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AFRICAN INDUSTRY 2000

The challenge of going global

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna, 2000

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FOREWORD



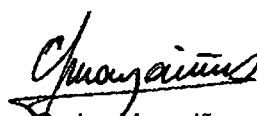
Africa's challenge of going global is formidable. If the region can manage the challenges of the globalization process, it will be on the road to prosperity. If it fails, the region will slide further into poverty and towards continued marginalization in the world economy.

Although a few sub-Saharan African countries have revealed their potential for generating strong industrial growth, the vast majority have lagged behind in the field of industrialization. However, industrial growth and development are essential for improving living standards and generating employment. The process needs to be driven by improvements in productivity and by an enhancement of competitiveness. The industrial sector has a crucial role to play as a dynamic engine of economically, socially and environmentally sustainable development. In this context, industrial development should form a vital component of poverty alleviation strategies.

Overall, the industrial sector has yet to emerge as a dynamic force in African development. The situation is exacerbated by weak preconditions for successfully joining the mainstream globalization process. Capacity building - in terms of improved governance, skills, knowledge, and access to information in order to facilitate technological upgrading, as well as reduced transaction costs through improved infrastructure - constitute the main preconditions for effectively participating in the global production system and, thus, meeting the challenge of going global.

I must emphasize, therefore, that the first and second generation of macroeconomic and institutional reforms need to be complemented by a third generation of reforms at the micro-economic level. These micro-level initiatives for industrial capacity building require unequivocal commitment from decision makers in African industry, to support the private sector and to accelerate investment in Africa.

This publication attempts to contribute to an understanding of the threats and opportunities facing sub-Saharan Africa at the turn of the century. I have no doubt that such an analysis and understanding of emerging issues will contribute towards enhancing the continent's share of the gains from globalization in the years to come.


Carlos Magariños
Director-General

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PREFACE

This publication on African Industry 2000 - The Challenge of Going Global has been prepared by UNIDO, as part of its research programme, to provide analyses of the industrial development process and emerging policy issues of African countries, with particular emphasis on sub-Saharan Africa and least developed countries. The publication is part of the UNIDO Global Forum function and is intended to stimulate dialogue with African decision-makers concerned with industrial strategy, policy, project development and implementation. It is further intended to serve as a ready source of information for governments, investors, industrialists, international organizations, aid agencies, academics and research institutions.

The publication has two separate, but interrelated, objectives: it is designed to stimulate dialogue on industrial development in sub-Saharan Africa as an important step towards joining the mainstream globalization process, and also to serve as an informative and analytical tool for the international community associated with industry and development cooperation.

Comprising nine chapters, and preceded by an Executive Summary, the publication contains in Chapter I an Overview of the issues analyzed in the report. Chapter II provides analyses of the overall context for growth and development in sub-Saharan Africa, while Chapter III analyses the growth and structural change of African manufacturing at the country, sector and subsector levels. Illustrative industrialization experience of selected countries - Nigeria, Ghana, Kenya, Mauritius, Uganda, Zambia, Zimbabwe, Côte d'Ivoire and Lesotho - are presented in Chapter IV. The important link between industry and trade, on the one hand, and industry financing and investment, on the other, are analysed in Chapters V and VI, respectively. The potential important role of South Africa in enhancing industrial development in southern Africa, through trade and investment, is examined in Chapter VII. The overriding importance of improving competitiveness of African industry is analysed in Chapter VIII, while Chapter IX examines industrial strategy and policy imperatives towards accelerating industrial development in sub-Saharan Africa in the 21st century in order to meet the challenge of going global.

The publication was prepared by the Industrial Policies and Research Branch of UNIDO. It is based on information available as at August 1999.

EXPLANATORY NOTES

References to dollars (\$) are to United States dollars, unless otherwise stated.

Dates divided by a slash (1994/95) indicate a fiscal year or a crop year. Dates divided by a hyphen (1994-1995) indicate the full period, including the beginning and the end years.

In Tables:

Totals may not add precisely because of rounding.

The following *abbreviations* are used in this publication:

CAS	Country Assistance Survey
CDC	Commonwealth Development Corporation
COMESA	Common Market of Eastern and Southern Africa
CZI	Confederation of Zimbabwe Industries
DAC	Development Assistance Committee
DRC	domestic resource cost
ECOWAS	Economic Community of West African States
EPZ	Export Processing Zone
ERP	Economic Recovery Programme
ESAP	Enhanced Structural Adjustment Programme
EU	European Union
FDI	Foreign Direct Investment
FTA	free trade area
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
ICOR	incremental capital-output ratio
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
LDCs	least developed countries
MFA	Multi-Fibre Arrangement
MNCs	multi-national corporations
MVA	manufacturing value added
NIEs	newly industrializing economies
NTBs	non-tariff barriers
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
PEF	Private Enterprise Foundation
QRs	quantitative restrictions
RPED	Regional Programme on Enterprise Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	structural adjustment programme
SARB	South African Reserve Bank
SMEs	small and medium enterprises
TFP	total factor productivity
TIP	Trade and Investment Project
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
URA	Uruguay Round Agreements
US	United States of America
VAT	value added tax

EXECUTIVE SUMMARY

At the turn of the millennium African countries face new challenges brought about by the accelerated pace of globalization and resultant competitive pressures. Because these challenges are both diverse and multifaceted, there can be no simple catch-all prescriptions for the future growth and recovery of manufacturing in Africa. Nevertheless, this report intends to provide a critical examination of past experience, to enumerate the lessons that can be drawn from that experience and to highlight the increasing need for a "critical mass" approach to industrial development in sub-Saharan Africa in the 21st century. The following inferences, which can be drawn from the study, need to be viewed within the context of particular country and sub-regional settings.

It is not only clear that industrialization strategies, adopted by many countries in the 1960s and 1970s, were often based on assumptions that proved to be unrealistic and became irrelevant, but it is also apparent that the phase of macroeconomic structural adjustment in sub-Saharan Africa in the 1980s and 1990s has not yet provided an environment that is fully conducive to a new period of industrial growth in the region. In these circumstances, governments and the private sector alike are confronted by the need to focus on basic principles, if they are to remove obstacles to new and productive investment.

By identifying the priority areas of policy, and by examining the nature of the constraints – as well as the evidence from those countries that are experiencing industrial recovery and growth – it is possible to outline the requirements of a well-focused and balanced policy environment to facilitate Africa's entry into the mainstream of globalization. The key elements of such an environment include a focus on the following: improving the conditions for competitiveness; encouragement of foreign investment; stimulation of macroeconomic growth; harmonized and mutually-supportive policies; recognition of the socio-political dimension; expansion of markets; diversification of production and trade relationships; and the development of infrastructure. These priorities recur throughout this report, with a final emphasis on the need for holistic strategies that are economy-wide but include sector-specific strategies.

The main challenge facing African decision-makers is to reverse the region's marginalization in the world economy. This requires strong industrial growth in line with economic transformation experienced by other developing regions. De-industrialization, as reflected in a declining share of MVA in GDP, must be halted in all countries. At the same time, the share of sub-Saharan Africa in world manufacturing value added, which has hardly changed over the last two decades and remained at almost 0.4 per cent (excluding South Africa), will need to increase significantly.

Although economic and industrial recovery began in 1994/1995, it will need to be sustained and significantly accelerated, if Africa is to achieve higher per capita incomes, improved living standards and alleviate poverty. This requires accelerated industrial growth and a more diversified industrial development pattern through a wider participation by more countries and population groups in the industrial development process. It also requires a broadening of the industrial base and diversification away from the highly concentrated industrial structure prevailing in most African economies. The medium-term outlook suggests a favourable growth rate of 4.5 per cent annually of GDP - excluding South Africa and oil exporters - and 4 per cent growth of manufacturing value added for the sub-Saharan region as a whole.

International trade is an important source of industrial growth. In this context, sub-Saharan African industry will need to diversify away from its traditional trade patterns, marked by excessive reliance on exports of raw materials and semi-processed goods and on traditional comparative advantages of raw materials and unskilled labour which are becoming increasingly less important in world competitiveness today. Greater emphasis will also have to be paid to intra-regional trade and trade with other developing regions through higher value added products, increased specialization and stronger participation in the global value chain. The prospects for manufactured exports in the 21st century will greatly depend on the extent to which policy frameworks are established, focusing on nurturing competitive advantages in new industrial areas and further on the scope for reducing transaction costs by improving infrastructure, information flows, and market efficiency while ensuring that the real exchange rate is competitive.

Industrial growth and diversification also require improved investment performance. Indeed inadequate and inappropriate investment has contributed to the weak growth record of sub-Saharan

industry. The investment response of private industry to macroeconomic reform has been disappointing. This is partly due to the sharp fall in public sector investment and the deterioration in the region's physical infrastructure, which has impeded private sector investment. In general, public investment – in physical infrastructure, training, skills development and governance – “crowds in” private sector investment. The relatively high capital-output ratios of sub-Saharan industry illustrate the relative inefficiency of investment in the region. Private capital flows play an important role in financing industrial growth but, in particular, in transferring technology and expertise, providing market access and establishing strategic alliances for greater participation in the globalization process at the enterprise level.

The re-emergence of South Africa as a key player in sub-Saharan Africa will potentially have far reaching repercussions on industrial development in the region. Despite its dominance, South African economic performance has been weak casting doubt on the extent to which it can drive African renaissance through positive neighbourhood effects in the 21st century. The potential positive effects are dominated by the spread of South African FDI and non-equity linkages especially with the SADC countries, combined with the opening up of cheaper and closer sources of supply. A negative effect is the unbalanced trade pattern whereby South Africa has rapidly penetrated SADC markets while none of Pretoria's neighbours have yet penetrated the South African market. This imbalance is likely to increase. However, the recently concluded South Africa – EU free trade agreement could pave the way for a major restructuring of trade relations within the region and also between the region and the EU.

For African industry, the challenge of going global is, primarily, a matter of improving competitiveness. This can be best achieved within the context of dynamic stable economies, solid export bases, reform programmes and above all avoiding political, civil and economic turmoil. Most large-scale industry is not competitive at international prices. Although competitiveness ultimately originates at the enterprise level, the role of economic and industrial policy, aimed at fostering competitiveness, is crucial for improving infrastructure; reducing transaction costs and enhancing governance, skills and technological upgrading. Governments can help nurture comparative advantage by creating an enabling environment for business and industry.

Enterprise level competitiveness is, at least, partially dependent on national-level comparative advantage. In this context, the importance of policy complementarity and critical mass in economic strategy is emphasized. The issues raised include: broadening the reform agenda to ensure progress on a number of fronts simultaneously; acknowledging the socio-economic dimension with a focus on improved governance and poverty alleviation; overcoming small market size through exports to benefit from economies of scale and scope; and in fostering a symbiotic relationship between public and private sectors. In the medium-term, most sub-Saharan African countries will be confined to the factor-driven stage of competitive development entailing some combination of resource-based industrialization and agricultural demand-led industrialization. Geography and industrial clustering could also exert an influence in the context of the South Africa – EU Free Trade area in terms of subcontracting and cross-border integration spin-offs for other southern African economies. Similar, but smaller, effects may arise from ECOWAS and COMESA. But such spin-offs will materialize only where governments and enterprises succeed in building competitive advantage in the light of comparative challenges of labour-intensive manufacturing from the emerging economies, such as Brazil, China and India. The key role of strategic intervention in the economy will be to build national competitiveness on the basis of solid infrastructure, skills, governance and technology.

The scope for sub-Saharan industry to replicate different models of East Asian success is limited by two main factors: i) since the Asian economies made their successful transformation, the global economy has changed, both with regard to the reduced importance of low labour cost in competitiveness and the emergence of strong competition in labour-intensive exports from the above mentioned emerging economies; and ii) the difference in prior conditions between pre-industrial take-off in Asia and those prevailing in much of sub-Saharan Africa. Nevertheless, there are some elements of Asia's success that can serve as a guide for African industrial policy in the 21st century, such as appropriate macroeconomic policies, outward orientation, attraction of FDI, effective selective interventions, institutional capacity building and efficient infrastructure.

