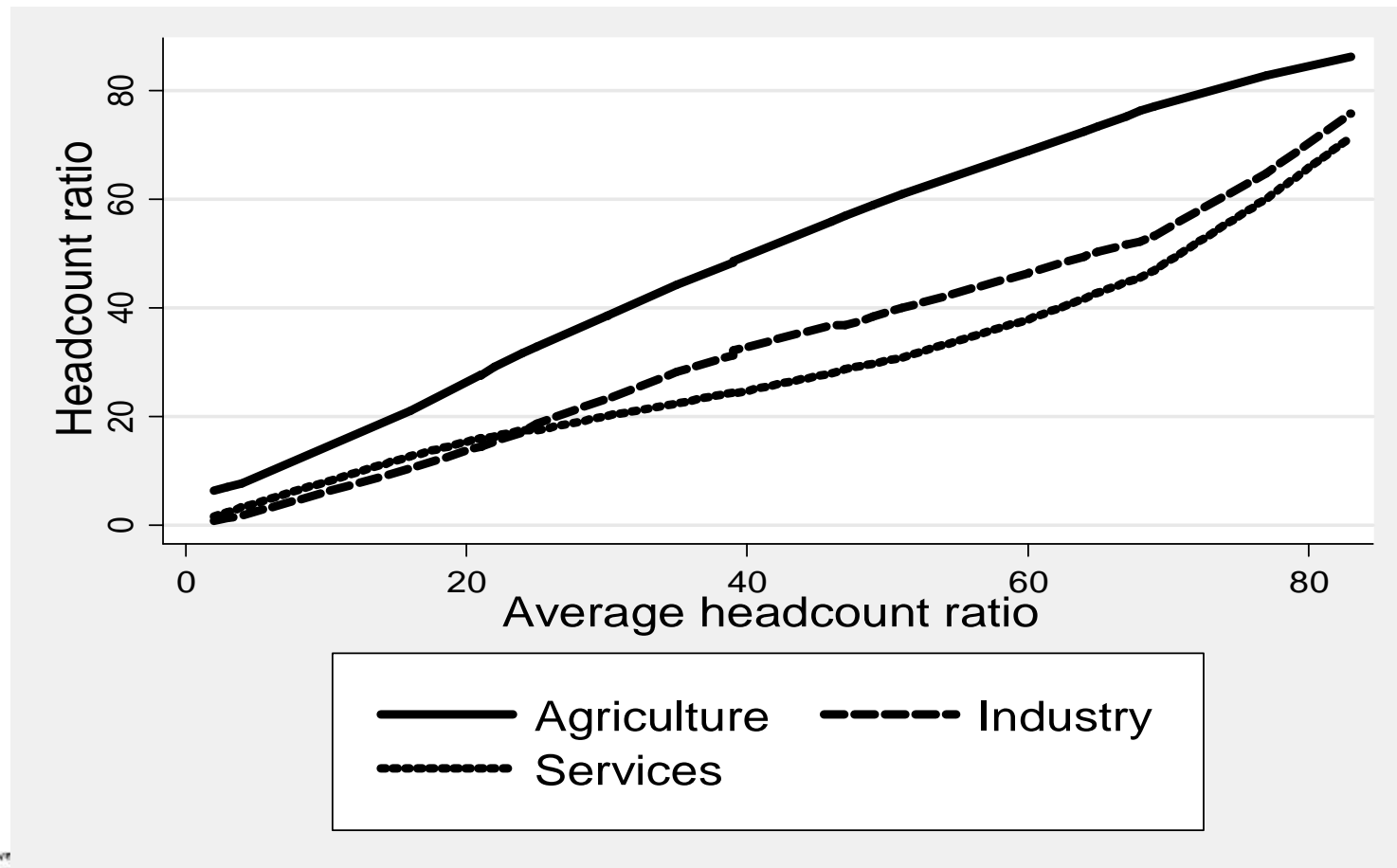
Growth in Africa

- African countries have enjoyed high economic growth, with average GDP growth increase from just above 2% in the 80s and 90s to above 5% between 2001 and 2014.
- However, this growth has not been mainly inclusive.
- The fall in commodity prices and its consequence on GDP growth of some countries highlights the need for structural change.



