# THREE MYTHS ABOUT AFRICAN INDUSTRY

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## The Priority

In January 2008, the African Union Summit focused on industry. Declaring that "no country or region in the world has achieved prosperity and a decent socio-economic life for its citizens without the development of a robust industrial sector" (AU, 2008), African Union heads of state adopted the Action Plan for the Accelerated Industrial Development of Africa (AIDA). To monitor implementation of the plan, regional high-level panels on industrial development—representing heads of state and governments—were established and required to report to the AU Summit every two years.

January 2014 will mark the third time that these panels have reported back. There will not be much to report. In 2010, Africa's average share of manufacturing value added in GDP was 10 percent, unchanged from the 1970s. The share of medium and high technology goods in manufacturing production is low and has been falling since the mid-1990s. Per capita manufactured exports are less than 10 percent of the developing country average. Primary commodities and natural resources still account for the bulk of the region's exports as they have since independence. Africa's industrial transformation has yet to take place.

At about the same time that the AU heads of state were drafting their action plan, the African Development Bank, Brookings Institution and United Nations University—World Institute for Development Economics Research embarked on a joint research project, *Learning to Compete*, aimed at understanding why there is so little industry in Africa. The results of that research, mainly the work of African scholars, are now becoming available.[1] As the AU meets to consider progress under the AIDA, it may want to reexamine three myths about industrialization in Africa that *Learning to Compete* has found have little basis in fact.

## Why Is It Important?

These myths are not merely of academic interest. They have guided the policies of Africa's governments and their bilateral and multilateral development partners for more than a decade. If in the words of the AIDA declaration it is

[1] Since 2008 the research department of the World Bank has undertaken a series of comparative studies of "Light Manufacturing in Africa" and the International Growth Centre has sponsored an "Enterprise Mapping" project in five African countries. The results of this work are also now becoming available.

ever to be "Africa's turn" to industrialize, policymakers and development partners will need to abandon these comfortable but misleading fables and adopt new strategies for industrial development.

### Myth one: African firms are "uncompetitive"

One widely held myth is that, despite very low real wages, productivity in African firms is so low that unit labor costs exceed those of competitors in the global market for low-end manufactures. Because technology in low-end manufacturing is globally available, this claim is much the same as saying that African firms are poorly managed and African workers are unskilled and unmotivated. Not true. Plant-level analysis—much of it conducted by the World Bank—shows that while manufacturing value added per worker in many light manufacturing activities in sub-Saharan Africa is lower than in competing countries, unit labor costs are largely the same. Africa can compete on the shop floor.

### Myth two: Deregulation is the "magic bullet"

But, if African firms are productive enough to exploit the region's low-wage advantage, why hasn't labor intensive manufacturing moved to Africa? The easy answer—excessive regulation holds industry back—is a second myth. As this myth, largely driven by the World Bank's *Doing Business* publicity machine, goes, if only stroke-of-the-pen reforms such as reducing the time and cost of opening a business were pursued with vigor, Africa's economies would be transformed. Also not true.[2] More careful research highlights problems with power and trade logistics as accounting for much of the difference in competitiveness between Africa and other parts of the developing world. Moreover, the new industrializers in Southeast Asia and Central America score as badly on the *Doing Business* surveys as many African economies (Page 2012).

### Myth three: Small firms are Africa's "job creators"

Small and medium enterprises (SMEs) are big business for donors in Africa. Why? The myth is that they are "job creators." The European Union tells us: "For developing countries, the expansion of … SMEs is a *powerful engine of economic growth and the main source of job creation* [emphasis in original]," (EU 2012). This myth is not just heard in low-income countries; it regularly appears in the political discourse in the OECD. Recent research suggests that it is untrue in advanced economies (Haltiwanger, Jarvin and Miranda 2010), and work done under *Learning to Compete* finds it equally untrue in Africa. Not surprisingly, growing firms are the "job creators." In Africa, although small firms employ a larger share of workers than large firms, they also fail at a much higher rate. When we take into account the significantly lower survival rates of small firms, expected job growth for large and small firms is essentially the same (Page and Soderbom 2012).

## What Should Be Done in 2014

It is unlikely that the AU heads of state will be pleased with progress under the AIDA. Perhaps then 2014 is the year to start doing something serious about African industrialization. A good start would be to recognize that:

- African enterprises have the potential to succeed in the global market for manufactures, but they are often constrained by the institutional and physical environment within which they must operate. Governments and donors need to recognize that business people are much better than policymakers at identifying opportunities and constraints. Rather than grasping at easy answers, close coordination between the public and private sectors will be needed to make effective public policy.

- Too much effort has been expended on achieving easily measured but low-impact regulatory reforms and too little on relieving an important physical constraint to industrial growth: lack of infrastructure. *Learning to Compete* consistently finds expensive and unreliable power and transport limit the growth of firms. The international community needs to step up and help close Africa's infrastructure gap.

- As Africa becomes increasingly successful at industrialization, lack of skills will become a constraint. Given the long lag between educational reforms and outputs, new thinking about how to educate Africa's young people for global competitiveness needs to be

[2] For a surprisingly balanced and self-critical evaluation of *Doing Business,* see World Bank (2008).

embodied in the post-2015 development goals. An obvious start is improving educational quality.

- It is time to rethink support to small and medium enterprises. Public policy should target those firms that are successful at creating "good" jobs. These are growing firms. Thus, policies and programs that reduce constraints to the growth of *all* firms, regardless of size, must be developed.

Africa can industrialize, but it will not succeed until both governments and donors reject the myths and confront the realities.

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