

Industrial Policy and Structural Change: Some Policy Perspectives

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Introduction

- Several developments in the global economy underscore the imperative for Africa to promote structural change and engage in the production of manufactured and high value added products.
- Countries which diversify away from traditional sectors experience decline in poverty rates as well as increase in technology accumulation and competitiveness
- Promoting structural change hinges on sound industrial policies which alter an economy's production structure to more productive sectors, especially manufacturing.
- Whereas the theoretical justification for industrial policy is a strong one, its practicability raises numerous challenges.

The 'Power' of Manufacturing

- Income elasticity of demand for manufacturing products is higher than in primary products.
 - Manufactured goods are less vulnerable to price volatility and external shocks.
 - Prices for manufactured products rise faster than those of primary commodities.
 - Productivity gains are higher due to backward and forward linkages
 - More opportunities for capital accumulation, knowledge and managerial skills transfer, and learning by doing effects.
 - High quality employment opportunities with higher income effects.
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- The share of manufacturing in Africa's has remained at around 11 percent between 1980-2010 compared to 31 percent in East Asia

Rationale for Industry Policy

- Empirical evidence shows that markets are inefficient in fostering resources allocation to productive sectors
- Industrial policy can address prevailing inefficiencies which hinder industrial development such as:
 1. Market failures due to information and cost discovery externalities
 2. Environmental degradation
 3. Coordination failures
 4. Technological accumulation and learning among firms
- However, State interventions may lead to rent seeking. The State also lacks information on what sectors/firms to target

Lessons from Past Industrialization Strategies

- Earlier attempts by African countries to industrialize were mostly unsuccessful and economic production remains largely agrarian, subsistence and exhibits limited value addition
- Several policy lessons can be distilled from the continent's previous industrial development strategies (ISI and SAPs)
 1. Local ownership and leadership of the process is vital
 2. Addressing structural impediments is of the essence
 3. Promoting technology and innovation in domestic firms is crucial
 4. Export oriented industrialization is decisive
 5. Consultation with the private sector is central

Lessons from East Asia Industrialization Experience

Effective industrial policy should focus on institutions which

- Institutions which facilitate coordination between top political organs, public and private actors,
- Continuous dialogue with the private sector
- Incentive schemes which target specific activities and possess an exit mechanism
- Constant learning and accumulation of knowledge
- Industrialization through dynamic comparative advantage, infrastructure development and innovation

(Hosono, 2013; Wade, 2009).

