



WORLD BANK POLICY

INDUSTRIALIZATION REMAINS VIABLE IN SUB-SAHARAN AFRICA

RETHINKING POLICY PRIORITIES IN THE CONTEXT OF GVCs

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WHO IS THIS POLICY BRIEF FOR?

Decision-makers who are confronting the question of whether industrialization remains a viable path to economic transformation in Sub-Saharan African countries.

Policymakers and economic advisers focused on job generation, poverty reduction, and sustainable and inclusive growth in Sub-Saharan Africa (SSA).



WHY WAS IT PREPARED?

To inform discussions by providing an evidence-based narrative on the prospects of industrialization and policy actions to harness the potential of manufacturing in global value chains (GVCs) for economic transformation. This work was conducted against the backdrop of contemporary discourse among development researchers and practitioners on the viability of industrialization as a development strategy for sustainable growth for countries in SSA due to emerging global trends in trade, technologies such as automation, and the recent rise of digital services as an alternative or complement to manufacturing.



FULL REPORT

This policy brief summarizes the full report: *Industrialization in Sub-Saharan Africa: Seizing Opportunities in Global Value Chains*.¹ The report comprehensively reassesses the critical role industrialization can play toward shared prosperity in SSA—being less poor or “non-poor” is not enough. The overarching message of the report counters the growing pessimism about the prospects of manufacturing in the region and identifies policies potentially best suited for driving job creation and productivity growth in manufacturing.

SUMMARY

No Evidence of Premature Deindustrialization

As a region, SSA has not experienced premature deindustrialization. As one measure of industrialization, the share of manufacturing employment has increased with the level of income. The region experienced an increase in manufacturing employment from a total of 8.6 million in 1990 to 21.3 million in 2018, an increase of 148 percent.² More recent patterns of employment shares appear to fit the stylized facts of historical development in other regions. Within the formal manufacturing sector, the size of the workforce has expanded over recent decades, and this has been driven by new and young firms spurred by low wages. However, the scope for job growth at low wages has diminished, as average wages have been rising in recent years.

At the same time, the trajectory of the share of manufacturing value-added shows a flat or declining trend since the 1990s, and recent years have not seen any encouraging reversal of this trend. This indicates a negative or modest labor productivity growth in manufacturing, and partly explains the observed pace and nature of structural change in the region, which is characterized by agriculture productivity growth accompanied by labor reallocation from agriculture to services. To sustain the current trend in job creation in manufacturing as well as

accelerate structural transformation, it will require robust manufacturing productivity growth, which puts productivity at the core of the policy agenda on industrialization and boosting productivity as an integral part of countries’ economic strategies.

GVC Participation in Low-Skill Tasks

The manufacturing GVC participation rate countries in SSA is above 40 percent, which is reasonably high compared with benchmark countries such as Bangladesh, Cambodia, Indonesia, and Vietnam. Manufacturing firms that are linked to GVCs are typically relatively large establishments (100 or more employees) and have been in operation for five years or longer. They are also more likely to have foreign equity holders or foreign technology licenses.

The region’s integration into manufacturing GVCs is dominated by exports of primary products. This demonstrates that countries are currently exploiting their comparative advantages in linking to manufacturing GVCs and are engaged mostly in low-skill tasks. There is the need, therefore, to move up the ladder to high-skill tasks, and create comparative advantages in knowledge-intensive industries as part of a strategy to upgrade in GVCs and raise productivity.

¹Abreha, Kaleb G., Woubet Kassa, Emmanuel K.K. Lartey, Taye A. Mengistae, Solomon Owusu, and Albert G. Zeufack. 2021. “Industrialization in Sub-Saharan Africa: Seizing Opportunities in Global Value Chains.” Washington, D.C., World Bank.

²Based on data for 18 countries from GGDC/UNU-WIDER Economic Transformation Database

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WHAT IS THE PROBLEM?