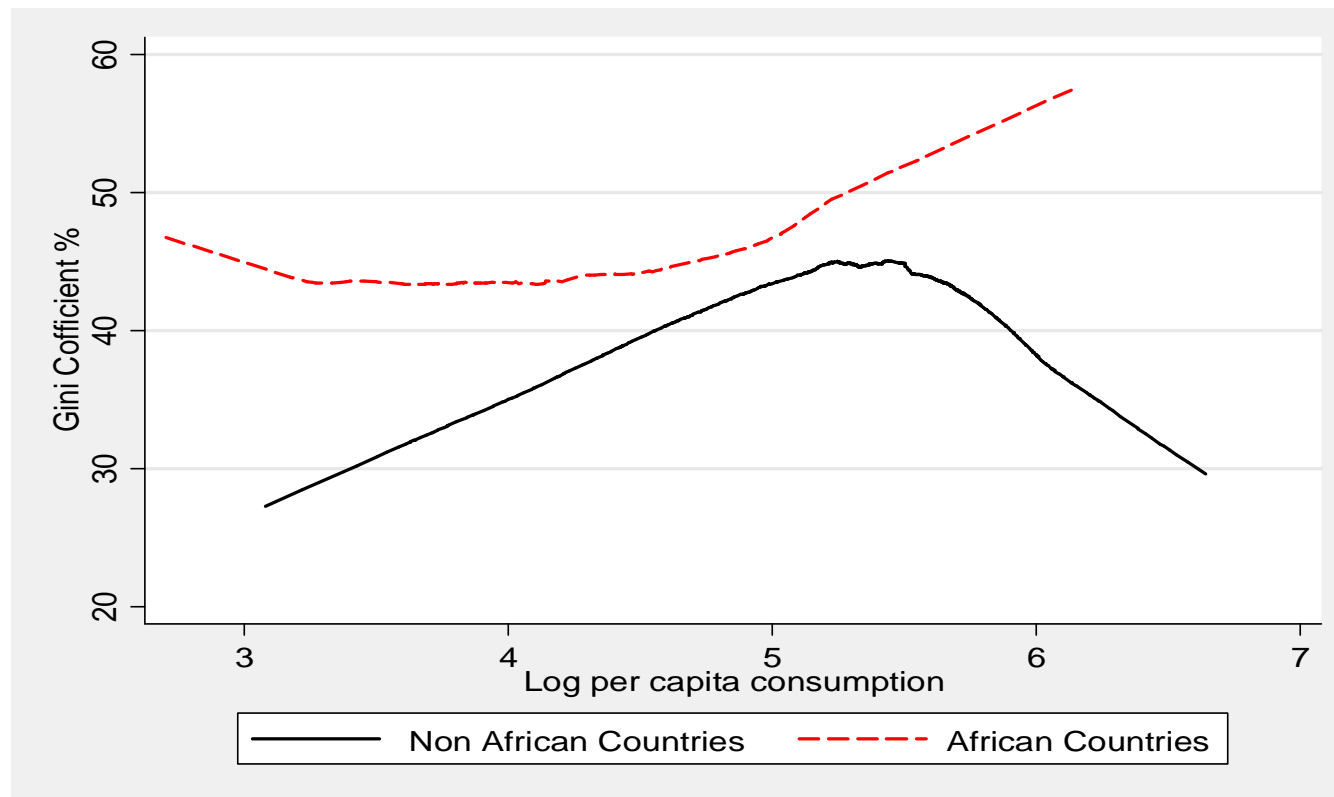
Poverty in Africa

Employment in subsistence agriculture is the major source of poverty in Africa

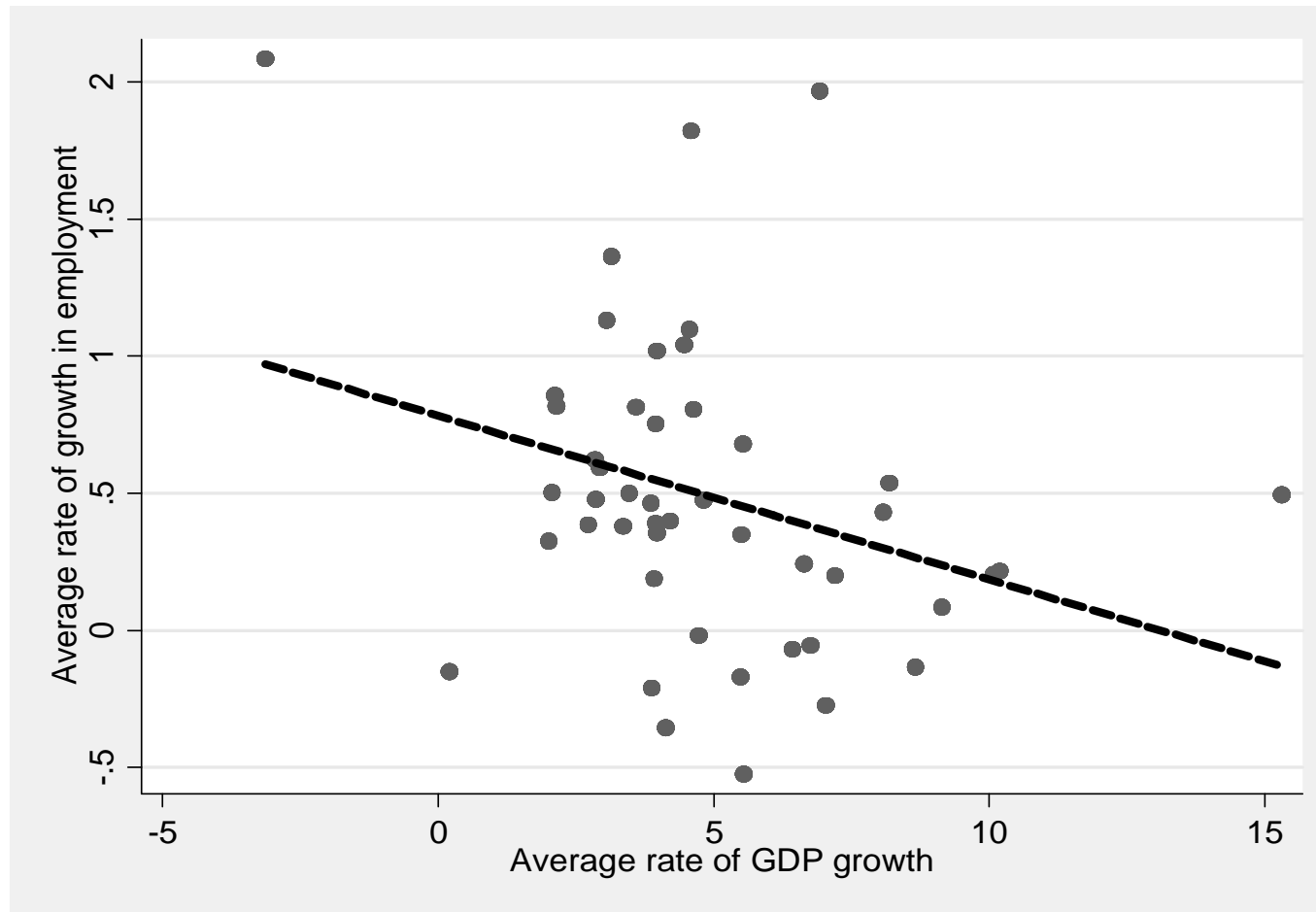


Inequality in Africa (2)

Inequality in Africa is high regardless of “level of development” (*Povcal* database)



Fast growing countries generated less employment



Structural Transformation in Africa

- Structural change refers to long-term persistent changes in the composition, i.e. relative importance, of sectors in an economy.
- More specifically, it can be defined as a move from low productivity, low-technology and/or labour-intensive activities in traditional sectors such as agriculture, towards higher productivity, high-technology and/or skill intensive activities of the modern sector; which typically dominated by manufacturing and services.
- Structural transformation can be analysed from several perspectives:
 - sectoral shifts in economic structure
 - technological upgrading (within sectors)
 - diversification
- Sustained and inclusive development requires structural change (UNIDO 2013).



