

# Learning to Compete

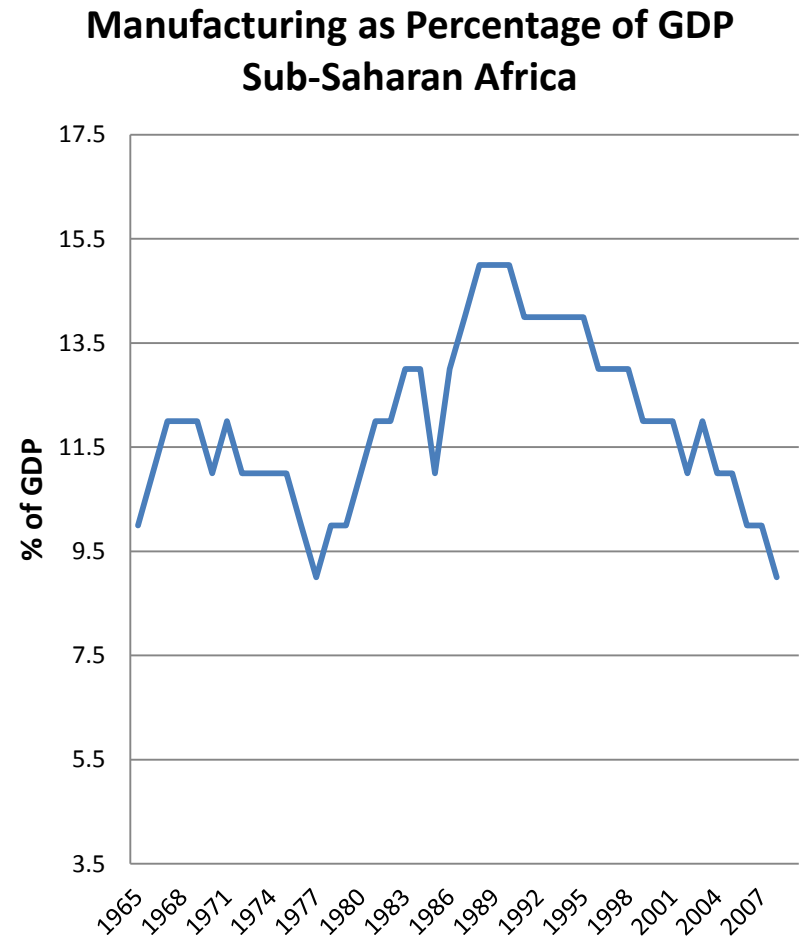
## Accelerating Industrial Development in Africa

A COLLABORATIVE RESEARCH PROGRAM OF  
THE AFRICAN DEVELOPMENT BANK, THE BROOKINGS INSTITUTION,  
AND  
THE UNU – WORLD INSTITUTE OF DEVELOPMENT ECONOMICS RESEARCH