Historical evidence points to industrialization as the most viable path to economic growth and structural transformation. In addition, manufacturing and exporting manufacturing goods have played a predominant role in countries that have registered the largest reductions in poverty.

Premature Deindustrialization Narrative

A persistent narrative pertaining to the state of structural transformation in SSA is that the region has experienced “premature” deindustrialization, and manufacturing has played a limited role in promoting growth during the last six decades. These assertions may have projected a gloomy picture for the prospects of industrialization-driven growth in the region.

Significant Differences in Prospects Across Countries

The prospects for successful job creation and a structural transformation strategy centered around the manufacturing sector are bound to differ significantly across countries, with some countries better positioned than others for this push. The diagnostics at the regional level mask key differences along several dimensions including country size, resource endowment, current industrial base, and comparative advantage. These factors necessitate a rethinking of industrial strategies in country-specific contexts and the current environment of changing technologies and shifting globalization patterns.

Limited Structural Transformation

In the first decade of this century, Africa enjoyed relatively robust economic growth, exceeding an annual rate 5 percent higher than the sluggish growth from 1991 to 2000, which averaged about 2 percent. In recent years, economic growth has remained at about half the pace experienced from 2000 to 2011. The growth in most of SSA has not been accompanied by robust job generation or structural transformation of the nature historically observed in now developed economies. Manufacturing employment and output shares have barely changed, and the reallocation of resources from low- to high-productivity sectors has been slow and weak.

Risks to Inclusive Growth and Economic Resilience

In the wake of the COVID-19 pandemic, ongoing containment measures, and related socioeconomic crises, economic growth and poverty reduction in SSA are more at risk. Communities, families, and livelihoods have become increasingly vulnerable. Early evidence shows the manufacturing sector is more resilient to the shock of the pandemic. The manufacturing sector, therefore, can

play a key role in bringing inclusive economic growth and building resilient economies in an increasingly uncertain global economy. In this regard, it is imperative to reassess the potential role of industrialization and manufacturing-led policy strategies.

A Changing Global Environment and Opportunities in GVCs

The breakdown of manufacturing activities across countries and the evolution of regional and global value chains offer opportunities for countries in SSA to industrialize through specialization in value-added tasks in which they have a comparative advantage. However, these countries should also have the foresight to accommodate the challenges associated with the increasing use of advanced digital production technologies in manufacturing. These technologies are skill-biased with a limited scope of substitution for unskilled labor and hence can erode countries’ comparative advantages. Therefore, there is a need to seize these opportunities in GVCs by exploiting current comparative advantages in low-skill tasks, while promoting value-addition and technological upgrading, and mitigating the challenges posed by digital technology through skill-upgrading.