Globalization has been less favourable to Africa than to other developing regions and has created a divergence in living standards in relation to those of developed countries and the fast-growing industrializing countries of East and South East Asia. Reversing Africa's marginalization in trade, investment and production requires greater openness, in terms of tariffs, non-tariff barriers, FDI flows and strategic partnerships at the enterprise level. However, openness on its own is not sufficient. The

challenge of globalization needs to be addressed by macroeconomic stability; improved governance; increased domestic investment especially in physical infrastructure and human capital; technological upgrading, privatization and increased policy complementarity – good policies need to be mutually reinforcing.

Globalization will imply new directions in industrial strategy and a narrowing of industrial policy options. Industrial support policies will increasingly change focus to foster the start-up and growth of new firms; enhance research and development; improve the dissemination of technology, knowledge and information; build linkages between foreign and local investors; protect the environment; help firms find, assess and penetrate export markets and global value chain; upgrade skills and technology and stimulate collective efficiency of small and medium enterprises through clustering.

The traditional labour-intensive and resource-based industries are losing market share to the fast-growing skills-, information- and knowledge-intensive industries. While Africa does not enjoy a comparative advantage in these industries, the region risks being locked into a slow growth path of traditional industries if technology is not upgraded. Even traditional industries lose competitive advantage if they fail to upgrade technology and skills. Labour quality, rather than low labour cost, is increasingly what counts.

African industrial policy will need to enhance the institutions and capabilities to manage globalization of industry. Globalization is unlikely to be reversed and countries that globalize are likely to grow faster than others. However, the region's failure to penetrate international markets for manufactured goods highlights the region's vulnerability to globalization. If industrial growth is not export-led, it runs the risk of being constrained by sluggish domestic markets. It is in this context that industrial policy has a role to play in managing globalization by: creating competitiveness through supply-side reforms, especially investment in training and skills development; facilitating foreign investment that will transfer technology and expertise and provide access to world markets; enhancing industrial governance, especially through an appropriate legal framework and enabling environment; stimulating domestic competition, and building participatory public-private sector cooperation and dialogue. Only through such measures can African industry engage the world economy on its own terms.

CHAPTER I.

OVERVIEW

REVERSING MARGINALIZATION REQUIRES STRONG INDUSTRIAL GROWTH

The mid-1990s may have marked the turning point for the sub-Saharan economy. After two decades of marginalization, during which the region lost market share in global trade, in manufacturing value-added (MVA), in foreign direct investment (FDI) and during which period per capita income declined relative to the rest of the world, sub-Saharan Africa began to recover in 1994/95 (Chapter II). Welcome though this is, unless continent-wide growth rates can be accelerated significantly, it will take until 2010 to regain per capita income levels of 1974.

An important reason for the recent improved growth performance is not only the higher commodity prices of 1994/1995 but also the beginning of recovery in manufacturing industry. While MVA declined in almost half the region's 48 economies between 1990 and 1995, in the subsequent three years industrial growth rates were higher in 36 countries than in the first half of the decade.

But, as with GDP (gross domestic product) per capita, manufacturing's post-1995 upturn represents recovery rather than growth. After peaking in 1989 at \$43 billion (in 1990 dollars), sub-Saharan MVA fell almost 10 per cent between 1989 and 1994 to its lowest level since 1986. Assuming MVA growth of 4 per cent annually, it will take until 2002 to regain 1991 output levels.

Sub-Saharan MVA growth, excluding South Africa, outpaced the global average in the 1970s and 1980s, before starting to fall behind in the 1990s (Chapter III). Since 1990, the value of MVA has fallen in no fewer than 13 of the 33 sub-Saharan countries, for which data are available, while in many others growth has been no more than modest.

Since 1980, sub-Saharan Africa's share of global MVA -excluding South Africa- has barely changed, from 0.37 per cent in 1980 and 0.40 per cent in 1990 to an estimated 0.38 per cent in 2000. However, including South Africa, sub-Saharan Africa's share of global MVA virtually halved from 1.6 per cent in 1980 to 0.8 per cent in 1998. The region's share of developing country MVA, excluding South Africa, shows a decline to an estimated 1.6 per cent in 2000, from 2.8 per cent in 1980, chiefly reflecting the rapid industrialization of South and South-East Asia.

Status of industry in sub-Saharan Africa

Manufacturing activity in the region is highly skewed, with seven economies accounting for two-thirds of the total (Chapter III). Industrial concentration has increased since 1970, chiefly reflecting Nigeria's increased share of African industrial activity and the success of export-led industrialization in Mauritius, albeit atypical, whose share has risen almost fivefold to over 5 per cent of the regional total.

Box 1.1. A note on the statistics

Statistical data on the sub-Saharan economy are inadequate in quantity and highly variable in quality. This report draws on a variety of different sources, relying mostly on UNIDO for industrial data, though numbers for individual countries in Chapter IV are often those compiled by national statistical services.

Regional and national data are also drawn from the World Bank, IMF and United Nations agencies backed up by private sources, such as the Economist Intelligence Unit.

Unavoidably there are inconsistencies between the data that simply cannot be resolved because of the substantial discrepancies at times between numbers prepared by different agencies.

Sub-Saharan manufacturing industry is dominated by production for domestic demand and the processing of raw materials for export. Three broad sectors account for over two-thirds of value-added, with food, beverages and tobacco products contributing the largest share (40.6 per cent), followed by clothing, textiles, footwear and leather products (14.3 per cent), and chemicals, petroleum refining and coal products (13.9 per cent). Food processing is the largest branch accounting for 22.9 per cent of total MVA in 1996 followed by beverages (13 per cent) and textiles (8.9 per cent).

Foreign trade and industrial growth

In the 1990s, trade and FDI have been the engines of world economic growth. The success story economies of East and South-East Asia positioned themselves to exploit the opportunities flowing from the quickening pace of globalization. Sub-Saharan Africa was left behind, locked into a north-south pattern of external trade, heavily reliant on exports of raw and semi-processed materials and slow to create competitive advantage (Chapter VIII), depending instead on traditional comparative advantage in the form of raw materials and plentiful, unskilled labour.

The striking characteristics of sub-Saharan trade patterns are as follows (Chapter V):

- heavy dependence on commodity and raw material exports. Manufactures account for only 19 per cent of total exports compared with 54 per cent for all developing countries. In 1996 oil alone accounted for 27.5 per cent of total exports;
- by contrast, imports are dominated by manufactured goods accounting for more than 70 per cent of the total;
- high export concentration, with approximately three quarters of total exports being sold to developed economies, especially to the European Union (EU) (52.6 per cent in 1995). Other industrialized economies account for a further 23 per cent, of which 14.5 per cent go to North America and 4 per cent to Japan;
- very low levels of intra-regional trade, in stark contrast with the situation in Asia;
- concentration of both exports and imports within a handful of countries. Two countries, South Africa and Nigeria, account for over half of sub-Saharan exports, while exports from 32 African least developed countries (LDCs) in 1994 totalled only \$10.5 billion (17 per cent). Imports are similarly dominated by South Africa (37 per cent) and Nigeria (10 per cent), while the 32 sub-Saharan LDCs account for a quarter of the regional import bill.
- only three sub-Saharan African economies (Mauritius which manufactures 70 per cent of its total exports, South Africa, 43 per cent, and Zimbabwe, 30 per cent) are listed among the world's top 60 exporters of manufactured goods.

After falling by a third in the first half of the 1980s, partly reflecting the sharp fall in oil prices, sub-Saharan exports grew rapidly for the rest of the decade, increasing 7.6 per cent a year in dollar terms. However, this slowed to only 3 per cent annually in the 1990-1996 period, partly reflecting the recession in Europe but also the region's continuing loss of market share.

Small markets, low per capita incomes and backward technologies in sub-Saharan Africa highlight the role of foreign trade and FDI in industrial development. Low levels of intra-African trade, low export-MVA and high import-MVA ratios underscore the opportunities for export-driven industrialization. The adoption of Structural Adjustment Programmes (SAPs), embracing trade liberalization, and continent-wide efforts to strengthen, revive and develop new regional economic integration schemes are evidence of renewed attempts to industrialize through regionalisation and globalization.

Investment: insufficient and inefficient

Inadequate and inappropriate investment has contributed to sub-Saharan Africa's lack-lustre growth record:

- in private enterprise, the response to macroeconomic (and political) reform has been disappointing in many, if not most, African economies,
- in the public sector, fiscal constraints have forced governments to economise on investment, especially in physical infrastructure and in institutional capacity.

Three aspects of sub-Saharan Africa's recent investment experience stand out (Chapter VI):

- decline in the investment/GDP ratio since the mid-1970s, in spite of generally high profit ratios;
- inadequate level of investment which, at 16.6 per cent of GDP since 1985 assuming a capital-output ratio of five, is sufficient - at best - for GDP growth of no more than 3.3 per cent annually, implying real per capita income growth of around 0.5 per cent a year;
- steep decline in public sector investment, which has fallen more than 60 per cent since 1984.

The sharp fall in public sector investment is, undoubtedly, partly to blame for the weak performance of private sector performance. The deterioration of the African state (Chapters VIII and IX) and of the region's physical infrastructure have discouraged private sector investment to a significant extent,

though this is impossible to quantify. There is considerable evidence to show that appropriate public sector investment - in physical infrastructure, in training and skills development, in governance - "crowds in" private sector investment.

While investment efficiency in sub-Saharan Africa, as measured by the incremental capital output ratio (ICOR), has improved since the mid-1970s, the capital-output ratio remains high by developing world standards. Over the 22-year period from 1975 to 1997, the capital-output ratio was just under 8, which is very high by developing country standards, illustrating the relative inefficiency of investment in the region.

Low levels of domestic savings - a function of small, under-developed private enterprise sectors, low levels of per capita income and large public sector fiscal deficits - have forced sub-Saharan economies to rely heavily on foreign capital. Sub-Saharan Africa is more reliant than any other developing region on foreign capital (6.5 per cent of GDP in 1994/1995), and relies far more than any other region on official development assistance (ODA), which accounted for over two-thirds of foreign capital inflows in 1994-95. While there are no accurate estimates of capital flight from Africa, it is clear that this has had a major adverse influence on investment and its financing.

Of enormous importance too is the nature of private capital flows, given the pivotal role of FDI, not just in financing industrial growth, but also in transferring technology and expertise, providing market access for the exports of developing countries and establishing strategic alliances at the enterprise level.

Financial sector reform

Most SAPs rightly accord high priority to financial sector reform. These reforms target key weaknesses that evolved in the pre-reform era:

- a narrow financial structure, dominated by commercial banks. With a handful of exceptions - notably South Africa, Zimbabwe, Kenya, Nigeria and Ghana - the non-bank financial sector was neglected until the 1990s. Since 1990, there has been a burst of financial sector diversification. This includes the proliferation of stock markets, the growth of non-bank financial institutions (insurance companies, pension and provident funds, mutual funds), along with a substantial increase in the number of banks, frequently merchant or investment banks, specializing in trade and corporate finance and in wholesale banking transactions with medium-sized and large customers;
- the dominance of the state in the finance sector. In many countries, the main banks were state-owned, while governments exercised control - directly or indirectly - over the money supply, interest rates, lending policies and the allocation of credit. Real interest rates were often low or negative, which discouraged savings and impeded financial intermediation;
- high reserve ratios of banks, averaging 20 per cent to 25 per cent of deposit liabilities, thereby driving a wedge between deposit and lending rates and increasing the cost of funds to the enterprise sector;
- the operation of governments as major borrowers in the money and capital markets, thereby "crowding out" private sector investors.

During the 1990s, many countries have adopted reform programmes designed to rectify these shortcomings. Central banks have strengthened prudential regulation procedures in accordance with the Basel Accords. Governments have stepped in to restructure or close "financially distressed" institutions. The number of stock exchanges has grown rapidly with the opening of new markets in Botswana, Côte d'Ivoire, Ghana, Malawi, Namibia, United Republic of Tanzania, Uganda and Zambia. Several countries have opened up their stock markets to foreign investors, thereby both raising the country's investment profile - and that of its market-listed companies - while also attracting inflows of portfolio capital.