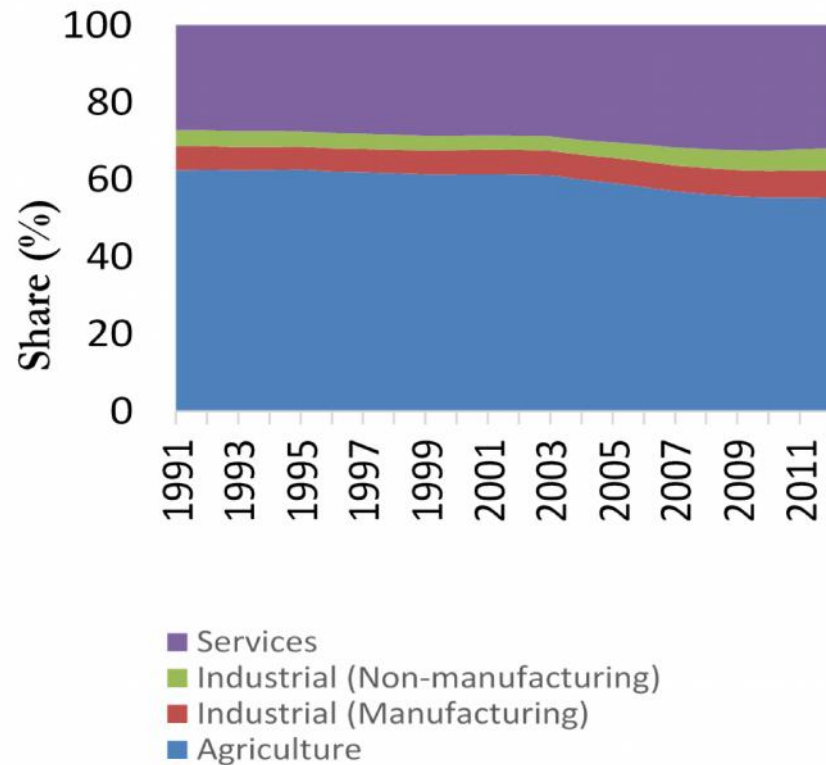
I. Role of Manufacturing

- A vibrant manufacturing sector is a critical driver of inclusive growth and shared prosperity).
- Manufacturing:
 - Stimulates technological change with the adoption, mastery and development of improved production processes and new technologies, boosting productivity throughout the economy.
 - Promotes forward and backward linkages resulting in the development of other related sectors as well as growth in support sectors such as finance or transport.
 - Is necessary for African countries to benefit from expanding markets for manufacturing goods, which represent over 80% of world merchandise exports.