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IGC AFRICA GROWTH FORUM  
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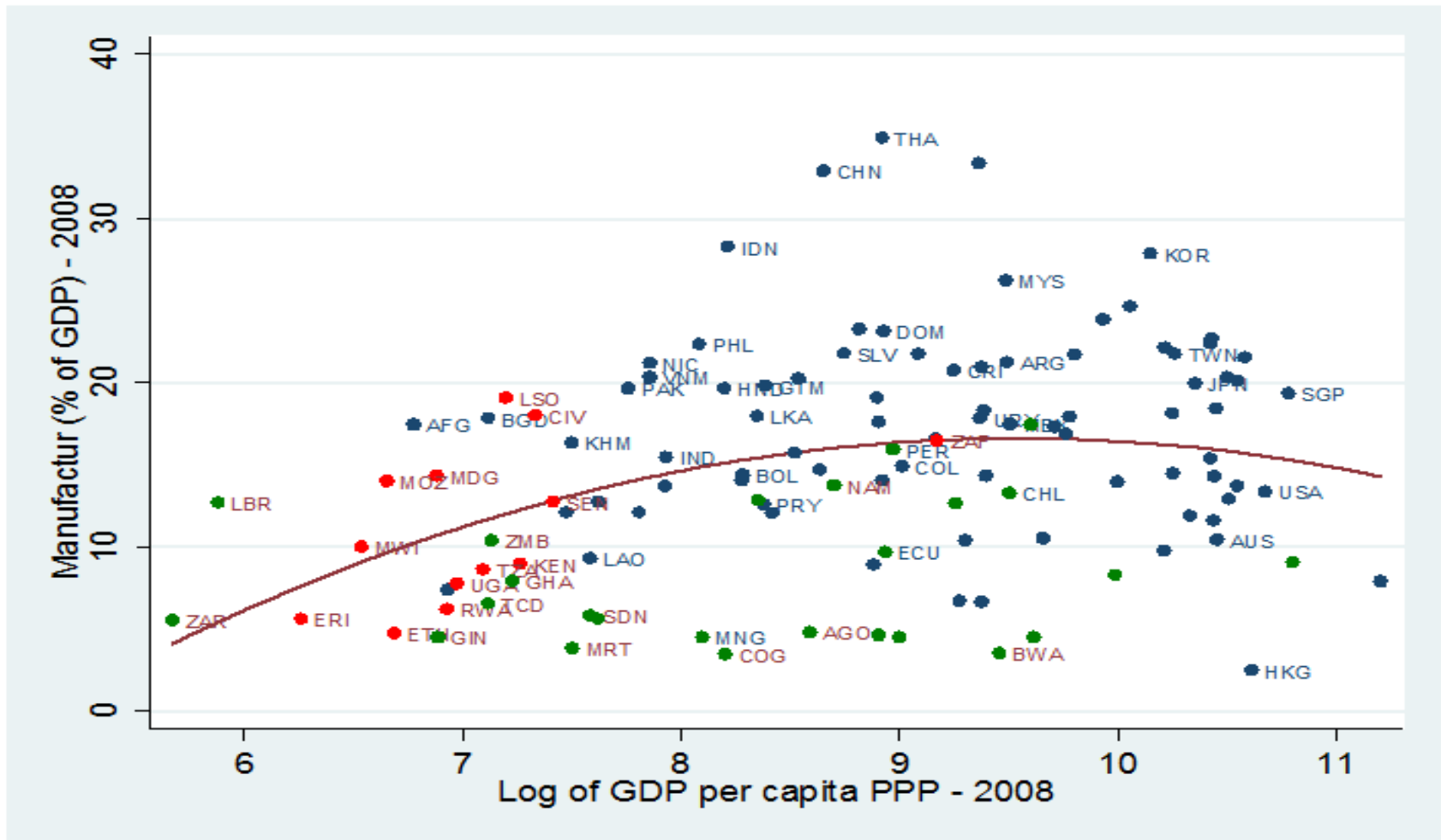
# Trying to Answer a Simple Question: Why is there so little industry in Africa?

- Africa's share of manufacturing in GDP is less than half of the average for all developing countries
- Per capita manufactured exports are less than 20 per cent of the developing country average.
- Africa's share of global manufacturing is smaller today than in 1980



