3. Industrialization: The Good Road Ahead

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3.1 Introduction

The title of this colloquium, “Africa at a Fork in the Road,” echoes the expression used by Secretary-General Kofi Annan, just over ten years ago when he proclaimed to the UN General Assembly (September 23, 2003): “Excellencies, we have come to a fork in the road. This may be a moment no less decisive than 1945 itself, when the United Nations was founded.” Annan was conscious that deep divisions among UN member states, coupled with a multitude of new and more complex challenges, called for a review of common rules of engagement. Although he used the word decisive he obviously was worried about the *indecisiveness* that could result from prevailing polarizing views and interpretations.

But today there are no reasons to think that Africa or its leaders are indecisive about the road ahead.

Africa is making the right choices for itself, even though some of these may not be well strategized or well planned. At the African Union Summit of 2013, which celebrated the 50th anniversary of pan-African institutional history, the tone was about the need to avoid repeating mistakes, and to prepare for the next 50 years with a vision and agenda that will make sure Africans claim their share of the global fortunes by 2063. The same boldness is perceived in the elaboration of Africa-specific goals, or in the negotiation of some key partnerships. A flurry of intra-African initiatives is keeping policymakers busier than ever before. Thirty two countries are engaged in prospective studies. The vast majority of peacekeepers in Africa are from within the continent. Most of the economic debates center on domestic resource mobilization, arresting illicit financial flows, or better use of investment streams.

The macroeconomic indicators are the best since Independence. At the turn of the Millennium, Africa's GDP was US$600 billion; in 2013 it had jumped to US$2.2 trillion, in one of the fastest growth trajectories in history. In comparison, China took twelve years to double its GDP per capita, India seventeen years, and the US and Germany between thirty and sixty years.

Structural transformation now dominates the continental discourse of African leaders. That means a clear realization of what has *not* happened—as reflected in low agricultural productivity, a contraction of value added in manufacturing, limited poverty reduction, and lack of jobs and inclusive policies.

Today, then, the fork in the road for Africa points to one direction and one choice: the need to use the favorable winds to achieve economic transformation, and to accomplish this through industrialization.

3.2 Learning from others

In order for Africa to grow and transform there is need to have a clear understanding of the times. Africa is not new to the business of transformation. But Africa must nevertheless innovate in the business of transformation. Lessons from many parts of the world will help Africa avoid mistakes and become sophisticated.

Prato, a small town in Italy, was once hailed as that country's textile capital. In the last 20 years a surge of Chinese investment brought to the heart of this European town 50,000 Chinese workers churning out "made in Italy" fashion items with labels ranging from Fendi or Salvatore Ferragamo all the way to low-cost Zara or Topshop. Their speed, efficiency, and high productivity are a force to be reckoned with. This growing community has turned around all the rules of once-quiet Prato, with some observers accusing China of exporting a sweatshop.

Mexico's *maquiladoras* are another phenomenon of contemporary economic patterns. A *maquiladora* is typically defined as a free-trade-zone manufacturing operation in which factories import material and equipment, on a duty-free and tariff-free basis, for assembly, processing, or manufacturing, and then export the assembled, processed, or manufactured products back to the country where the raw materials originated. In Tijuana, Mexican workers know all about their dependence on the investment and exports taking place across the border to the US. During the years of receding demand from the big neighbor, 300,000 jobs were lost to competitors far away in Asia. However, recent rising labor costs in Asia have made Mexican workers competitive again. Exports from Mexico grew 50 percent between 2009 and 2012, to US$196 billion. By comparison, Africa's total manufacturing exports are just US$91 billion, the same as Thailand's. What is new in Mexico is that Chinese investors supplied part of the surge of US$7.4 billion investment in the *maquiladoras* in 2012. They are encouraging the *maquiladoras* to pursue a shift to the more lucrative automotive industry. One state to benefit from this investment is Guanajuato, whose growth is set to accelerate considerably. There have been announcements of sourcing expansion by firms such as General Motors, Ford, Chrysler, Honda, Mazda, Nissan, Audi, and Volkswagen.

In China itself the manufacturing of electronic goods has captured the world's imagination. Most of the devices and gadgets we use are assembled by Foxconn, the largest operator in the field, employing more than half a million workers. Foxconn is the world's biggest contract electronics manufacturer with clients such as Apple, Dell, HP, Microsoft, and Sony. It has decided to build a plant in Itú, near São Paulo, that will eventually employ 10,000 workers in a half billion dollar investment.

What are the lessons for Africa from these stories?

The changing landscape of international trade and investment has completely overhauled our understanding of global value chains. Since the 1980s there is a growing trend for enterprises to spread across several countries for the different stages and activities of the production process. There is no longer any single firm that produces any product from A to Z. Production is certainly no longer limited by physical borders. The value of patents and intellectual property is more substantial than the value of physical goods anyway. Complex and innovative financial systems, capital and venture arrangements, and global standards and dispute-settlement mechanisms have all contributed to a world where crude protectionism does not work. However, everybody seems to practice smart protectionism, better defined as the ability to make the rules work for you and outsmart the systems in order to attract investment, equity, and markets.

Previously countries had to develop strong industrial bases before they could trade and compete globally. They can now insert themselves into specific segments and sub-sectors of global production processes. The rise and expansion of global value chains is not primarily due to increasing trade in goods—rather it is focused on technology, finance, investment, and other modern services. For example, this can be seen in the comparative advantage exercised by China in Prato, not only because of cheap labor, but also because the Chinese have the ability to quickly produce and alter production patterns overnight. The main focus of industrialization in the 21st century is innovation and flexibility.

