

Chapter 1

Introduction

Africa's development experience over the past decade has yielded unprecedented economic growth rates, fuelled by internal consumption, the prolonged boom in primary commodity prices and demand, accompanied by prudent macroeconomic policies and strategies. This created a new-found optimism that developed into the "African rising" narrative, which we have maintained external to the real need for more profound changes that will generate growth with quality. Six of the world's fastest growing countries in the past decade are African, with a similar economic prospect projected for the coming decade. However, African countries also figure in the 10 most unequal societies in the world. The high demand for commodities, and their rising prices, have until now underpinned high growth rates, but have not generated sufficient productive employment, improved living conditions or a significant decline in poverty and inequality.

Broadly speaking, those shortfalls are linked to the limited investment and growth in the domestic economies of many African countries. Given the demographic profile, considerable action is required to diversify production structures into higher employment-intensive activities, as 10 million new formal jobs are needed each year to absorb the massive youth population entering the market. African countries must step up and capitalize on recent gains by creating opportunities for social change, including critical human capital investments in education and skills.

In order to avoid the negative effects of a commodity crisis, African countries must focus on building opportunities to advance industrialization. With a coherent policy, countries have the potential to drive inclusive, broad-based growth and development to achieve structural transformation. A major lesson learned from successful industrial policy is that Governments should act as facilitators and enablers. That is why I have championed the industrialization agenda.

As African countries prepare to take their place in the future global economy, I believe we have a real opportunity to promote economic transformation through the industrialization process, by capitalizing on the continent's abundant natural resources, adding value to them, while also supporting the development of infant industries. The evidence from history, from eighteenth-century Britain to the more recent successful experiences, such as the Republic of Korea, Taiwan Province of China or Singapore, shows that an active industrial policy has been essential for advancing national economic development efforts. The spectacular rise of China would not have been possible without a State developmental role that is now the subject of immense interest and vast literature.

The manufacturing sector in particular has been the engine of economic development for the majority of developed countries, and very few countries have developed their economies without a strong manufacturing base, so much so that the terms "industrialized" and "developed" are often used interchangeably when referring to a country. In developing such strategies, policies must ensure concomitant investments in infrastructure, human capital

and energy, all of which are critical for expanding the manufacturing sector. The Economic Commission for Africa (ECA) estimates that Africa's share in world manufacturing value addition has remained very low, standing at 1.5 per cent in 2010, down from 1.9 per cent in 1980. For many African countries, the manufacturing sector will be essential for yielding employment, diversifying technological capabilities that promote and expand the skills base and deepening individual countries' industrial structures.

Expanding the industrial sector will not be easy without stronger regional integration, which provides opportunities for intra-Africa trade. We now know that trade liberalization prematurely exposed local industries in Africa to unfair competition. There is growing evidence that large sections of the manufacturing sector in Africa have disappeared owing to underperformance caused by de-linking policy design and implementation, in particular the alignment of trade and industrial policies, weak infrastructure and governance and unfair competition from cheap imported products. There is also empirical data that suggests the pursuit of an African industrial revolution can only occur where large markets drive competitive production and build economies of scale in the context of regional integration.³

It is clear that, as latecomers, the conditions under which African countries could advance industrialization are difficult. Their industrial policy measures need to be context-based and address the conditionalities of "free market" policy orthodoxy, through careful rebranding and refitting. Measures for "smart specialization" and capitalization on regional value chains will facilitate the stronger participation of Africa in global value chains. This would entail addressing supply-side constraints, crafting a business strategy to engage global value chains and the large multinational corporations that dominate them.

Transformative industrial policies present an opportunity for reclaiming the policy space, as Governments can develop industrial policies that build the necessary capabilities, which respond to national and regional needs, within the confines of global rules. This would call for a systematic review of current trade and investment policies and agreements with a view to negotiating or renegotiating such agreements and, where possible, manoeuvring through the available flexibilities to ensure reciprocal control mechanisms are in place. It would also entail looking into possibilities for "smart protectionism" measures — such as the use of tariffs, subsidies, foreign direct investment and other policies at the disposal of African countries — that are not directly trade-related and therefore not covered by the World Trade Organization or other trade and investment agreements.

3 See www.uneca.org/stories/regional-integration-primary-condition-africa%E2%80%99s-industrial-revolution.

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In essence, there is a need for a paradigm shift in the application of industrial policymaking, taking lessons from how past experiences have established a unified message, applying mechanisms to support an in-depth understanding of relevant sectors. There are many opportunities for Africa if measured frameworks of engagement are put in place to address opportunities and challenges.

All too often, countries have adopted a swathe of incentives to industrialize, yet they lack focus, instead ushering in opaque discretionary and arbitrary practices and insulating inefficiencies and offering rewards without results. Such incentives should not amount to a “free lunch”. Unfocused policies also mean giving narrow windows of opportunity because of incoherence or slowness. Africans fought hard to obtain preferential rules of origin for least-developed countries at the Ninth Ministerial Conference of

the World Trade Organization, held in Bali, Indonesia, in 2013. However, African countries have neither called for the implementation of those preferential criteria in their bilateral negotiations with the European Union under the Economic Partnership Agreements, nor taken them into account in the African Growth and Opportunity Act, sponsored by the United States of America. When engaging in bilateral negotiations with large trading partners, more vigour is necessary. Although the least developed countries had obtained an extension of the transition period for the implementation of the Agreement on Trade-related Aspects of Intellectual Property Rights, an opportunity for Africa to innovate and promote new technologies, this ultimately did not materialize.

With the African economic and political landscape ripe for change, it is incumbent on leaders and Governments to drive industrial policies as part of structural reforms, characterized by Africa’s increasingly assertive and vibrant citizenry and private sector. Establishing the right political base requires a Government to have an embedded autonomy that invests in solutions rooted in the needs of its society while having the conviction to execute “best fit” policies. The role of the State is therefore critical in shaping macroeconomic planning. Successful implementation also requires state pragmatism, risk-taking and constant adaptability to the changing local, regional and global conditions.

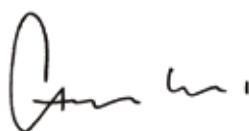
Africa’s economic and political systems should be internally driven. A prime example of such an approach is the case presented in this report of the Viet Nam shipbuilding industry,

which, although non-existent in 2002, had by 2014 become the seventh largest in the world. Viet Nam had developed a detailed plan to develop that industry, including the creation of a State-owned enterprise, providing subsidized loans, retaining corporate tax for reinvestment, exempting export taxes and land rent, increasing local content and extending loan payments for infrastructure costs of new projects. Such determination shows deliberate policies to effect change, linking the State with the private sector and enhancing backward and forward linkages that can lead the shipbuilding industry to contribute to boosting domestic investment, employment and output in the transformation process.

This specialized report has been crafted to help overcome the reluctance to undertake industrial policy resulting from the mindset of an era of conditionalities and liberalization. It provides a comprehensive review of the possibilities, highlighting the complexities and shedding light on the debate on selective and general industrial policy. It makes a basic point: policy amounts to choice. The report proposes supporting infant industries while making use of comparative advantages that have long been the focus of industrial policymaking. It serves as a guide to identify capacity development and advisory services required for the integration of transformative industrial policies into national development plans.

Lastly, industrial policymaking may yield different results and have different outcomes, like any other policy. There is a need to monitor implementation, learn from the experiences of multiple role models — the forerunner in particular — and adapt those lessons.

African leaders, policymakers and researchers and, indeed, the wider public, which has a genuine interest in promoting African structural transformation, will certainly enjoy the read.



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