South Africa's renaissance

The re-emergence of South Africa as a major player in the sub-Saharan region, rather than being isolated from it politically and economically by the apartheid system, will have far-reaching repercussions for industrial and economic development on the continent (Chapter VII).

South Africa dominates the sub-Saharan economy, accounting for 45 per cent of sub-Saharan Africa's GDP (current prices) - though in constant price terms, it's share is closer to a quarter - 58 per cent of regional MVA, 42 per cent of exports and 38 per cent of imports. It also dominates intra-regional trade supplying 40 per cent of intra-regional exports to the rest of sub-Saharan Africa. Despite this dominance, South Africa's post-1990 growth performance has been disappointing, casting doubt on the extent to which it can become the leader of the African renaissance - the locomotive that drives the regional economy, especially that of southern Africa, in the 21st century. If South Africa is, in fact, going to play that role, its economic performance must improve radically.

Because South Africa is so important a player, not just in terms of its contributions to regional GDP, exports and MVA, but also because of its high and growing levels of penetration of sub-Saharan economies - notably trade, but also FDI and non-equity linkages - it, along with Nigeria, is the one economy that has the capability to transform past adverse regional contagion effects into positive neighbourhood effects.

As the South African economy restructures, such neighbourhood effects can be expected to predominate, though the impact of greater import and investment penetration of their economies has had some transitional adverse repercussions in southern African economies. In essence, this represents the regionalisation of the southern African economy, though with spin-off effects as far afield as Kenya, Uganda and Ethiopia in eastern Africa, the Democratic Republic of Congo in central Africa and Ghana, Burkina Faso, Mali and Côte d'Ivoire in the west.

After decades of business and economic isolation, South African companies are diversifying their activities by broadening their geographic and sectoral base with both positive and negative - transitional - effects (Chapter VII). The positive effects are dominated by the northward spread of South African FDI and non-equity linkages, especially within the Southern African Development Community (SADC), allied with the opening up of often cheaper, and more convenient (closer) sources of supply.

A negative - possibly transitional - effect has been the impact of import competition on local manufacturing in countries like Malawi, Zambia, Zimbabwe and even Kenya, where enterprises have been forced to adjust by downsizing or even closure.

The most negative aspect for many in business and government is the essentially one-sided nature of the relationship. South African penetration of SADC markets - and indeed African markets as a whole - has grown rapidly since 1992, but none of Pretoria's neighbours has yet managed to break into the South African market on a significant scale.

This trade pattern is likely to become considerably more unbalanced before the pendulum swings back. South Africa is often a cheaper, speedier and more convenient supplier of more appropriate products than the EU, North American or Asian sources. On the other hand, Pretoria's main demands are for capital and skills-intensive imports, which the rest of African cannot provide.

Southern Africa is on the brink of a new trade order that will substantially influence the nature and pace of industrialization, resulting in far-reaching restructuring of the region's manufacturing sector. Potentially the most important element of restructuring is the agreed free trade pact between Southern Africa and the EU.

How this will affect other countries in the region will depend on the mechanisms implemented to broaden intra-regional trade, via the Southern African Customs Union (SACU). SACU's members include Botswana, Lesotho, Namibia and Swaziland, as well as South Africa. The 14-member SADC includes countries in east and central Africa (United Republic of Tanzania and the Democratic Republic of Congo, (former Zaire)), as well as two Indian Ocean economies, Mauritius and Seychelles.

Although South Africa is not a member of the Common Market of Eastern and Southern Africa (COMESA) most members of SADC are. Accordingly, the EU-South Africa Free Trade Agreement (FTA) could open the door to major restructuring of trade relationships within the region and also between the region and the EU (Chapter VII).

Box 1.2. The Euro – Implications for sub-Saharan Africa

Because the EU is sub-Saharan Africa's chief trading partner (Chapter V), the launch of the single European currency, the euro, in January 1999 is likely to have far-reaching implications for the region. The most positive influence is expected to be the emergence of a stronger, faster-growing EU that will create a wider market for African exports. These could also increase direct and portfolio investment flows to sub-Saharan Africa, especially into the emergence of the CFA Franc Zone, which has a fixed parity link to the euro through the French franc.

The chief potential downside concerns the CFA currency. Should the euro appreciate against other major currency blocs – the dollar and the yen – there is a very real danger that CFA countries will lose competitiveness. This danger is all the more serious because medium-term projections point to a gradual weakening of Africa's terms of trade due to stagnant or falling primary commodity prices at a time when prices of manufactured goods are expected to increase at 1.5 per cent annually (Chapter V).

CFA countries will, therefore, need to ensure that they retain – and improve – domestic competitiveness to offset any reduction in external competitiveness arising from currency appreciation. Alternatively, they may have to rethink the fixed parity with the euro, allowing the CFA franc to depreciate in line with inflation and competitiveness differentials between Francophone African economies and the EU.

A NEW FOCUS ON COMPETITIVENESS

Until the mid-1990s, African governments and the donor community, including international agencies, paid relatively little attention to competitiveness (Chapter VIII). Economic policy makers saw the concept largely in terms of relative wage levels, inflation and exchange rates, while structural adjustment and economic reform programmes focused on macroeconomic fundamentals.

The net effect has been to create an environment in which competitiveness is seen mainly as the responsibility of corporate managers. This situation is now changing. Publication of the 1998 African Competitiveness Report by the World Economic Forum and the Harvard Institute for International Development raised the profile of competitiveness as a major issue for governments, as well as corporations.

The survey shows that:

- small, dynamic stable economies with solid export bases, perform the best. The three top sub-Saharan economies - Mauritius, Botswana and Namibia - fit into this category;
- countries in the top half of the ratings are largely those that have managed to avoid the high levels of political and economic turmoil that has bedevilled economic performance over much of the continent;
- moderate performers include those undertaking reforms but still recovering from long periods of weak performance. Even "model" reformers, such as Ghana and Uganda, are included in this group because, even after a decade of largely-successful reform, per capita GDP levels are still lower today than in 1970;
- a feature of some of the moderate performers is the sporadic, or erratic, nature of their reform programmes. Both Kenya and Zambia fit into this mould;
- those ranked near the bottom include countries that have suffered political or civil turmoil (Ethiopia, Angola and Mozambique), military dictatorship (Nigeria) or those that have been slow to implement economic reforms or are constrained by severe demographic, environmental or geographical factors, such as landlocked Malawi.

Role of the state

While ultimately competitiveness arises at the enterprise level, the role of the state - and of industrial policy - in fostering competitiveness cannot be exaggerated (Chapter IX). Poor infrastructure, inadequate skills, poor industrial governance and outdated technology constrain industrial development.

All four elements of the competitiveness mix - infrastructure, governance, skills and technology - are dependent in varying degrees on the state. If the state fails to maintain law and order, guarantee the security of individual and investments, protect intellectual property rights, provide an efficient infrastructure, adequate training, education and health systems, enterprise-level competitiveness will be undermined.

Where the macroeconomic, institutional and infrastructure framework is conducive, enterprises will become competitive on the basis of a country's comparative advantage. Of course, governments can help to create comparative advantage through appropriate policies, but ultimately it is the task of corporate management to secure orders and build market share.

There is, however, a limit as to how far African governments, constrained by scarce resources and skills, can go in making their economies more competitive. Where the private sector is weak and undeveloped, the creation of an enabling environment for business is likely to yield disappointing results, certainly in the short-to-medium term. Experience in Asia, Latin America and, more recently, in East and Central Europe, highlights the crucial catalytic role of FDI in building competitiveness. This is particularly important in the light of the giant cross-border mergers and acquisitions taking place in key industries of developed countries.

Industrial strategy and policy

At independence in the 1950s and 1960s, newly-elected sub-Saharan administrations saw industrialization as the logical, preferred road to self-sufficiency and self-sustained growth. Rapid industrial development would enable them to shake off the shackles of colonial trading patterns, near-total dependence on highly-volatile commodity exports and equally heavy reliance on manufactured imports; it would generate higher productivity and more and better-paid jobs for their fast-growing populations. It was intended that the shift of labour and other resources from low-productivity agriculture to high-productivity manufacturing, and the development of linkages between enclave mining, energy or plantation agriculture and an emergent, modernizing manufacturing industrial sector would create millions of new jobs, simultaneously raising living standards.

For a time the inward-focus strategy appeared to be working (Chapter III). Industry expanded at 14.6 per cent annually between 1965 and 1973 - the tail-end of the golden age of rapid global economic expansion. But the conjuncture of the changed global environment after the first oil price crisis in 1973/74, mounting evidence that import-substitution industrialization was losing momentum in most African countries and the successes of the newly industrializing Asian economies, forced a rethink.

In its seminal report on the state of the sub-Saharan economy in 1980, the World Bank warned that the policy of inward industrialization was "biasing the incentive system against objectives to which governments give high priority - agriculture, exports, food production and rapid industrial development" [World Bank, 1980].

In the 1980s, fuelled also by the philosophies of Reaganomics and Thatcherism in OECD countries, as well as increasingly powerful evidence of the Asian miracle, the industrial policy pendulum began to swing as deregulation, trade liberalization, privatization and, most recently, globalization, took the centre stage.

Structural adjustment

In the 1980s, structural adjustment was the catch-all name given to strategies, invariably funded by the World Bank and IMF, to revive developing economies that had fallen behind, especially but not only, in Africa. At the end of the 1990s, the success of structural adjustment is still be debated. The consensus view, perhaps, is that SAPs mark the beginning of an evolutionary process of economic change in Africa, but that, certainly initially, the focus has been too narrow and not enough attention has been paid to socio-political dimensions, including poverty alleviation.

Whatever success SAPs may have achieved, the undeniable fact remains that de-industrialization has occurred in many sub-Saharan economies and that - on past performance - manufacturing activity will not be revived, without at least some initiatives stretching beyond those normally associated with adjustment packages. Since 1980, few African SAPs paid specific attention to manufacturing and virtually none, until the mid-1990s, even mentioned the concept of competitiveness, other than within the context of wage levels and exchange rate competitiveness.

Since the early 1990s, adjustment policies have begun to change, with a more direct focus on poverty reduction than before, and also with a growing recognition that in the globalized world economy, the

capacity of the state to drive change is receding (Chapter IX). In part, this is a reflection of the declining share of ODA in total flows to the region.

The policy debate has broadened in recent years as disillusionment with structural adjustment as the panacea for all Africa's ills, and specifically for reinvigorating manufacturing industry, has grown (Chapter IX). The 1990s focus on competitiveness has further broadened the policy debate to the point where it is no longer credible to suggest that "getting prices right" by dint of "pure" adjustment strategies is sufficient to turn a low-income, heavily-agricultural African economy into a modern industrial state. Competitive drivers (Chapter VIII) and productivity growth depend on much more than allocative efficiency embodied in getting prices right.

In focusing on international competitiveness and the fact that enterprise-level competitiveness is at least partially dependent on national-level competitive advantage, the new consensus stresses the roles of macroeconomic policy and the re-engineering of the state.

At the end of the 1990s, the focus of industrial policy in Africa is shifting once again. In some respects the wheel has turned a full circle, with echoes of the 1950s and 1960s debate over the relative merits of balanced versus unbalanced growth. The new debate is different, however, underlining the need for critical mass - "balance" - in economic strategy.

POLICY COMPLEMENTARITY AND CRITICAL MASS

Policy complementarity and critical mass have four distinct connotations in economic policy:

- **Broadening the reform canvass**
A broad-based approach designed to ensure progress on a number of fronts simultaneously is necessary, if economic reform is not to be derailed by a lagging sector or by inadequate resources.
- **Acknowledging the socio-political dimension**
The post-1990 focus on governance and poverty alleviation (Chapter IX) is no more than the start of a lengthy process in Africa. Political disillusionment with hardships created by structural adjustment and the yawning chasm between conditions on the ground and the widely publicized, often-exaggerated claims of governments, donors and lenders, have given reform a bad name [Alesina, 1998].
- **Market size**
Market size is a key determinant of both industrialization and inward FDI. Sub-Saharan economies with an average market size (excluding Nigeria and South Africa) of only \$3.5 billion (1998) are at an enormous disadvantage. Historically, countries with large populations and/or high per capita income have industrialized earlier and faster than small, poor countries, reflecting the significance of scale and scope economies, market opportunity and, especially recently, FDI.
- **Inclusiveness**
Perhaps most important of all, the critical mass approach to policy emphasises inclusiveness. For the foreseeable future, in sub-Saharan Africa the debate over the different roles of private and public sector will be replaced by acknowledgement that, without a symbiotic relationship between the two, the region will continue to under perform economically.