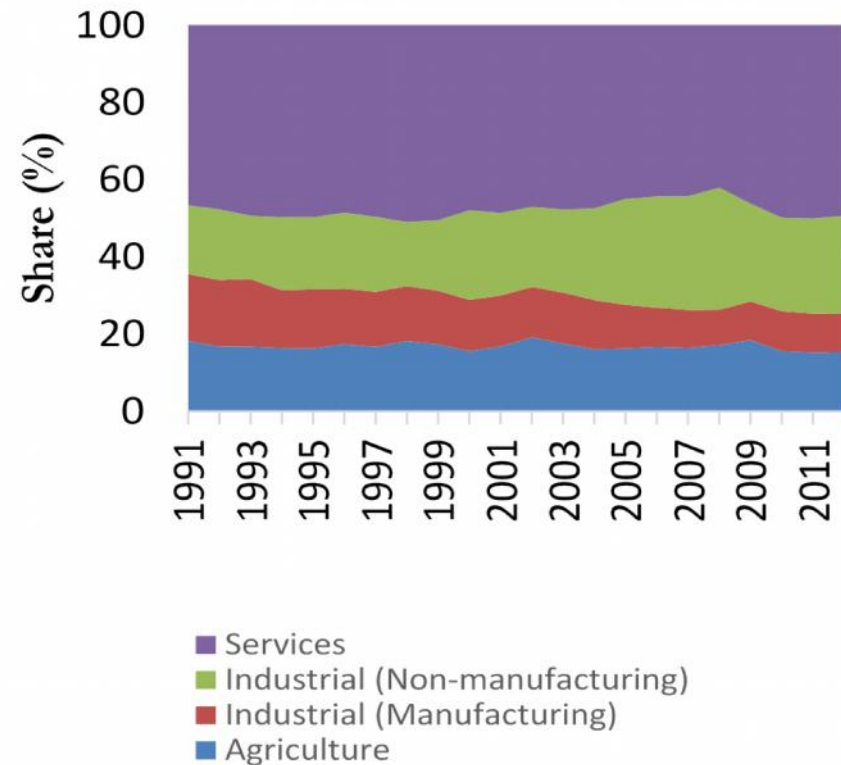


II. Africa's Manufacturing Sector Performance (1)

Panel A: Employment Structure

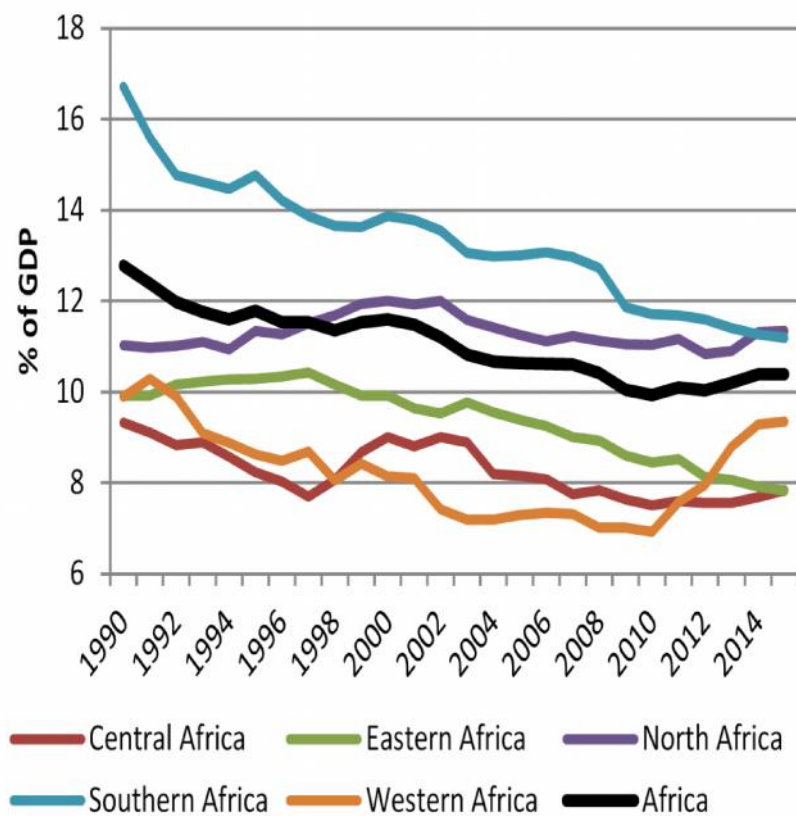


Panel B: Production Structure

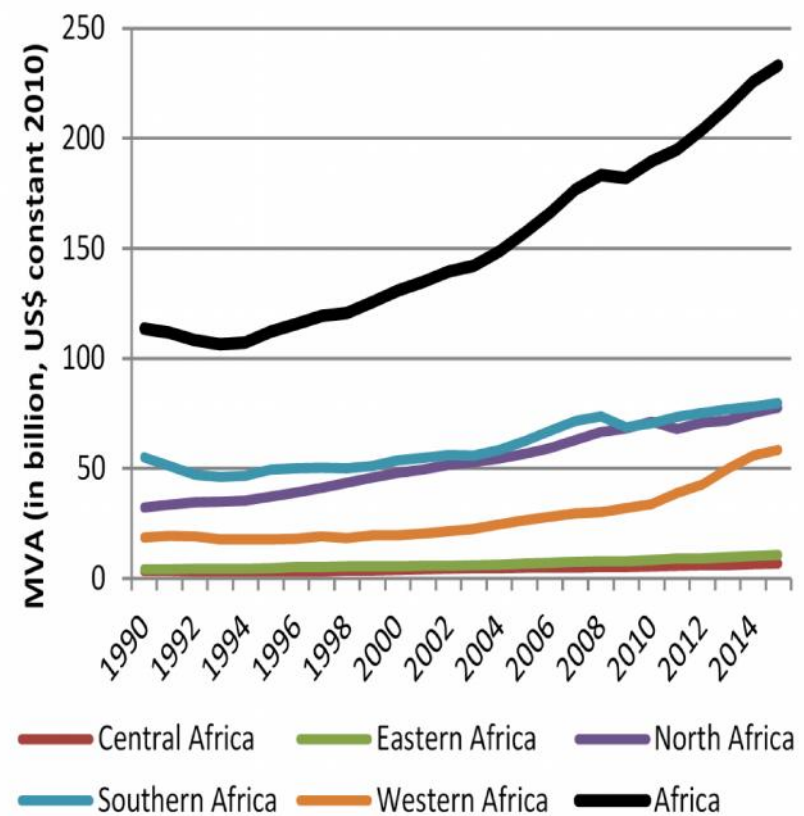


II. Africa's Manufacturing Sector Performance (2)

Panel A: Share of MVA in GDP



Panel B: MVA Levels



IV. Key Bottlenecks (1)

- **Infrastructure deficit**, relative to transportation, ICT or irrigation, constitutes a key constrain to development.
- **Human capital deficit**: There are too few skilled labour (scientists and engineers) in sectors that can drive African economic transformation:
 - For example, the share of students in Engineering, Manufacturing and Construction programmes was 3% in Burundi, 4.3% in Cameroon, 4.5% in Mozambique, 5.9% in Ghana, 12.8% in Morocco (12.8% in 2010); compared to above 20% Germany, Austria, Mexico or Malaysia.
- **Challenging business environment**: Despite remarkable progress, there is still an enormous effort to be made in terms of regulations and securing investments.