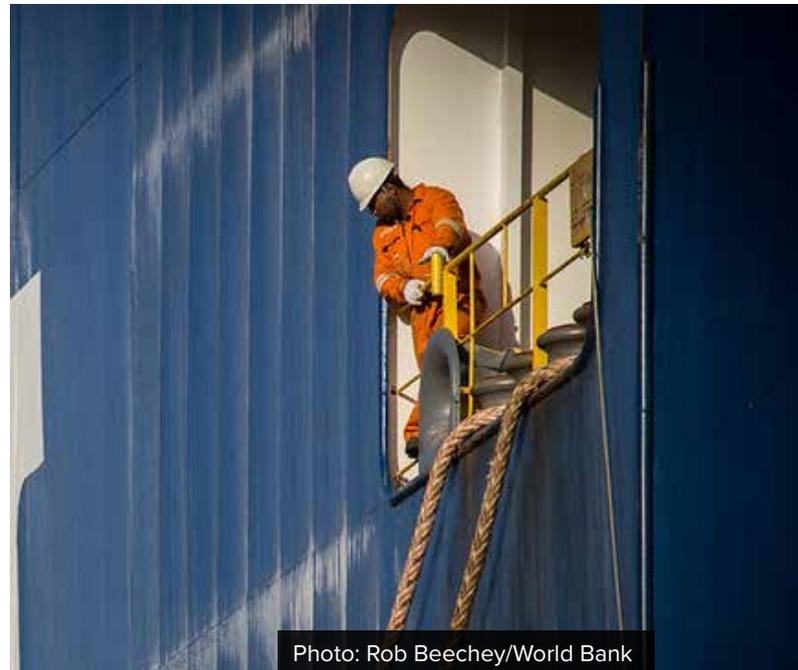


Photo: Rob Beechey/World Bank



Photo: Dominic Chavez/World Bank



A FRAMEWORK FOR POLICY MAKERS

The capacity to participate and upgrade in manufacturing GVCs is bound to vary across countries based on resource endowment, geography, and the level of development. Building that capacity, however, will require an appropriate industrial policy package that is designed to exploit current comparative advantages while developing capabilities to compete in high-skill and high value-added industries. Dynamic comparative advantage, therefore, must be at the core of policy packages for industrializing along manufacturing GVCs.

Emerging megatrends such as changing technologies, shifting globalization patterns, climate change, and global pandemics need to be accounted for in the design of policies to promote industrialization.

KEY RECOMMENDATIONS



Facilitate the establishment of new firms and growth of young firms, which have been the catalysts to job creation in manufacturing.



Strengthen participation in manufacturing GVCs through increasing value-added in exports and strategizing to exploit opportunities and upgrade to knowledge-intensive industries.

