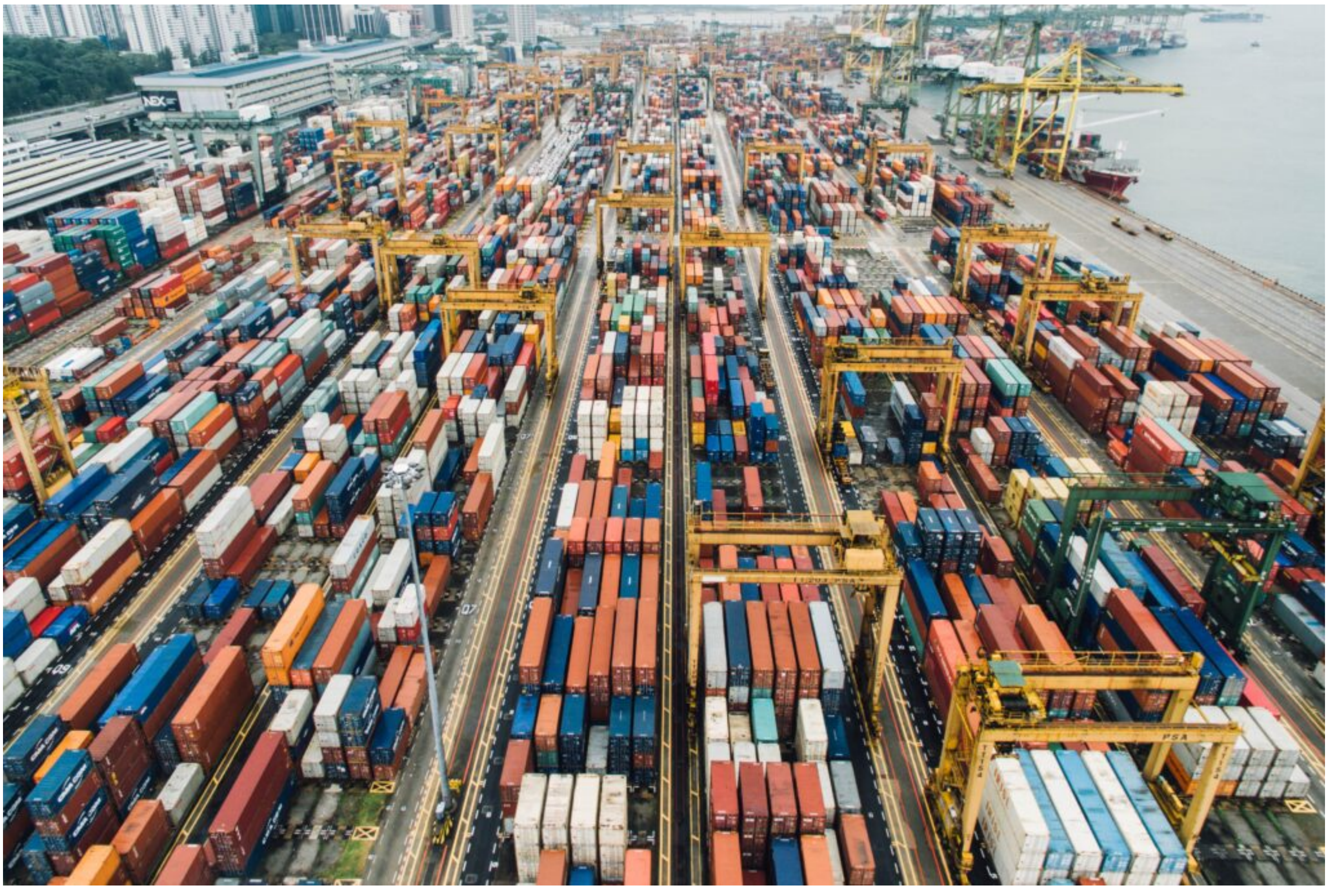
Capitalising Africa's Growth Potential: Rethinking Export-Oriented Industrial Policy in the 21st Century



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By Olivia Selcuk (email), and Paul N. Ngang (LinkedIn; email), Thomas More University of Applied Sciences, Postgraduate in African Business Studies, Mechelen, Belgium.