# Africa's Deficit in Manufacturing

Share of Manufacturing Relative to Income Per Capita, 2008



# Why Worry About Industrialization In Africa?

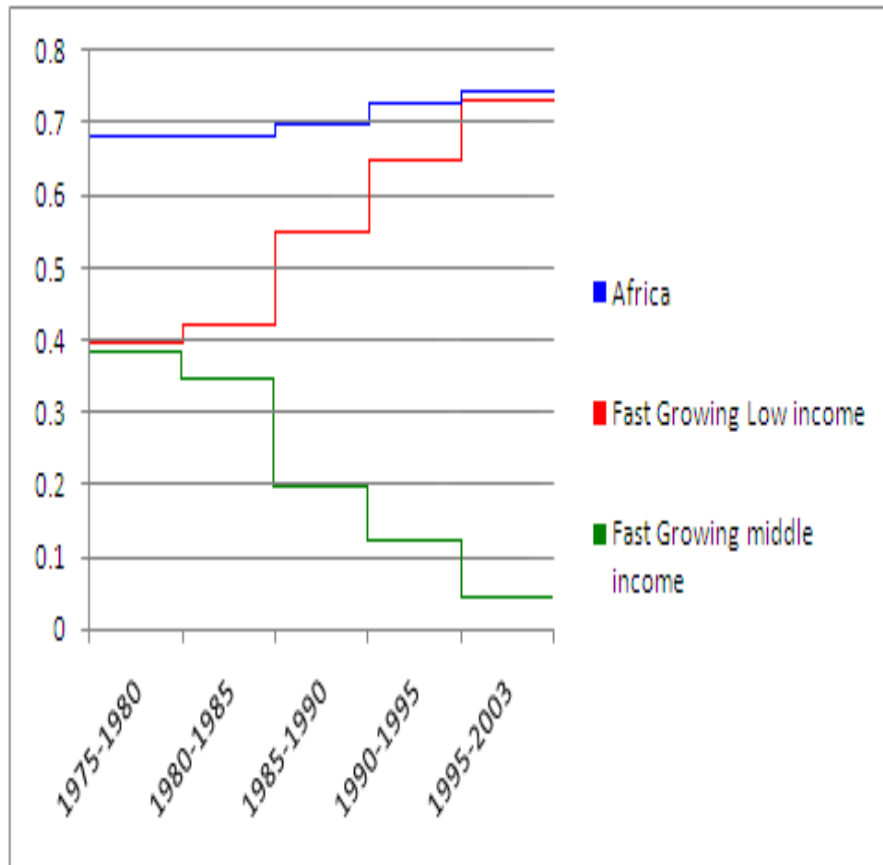
- “What you make matters”
  - Africa has experienced little structural change since independence
  - Production is concentrated in unsophisticated manufactures
- Disappointing news on employment and poverty reduction
  - Africa’s most rapidly growing economies are creating few “good” jobs
  - Africa has the lowest elasticity of poverty reduction with respect to growth
- The specter of the “resource curse”
  - New discoveries pose new challenges for diversification

# “Out of Africa”:

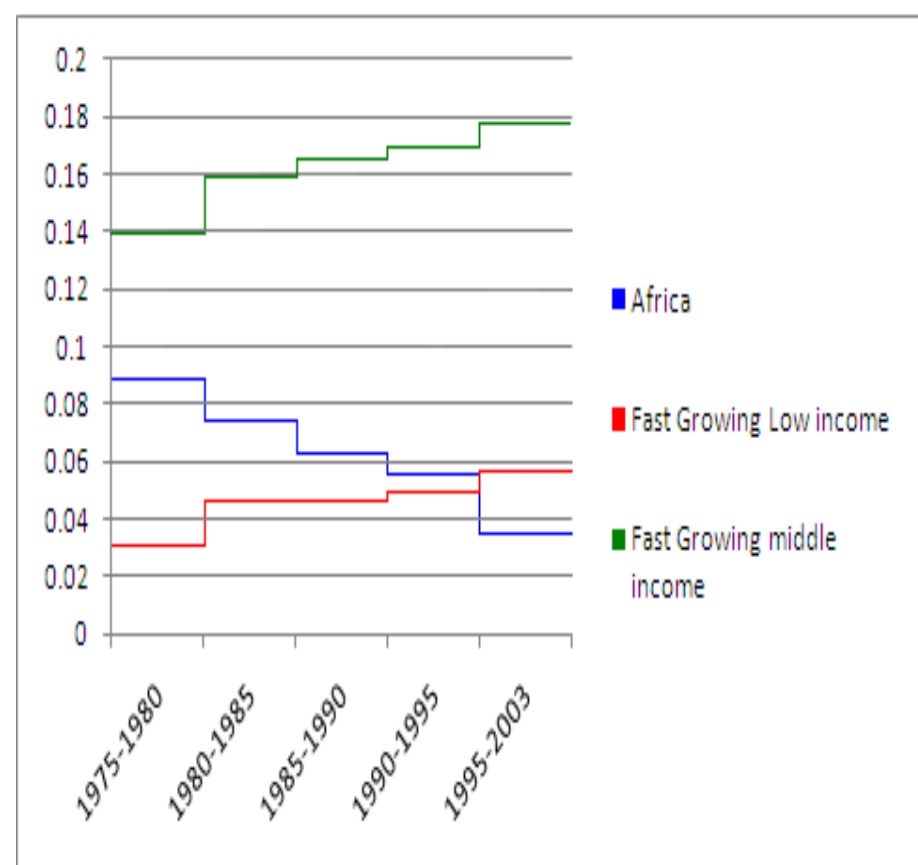
Production has become less diverse and less sophisticated