The state must focus on its core responsibilities. The private sector and private capital will increasingly become the engines of growth. Private-public sector cooperation will become the norm where the state lacks the resources and capability to fulfil its core tasks.

Inclusiveness also means - especially in small LDCs - that there will be instances of market failure where state intervention is needed. The important requirement is that the state should focus on areas where it is the only actor willing to participate (because the risks or costs for the private sector are too great), where the perceived benefits will exceed anticipated costs or where it has a comparative advantage relative to other actors.

Industrial policy and competitiveness

For the foreseeable future, most sub-Saharan economies will be confined to the factor-driven stage of competitive development, which implies a focus on some variation of resource-based industrialization and agriculture-demand-led industrialization (Chapter IX).

In the 21st century, geography and clusters could exert an influence, especially in the context of the South Africa-EU free trade area in the context of the sub-contracting and cross-border vertical-integration spin-offs for other southern African economies within SADC. In the longer-run similar, but smaller, spin-offs might arise from the Economic Community of West African states (ECOWAS), the East African Cooperation agreement and COMESA.

Such spin-off effects will materialize only where governments and firms succeed in building competitive advantage - in the face of the envisaged challenge in the field of labour-intensive manufacturing from the Big Five of Brazil, India, China, Indonesia and Russia (Chapter II).

The distinction between comparative advantage and competitive advantage (Chapter VIII) highlights the challenge to policy makers. It is common cause that the state should foster national competitiveness (comparative advantage) through the creation of a business- and investment-friendly enabling environment. How much further the state should go, in targeting selective interventions designed to foster particular industrial activities, is controversial, especially in African countries where the capacity to intervene is thinly spread.

Unless governments are prepared to protect domestic manufacturing, only internationally competitive enterprises will prosper. Accordingly, the central role for industrial policy in sub-Saharan Africa in the 21st century will be "strategic government intervention in the economy to build national competitiveness" [Phillips, 1982].

The state must adopt industrial policies that foster competitiveness. It must recognise that poor infrastructure, inadequate skills, poor governance and outdated technology constrain industrial development.

Replicating Asia's success in Africa

During the 1990s, arguably undue attention has been paid to strategies for replicating Asia in Africa. The weaknesses of such an approach have been rudely illustrated in the 1997/98 financial and economic crisis in Asia and the 1990s slowdown and difficulties of the Japanese economy, which between them underscore the fragility of economic success.

Four other problems have arisen from the preoccupation with Asia's success:

- The fact that since the Asian economies made their successful transformation, the nature and character of the global economy has changed. Some of the implications of this change and how it might affect the early years of the next century are assessed in Chapter II. Should the Big Five emerge along the lines mooted in the World Bank's scenario, replicating Asian policies of the performance of the 1980s and 1990s might prove inadequate and unsuccessful [World Bank, 1997].
- The fact that there is no single Asian role model, but a variety of different experiences, from which policy makers can learn.
- Perhaps most ominously, the quantum difference in prior conditions between the pre-industrial take-off in South and East Asia and those still current in much of sub-Saharan Africa. In its 1997 Ghana Country Assistance Review, the World Bank notes that, although Ghana's social development indicators are better than the average for sub-Saharan Africa and compare favourably to higher-income countries in the region, they are "a long way from levels reached by East Asian countries before they began their rapid growth" [World Bank, 1997]. Elsewhere, the report quotes Ghana's National Capacity Assessment (1996): "Ghana's capacity to handle various technical and managerial activities in most sectors of the economy has worsened in the last two decades and efforts to rebuild these have not been successful". The damage to the region's physical infrastructure and institutional capacity and its ramifications for economic growth and industrialization cannot be ignored.
- The fourth concern is that of the social and political mood. It is far from obvious that Africa's poor and deprived communities will demonstrate the willingness to work long hours with low pay, to endure the authoritarianism characteristic of much of East and South-East Asia, and to defer consumption for many years, thereby increasing savings ratios dramatically, as in Asia.

Industrial policy priorities

These caveats notwithstanding, the lessons of Asia's success must guide African industrial policy in the 21st century. The crucial ingredients have been:

- appropriate macroeconomic policies;
- outward orientation;
- attraction of FDI;
- effective selective interventions.

Two further prerequisites must be satisfied for an industrialization strategy to take root:

- The institutional capacity, crucial to maintaining appropriate economic policies, undertaking selective interventions and attracting FDI, must be created or strengthened; and
- sustained economic growth requires efficient infrastructure.

The implication is that, given their technical and budgetary constraints, African governments should concentrate their limited resources on implementing broad development strategies that go beyond industrial policy. In the light of the drastic deterioration in the institutional capacity of the African state, priority should be accorded to rebuilding and refocusing the state, while simultaneously maintaining appropriate macroeconomic and industrial policies.

This is not to argue that selective interventions are inappropriate, but that when it comes to prioritizing, the net benefits are likely to be greater where economy-wide functional intervention is chosen.

"Successful industrialization is the outcome of the interplay between incentives, capabilities and institutions, not simply concentration on one to the exclusion of others" [Lall 1991]. According to Lall, getting appropriate incentives in place - "getting prices right" - will be better than an inward-focused uncompetitive industrial regime, but it will not promote upgrading and diversification if technical skills, management, technology and institutional support are not available. Equally, satisfying these crucial supply-side requirements will be counterproductive if the incentives are wrong [Lall, 1991].

Because it recognizes the gaps that exist - the institutional, infrastructural and policy shortcomings that have constrained industrialization over the past 25 years - the critical mass approach is appropriate for sub-Saharan Africa in the third millennium.

THE WAY FORWARD

Chapter IX argues the case for a holistic, "critical mass" approach to industrial development in sub-Saharan Africa, acknowledging that in the new global economic order of the 21st century, much that was taken for granted 20 years or even ten years ago, is no longer applicable.

The forces of globalization and technological progress have been less kind to sub-Saharan Africa than to other developing regions. Living standards have diverged from those of the first world and from those of the fast-growing newly industrialized and industrializing Asian economies. While the four Asian newly industrialized economies - Hong Kong, Republic of Korea, Singapore and Taiwan - increased per capita incomes from 18 per cent of the industrial country level in 1965 to 66 per cent in 1995, in sub-Saharan Africa per capita income levels halved from 14 per cent of the OECD (organisation for Economic Cooperation and Development) level to just 7 per cent.

The IMF reports a "sharp decline" in the upward mobility of developing countries within the international distribution of income which, in sub-Saharan Africa's case, is largely explained by its continuing marginalization in terms of trade and investment flows and its share in global MVA.

Reversing marginalization implies greater openness:

- tariffs in sub-Saharan Africa average about 27 per cent compared with 15 per cent among East Asian countries;
- the average non-tariff barrier coverage ratio is many times higher than in fast-growing developing economies;
- Sub-Saharan Africa attracts less than 3 per cent of global FDI.

On the policy front, globalization poses a major challenge to African governments to act decisively and convincingly in the areas of:

- maintenance of macroeconomic stability;
- improved governance;
- increased investment in physical infrastructure;
- increased investment in human capital;
- effective policies to enhance the country's technological capability;
- privatization;
- increased policy complementarity.

There is a strong overall correlation between policies and growth. Countries with open trade policies, a stable macro economy and a small public sector have grown faster than those that are less open, less stable and have an overweight public sector.

No single policy - such as openness - is sufficient to ensure high growth. Policy complementarity - critical mass in the sense of tackling weaknesses on several fronts simultaneously - is crucial. Good performance in just one of these categories is a necessary, but not a sufficient, condition for rapid growth. Poor performance in one policy area can hold an economy back, and no policy, by itself, is sufficient for fast growth. Good policies need to be mutually reinforcing.

Most of the large-scale industries in Africa, private and public, are not competitive at international prices. [Pack 1993]. It is not obvious that conventional adjustment packages that progressively expose manufacturing industry to increasing competition is working. Many firms may fail if policy is confined only to costs and prices, ignoring quality, style, design and delivery dates. While incentive packages, embodied in adjustment programmes, are essential, the Asian experience shows that there is more to industrialization than incentives.

One of the most striking lessons of recent economic development is that physical capital accumulation has played a relatively minor role in industrial growth which, instead, has been driven by increases in total factor productivity. Software - skills, training and technology - plays a far greater role than hardware (physical capital).

It is increasingly acknowledged that in the 21st century, international competitiveness must be at the top of the policy agenda, rather than a sub-text or excluded altogether. The critical mass and policy complementarity approach to competitiveness emphasises the two-dimensional nature of the concept - at national as well as enterprise level (Chapter VIII) - and also the need for a holistic strategy that is economy wide.

OUTLOOK: AFRICAN MANUFACTURING INDUSTRY IN THE 21ST CENTURY

After a disappointing decade from the mid-1980s to mid-1990s, sub-Saharan industry was poised for strong growth in 1998, given favourable global conditions and continued domestic economic reforms. While MVA growth for sub-Saharan Africa, excluding South Africa, declined from 3.7 per cent annually during the 1980s, to 0.1 per cent during 1990-1997. However, it is estimated to have grown 5.7 per cent during 1998 and is forecast to grow 4.1 and 2.7 per cent, respectively, for 1999 and 2000 (table I).

Table 1.1. Sub-Saharan Africa's growth rates of GDP and MVA, 1970-2000

Period	GDP growth (Per cent per year)		MVA growth (Per cent per year)	
	Sub-Saharan Africa (including South Africa)	Sub-Saharan Africa (excluding South Africa)	Sub-Saharan Africa (including South Africa)	Sub-Saharan Africa (excluding South Africa)
1980-1990	2.0	2.5	1.4	3.7
1990-1997	1.9	2.1	0.8	0.1
1998 *	2.1	3.3	0.1	5.7
1999*	2.0	2.8	2.0	4.1
2000*	3.1	3.1	1.7	2.7

Source: UNIDO Data base.

* UNIDO estimates based on data provided by various national/international sources

The significant slowdown in industrial growth in sub-Saharan Africa, excluding South Africa, especially since the second half of the 1980s and first half of the 1990s associated with slightly declining rates of growth in GDP, reflects a changed structural relationship in the form of de-industrialization. Manufacturing, which was the lead sector in fast-growth developing countries in Asia and Latin America, has been a lagging sector in Africa since the 1980s.

The relationship is circular; rapid GDP growth - in agriculture, mining or energy - creates demand for manufactured goods, while strong industrial expansion contributes to faster growth of the economy as a whole. For the foreseeable future, African MVA growth is likely to depend upon the pace of resource-driven expansion in energy (oil and gas), mining and agriculture. Manufactured exports are unlikely to play a lead role early in the 21st century (Chapters V and VIII), although in order to develop its full potential the manufacturing sector must increase its competitiveness (Chapters VIII and IX) so that industrial growth is at least partially export-led.

Box 1.3. Prospects for manufactured exports in the 21st century

The marginalization of sub-Saharan Africa in world trade in the last 25 years of the 20th century (Chapter V) has given new impetus to research and policy debates on export strategies for the millennium. Non-traditional exports generally, and specifically exports of manufactures, have a track record globally of enhancing the rate of GDP growth, increasing job creation and accelerating technological advance.

Because of the higher income elasticity of demand for manufactured exports, growth prospects are better when global GDP is expanding, while export prices of manufactures are both less volatile and less susceptible to long-term deterioration than those of primary goods. Productivity gains and technology transfer are significantly higher in manufacturing than in the production and export of primary products.