Overview

The industrialization journey of Africa in the 21st century presents a blend of unprecedented opportunities and complex challenges. By 2050, the continent's working-age population is expected to increase by 740 million, marking the fastest demographic growth globally (World Bank, 2023). This demographic shift offers a vast labour pool and a burgeoning consumer market but also emphasizes the need for sustainable job creation. Historically, Africa's industrialization strategies have centred around resource extraction and low-value manufacturing. However, to harness the continent's growth potential, it is imperative to rethink industrial policy, specifically focusing on export-oriented strategies. This article re-evaluates industrial policy for Africa in the 21st century, focusing on exports. The article elaborates on two success stories of export-oriented industrial policy in the East African region, focusing on Ethiopia and Kenya. Both countries have significantly advanced industrialization and export strategies in East Africa. While similar, the case studies present two distinct approaches to export-oriented industrialization. Ethiopia opts for a state-driven manufacturing-focused framework, whereas Kenya suggests a more market-centred strategy with a diversified export portfolio. This article seeks to contribute to the discussion on improving Africa's industrial performance by providing actionable recommendations.

The Rise of Industries Without Smokestacks

A significant shift in Africa's industrial landscape is the emergence of "industries without smokestacks" (IWOSS). These industries share characteristics with traditional manufacturing sectors, such as high value-added per worker, rapid technological advancement, and the ability to employ low-skilled labour. Sectors under IWOSS include tourism, information and communication technology (ICT), high-value agriculture, and various tradable services like business services and post-harvest processing (Coulibaly & Page, 2021).

Unlike traditional industries, IWOSS offer a more sustainable approach to industrialization. They reduce resource consumption and promote environmental sustainability, aligning with global trends toward greener economies. Notably, between 2002 and 2015, the expansion rate of exports from IWOSS sectors outpaced that of traditional non-mineral exports in over half of African countries. Tourism and transportation sectors were the primary drivers of this expansion. Moreover, IWOSS sectors are projected to generate 65-75% of all new formal sector employment opportunities in Africa over the next decade, provided that governments actively promote these sectors and address critical challenges such as export capacity, skills development, and infrastructure (Newfarmer & Page, 2018).

While traditional manufacturing remains crucial for mass employment, the African context necessitates reevaluating this sector’s role. The increasing competition for low-cost jobs and the decline of the manufacturing sector highlight the need for alternative pathways to industrialization. IWOSS, with its potential to create mass employment opportunities and drive productivity growth, offer a viable solution to Africa’s youth employment challenge.

Exports-Oriented Manufacturing

Africa’s relatively small domestic markets make it difficult for firms to achieve economies of scale. This is where export-oriented manufacturing becomes crucial, allowing firms to transcend national markets and achieve scale and learning capabilities. The concept of “learning by exporting” is critical in this context. Firms engaged in export activities experience faster productivity growth than those focused solely on domestic markets. Additionally, exporting firms are more likely to adopt new technologies, improve competitiveness, and generate quality and process innovations (Newman et al., 2016).

Exporting also facilitates spillover effects within the economy. Through repeated interactions in the supply chain, capabilities are transferred to other firms, enhancing overall economic productivity. However, the benefits of exporting are more pronounced in economies with higher product sophistication, indicating that countries with higher per capita incomes tend to reap greater rewards from export activities.

Despite the significant social returns associated with exporting, high private costs of entry into export markets pose substantial barriers, particularly for firms in developing regions like Africa. These costs include technology and infrastructure investments, meeting stringent international standards, and navigating complex regulatory frameworks (Hausmann & Rodrik, 2002). Africa might require an “East Asian-style” export push to overcome these barriers. This approach, characterized by effective institutions, broad ownership of trade policy, and comprehensive trade infrastructure, could provide the necessary impetus for Africa’s export growth (Page, 2018).

