The Politics of Industrialization in Africa
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February 24, 2023
Outline

• What is industrialization? Why industrialize?
• Why has Africa not industrialized?
• Does Africa still need to industrialize? Through what pathways?
• What can help drive a 21st century industrial transformation in Africa?
What is Industrialization? Why Industrialize?
A process of structural transformation

A process through which an economy transitions from low-productivity activities such as primary agriculture to higher-productivity activities in manufacturing and provision of services. *Structural transformation*

- Characterized by technological innovation, adoption and diffusion. Through mechanization and now digitalization.
- Efficient division, organization and mobility of labor through specialization, migration, urbanization
- Rising productivity, ‘the glue’: higher efficiency in production, increased output per unit of input, increase in firm capabilities
- Complementarity in agricultural productivity growth and the development of non-agricultural activity in manufacturing and services
- Manufacturing is central: high productivity, diffusion of tech to society, high forward and backward linkages and factory work can effect deep social change
Industrialization also transforms society

- **Associated with higher incomes, living standards and HDI.** Most high-income economies became wealthy by industrializing. With exceptions: oil-rich Gulf Arab monarchies and entrepot city-states of Hong Kong and Singapore. (UNIDO, 2020)

- **Induces behavioral change among individuals, households and societies.** Changes power relations and dynamics in households, rebalances gender relations by empowering women, allows individuals to overcome collective action problems (e.g. unionization)

- **Industrialization advances women’s empowerment.** Factory work, employing women in the ‘soft’ activity of garment making, as was the case in Bangladesh, Morocco, South Korea and Vietnam, increases FLFPR.
“Exploitation” of labor by “capital” through low-wage work, sweatshops, minimal social insurance and even child labor, with externalities:

- **Negative externalities** of resource depletion, environmental devastation
- But also **positive externalities**: steady jobs, rising incomes, tech diffusion, forward and backward linkages, transformation of social relations through unionization.
...therefore, Industrialization is a means to achieving a political objective

To consolidate power, strengthen military and economic capabilities to fight an external adversary

19th Century Early Industrializers: Britain and the USA.
- Merchants in England accumulated capital to restrain the crown, acquired tech capabilities to have an edge in perpetual European conflicts

20th Century Late Industrializers: Germany and Japan.
- German humiliation & punitive reparations post-WWI and Meiji restoration to keep Western powers at Bay drove rapid industrial upgrading

20th Century Late 'Late Industrializers’: East Asia.
- Tech upgrading to fend off external adversaries: Singapore (Malaysia), South Korea (North Korea) and Taiwan (PRC)

The Chinese Miracle.
- To stabilize the country after the chaotic Mao years and emerge out of the “Century of Humiliation” of Western and Japanese conquest.
Why has Africa not industrialized?
Manufacturing Value-Added

• After the lost-decades of the 1980s and the 1990s, manufacturing share of output & employment is slowly increasing in Africa (Kruse et al., 2021)

Table 2: Manufacturing share in GDP and labour force (%)

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<td>13.9</td>
<td>24.5</td>
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<td>17.9</td>
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<tr>
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<td>10.3</td>
<td>22.0</td>
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<td>17.4</td>
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<tr>
<td><strong>Sub-Saharan Africa</strong></td>
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<td><strong>7.2</strong></td>
<td><strong>8.4</strong></td>
<td><strong>15.4</strong></td>
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Note: manufacturing share (%) in employment, nominal GDP, and real GDP by region, unweighted averages. See Table 1 for the grouping of countries by region.

Total Factor Productivity

- Average output per worker in SSA relative to the U.S. declined from 11.9% in 1960 to 7.7% in 2017, whereas for East Asian countries (of Indonesia, Malaysia, Republic of Korea, Singapore and Thailand), labor productivity increased from 8.5% in 1960 to 28.3% of the U.S. in 2014 (Calderon, 2021)

- There is also a divergence in labor productivity between SSA and large emerging market economies like Brazil, China and India which lagged behind Africa in 1960. (Calderon, 2021)

Exports Diversification

- Raw materials still make up the bulk of exports in many countries—52% of the total in 2018, with variation Southern and East Africa have more diversified export baskets than West and Central Africa (Usman & Landry, 2021)

Why has Africa not Industrialized?

Internecine conflict
Unsettled balance of power, unsettled conflicts around identity, in unworkable and unviable states. Disrupt incipient industrialization. Hollowing out of state capacity. Cuts across democracies and autocracies

Vulnerability to Exogenous shocks
Persistent vulnerability to external shocks: unsustainable import substitution (unlike Japan & S. Korea), reliant on volatile commodity rents; cycles of debt distress. Macroeconomic policy oriented towards crisis management

End of History Neoliberal Turn
Thatcherism, Reaganism and end of the Cold War in the 1980s crystallized into Washington Consensus policies that discouraged planning and state-led development in favor of unbridled markets.
Does Africa still need to industrialize? Through what pathways?
Does Africa still need to industrialize?