Recent research offers conflicting advice on strategies for the next century:

- Adrian Wood and J. Mayer (1998), whose analysis has been described as "endowment theory" (Elbadawi, 1999), argues that Africa is unlikely to develop a strong portfolio of manufactured exports because its resource endowment is heavily skewed in favour of natural resource exports, while its stock of human capital is low (Chapters V and VI).
- Paul Collier and Jan Gunning (1999) see the problem in terms of transactions costs arguing that the continent's poor policy environment results in high transaction costs which have undermined manufactured exports. Their solution involves closer integration with the global economy.
- Elbadawi's research (1999) concludes that the transaction cost explanation is the most realistic. "The evidence suggests that bad policy, especially in the areas of transaction cost, rather than adverse factor endowment, remains the most serious hurdle for Africa to pass before it can build comparative advantage in the international market for manufactured exports." He finds also that "real exchange rate competitiveness is a pre-requisite for a developing - especially low-income developing - country to become a successful exporter of manufactures".

These two conclusions suggest that policy should focus on reducing transaction costs by improving infrastructure, information flows and market efficiency, while ensuring that the real exchange rate is competitive.

Sources: Wood A. and J. Mayer (1998), "Africa's Export Structure in Comparative Perspective" UNCTAD. Collier P. (1997), "Globalization: What should be the African Policy Response", Mimeo, CSAE University of Oxford and Paul Collier and Jan Gunning (1999) "Explaining African Performance" Journal of Economic Literature. Elbadawi Ibrahim (1999), "Can Africa Export Manufactures? The Role of Endowment, Exchange Rates and Transaction Costs", World Bank, Policy Research Paper 2137.

For the medium term, World Bank projections suggest that sub-Saharan GDP will grow 3.8 per cent annually (1998-2007), or significantly faster - 4.5 per cent a year - when South Africa and the region's oil exporters are excluded. This points to MVA growth in the region of 4 per cent, especially as some catch-up is likely in one of the continent's largest industrial sectors, that of Nigeria. As a result, the long-term decline in MVA as a ratio of GDP should be reversed in the first 20 years of the millennium.

Initially, manufacturing growth will be a spin-off from:

- Rising per capita incomes, resulting from faster GDP growth than in the last 20 years. This growth will be driven by the expansion of the agriculture, energy and mining sectors;
- Given the poor medium-term outlook for raw material prices, excluding oil and gold, African governments will be anxious to add value to commodity exports, thereby generating jobs and boosting MVA and exports. Investment in food processing, minerals beneficiation and oil and gas processing is growing;
- Regional integration schemes will lead to higher levels of intra-regional trade which, in turn, will fuel manufacturing production and employment in "lead" economies: South Africa in the south, Kenya in East Africa, Nigeria, Ghana and Côte d'Ivoire in West Africa;
- Economic reform will enhance the competitive advantage of African industry, although increased participation by multinational companies, in the form of FDI and non-equity links, will be crucial to the growth of manufactured exports (Chapter VI);

- The Uruguay Round of tariff reductions and trade liberalization, to be followed by a millennium round, will pave the way for greater sub-Saharan penetration of global markets. The US Government's African Growth and Opportunity legislation (box 1.6) will also increase export opportunities, as will the proposed restructuring of the Lomé Convention. However, here too, a combination of domestic reforms and policies to enhance competitiveness and FDI by multinationals will be needed for Africa to exploit new opportunities to the full;
- Debt relief and debt reduction will allow highly-indebted African countries to spend more on the essential physical infrastructure and institutional capacity needed to spur industrial growth;
- Industrial competitiveness policy, which has attracted little attention in Africa until relatively recently, has moved to the centre stage (boxes 1.4 and 1.5).

Box 1.4. Competitiveness: Macro policy is not enough

Only three sub-Saharan countries - Mauritius ranked 29 out of 59, South Africa (ranked 47) and Zimbabwe (57) - are included in the 1999 World Competitiveness Report, published by the World Economic Forum. Both South Africa, down five places, mainly because of the inclusion of new entrants, and Zimbabwe, down six places, are poorly-rated. Mauritius, included for the first time, ranks above such industrial powerhouses as Mexico, Italy and Thailand and only just below Israel, Spain, Portugal and Germany.

The report argues that "the single economic policy variable" that best distinguishes rich from poor countries is economic openness (See Chapters II and V) and that poorer countries have higher tariffs than richer ones. Poor countries also report higher hidden import barriers and greater difficulty in obtaining foreign currency to purchase imports, while the report shows that average import tariffs are inversely related to GDP per head.

The 1999 World Competitiveness Report finds also that micro-economic conditions are central to economic development, warning that IMF-style macroeconomic reform programmes will have disappointing results if not backed by reforms at firm and industry level. Michael Porter (World Competitiveness Report, Chapter II) says companies must shift from reliance on comparative advantage (low-cost labour and resource endowment) to competitive advantage due to unique products and processes. Porter warns that macro policy alone is an insufficient basis for competitiveness. It was micro weakness in Asia in 1997/98 "that brought down economies that looked solid in terms of macroeconomic indicators".

Countries improving their micro-economic rankings share key characteristics:

- ◇ Financial markets are becoming more sophisticated
- ◇ Competition is increasing
- ◇ Openness is growing
- ◇ Information is becoming more readily available
- ◇ Technological infrastructure is improving

Countries losing ground in the micro-economic rankings were those where:

- ◇ Bureaucratic red tape is increasing
- ◇ Innovation and technological capability are falling behind
- ◇ Communications costs are rising
- ◇ Stock market access is worsening, and
- ◇ Competition is declining

All of these characteristics fit with the thesis that high transaction costs militate against competitiveness and the development of manufactured exports.

Source: World Economic Forum, The World Competitiveness Report. 1999..

Investing in infrastructure

A major explanation for high transaction costs in Africa is the region's weak physical infrastructure. A feature of East Asian development was the priority given to investment in infrastructure, which enhanced export competitiveness, created a platform for more balanced social development and "crowded in" private sector investment, including FDI.

In the early years of the 21st century, few African governments will have the resources to replicate the Asian experience. This will mean increased emphasis on privatization, on the one hand, and private-public cooperation, on the other.

How important is openness?

In recent years, the conventional wisdom that countries with "open" economies grow faster and perform better than those whose economies are closed, has been challenged on the basis of econometric research. Rodrik (1999) finds only a weak correlation between economic growth and openness in developing countries over the period 1975-1994. This conflicts sharply with the Sachs and Warner (1997)

findings and also the questionnaire and empirical evidence cited in successive editions of the World Competitiveness Report (box 1.4).

Whether the debate will have much impact on African policy decisions over the next 20 years is problematic. Nevertheless, three influences stand out:

- Growth in Africa's most successful economies - Mauritius and Botswana - has been export-led.
- African markets are small, with low levels of per capita income, relatively small populations in many cases and GDP of less than \$7 billion. From this it follows that growth will have to be substantially export-driven.
- The failure of African exporters to break into global markets for manufactures underlines the need for openness in the form of inward FDI, technology imports and the importation of skills and expertise [Lall, 1999].

Whatever the dispute over econometrics, the view of entrepreneurs and policy makers is that openness does count. Few African governments have any wish to return to the command economy experiments of the 1960s and 1970s, despite the fact that in many instances this was associated with stronger growth than in the 1980s and 1990s.

Box 1.5. The Dakar Declaration on the Future Competitiveness of African Economies

The need for a blend of macro- and micro-policies is central to the 1999 *Dakar Declaration on the Future Competitiveness of African Economies* (Annex II). This forum focused on four aspects of developing competitiveness:

1. The macroeconomic framework;
2. Governance and the regulatory framework;
3. Competitiveness and the level of the firm; and
4. The external environment.

The Declaration acknowledges that "a stable macroeconomic framework has not proved sufficient to improve competitiveness". A number of other macroeconomic factors must be addressed, including:

- The absence of a long-term development vision;
- Declining capital inflows;
- The volatile nature of capital flows;
- The external debt overhang; and
- Unfair competition.

The Declaration calls for special emphasis on domestic resource mobilization by promoting a broad-based financial sector. Governments should spend more on human capital development while an aggressive advocacy strategy is needed to achieve debt cancellation.

Governance

Considerable emphasis is laid too on the need to improve governance and strengthen the regulatory framework in African economies. Transparency and accountability, especially in financial matters, should be fostered to boost investor confidence, deter corruption and create an enabling environment for business.

Firm-level competitiveness

Skills development and technological advance are crucial for improved competitiveness at enterprise level. The Declaration urges governments to increase spending on basic numeracy, literacy and public health, while creating links between skill requirements at firm level and the curricula of education systems. Firms themselves should invest more in human capital development while priority should also be given to capital market development, including the promotion of stock markets.

The external environment

African countries should build capacity to compete in international markets while steps should be taken to establish an African Economic Community.

Source: Dakar Declaration on the Future Competitiveness of African Economies (Annex 2).

A key reason for this, affirmed by Rodrik, is that African economies can - and did - grow rapidly when global economic conditions are right and when high levels of investment are achieved (Chapter VI).

NEW DIRECTIONS

- Given the smallness of most African markets, industrial growth will have to be export-led, either directly, through the export of manufactures, or indirectly, as a spinoff from resource-driven economic expansion;

- Privatization of utilities will contribute to reduced transaction costs as a result of improved efficiency in privatized parastatals along with increased levels of investment;
- Human capital investment will be given greater priority than in the last 20 years, partly reflecting pressure from the donor community, but also in recognition of the driving role of skills development and technological advance in building competitiveness. Labour quality, rather than low labour cost, is what counts;
- Macroeconomic policy will play a different role than in the last 20 years. In future there will be less emphasis on “getting prices right” as an end in itself, with greater attention being paid not just to poverty reduction, but also to environmental and social issues - food security, ageing populations, water scarcity [World Development Report, 1999];
- Industrial competitiveness policy will increasingly replace industrial policy with a greater focus on supply side strategies designed to build capacity;
- More attention will be paid to domestic competition policy - designed to widen consumer choice while also lowering transaction costs;
- Aid and official capital flows will diminish in significance relative to private sector capital flows, thereby intensifying pressure on government budgets, leading to a restructuring of the African state.

A new role for industrial policy

Globalization is reducing the effectiveness of national industrial policies, while trade liberalization, de-regulation and privatization are making African markets more open to both internal and external competition. In the 21st century, industrial policy in Africa will shift from measures designed to protect specific sectors in favour of strategies aimed at improving the environment within which industry functions.

Increasingly, industrial support policies will change to focus on:

- fostering the start-up and growth of new firms;
- supporting research and development;
- improving the dissemination of technology, knowledge, and information;
- helping build linkage effects between large and small firms and between foreign and local investors;
- protecting the environment;
- helping firms find, assess and penetrate export markets and global value chain;
- increasing the supply of skills and to upgrade the country's technological base; and
- stimulating collective efficiency of SMEs through clusters.

Such policies will be essential for sub-Saharan industry to make the difficult transition from resource-driven growth, which is likely to remain the main engine of industrialization for the foreseeable future, to a knowledge-based economy. The region is far behind the rest of the world in coming to terms with this challenge. Accordingly, it is essential that policy makers should be proactive and forward-looking, focusing on creating the capability needed for industrial competitiveness in the 21st century, rather than on protecting existing advantages.

Chapter III highlights the fact that traditional, resource-driven industry is losing market share relative to fast-growing information- and knowledge-intensive industries. While at this juncture, African industry does not have competitive advantage in these fields, it risks being locked into slow-growth “mature” activities, if it fails to develop technologically. Not only that, but African firms will find that even in traditional activities they will lose competitive advantage, if they fail to upgrade both their technology and their work forces.

The evolving, yet incomplete, consensus implies a reduced role for an activist government. The new generation of policies stressing greater competition and a level playing field are implicitly thought to require less government action. But, Ashok Mody (1999) warns, there is no basis for such an assumption, since effective competition policy, for instance, will require expertise in a wide variety of sectors. Governments, he says, will need to “shift gears and acquire new skills”.

For Africa, the challenge is especially great since in many - perhaps most - countries, it is a matter of building skills and capacity more than shifting gears, although at the enterprise level the need to acquire new skills to foster competitiveness will be a priority in the 21st century. African policy makers and entrepreneurs should remember Michael Porter's contention that in modern business, competitiveness requires constant upgrading and technological advance.