## Production Intensities by Level of Sophistication and Country Type

Low Sophistication Products

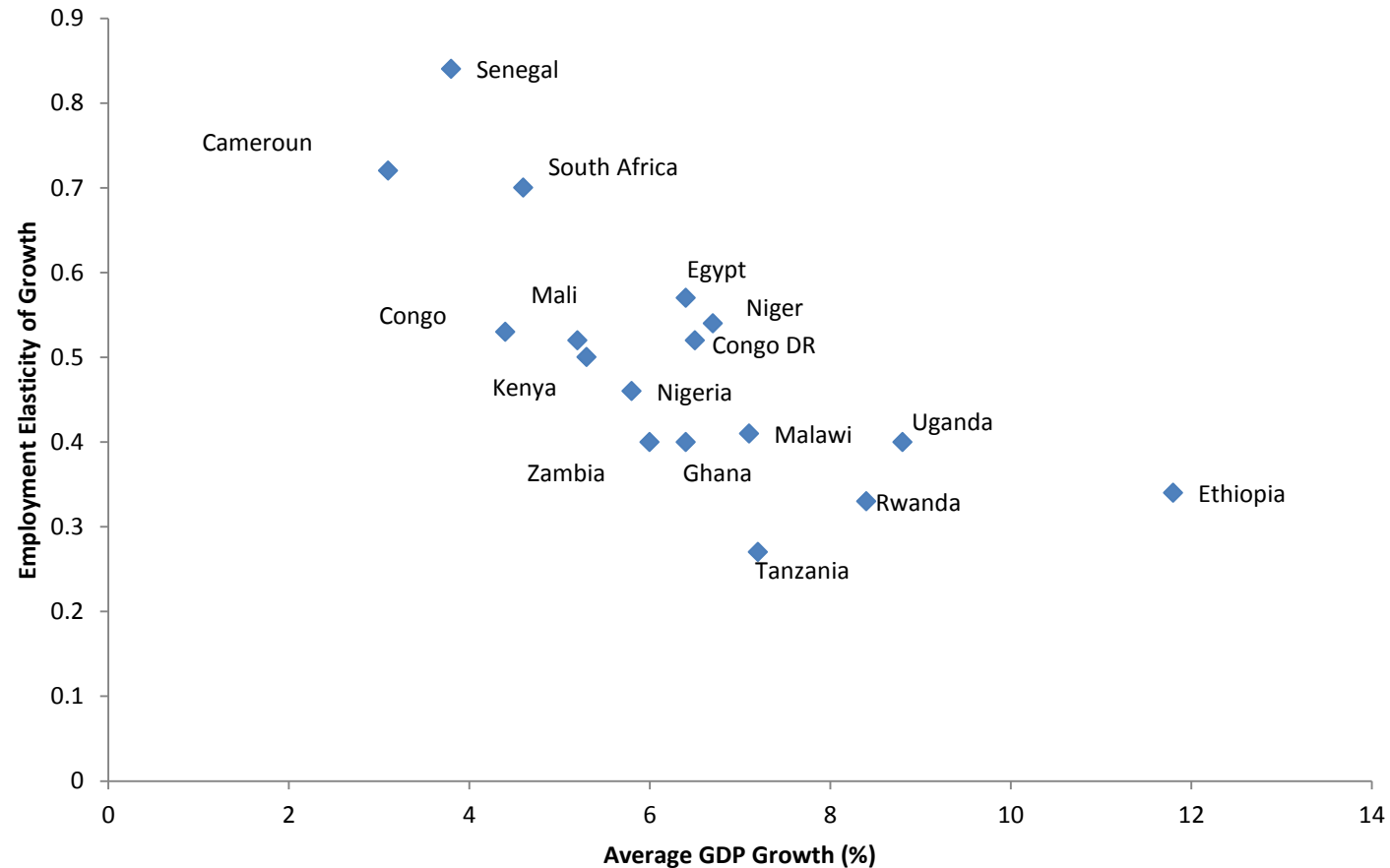


High Sophistication Products



# Disappointing News on Employment

## Growth and the Employment Elasticity of Growth 1990 – 2010



# Beyond the Investment Climate

- Most analysis of Africa's lagging industrial development has focused on the investment climate.
  - Regulatory reform ...“Doing Business”
  - Infrastructure and Skills
- Investment climate studies focus explicitly on the environment *external* to the firm.
- There has been renewed academic and policy interest in what happens *within* (“firm capabilities”) and *between* firms (externalities and coordination failures)
- These are the key issues in the industrial policy debate.

# Three Drivers of Industrial Location

- **Exports and Trade in tasks**
  - Technical change has brought about “vertical disintegration” of production.
  - A chance for a foothold, but many low wage economies have not attracted task-based production
- **Firm capabilities**
  - Capabilities are the tacit knowledge and working practices needed for production and product development
  - Capabilities can spill over to other firms through FDI or supply chain links
- **Agglomerations**
  - Industrial clusters confer significant productivity gains
  - Starting a new industrial agglomeration is a form of collective action problem



# FOUR RESEARCH THEMES

- Learning by exporting and learning to export
  - Data is scarce and the econometrics fragile
- Understanding agglomeration in low income countries
  - Undertaking the first quantitative studies in low income countries
- Foreign direct investment and firm capabilities
  - Do domestic firms learn from foreign investors, and how?
- Implementing industrial policy
  - Successes and failures in close coordination

# The Country Comparative Framework

- Eleven Countries
  - Nine African : Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, Tunisia and Uganda.
  - Two Asian: Vietnam, Cambodia.
- National researchers
- Three Track Approach
  - Detailed case studies of the industrialization process and the evolution of public policies
  - Econometric analysis of the stock of firm level surveys
  - Qualitative surveys of FDI firms and linked domestic firms (still in process) .