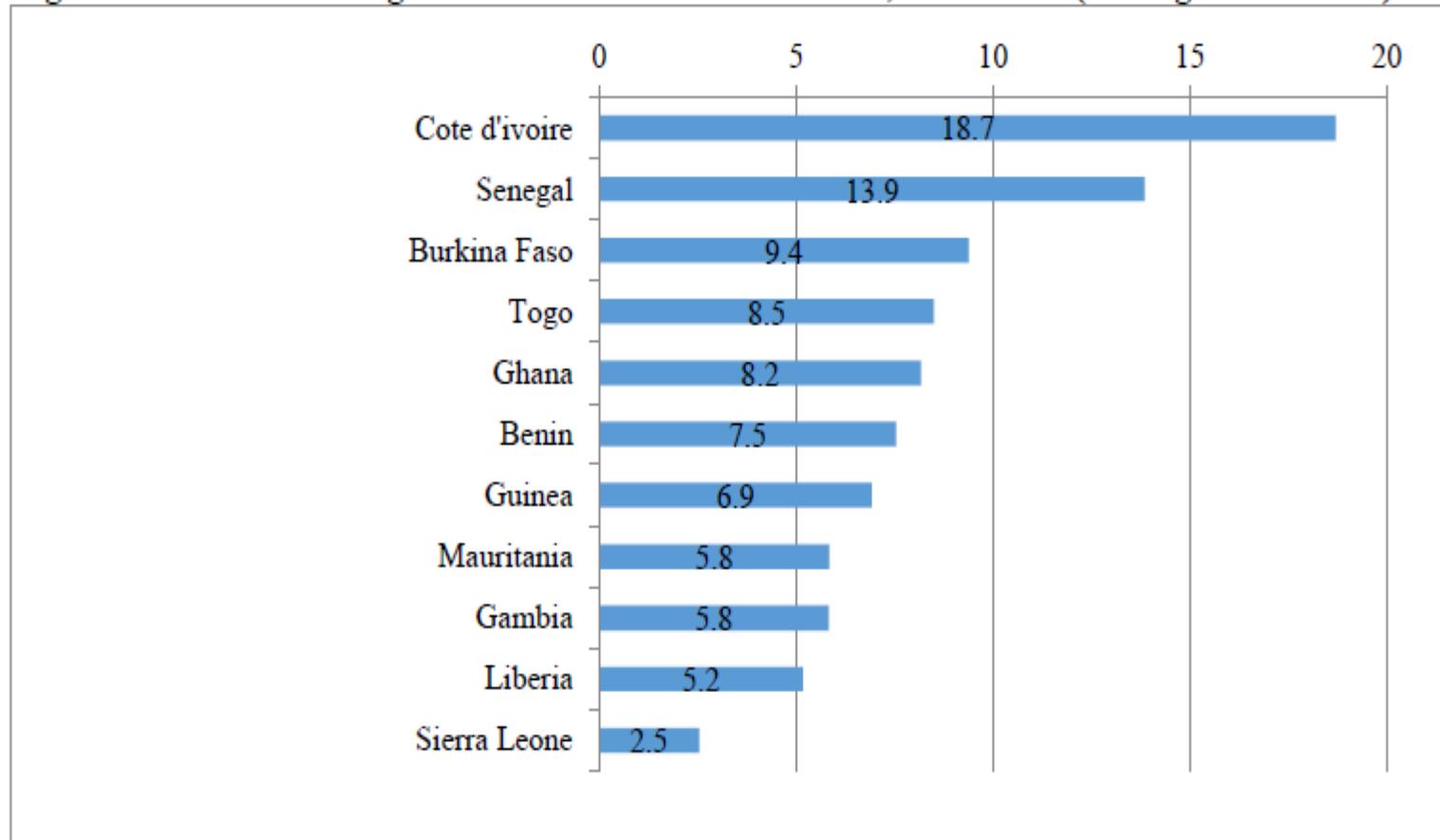
Stylized Facts on Structural Change

Table 1: Contribution of Manufacturing and Industry (% of GDP)

		1970	1980	1990	2000	2005	2008
Africa	Industry	13.1	35.6	35.2	35.5	38.8	40.7
	Manufacturing	6.3	11.9	15.3	12.8	11.6	10.5
Eastern Africa	Industry	3.1	7.8	20.6	18.6	20.6	20.3
	Manufacturing	1.7	4.9	13.4	10.4	10.3	9.7
Middle Africa	Industry	34.2	38.4	34.1	50.4	57.9	59.8
	Manufacturing	10.3	11.8	11.2	8.2	7.3	6.4
Northern Africa	Industry	34.2	50.0	37.4	37.8	45.0	46.0
	Manufacturing	13.6	9.7	13.4	12.8	11.3	10.7
Southern Africa	Industry	38.2	48.2	40.6	32.7	31.7	34.5
	Manufacturing	22.0	20.9	22.9	18.4	17.9	18.2
Western Africa	Industry	26.7	43.3	34.5	39.8	36.7	37.4
	Manufacturing	13.3	21.3	18.8	29.3	27.7	29.6

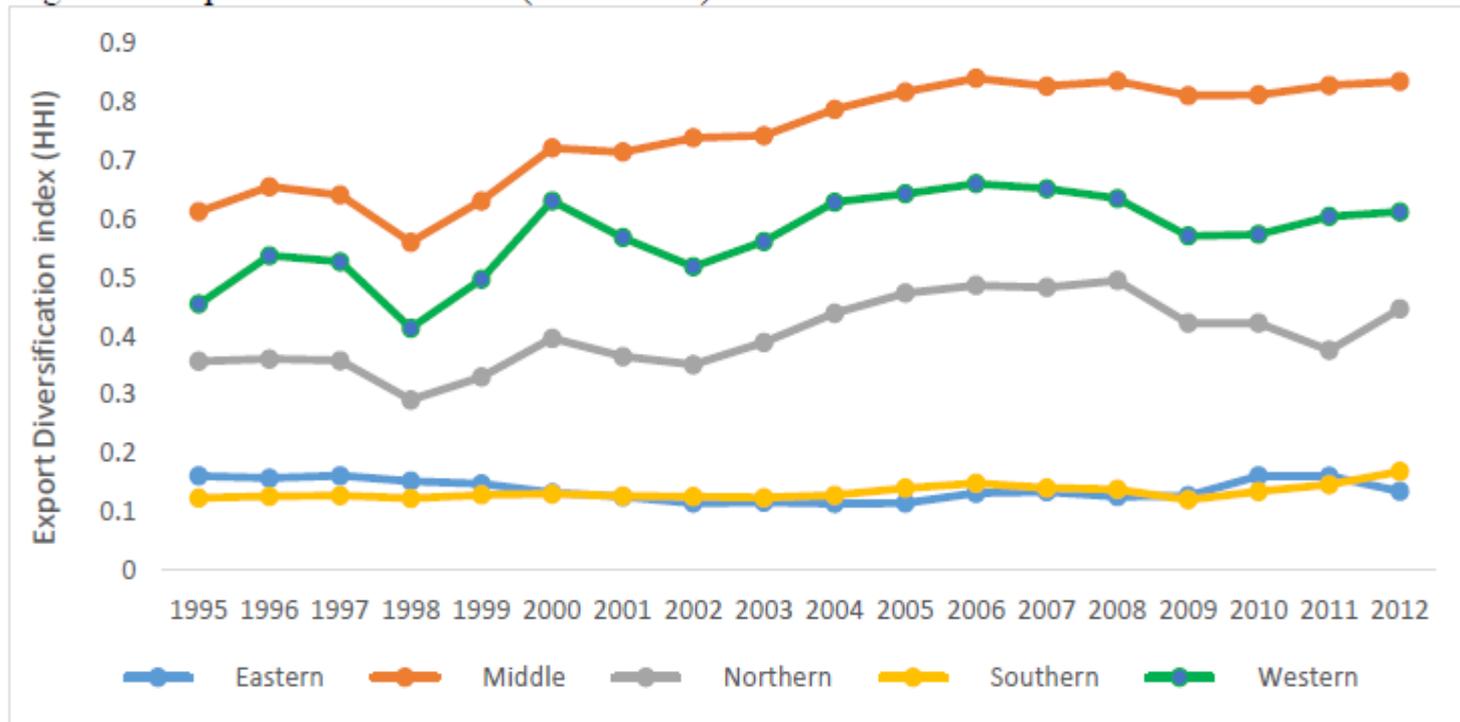
Limited contribution of manufacturing to aggregate economic activity