The challenges of industrial policy have been summarized as follows: “The need is to move beyond the debates over state and market and to put to rest extreme claims that any particular policy intervention -

in education, health, capital markets or elsewhere - will be a magic potion assuring development in all times and places" [World Development Report, 1999].

In sum, policy - and especially industrial competitiveness policy - will evolve over time, reflecting the impact of globalization and efforts by policy makers to exploit the positive effects of globalization while minimizing its down side.

GOING GLOBAL

Since globalization is unlikely to be reversed, and countries that globalize are likely to grow faster than those that seek to go it alone (Chapter V), the challenge for Africa in the 21st century is managing globalization, rather than seeking to be insulated from it. The key, almost certainly, will be competitiveness, since globalization brings harsh consequences to countries unable to swim with the current.

Yet this is precisely where sub-Saharan Africa finds itself on the eve of the 21st century. Its loss of market share in primary commodities and its failure to break into world markets for manufactured goods, underline the region's vulnerability to the adverse effects of globalization. If the region's 53 countries possessed large, vibrant, fast-growing domestic markets, there might be an argument for inward-focused development. But that is not the case. Even in the region's two largest economies, South Africa and Nigeria, if growth is not export-led, it risks being stifled by sluggish domestic markets.

Box 1.6. US policy towards Africa: Putting trade and investment first

The US Government's Partnership for Economic Growth and Opportunity in Africa marks an important shift away from aid as a source of economic development towards trade, private sector investment and north-south cooperation. US policy identifies four core goals:

- Support for economic reform
- Enhanced US-sub-Saharan African economic engagement
- Support for Africa's full integration into the global trading system
- Support for sustainable development

In 1997, steps were taken to enhance the Generalized System for Preferences (GSP) by adding 1783 new tariff lines for least developed economies. 29 of the 38 countries to benefit are in sub-Saharan Africa.

The African Growth and Opportunity Act, being debated by Congress in 1999, provides for duty-free access for certain products, presently excluded from the GSP, and also for the extension of the 1,783 tariff lines currently available only to least developed countries, to all African economies undertaking economic reform programmes.

There are other risks too. Small markets breed cartels and monopolies which, in turn, undermine competitiveness. They also deter FDI, thereby restricting access to export markets, as well as to expertise, finance and, above all, technology. In Thomas Friedman's words (1999), to capitalize on globalization's opportunities, developing countries must attract the "Electronic Herd" of foreign investors. To do this, they will have to accept the "Golden Straitjacket" of privatization and deregulation, budget deficit reduction, monetary restraint and lower tariffs.

However, this does not mean that governments will be helpless spectators in the globalization process. They have a role to play in managing globalization by:

- fostering competitiveness through appropriate supply-side reforms, especially investment in training and skills development;
- encouraging the kind of foreign investment that will transfer technology and expertise and open up access to global markets;
- strengthening domestic industrial governance, particularly by the creation of a legal framework and enabling environment, within which business and market decisions are made;
- fostering domestic competition, *inter alia*, by establishing a competition commission;
- fighting corruption and ensuring the judiciary is both independent and of high quality;
- building participatory political institutions, free trade unions, and public-private sector cooperation and dialogue; and
- strengthening the supervisory and surveillance role of the central bank to forestall the kind of problems that emerged during the Asian financial crisis.

Rodrik (1999) and others have warned against expecting too much openness. All analysts agree that there is no single elixir of success. Economic and industrial development depends on critical mass -

progressing across a broad front. Just as macro policy (box 1.4) is not enough, neither is openness on its own. In Rodrik's words, "Developing nations have to engage the world economy on their own terms, not on terms set by global markets or multilateral institutions".

Sub-Saharan countries must build the institutions and internal capabilities to manage globalization. This is the single, most important, challenge facing industrial policy in the 21st century.

ROLE AND CONTRIBUTION OF THE REFORMED UNIDO

The post-Uruguay Round, post-Asian crisis economic environment poses new challenges for multilateral institutions, all of which are engaged in rethinking strategies and restructuring their organizations. Within this overall context and based on its mandate, UNIDO has been restructured and has developed a new portfolio of integrated services to address the needs of developing and transitional economies, focusing on three core dimensions of sustainable industrial development:

- competitive economy;
- sound environment;
- productive employment.

In December 1997, UNIDO approved a Business Plan on the Future Role and Functions of the Organization that delineates future activities in two major areas:

- (1) Strengthening industrial capacities through:
 - promotion of investment and related technologies
 - industrial policy advice based on action-oriented research
 - institutional capacity-building at country and sectoral levels
 - quality, standardization and metrology
 - industrial information through networking, including information on the transfer of technology
 - industrial statistics
- (2) Cleaner and fully sustainable industrial development through:
 - support programmes on environmentally sustainable industrial development strategies and technologies, including the transfer of environmental technologies within industrial subsectors assigned high priority; and
 - development of specific norms and standards relating to environmentally sustainable industrial development strategies and technologies, and implementation of international protocols, agreements and conventions.

The Business Plan also calls on UNIDO to promote the development of SMEs as the principal means of achieving equitable and sustainable development. Geographical priority should be given to Africa and the world's LDCs.

UNIDO Service Modules: sharper programmatic focus

To sharpen the focus of UNIDO's services and to align them to the Business Plan, the priority areas defined in the Plan have been organized into integrated programmes. Each module represents UNIDO's approach to addressing an area of major concern in industrial development. Modules embody self-contained know-how or technical expertise supported by proven methodologies and tools.

The Service Modules constitute UNIDO's core competencies, forming building blocks for designing integrated services. Each integrated service reflects UNIDO's dual role as a global forum and as a provider of technical assistance. In its global forum role, UNIDO monitors state-of-the-art advances in industrialization with potential to enhance the ability of countries to achieve sustainable industrial development. In its capacity as a provider of technical cooperation, UNIDO assists in capacity-building in both the private and public sectors to help formulate and implement industrial policies and to deliver services to industry, especially in the small- and medium-scale sectors. In all cases, services will be flexibly combined to provide a comprehensive tailor-made response to meet a specific country's needs.

Alliance for Africa's Industrialization

An important effort towards enhancing industrial development in Africa was initiated by UNIDO through the establishment of the *Alliance for Africa's Industrialization*. Launched in October 1996, the *Alliance* serves as a platform for focusing the attention of African decision-makers and the international community

on the industrial development challenges facing the continent and its growing marginalization in global manufacturing. The *Alliance* recognizes that globalization has changed the nature and pattern of industrialization and that competition and strategic alliances are becoming an important component of business strategy. Integration with the global economy is critical to gain access to markets, relevant technologies, skills and know-how, and thus to open the way for African countries to industrialize in a manner that was not possible when inward-looking industrialization policies prevailed. The *Alliance*, therefore, underscores the principal role of the private sector in promoting industrial transformation and sustainable economic development. Since its launch, the *Alliance* has been successful in achieving a number of objectives (Chapter IX):

- to establish a coordinating mechanism for the implementation of the *Alliance*
- to introduce capability-building measures for accelerating African industrial development
- to enhance competitive agro-industrial development
- to promote investment and private sector development
- to facilitate advocacy on African industrial development

Box 1.7. UNIDO Service Modules

<i>Capacity - building levels</i>	<i>Competitive economy (making industry more efficient)</i>	<i>Sound environment (environmentally friendly industry)</i>	<i>Productive employment (promoting employment through industry)</i>
Policy and strategy	Industrial policy formulation and implementation Statistics and information networks	Environmental policy framework United Nations Framework Convention on Climate Change and Kyoto Protocol	SME policy framework Policy for women entrepreneurship development
Institutional capacity-building	Metrology, standardization, certification and accreditation Continuous improvement and quality management Investment and technology promotion	Energy efficiency Rural energy development Cleaner production	Entrepreneurship development Upgrading agro-industries and related technical skills
Enterprise support services		Pollution control and waste management Montreal Protocol on Substances that Deplete the Ozone Layer	

Source: UNIDO, Service Modules, Economy, Environment, Employment, Vienna, 1999.

A programme of particular relevance to Africa is the UNIDO Partnership Programme, which involves the development of linkages and alliances between UN Agencies, civil society organizations and the business community with the aim of improving the impact of technical cooperation programmes. In this context, UNIDO is setting up partnerships with multinational firms, universities, host governments, civil society organizations and business groups, such as chambers of industry, so that the problems of industrialization can be tackled together. African economies stand to gain from such public-private sector partnerships which are necessary for accelerating sustained industrial growth and development.

CHAPTER II.

THE CONTEXT: GROWTH AND DEVELOPMENT IN SUB-SAHARAN AFRICA

However it is measured, sub-Saharan Africa's share of economic activity at the start of the 21st century is tiny. Although the region accounts for 10.7 per cent of the global population, its share of world GDP, based on purchasing power parity valuations, has fallen from 2.7 per cent, excluding South Africa, in 1980, to 2.4 per cent, including South Africa, in 1997. Adjusting for South Africa, it appears that the region's share of global GDP has declined by approximately one percentage point since 1980 - a proportionate decline of some 30 per cent.

Table 2.1. Share of sub-Saharan Africa in the global economy, 1980-2000, selected years
(Percentage shares)

	1980	1990	1998	
Global GDP [*]	2.7	2.4	2.4 ^{***}	
(of which) Nigeria and South Africa	n.a.	0.9	0.9 ^{***}	
Population	9.5	9.8	10.7	
(of which) Nigeria and South Africa	2.8	2.8	2.8	
Exports (Africa)	5.9	3.0	2.0 ^{***}	
Sub-Saharan Africa	4.0 ^{**}	n.a.	1.6 ^{***}	
(of which) Nigeria and South Africa	n.a.	n.a.	0.7 ^{***}	
	1980	1990	1997	
Developing country debt	7.3 ^{**}	8.7	13.2	
Nigeria and South Africa	n.a.	n.a.	4.1	
	1980	1990	1998	
Global FDI stock Sub-Saharan Africa ^{**} of which:	5.1	1.8	1.6	
South Africa	3.3	0.5	0.5	
Nigeria	0.5	0.4	0.5	
	1970	1980	1998	2000
Global MVA				
- Excluding South Africa	0.4	0.4	0.4	0.4
- Including South Africa	1.6	0.9	0.8	0.8

* Based on Purchasing Power Parity valuation of country GDPs. South Africa excluded in 1980 and 1990.

** Source UNCTAD 1999
1997

Sources: International Monetary Fund: World Economic Outlook, and World Bank: Debt Tables, Various issues; UNIDO and UNCTAD (1999).

The region's marginalization is captured in table 2.2 which shows that, after growing at 2 per cent a year between 1966 and 1973, GDP per capita declined over the next 20 years, though this has been reversed since 1993.

Table 2.2. Growth of real GDP per capita, 1966-2006 (Per cent per year)

Economic grouping, region	1966-73	1974-90	1991-96	1997-2006 (forecast)
World	2.9	1.2	0.6	2.0
High-income countries	3.8	2.1	1.4	2.3
Developing countries	3.6	1.3	3.3	3.8
East Asia	4.7	5.6	9.0	6.6
South Asia	1.2	2.6	2.8	4.1
Latin America	4.2	0.4	1.5	2.7
Middle East and North Africa	5.8	-1.7	0.1	1.1
Sub-Saharan Africa	2.0	-0.7	-0.8	1.2

Source: World Bank: Global Economic Prospects and the Developing Countries, 1999.

Divergence of living standards

In relative terms, the average per capita income of African countries halved from 14 per cent of the industrial country level in 1965 to just 7 per cent in 1995. At the start of the 1980s, 17 sub-Saharan countries were classified as middle-income states - with per capita incomes of over \$370 a year. The list comprised four fuel exporters - Angola, Congo (Brazzaville), Gabon and Nigeria - and a dozen oil importers, including Kenya, Zimbabwe, Ghana, Zambia, Cote d'Ivoire, Liberia and Mauritius.