# Country Case Studies

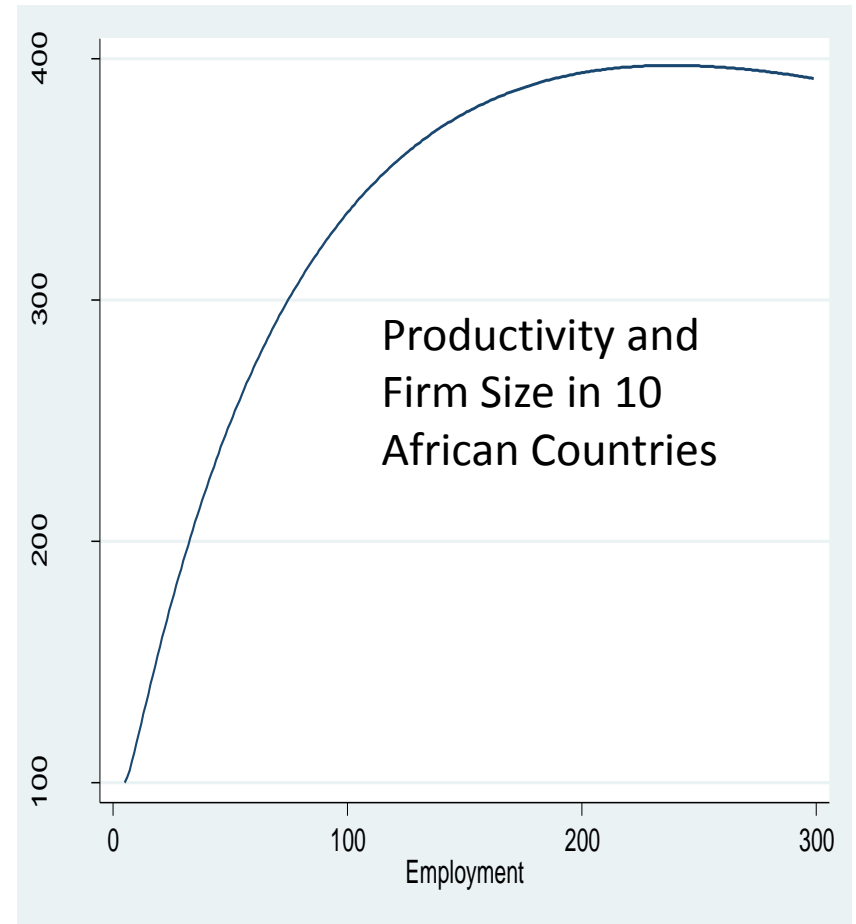
## How We Got Here

- Africa – Structural Adjustment without Structural Change (1985-1995)
  - Liberalization plus privatization radically deindustrialized Africa
  - Delayed (mid-80s to early 2000s) recovery of manufacturing
- Why?
  - Little organizational capital in firms (capabilities)
  - Macro and governance problems limited investment
- Vietnam and Cambodia – Weaker medicine but a stronger recovery (1995 – 2005)
  - Liberalizations of similar magnitude but gradual privatizations
  - Rapid growth of manufacturing and exports
- Why?
  - Better macro management
  - FDI brought capabilities
  - Neighborhood effects and networks fostered agglomerations

# Country Case Studies

## Where We Are

- Evidence of accelerated growth of manufacturing post 2000
- Average size of firm is declining
  - May have important consequences for productivity
- Small enterprise is not a net “job creator”
  - high firm mortality rates offset higher growth rates (ETH)



# Country Case Studies

## Some Emerging Issues

- Little FDI in manufacturing
  - Poorly performing FDI institutions
- Construction and building materials are expanding rapidly in emerging resources exporters (GHA, TZA, UGA)
  - “Investing to Invest” issues?
- Firms switching activities from one sector to another is an important component of productivity growth (VNM).
  - A capabilities story?

# Country Case Studies

## Some Policy Experiments

- A new focus on SEZs (ETH, GHA, KEN, MOZ, NGA, TZA, UGA)
  - But not much evidence of improvements in functioning
- Integrated industrial development strategies (ETH, GHA, TZA)
  - Others have continued to focus on investment climate reforms (KEN, UGA)