Figure 1: Manufacturing as a % of GDP in West Africa, 2005-2013 (average % of GDP)



Exports remain concentrated, mainly in primary and unprocessed commodities

Figure 2: Export Diversification (1995-2012)



Dynamics of Structural Change in West Africa

Table 2: Export Concentration Index (HHI)

	1995	1998	2001	2004	2007	2008	2009	2010	2011	2012
Reverse Structural Change										
Cape Verde	0.37	0.39	0.30	0.27	0.31	0.34	0.35	0.41	0.46	0.40
Guinea-Bissau	0.50	0.44	0.76	0.72	0.89	0.89	0.89	0.89	0.89	0.89
Ghana	0.35	0.35	0.31	0.45	0.43	0.42	0.47	0.49	0.39	0.41
Sierra Leone	0.28	0.62	0.35	0.48	0.30	0.27	0.24	0.27	0.27	0.31
Limited Structural Change										
Nigeria	0.85	0.86	0.88	0.88	0.85	0.83	0.83	0.79	0.78	0.78
Guinea-Bissau	0.50	0.44	0.76	0.72	0.89	0.89	0.89	0.89	0.89	0.89
Stagnated Structural Change										
Côte d'Ivoire	0.34	0.36	0.35	0.33	0.32	0.34	0.36	0.34	0.35	0.31
Mauritania	0.53	0.54	0.50	0.53	0.48	0.47	0.45	0.50	0.48	0.51
Senegal	0.22	0.22	0.22	0.22	0.20	0.35	0.24	0.27	0.23	0.23
Burkina Faso	0.56	0.62	0.54	0.71	0.69	0.49	0.51	0.51	0.55	0.53
Increased Structural Change										
Benin	0.67	0.59	0.63	0.50	0.32	0.31	0.29	0.28	0.28	0.26
Gambia	0.60	0.57	0.27	0.25	0.28	0.43	0.35	0.26	0.25	0.25
Guinea	0.62	0.56	0.59	0.58	0.53	0.59	0.61	0.45	0.47	0.50
Liberia	0.80	0.68	0.78	0.76	0.65	0.50	0.69	0.40	0.42	0.38
Mali	0.57	0.68	0.49	0.65	0.57	0.58	0.57	0.63	0.51	0.50
Niger	0.42	0.36	0.32	0.32	0.47	0.41	0.43	0.38	0.38	0.36
Togo	0.36	0.40	0.24	0.24	0.22	0.23	0.26	0.23	0.24	0.20

Elements of an Effective and Coherent Industrial Policy Framework

1. Supporting and promoting private sector development

- Sectoral infrastructure
- Investment friendly environment
- Supporting versus challenging role

2. Recognizing country and sector specific conditions

- Avoid no-one-size fits all policy

3. Political support and policy coordination among institutions

- Ensure policy coherence among State institutions

4. Implementing both horizontal and vertical industrial policies

5. Designing and Implementing achievable targets

- Avoid over-ambitious targets

Elements of an Effective and Coherent Industrial Policy Framework

6. Adopting appropriate monetary and fiscal policy

- Competitive XR policies

7. Promoting regional integration and intra-African trade

- Intra-African trade is more diversified than with traditional partners

8. Boosting entrepreneurial ventures and investment

- Competitive investment to SME, assistance in financing industrial development

9. Promoting education and skills formation

- Align curriculums with industrial skills esp. in engineering and techn.

10. Commodity based or comparative advantage and labour intensive industrialization strategies