Table 2.3. GDP growth, 1980-1997 (Per cent per year)

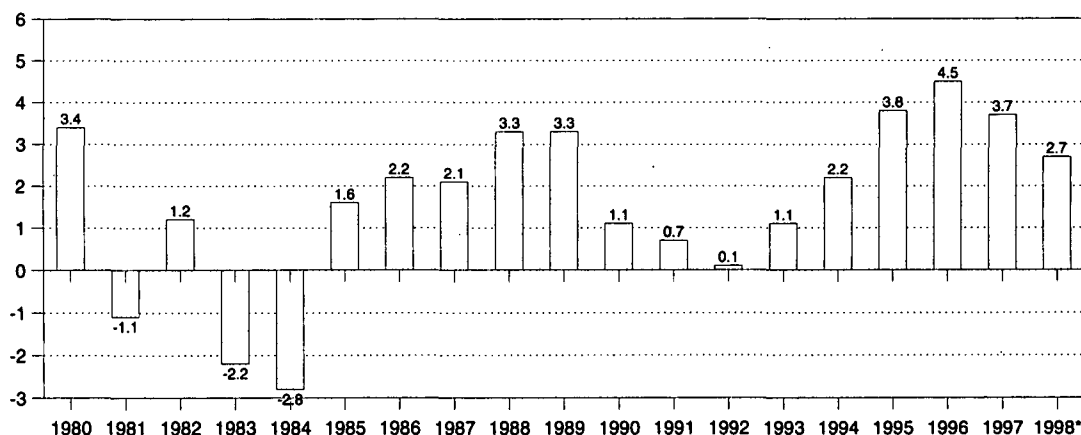
Country	1980-1990	1991-1997	1980-1997
Gaining ground - strong performers			
<i>with growth of over 4.5 per cent p.a.</i>			
Botswana	10.1	5.1	8.0
Cape Verde	8.2	3.7	6.4
Guinea-Bissau	4.9	3.7	4.5
Lesotho	4.1	6.8	5.2
Mauritius	6.1	5.0	5.6
Uganda	3.4	6.9	4.8
Average 1980-1997			5.4
Treading Water - modest performers			
<i>with growth of 3 per cent to 4.7 per cent annually</i>			
Benin	3.2	4.6	3.6
Burkina Faso	3.5	3.8	3.7
Chad	5.4	3.0	4.3
Congo (Brazzaville)	4.9	1.0	3.2
Ethiopia	3.1	4.2	3.5
Gambia	3.9	1.8	3.1
Ghana	2.2	4.2	3.0
Guinea	3.1	3.9	3.5
Kenya	5.0	2.1	3.3
Malawi	2.2	4.1	3.0
Swaziland	4.8	2.0	3.6
Average 1980-1997			3.4
Going backwards - weak performers			
<i>with growth of under 3 per cent a year</i>			
<i>implying falling real living standards</i>			
Angola	1.8	1.3	1.8
Burundi	4.5	-2.3	1.5
Cameroon	3.4	0.1	2.0
Central African Republic	1.3	1.0	1.1
Côte d'Ivoire	0.8	3.1	1.7
Democratic Republic of Congo	0.8	-4.4	-1.5
Gabon	0.5	2.8	1.4
Madagascar	0.5	0.6	0.5
Mali	2.3	3.4	2.7
Mauritania	1.6	4.2	2.6
Mozambique	-	6.0	2.5
Namibia	0.6	4.4	2.1
Niger	-0.5	1.8	0.3
Nigeria	1.2	2.9	1.9
Rwanda	2.3	-3.0	-0.2
Senegal	3.1	2.4	2.8
Seychelles	3.3	2.1	2.8
Sierra Leone	1.0	-2.9	-0.8
South Africa	1.4	1.2	1.3
Tanzania	2.4	3.5	2.9
Togo	1.1	0.7	0.9
Zambia	1.0	0.4	0.8
Zimbabwe	3.4	1.8	2.7
Average 1980-1997			1.3
Sub-Saharan Africa	1.8	2.3	2.0

Source: World Bank, *African Development Indicators* (various issues) and *The Economist Intelligence Unit*.

However, by the mid-1990s, only three countries remained in the lower middle-income group (per capita incomes ranging between \$766 and \$3,035 a year) - Lesotho, Namibia and Botswana. A further four - South Africa, Seychelles, Mauritius and Gabon - were classified in the upper middle-income category (annual incomes of between \$3,036 and \$9,850)

Economic performance has been uneven (table 2.3) with a handful of good performers managing to maintain GDP growth rates in excess of population expansion, so that living standards either recovered or improved, but growth in the majority of the region's 46 economies failed to keep pace with the population increase.

Figure 2.1. Growth in sub-Saharan Africa, 1980-1998 (Per cent)



* = forecast

Sources: World Bank: African Development Indicators 1996, 1997 and IMF: World Economic Outlook - various issues

Box 2.1. Accounting for Africa's stagnation

There is an extensive, and growing, literature on the reasons for Africa's poor performance. Empirical research identifies the following:

- Adverse weather and climatic conditions, with the long-term declining rainfall trend in some regions exerting a negative impact on growth;
- Heavy dependence on primary commodity exports and natural resource-driven growth, which has implications for long-run growth because of the "Dutch endowment" disease.
- Rapid population growth, which is often found to have a negative impact on growth rates.
- Contagion effects arising from the weak performance of neighbouring economies and also regional political instability. Easterly and Levine calculate that average African country neighbours grew 0.5 per cent annually between 1960 and 1990 while in Asia the average was over 4 per cent with the result that in Africa the "spillover or neighbourhood effect" was very weak relative to that experienced in East Asia.
- The poor performance, relative to their neighbours, of "pole" economies - such as South Africa and Nigeria - which might have been expected to drive regional economic expansion.
- Small markets, which limit scope for industrialization and preclude firms from exploiting scale economy and critical mass effects.
- Adverse terms of trade.
- Geographical positioning - Africa's many landlocked states incur higher costs and risks that reduce the gains from trade.
- Low levels of savings and investment.
- High levels of external indebtedness.
- Weak human capital endowment and - in many instances - deteriorating institutional capacity as reflected in education and health facilities.
- Underdeveloped, and in many instances poorly maintained, physical infrastructure resulting in higher operating costs than in other emerging regions.
- Underdeveloped financial services sector giving rise to high interest rates and high levels of risk aversion.
- A very weak private sector, outside a handful of economies - most notably South Africa, Zimbabwe, Botswana, Kenya, Côte d'Ivoire.
- Frequent and widespread political and military disruptions which discouraged investment and entrepreneurship.
- Heavy dependence on foreign assistance which has declined in real terms since 1990.
- Failure to develop a business- and investment-friendly operating environment.

Sources: T. Killick (1998): Enterprise in Africa: Between Poverty and Growth. University of Edinburgh: Centre of African Studies. Sachs, Jeffrey D and Andrew M Warner: Sources of Slow Growth in African Economies. Journal of African Economics, vol. 6, No. 3. Easterly, William and Ross Levine (1997) Africa's Growth Tragedy: A Retrospective 1960-1989. World Bank Policy Research Working Paper 1503.

Table 2.3 also shows that, in the region as a whole, real GDP grew 2 per cent annually between 1980 and 1997 compared with a population growth rate of 2.7 per cent. The six countries in the strong performing group, accounting in 1995 for less than 7 per cent of regional GDP, grew at an average annual rate of 5.4 per cent over the period.

A further 11 moderate performers, contributing almost 15 per cent of sub-Saharan GDP, achieved an average annual growth rate of 3.4 per cent. But the remaining 23 countries for which comparable data are available, comprising 78 per cent of regional GDP, grew by only 1.3 per cent annually over the period.

Renaissance

While there is considerable disagreement over the relative significance of the factors responsible for sub-Saharan Africa's weak performance, today there is general agreement, not only that far-reaching policy and structural reforms are needed to reverse the slide, but also that the situation has begun to improve since 1994.

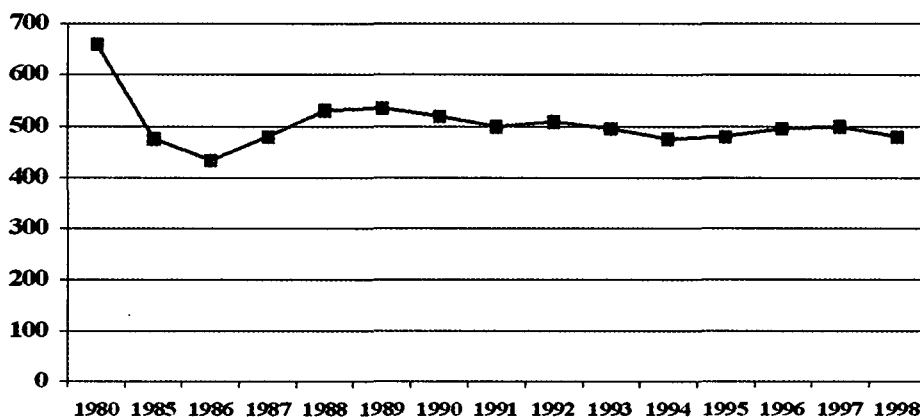
Growth rates have increased since 1990 in 18 of the 40 economies listed in table 2.3, while the performance of the regional economy as a whole has improved markedly since 1994. Real GDP growth averaged 4.25 per cent annually between 1995 and 1997, up from 1.5 per cent in 1990-1994. Per capita incomes have risen 1.5 per cent a year since 1994, compared with an average decline of 2 per cent annually in the first half of the 1990s.

Average inflation has fallen from 44 per cent in 1994 to 13 per cent in 1997, while the overall fiscal deficit halved from a peak of 9 per cent of GDP in 1992 to 4.5 per cent in 1997, chiefly as a result of lower levels of government spending relative to GDP.

Yet it is still too early to say whether these promising developments mark a turning point or just a new plateau. Much of the recovery - it will take another ten years before most economies in the region start to break new ground in the sense of regaining past peaks in living standards - is the consequence of increased levels of capacity utilization. Investment levels (Chapter VI) remain low, averaging 16.5 per cent of GDP, over eight percentage points below the level of 25 per cent that the World Bank estimates the continent needs to secure GDP growth of 6 per cent a year.

Because the returns to private investment in Africa are estimated to be 50 per cent to 60 per cent higher than those to public investment [Khan and Kumar, 1997], the region must attract substantially higher levels of private investment than at present. Between 1990 and 1997 private sector investment in sub-Saharan Africa averaged less than 12 per cent of GDP compared with over 19 per cent in Asia (excluding Japan) and 25 per cent in the newly industrializing Asian economies (Chapter VI).

Figure 2.2. Income per head, 1980 - 1998 (Constant 1987 US\$)



Source: World Bank, *African Development Indicators*, 1997.

Policy priorities

Policies to boost private investment (Chapter VI) are an essential prerequisite for accelerated recovery, but on their own they are a necessary but not a sufficient, basis for sustained growth. Other policy priorities include:

- improved governance, reduced corruption and the creation of a business and investor-friendly environment;
- further trade liberalization, including reducing barriers to intra-regional trade and investment flows;
- public service reform - rebuilding and re-engineering the state to ensure that it better performs its core tasks - law and order, a transparent, stable judicial system, improved health and education facilities, a more efficient and better-maintained physical infrastructure, more effective tax collection and public spending systems;
- privatization;
- reform of the banking sector;
- agricultural reform - in particular the reduction or elimination of taxes that militate against increased production and the privatization and liberalization of agricultural marketing systems;
- increased labour market flexibility;
- increased investment in training and education;
- a focus on competitiveness (Chapter VIII).

Box 2.2. Productivity growth

One major reason for Africa's weak growth performance is the virtual stagnation of productivity over the past 30 years. Economic growth is the result of additional inputs of labour and capital plus the contribution made by productivity (total factor productivity or TFP).

Between 1971 and 1993, productivity grew at an annual rate of 0.2 per cent compared with 1.4 per cent in all developing countries and 2.6 per cent in Asia.