IV. Key Bottlenecks (2)

- **Financing:** Given the erosion and volatility of external sources of revenues (e.g. foreign aid), Africa needs to strengthen internal resources mobilization for greater independence in terms of policy choices:
 - Africa collects more than USD 520 billion per year in domestic taxes; but in 2015, average tax to GDP ratio was about 20% in Africa, compared to 34.3% in OECD countries.
 - Other sources include:
 - Remittances at about USD 62 billion in 2014.
 - Capital markets which are playing an increasingly important role, particularly in long-term financing that is key for industrial and infrastructure development.
 - Private equity funds, venture capital, for innovative start-ups.
 - African pension funds and sovereign wealth funds.



V. Multiple Opportunities for Industrialization

- Natural resource endowments facilitates the use of the **primary sector for resource-based industrialization**; over \$82 trillion in discovered natural resources (AfDB 2016).
- **Demand for manufactured goods is growing, with the continent having recorded the highest growth in manufactures imports of (140.6% in absolute terms) between 2005–2014** (Balchin et al. 2016).
- **Africa is attracting more FDI into manufacturing**, amounting to about 26% in 2015, second to the service sector (52%) but before the mining sector (22%) (UNCTAD 2016):
 - Rising labour costs and technological upgrading in large middle-income countries: China, India, and Brazil.
- **Participation in Global Value Chains is on the rise**, with successful integration by countries such as such as Ethiopia, Kenya, Morocco, Seychelles, South Africa, or Tanzania.
- **Regional integration is expanding markets**, with e.g. the “Tripartite Free Trade Area” having given birth to the largest free trade area in Africa in 2015; covering 26 countries for an estimated market of 669 million people and a GDP of 1210 billion dollars.
- **Emerging industries can be entered by :**
 - Developing green industries such as solar panels or wind turbines, recycling or waste management companies
 - Leveraging services or “industries without smokestacks” related to e.g. ICT, financial services, tourism or transport.
 - Investing in emerging technologies in fields such as genetics, nanotechnology, biotechnology, Internet of Things, autonomous vehicles, 3-D printing, materials science, artificial intelligence, robotics, or quantum computing.



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VI. Need for Comprehensive, Bold and Realistic Industrial Strategy

- For sustainability, a strong political leadership should be combined with a change of collective mindset, with the aim to instill inspiration and sense of urgency (e.g. Japan, South Korea).
- Most successful industrial policies rested on carefully designed development strategies which were implemented in waves over long periods of time:
 - In Malaysia, the First Plan was implemented over 1966-1970. In 2016, the Malaysian government released its 11th economic development plan 2016-2020 aiming to make Malaysia a high income economy by 2020.
- Focus should on “learning” (relative to policy-making, technology, business, economic management, international relations), which by essence is a dynamic process (Noman and Stiglitz, 2016).
- **Policy Coordination; Policy Consistency; Policy Implementation Capacity are key.**



VI. AfDB's Hi-5 for Structural Transformation

Feed Africa

Aims to transform African agriculture into a globally competitive, inclusive and business-oriented sector.

Power and light up Africa

Aspires to bring universal electricity access to Africa by 2025, through the New Deal on Energy for Africa.

Industrialize Africa

Six flagship programs:

- Fostering successful industrial policies
- Catalyzing funding in industry projects
- Supporting the growth of liquid and effective capital markets
- Promoting enterprise development
- Developing efficient industry clusters
- Policy dialogue and support

Integrate Africa

Aims to create more attractive markets, link landlocked countries to regional and international markets and support intra-African trade.

Improve the lives of Africans

Invests in infrastructure and in improving access to basic services, while promoting human development and strengthening institutions.



Concluding Remarks

- Africa's manufacturing sector has not performed to its fullest potential.
- To accelerate structural transformation, industrial policies are needed with a focus on national consensus, time consistency and learning.
- Key bottlenecks related to infrastructure, business environment, skills and financing must be removed...
- And the African Development Bank stands ready to support through its Hi-5 Priorities.



Thanks for Your Attention!