- Picking winners
  - Targeting sectors and exports (ETH, TZA)
  - Mega projects (MOZ)

# Country Case Studies

## Implementing Industrial Policy

Ethiopia, Ghana, Senegal, Tanzania, Uganda

- An evaluation of the impact of President's Investor Advisory Councils .
- Explicitly modeled on East Asia style coordination mechanisms.
- Not an impressive track record: 1 abandoned, 3 moribund, 1 some success.
- Successful at focusing attention on externally (World Bank) identified reforms, but not at addressing industry or sector specific constraints
- Capture by the aid industry not the domestic private sector

# Exports and Productivity

Ethiopia, Mozambique, Senegal, Tunisia, Vietnam

- Confirming expectations
  - More productive firms select into exporting
  - Exporting further raises productivity
  - Learning effects appear to be stronger in
    - More sophisticated products
    - Higher income markets
  - Large firms are more likely to export
- Some surprises
  - Many African exporters are “born global” (both FDI and local)
  - Few firms “learn to export” (few partial exporters and fewer switchers)
  - Small firms may learn more by exporting



# Agglomeration Effects

Cambodia, Ethiopia, Nigeria, Tunisia and Vietnam

- Evidence of productivity spillovers
- Where markets are localized competition increases
- Differences between large (formal) and small (informal) firms
- Some evidence that the tendency toward geographical concentration is stronger in more sophisticated industries

# Thank You

Contact us:

<http://www.brookings.edu/about/projects/africa-growth/learning-to-compete>

[http://www.wider.unu.edu/research/current-programme/en\\_GB/L2C-2010](http://www.wider.unu.edu/research/current-programme/en_GB/L2C-2010)