Picking Winners

The debate over whether African governments can effectively “pick winners” in industrial policy is ongoing. “Picking winners” refers to governments identifying and supporting specific industries or enterprises with the potential to drive economic growth. Critics argue that governments cannot accurately identify the most promising sectors and firms, leading to inefficiencies and corruption (Krueger, 1990).

However, given the significant market imperfections in many African economies, selective government intervention might be necessary to stimulate growth in strategic sectors. Economist John Page suggests that rather than dismissing the idea of picking winners, the focus should be on improving the effectiveness of state interventions and their success rates. Governments regularly engage in activities that could be seen as picking winners, such as setting budget priorities, enacting regulations, and shaping trade policy. Therefore, redirecting the debate toward how to enhance these interventions in the context of developing economies is essential.

Industrial Policy in Ethiopia

Ethiopia exemplifies how industrial policy can drive structural transformation. The country has transitioned from one of Africa’s poorest to its fastest industrializing nation. Ethiopia’s industrialization strategy has been marked by significant government intervention, mainly through creating industrial parks and implementing export-oriented policies. The Industrial Development Strategy (IDS), established in 2003, and the subsequent Industrial Development Roadmap (2013-2025) have been central to this transformation. These policies stimulate labour-intensive industries, promote sustainability, and enhance skills development (Industry Development Strategy of Ethiopia, 2002).

Ethiopia’s industrial parks, characterized by advanced waste management technologies and one-stop government services, have attracted investment and boosted exports. The garment sector, in particular, has benefited from this integrated manufacturing approach. However, foreign exchange shortages, economic instability, and security issues hinder Ethiopia’s industrial policy effectiveness.

Industrial Policy in Kenya

Kenya, the most industrially developed nation in East Africa, has a diverse economic landscape that includes formal manufacturing practices and significant informal sector activities. Since independence, Kenya's industrial policy has evolved through various phases, including adopting import substitution industrialization (ISI) strategies and structural adjustment programs (SAPs). These policies have aimed to reduce import dependency, promote private sector growth, and create a conducive environment for industrial development (Ministry of Industrialization, 2012).

Kenya's current National Industrialization Policy Framework (2012-2030) aligns with the country's Vision 2030 and emphasizes value addition, sector integration, and private sector-driven growth. The framework also highlights the importance of micro, small, and medium enterprises (MSMEs) in creating employment opportunities and boosting exports. Despite these efforts, infrastructure deficiencies, limited access to finance, and regulatory barriers impede Kenya's industrialization progress.

Recommendations for 21st Century Industrial Policy in Africa

Africa's industrial policy must be reimagined for the 21st century to capitalise on its growth potential fully. The following recommendations are, in our view, fundamental:

1. Promote Industries Without Smokestacks: Governments should focus on expanding IWOSS sectors, which offer significant employment opportunities and align with global sustainability trends. This requires targeted policies to enhance export capacity, improve infrastructure, and develop relevant skills.

2. Enhance Export-Oriented Manufacturing: African governments should adopt a comprehensive export push strategy similar to the East Asian model. This involves strengthening institutions, improving trade infrastructure, and adopting a whole-of-government approach to trade policy.

3. Strategic Government Intervention: Rather than abandoning the idea of picking winners, governments should refine their approach to industrial policy.

This includes focusing on sectors with the highest potential for growth and employment generation while ensuring transparency and accountability in policy implementation.

4. Invest in Infrastructure and Human Capital: Adequate infrastructure and a skilled workforce are essential for industrial growth. Governments must prioritize investments in these areas to support IWOSS and traditional manufacturing sectors.

This article briefly examines Africa’s industrial policy landscape in light of the significant challenges posed by rapid population growth and insufficient job creation on the continent. Through an analysis of effective export-oriented policies in East Africa and East Asia, the study aims to provide actionable recommendations to reform industrialization in Africa for the 21st century. These recommendations are intended to foster sustainable economic development and enhance global competitiveness.

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