Duh!?

“…it is a fantasy to think that developing countries can skip industrialisation and build prosperity on the basis of service industries”
Four Other Imperatives Today, for Africa’s Industrialization
1. Creating jobs for a rapidly growing population

- Africa has the world’s youngest and fastest growing population. Median age of 19 (16 in Niger, Chad etc.)
- 14 million people joining the labor market each year
- 8 out of 10 employed in the informal sector, in low-wage and low-skilled activity, mostly agriculture esp. east, west and central Africa
- Result: restiveness, instability, conflict, migration.
2. Capturing the gains of a green economy in a low-carbon future

- Localize the value of natural resource endowments, transition minerals (bauxite, copper, cobalt, nickel, lithium etc.) for input to renewable energy hardware and battery components
- Develop the value chain of RE hardware, batteries and EVs
- Tech diffusion creates new innovation ecosystems, and auxiliary industries
  - 12.7 million RE jobs worldwide in 2021, and up to 26 million in Africa by 2050 (IRENA)
3. Securing national control of strategic industries

Recent events have demonstrated the necessity of building domestic industrial production capacity in strategic industries:

- Pharmaceuticals: Medicines, therapeutics, vaccines and PPE
- Digital infrastructure: 5G and broadband, data centres,
- Energy infrastructure: electric grid, transmission lines,
- Security of energy supplies: reducing reliance on adversaries for oil, gas, refined fuels and minerals etc. (Europe vs. Russia; Algeria vs. Morocco etc.)
4. Navigating an increasingly turbulent global environment

- "Protectionist" policies in high-income economies erect barriers to the market access that drove EOI in east Asia. CBAM in Europe 2021; IRA in the U.S. in 2022
- Decline in concessional finance for "development"
  - U.K. aid cuts in 2020, Sweden in 2022
  - WBG Evolution Roadmap to redirect financing from LICs/FCS to MICs
- Will intensifying U.S.-China competition → decoupling → hot war (?) force countries to choose sides? What tradeoffs will such choices entail?
  - Broadband & Telecomms infrastructure, e-commerce, payments
  - Secondary sanctions on Africa for trading with China or USA?

II. President Biden’s Modern American Industrial Strategy

Over the last year and a half, President Biden worked with Congress to enact four foundational laws: the American Rescue Plan, which brought our economy back from the brink, and more recently the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act.

There's a strong animating vision that unifies these laws: a modern American industrial strategy.

Here's what a modern American industrial strategy does. It identifies areas where relying on private industry, on its own, will not mobilize the investment necessary to achieve our core economic and national security interests. It then uses public investment to spur private investment and innovation.

It means that—rather than accepting as fate that the individualized decisions of those looking only at their private bottom lines will put us...
### At least, three available transformation pathways for Africa

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<th>Manufacturing-based Industrialization</th>
<th>Leapfrogging through DTs</th>
<th>Industries without Smokestacks</th>
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<td>Africa can position itself to receive “flying geese” of manufacturing FDI from East Asia (e.g. Ethiopia). GVCs, SEZs, RBI. Role of China prominent.</td>
<td>Due to &quot;premature deindustrialization&quot; (globalization + automation+ weak inv. climate), poor countries may not industrialize. Also factory work is bad for human rights. Focus on poverty reduction, reducing informality etc with digital technologies.</td>
<td>21C industrialization in Africa will entail industries that share characteristics of manufacturing (efficiency, tradeability, tech diffusion) due to new tech &amp; changing global environment. Also focus on domestic and regional markets (agro-processing, healthcare, ICT etc).</td>
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Principles to help drive industrialization in Africa

1. **Define political objective of industrialization**: of fending of adversaries, building resilience, and preventing a country from imploding

2. **Build a capable bureaucracy**: to coordinate dynamic relationship between a facilitating state and a responsive private sector, with “embedded autonomy” (Peter Evans; Joe Studwell)

3. **Select the most catalytic pro-productivity interventions**: supply-side (investment climate reforms around physical and human capital, some regulatory reforms that streamline processes, increase predictability) and demand-side (social protection, social insurance)

4. **Protect against vulnerabilities to persistent external shocks**: e.g. balance productive FDI flows with rapid, volatile and distortionary financialization; attract more “patient” capital; fiscal revenue diversification to break out of the cycle of fiscal and debt crises.
• Thank you!