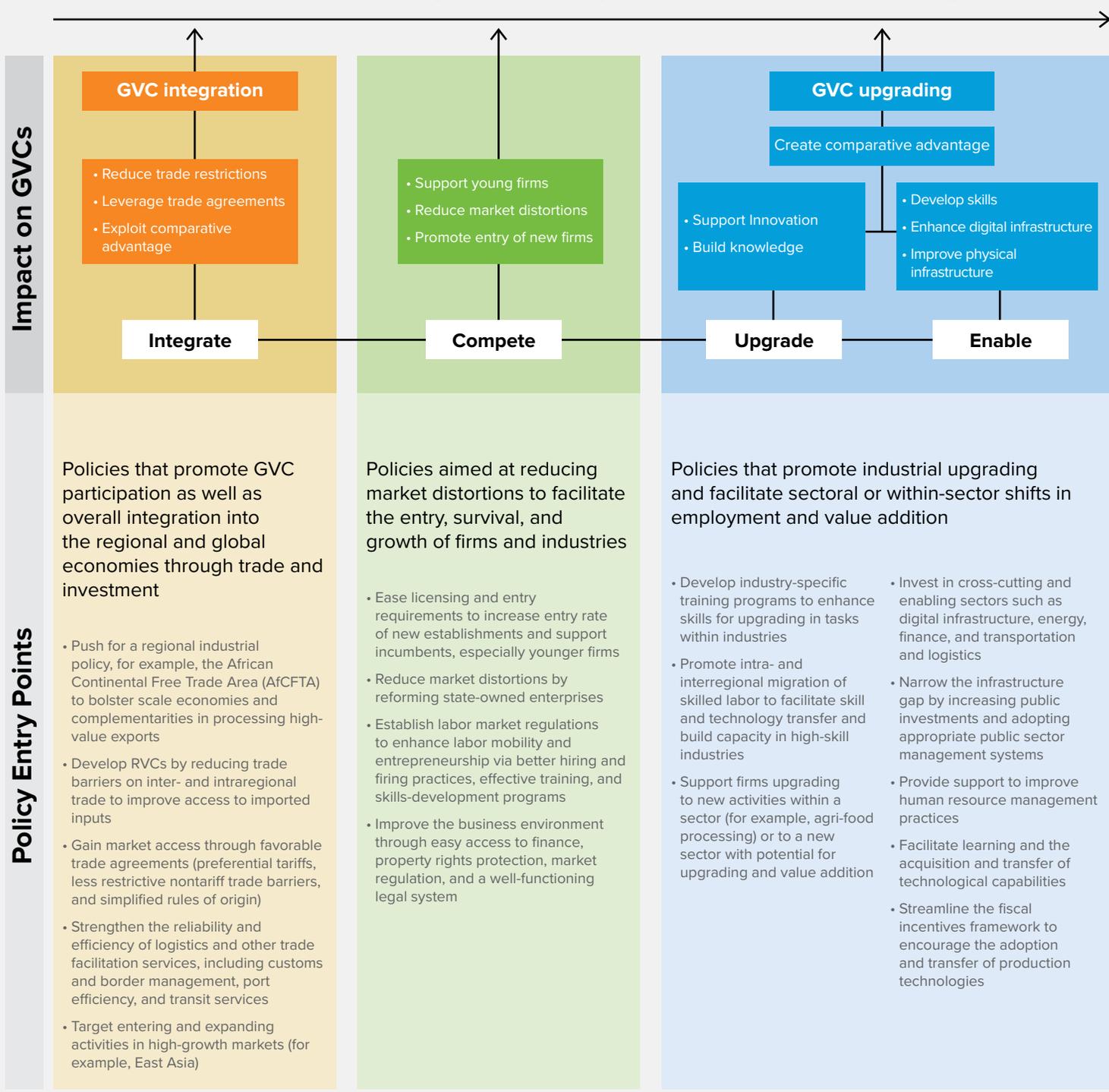


Address severe misallocations within and across firms and industries and promote innovation to drive robust productivity growth needed to counter rising wages and support sustained jobs growth.



Leverage the African Continental Free Trade Agreement (AfCFTA) and other trade agreements to expand access to external markets and enhance the gains from GVC integration.

Increased job creation, productivity growth, and structural change





Policy Implications

Policies to promote industrialization for robust job creation, income growth, and structural transformation should target the following objectives:

Facilitate firm entry, survival, and growth in manufacturing and other sectors

Manufacturing job growth has been driven by the establishment of new and growth of young firms. Thus, policies should ease access to finance; promote entry rate of new establishments and investment of incumbents; reduce market distortions, for example, by reforming state-owned enterprises; and enforce labor market regulations to enhance labor mobility and entrepreneurship via better hiring and firing practices, effective training, and skill development programs.

Boost productivity to ensure job and income growth prospects

The scope for job growth at low wages has diminished as average wages have been rising. This is an indication that the prospect of industrialization over the long term would depend on productivity growth. To this end, governments should support research and development and encourage innovation efforts of new entrants as well as incumbents; provide support to improve human resource management practices, and leverage urbanization to establish and bolster economic clusters.

Promote participation in GVCs and improve gains through upgrading

To the extent that most manufacturing activities occur across national boundaries, policymakers need to promote trade liberalization by reducing tariff and non-tariff barriers on inter- and intra-regional trade; push for a re-

gional industrial policy much like the African Continental Free Trade Area (AfCFTA) to bolster scale economies and complementarities in processing and high-value exports; gain market access through favorable trade agreements (preferential tariffs, less restrictive non-tariff trade barriers, and simplified rules of origin); and facilitate trade through investment in infrastructure and trade logistics.

Improve productive capacities and strengthen sectoral linkages

Integration into manufacturing GVCs has generated jobs in closely linked agriculture and services industries. Thus, efforts should aim to facilitate trade and investment by adopting better policies that identify strategic industries within those sectors in the provision of incentive packages; invest in cross-cutting and enabling sectors such as digital infrastructure, energy, finance, transportation, and logistics; and invest in the development of industrial parks.

Support inclusive and better job creation

Labor market policies should enforce compliance with high standards of worker safety and benefits and develop systems of education and training that emphasize employability and facilitate the transition from study to work, particularly into GVC-specific jobs. Moreover, wage suppression should not be a mechanism to attract and keep jobs in manufacturing GVCs.



Photo: John Hogg/World Bank