In search of structural transformation: 'Made in Africa' and industries without smokestacks

The *African Economic Outlook 2019* estimates that with the current rate of employment growth in Africa, about 100 million new entrants to the labour market will be unemployed by 2030. The INCLUDE synthesis report on *Boosting Productive Employment in Africa* shows that in 2020, most of the new jobs will be in household enterprises (45%) and few in wage sector industry (4%). Due to this weak starting point, in the short term, growth in the formal wage sector will not create adequate jobs to absorb new entrants. Therefore, the creation of productive employment is a key development priority in Africa. There seems to be consensus that structural transformation is crucial for the creation of more and productive jobs and to improve people's livelihoods in the long run. The challenge is that although structural change has been taking place in Africa, employment has moved from agriculture to mostly low-productive jobs in the informal services sector. The analysis of available evidence reveals two approaches to enhance structural transformation in Africa: boost manufacturing by attracting foreign firms and supporting indigenous manufacturers and nurture industries without smokestacks.

Made in Africa

Manufacturing has a long history in Africa. Prior to the establishment of colonial rule, the manufacturing of textiles, iron smelting and smithing, and handicrafts were well developed. Although modern manufacturing became widespread during the colonial era, the colonial administrations eroded Africa's proto-industrial activities through the import of finished goods and by deepening the export of primary commodities. After independence, many countries in Africa prioritized industrialization through import substitution industrialization (ISI) policies in the 1960s and 1970s. However, despite the varied outcomes, import substitution did not lead to a vibrant industrial sector because the policies were short-lived and due to economic downturns in the 1970s and 1980s, structural adjustment policies in the 1980s and 1990s, little support to private firms and the implementation of bad industrial policies. Despite past setbacks, recent headlines such as 'Now is the time to industrialize Africa', 'Made in Africa – the future of production on the continent' and 'Manufacturing in Africa: An awakening giant' show a renewed focus on manufacturing. Furthermore, manufacturing is a key part of Agenda 2063 and is emphasized in the International Monetary Fund's report on employment and productivity and African Development Bank's Industrialize Africa and High 5s for transforming Africa. Manufacturing production in Africa more than doubled between 2005 and 2014, from USD 73 billion to USD 157 billion, although its share of GDP remained at about 10% and Africa's share of global manufacturing is smaller than in 1980. However some countries (Ethiopia, Rwanda and Tanzania) have recorded an annual manufacturing growth of about 10% since 2000.

African governments have sought to catalyse 'traditional' manufacturing by targeting foreign firms to manufacture in Africa and by supporting indigenous manufacturers. Africa can exploit potential opportunities arising from the relocation of manufacturing from China due to rising factor costs and the increasing sourcing of tasks from global value chains across the world, rather than creation of finished products. One strategy that several countries have used to attract foreign firms is to establish industrial parks or special economic zones (SEZs). The objectives of SEZs is to attract foreign direct investment, promote exports, create jobs and promote the formation of industrial clusters. Since the 1990s when SEZs were first established in response to the Africa Growth and Opportunities Act, SEZs have become common. Foreign firms that have been attracted by SEZs and recently started manufacturing in Africa include C&H Garments factories in Rwanda, Ethiopia, Lesotho and Kenya; Huajian Group factories in Ethiopia and Rwanda; Tooku in Tanzania; General Electric in Nigeria; and H&M and Primark in Ethiopia.

Despite successes in some countries such as Lesotho, it seems that SEZs in Africa have underperformed and are yet to reach their full potential including employment creation.

In addition, the number of indigenous manufacturing firms in Africa has increased. These include Dangote Industries Limited, which was established in Nigeria and has expanded to other African countries; Chandaria Industries in Kenya; Inosson Vehicle Manufacturing in Nigeria; Mobius Motors in Kenya; Kiira Motors Corporation in Uganda; Kantanka Automobile Company in Ghana; Enda shoes in Kenya and mobile phone production in Rwanda and South Africa. Indigenous private manufacturers have a great role to play in Africa's development. This is because although the firms are mostly small and medium sized, tend to be labour-intensive and will create most of the wage jobs in Africa.

The extent to which renewed traditional manufacturing in Africa can spur structural transformation is yet to become evident due to concerns about the number of foreign firms locating in Africa and their interests. For example, in 2017, it was estimated that only a third of the 10,000 Chinese firms in Africa were involved in manufacturing. Further, manufacturing firms relocating to Africa have diverse interests, including exploiting raw materials and searching for markets, which may not contribute to industrial development. In addition, relocation based on low labour costs would favour Asian countries, which means that the wage factor itself is too small to motivate any substantial relocation from China. Africa is unattractive to relocating firms due to weak trade related infrastructure, limited drivers of firm level productivity, high labour costs (except for countries such as Ethiopia), a low rank in factors that influence investment, and difficulties in building an industrial workforce. On the other hand, the renewed focus on products 'Made in Africa' can contribute to economic development through job creation, skills development, and the transfer of new technology and knowledge. Increased manufacturing in countries such as Ethiopia may be a sign of early stages in the path towards industrial development and any relocation of manufacturing to Africa enhances structural transformation and employment creation.

Industries without smokestacks

The second approach is to nurture industries without smokestacks such as tradable services (for example information technology, tourism, transport and logistics), horticulture, and agro-industry. These industries are playing an increasing role in employment creation because they share many characteristics with manufacturing, especially the capacity to create better jobs. For example, in Africa, between 2002 and 2015, exports of tradable services and by agri-business increased as a share of non-mineral exports by an average of 58%. In addition, in Kenya, the cut flower industry employs between 40,000 and 70,000 workers, and in South Africa, tourism creates 680,000 jobs. There is also evidence that the development of tradable services can improve the efficiency of manufacturing activities.

What needs to be done

A strategy towards structural transformation to address employment challenges in Africa should incorporate manufacturing and industries without smokestacks. This can be enhanced by:

- Taking a proactive approach to attract relocating manufacturing firms by identifying and addressing binding constraints specific to countries through policy or programme action. The objective should be to improve trade logistics and manufacturing infrastructure, invest in skills and capabilities for manufacturing and enhance the institutional and regulatory environment.
- Adopting new models of industrialization which incorporate industries without smokestacks and tradable services.
- Incentivizing the growth and development of indigenous manufacturers.
- Addressing the weaknesses of SEZs by making them part of a broader industrialization strategy and enhancing the clustering of firms in order to reap the benefits of agglomeration.