This leads to a second lesson. The requirements for industrial policy development are different today than in the 1970s. Key changes include the fact that economic policy has become open and comparable across regions and countries like never before. Interested groups want to be part of and contribute to the design of innovative multi-sector strategies. Instruments of economic policy have also changed significantly, from an overwhelming reliance on administrative direction to a greater emphasis on modifying market processes through taxation, subsidies, and public expenditure measures, in order to correct market imbalances. In addition, industrial policy development has become more polycentric and eclectic, simultaneously pursuing a variety of objectives rather than just promoting rapid growth.

The industrialization models of import substitution used in Latin America, or the Southeast Asian export-driven model, are no longer an option for Africa. The Asian model, in particular, was based on the premise of mass production with cheap labor and great absorptive capacity and significant resource savings. Africa as a latecomer will find that this niche is occupied and mostly gone, even if its attractiveness could be taken into account.

Indeed the third lesson is that Africa has to fight for a level playing field, under adverse weather. The current trade and climate-change negotiations are not in its favor. Take the example of agriculture. Some of our cotton farmers, like the Burkinabe for lint or the Egyptian for processed cotton, have achieved high productivity but cannot compete against the subsidies on developed countries' farming. The subsidies are officially gone in the categorizations of the WTO, but they are replaced by equal or higher amounts, through a battery of environmental and insurance premiums that blurs the frame. If agriculture must play a fundamental role in Africa's structural transformation, given that 60 percent of the labor force is employed in that sector, a mammoth internal effort is needed to increase productivity and take advantage of our enormous reservoir of unused arable land.

3.3 Strategies for moving forward

External factors are equally pertinent. The international trading system is not helping Africa industrialize, but that is not going to change easily. Africa needs to strategize to confront the reality head on.

First, Africa must use its bargaining position by maximizing the demands for value addition in the commodities in which it has a dominant position. Africa is home to 12 percent of the world's oil reserves; the world's largest renewable energy potential; 40 percent of the world's gold; 80 - 90 percent of the world's chromium and platinum and 70 percent of its coltan; 60 percent of the world's unused arable land; 17 percent of the world's forests; and 53 percent of the world's cocoa, produced by two countries—Côte d'Ivoire and Ghana—alone. Resources such as these should be leveraged.

Second, as a latecomer, Africa is not locked into any technology preferences; it can follow a green and clean energy pathway and leapfrog over old carbon-intensive industrial models. The growing awareness of environmental degradation and climate change is giving rise to new research and development priorities, like clean energy technologies, that could be scaled up rapidly. The continent is well positioned to absorb, adapt, and build on the vast quantities of scientific and technical knowledge already available. Its vast hydropower, geothermal, biomass, wind, and solar power potential is an amazing asset. For example, only 5 percent of Africa's hydropower potential has been exploited.

Third, Africa should focus on its domestic consumption. Africa's rising population growth, growing middle class, and rapid urbanization trends will continue to raise demand for consumer goods. Agribusiness, particularly processed food, holds the key to meeting this demand. The shift from primary production towards modern, integrated agribusiness provides a lucrative opportunity for a large number of smallholder farmers, the majority of whom are women, as well as for generating modern jobs for the continent's youth. Africa cannot continue to import yoghurt or toothpaste.

Fourth, industrialization can and should be inclusive. It should avoid having buildings collapsing with sweatshop workers trapped inside, or migrants dying in the desert or sea. That means paying huge attention to the drivers of an integrated model—mostly the small and medium-scale enterprises.

Fifth, promoting greater regional integration across Africa is an imperative. The scope for regional integration is still largely untapped due to both tariff and non-tariff barriers to intra-African trade. Africa's transformation will require renewed and bolder efforts.

So what are Africa's chances going forward?

Key drivers for Africa's transformation arise from the continent's formidable growth record, improved economic governance, an export boom, and rising commodity prices. A growing class of new consumers has brought about a rise in domestic demand, spurring increased public spending and private investment.

In addition, steady progress is being made in tackling some key social challenges. Most countries have achieved universal primary enrolment, with rates above 90 percent, and half of African countries have achieved gender parity in primary school enrolment. Health has also seen major gains, with a 38 percent decrease in under-five mortality. Similarly, the maternal mortality rate declined 42 percent over the period covered by the Millennium Development Goals, and adult HIV/AIDS prevalence rates declined from 5.9 percent in 2001 to 4.9 percent in 2011.

A new brand of Africa is emerging; one that exudes confidence and attractiveness for investments, and has considerably lowered risk, with investment reaching US$50 billion in 2012.

But, there is a but…Africa still needs to move from 5 to 6 percent average annual growth to the magic 7 percent, which is the minimum required to double average incomes in a decade. There is still a long way to go as poverty remains high, access to social services weak, and pervasive conflict undermines gains.

Africa therefore needs policy tools and economic enablers. The commonality between the investments in Prato, Guanajuato, and Itú-São Paulo is that they have attracted the attention of Africa's number one trading partner: China. The lesson for Africa is that industrialization is a competitive business. The continent needs to find its own recipe, its own miracle recipe, if it wants to become one of the factory floors of the world. Africa's attractiveness will most likely not be found in producing a Prada outfit or a spare part for Ford, or in adjusting Apple's iPhone to the Brazilian market. Africa's attractiveness will be to challenge that its coffee has to be Starbucks, its cocoa Toblerone, or its coltan Samsung, without any slice of the industrial chain that can also be proudly African.

Late President Nelson Mandela captured the spirit of what Africa's attitude should be, in case a fork in the road is evoked: "There is no passion to be found in playing small and settling for a life that is less than the one you are capable of living…I could not imagine that the future I was walking towards could compare in any way to the past that I was leaving behind."