Table 2.4. Productivity Growth – Africa, Asia and Developing Economies, 1971-1998
(Annual percentage change)

Period, economic grouping, region	GDP	GDP per head	Investment (per cent of GDP)	Export volume	TFP
1971-1993					
Africa	2.8	0.0	25.0	1.9	0.2
Asia	6.5	4.6	27.9	10.7	2.6
All developing countries	5.1	2.7	25.1	5.0	1.4
1994-1998 (projected)					
Africa	4.3	1.5	22.6	1.6	n.a.
Asia	6.9	5.2	31.3	11.3	n.a.
All developing countries	5.9	3.8	27.0	9.1	n.a.

TFP = Total factor productivity.

Source: IMF: World Economic Outlook October 1993.

Three features stand out:

- Although Africa invested as much as developing countries as a whole (25 per cent of GDP), GDP growth was only 55 per cent of the world average while per capita incomes stagnated.
 - Not only was investment less efficient but it was misdirected as reflected in the virtual stagnation of African exports on the one hand and the very slow growth of productivity on the other.
 - Ironically, investment, as a ratio of GDP, was forecast to fall in the 1994-1998 period but, despite this, economic and export growth were expected to accelerate, as indeed they have. Higher growth, despite lower investment, illustrates the impact of macroeconomic policy improvements. It also underlines the fact that low levels of investment alone are not the problem - productivity and competitiveness are. Industrial restructuring, including privatization, led to a reduction in overmanning which, allied with improved management, is likely to have resulted in improved productivity during the 1990s.
-

GROWTH AND STRUCTURAL CHANGE

Since 1980, services have been the fastest-growing sector in the African economy, expanding at 2.2 per cent a year compared with GDP growth of just under 2 per cent. Agriculture also grew marginally faster than GDP, increasing at an annual rate of 2 per cent, but industry, including mining and energy, lagged well behind, growing at only one per cent a year (table 2.5).

Because the growth in manufacturing was slower than that of GDP throughout the period, its share of sub-Saharan output declined from 16.2 per cent in 1980 to 14.1 per cent in 1997. This reflects:

- the sharp fall in real energy prices since the two oil price shocks in 1973/74 and 1980/81;
- lower metal prices, especially gold, which reached a record high in 1980; and
- the impact of economic reform and trade liberalization, on the one hand, and technological and organizational change, on the other, resulted in de-industrialization in the form of a decline in manufacturing's share of GDP (Chapter III). Restructuring, including privatization, also led to some temporary decline in industrial output because of the time-lag before the full impact of such structural change is felt.

Table 2.5. Sub-Saharan Africa: Structural change, 1980-1997 (Per cent per annum)

Period, year	<i>Sectoral growth rates (per cent per annum)</i>			
	Agriculture	Industry	Services	GDP
1980-1990	1.7	1.1	2.4	2.0
1990-1997	4.6	1.4	2.4	1.9
1980-1997	2.9	1.2	2.4	2.0

	<i>Percentage shares in GDP</i>			
	Agriculture	Industry	Manufacturing	Services
1980	22	36	16.2	42
1990	22	29	15.4	43
1997	25	30	14.1	45

Sources: World Bank, African Development Indicators (1997), World Development Report 1998 and UNIDO Database.

DE-INDUSTRIALIZATION

In the industrialized economies of the OECD, both manufacturing's share of GDP and its share of total employment peaked at the end of the 1960s. The share of manufacturing in total employment fell from 28 per cent in 1970 to 18 per cent in the mid-1990s [IMF, 1997]. The decline was particularly marked in the US, where it began earlier, from 28 per cent in 1965 to 16 per cent in 1994.

In OECD countries, manufacturing's share of total employment rose strongly during the industrialization stage of development, reflecting two distinct forces in the industrialized countries:

- Engel's law - that the proportion of income spent on food declines as per capita income rises, resulting in a shift in consumption spending from basic foods and agricultural products generally to manufactured goods and services;
- the rapid growth of labour productivity in agriculture as a result of technological progress.

The combined effect of these demand and supply-side forces was a substantial shift of employment from agriculture to two other major sectors - initially manufacturing but latterly services. In the mid-1970s, agriculture accounted for just over 11 per cent of civilian employment in industrial countries, down from more than 20 per cent in the early 1960s. Services took up most of the slack so that in the US the share of the service sector in total employment increased from 56 per cent in 1960 to 73 per cent in 1994.

According to Rowthorn and Ramaswamy [IMF, 1997] there is no long-term tendency for real output to expand faster in services than in manufacturing, nor does there appear to have been any significant shift in the pattern of expenditures between these two sectors.

Accordingly, de-industrialization in OECD countries since the early 1970s appears to be the result of significantly faster productivity growth in manufacturing than in services, leading to a shift in employment

from manufacturing to the tertiary sector. Between 1960 and 1994 output in services grew faster than that in manufacturing - 3.8 per cent annually compared with 3.6 per cent - but employment in manufacturing was static over the period, while that in services grew at an annual rate of 2.2 per cent. This reflected a productivity growth (increases in output per worker) of 3.6 per cent a year in manufacturing - more than double the 1.6 per cent in services - underlining the important role played by productivity differentials in explaining de-industrialization. Other influences at work included restructuring and downsizing, which between them led to increased outsourcing of manufacturing-related service activities, thereby resulting in an output and employment shift from manufacturing to the tertiary sector.

Outsourcing has also involved increased utilization of components, intermediate goods and inputs provided offshore by affiliate companies or under alliance and sub-contracting agreements, with far-reaching implications for manufacturing activity in the developing world.

Organizational change

Since the mid-1980s, a new influence has been added to the forces making for de-industrialization. Rapid technological progress and productivity growth has given rise to widespread restructuring and downsizing, or "rightsizing", by manufacturing enterprises. In the process, employment in manufacturing has fallen in absolute terms, while the sector's relative share of total employment has declined further.

An important aspect of organizational change has been the rapid growth of outsourcing so that activities previously conducted in-house and classified as manufacturing are being provided by firms in the services sector. Until very recently, this has not had a significant influence in Africa, with the exception of South Africa. However, as illustrated by the rapid growth of specialist services (security, advertising, public relations and marketing, computing and Internet providers), similar forces are now at work in sub-Saharan Africa.

Structural change in sub-Saharan Africa

The situation in sub-Saharan Africa appears to be very different from the OECD experience. De-industrialization has occurred since 1980 (see Chapter III), but on a broader scale than the OECD experience. Industry's share in regional GDP has fallen (table 2.5) while that of manufacturing has also declined (Chapter III). Table 2.5 shows that - unlike the OECD experience - growth in industrial output, in constant prices, has been even slower than GDP.

The following could be the six main reasons for de-industrialization in Africa:

(i) Growth

Manufacturing contributes to, as well as feeds off, GDP growth as a whole. Accordingly, manufacturing industry's relatively poor performance (Chapter III) is a reflection both of the sluggish growth in agriculture, which has limited the flow of raw materials to industry for processing, and the relatively weak domestic and export demand for African manufactures.

(ii) Technology and competitiveness

Productivity growth in sub-Saharan Africa has been slower than in any other developing regions (box 2.2 and Chapter VIII). In part, this reflects the business environment at large, including poor infrastructure, the scarcity of skills and low levels of FDI. The consequence is a backward industrial sector, often operating with obsolete plant and equipment and substantial spare capacity, resulting in higher unit costs than in Asia or Latin America. Product quality also suffers from scarcity of skills and the fact that manufacturing technology is often far from the "best practice frontier" (Chapter VIII).

(iii) Scale and scope effects

Small domestic - and regional - markets and low levels of intra-regional trade and exports of manufactured goods mean that, with the exception of South Africa and possibly Nigeria, few enterprises are able to exploit critical mass and scale and scope economies, again giving rise to high unit costs which, in turn, undermine competitiveness. For these reasons - influencing both cost and quality - sub-Saharan manufacturers are frequently at a competitive disadvantage relative to imports in domestic markets, as well as in export markets.

(iv) Trade effects

In industrial countries, a one per cent reduction in the manufacturing trade balance to GDP ratio results in a fall of 0.37 per cent in the share of manufacturing employment. While in the OECD region, as a whole, the trade balance effect over the period 1970 to 1994 was only small, the impacts in both the US and Japan were significant. In the US, manufacturing employment fell one per cent of the total because of direct trade effects, while in Japan the largest trade surplus in manufactured goods slowed the de-industrialization process.

Although no regional data are available for sub-Saharan Africa's trade balance in manufactures, the fact that the region has lost its market share globally in manufactured goods (Chapter V), suggests that the trade effect contributed to de-industrialization.

(v) Economic reform

Economic reform, specifically trade liberalization, but also privatization and industrial restructuring, contributed materially to de-industrialization. Where manufacturing industry developed behind high import barriers or was driven by state-ownership and state intervention - Côte d'Ivoire, Ghana, Kenya, Nigeria, South Africa, United Republic of Tanzania, Zimbabwe and Zambia - trade liberalization, and in some instances privatization, has played a major role in the de-industrialization process (Chapter IX).

To that extent, the African experience - in a handful of countries - may well turn out to be similar in some respects to that of the countries in transition. De-industrialization in the 1980s and 1990s caused by trade liberalization and industrial restructuring including privatization, can be expected to be followed by strong industrial expansion in the early years of the 21st century.

(vi) Civil unrest

Wars, civil unrest, economic sanctions and political uncertainty were also factors contributing to de-industrialization.

Box 2.3. Industrial restructuring in Zimbabwe

The country study of Zimbabwe for the external evaluation report of the IMF's Enhanced Structural Adjustment Facility (ESAF) notes that prior to the adoption of the economic reform programme in 1991, many industrial firms were producing at high costs and were "intrinsically uncompetitive" at world prices. "The peculiar industrial structure of Zimbabwe thus left no option for continued protection: in order to make viable the activities with the potential for growth, the existing industrial sector had to contract. This made the reform process in Zimbabwe more analogous to that in the transition economies than that in the rest of Africa: the first years of reform would be likely to be contractionary."

In the event, between 1991 and 1995, the volume of industrial production declined 21 per cent and by 1998 was still 15 per cent below its 1991 peak.

Source: International Monetary Fund.

IMPLICATIONS

A crucial implication for the re-industrialization of Africa, in general, is the technologically progressive nature of the manufacturing industry. Baumol, Blackman and Wolff (1989) note that in some activities, productivity growth is persistently faster than others. The fact that manufacturing, in general, is technologically progressive, has meant that its expansion rate may have been constrained by the performance of other sectors of the economy.

If one sector of an economy is technologically progressive and another is technologically stagnant, then in the long run the economy's average rate of growth will be determined by the activity in which productivity growth is slowest.

This theory of "asymptotic stagnancy" [Baumol, Blackman and Wolff, 1989] implies that in OECD economies, continuing de-industrialization will mean that overall productivity growth will depend increasingly on technological progress in other sectors, specifically in services.

African economies, having experienced a different type of de-industrialization, driven not by relative productivity growth spillovers from the services sector, but more by demand factors reflecting the weak

performance of agriculture and more recently of mining and energy, face a different set of challenges from those in industrialized countries. In Africa's case, the challenge is that of catching up, or at least narrowing the gap, with first-world technology in manufacturing, as well as in agriculture and services.

The crucial role of technology

De-industrialization in the industrialized countries is not a negative phenomenon, but "a natural consequence of the process of economic development in an already highly-developed economy" [Rowthorn and Ramaswamy, (IMF 1997)]. In Africa, the process has had negative effects but, on the assumption that it is essentially transitional, marking the transition from inward-focused industrialization to resource- and export-driven growth, it is potentially healthy in the long-term, as is already the case in the OECD economies.

African industry can learn an important lesson from the recent OECD experience. The technologically progressive character of manufacturing industry, in general, underscores the need for re-industrialization of the region to be driven, less by "assumed" comparative advantage in respect of low-cost labour and rich natural resource endowments than by technical progress. The combination of modern technology and appropriate macroeconomic policies is the key to the revival of existing industries and the creation of high-technology businesses. The rapid growth of high-value-added activities, like horticulture and tourism, illustrates how African countries can better exploit their natural resources and human endowments through the application of state-of-the-art technologies, including professional management.

Box 2.4. The impact of the Asian crisis

The Asian financial and economic crisis that erupted in the second half of 1997 has resulted in a sharp slowdown in global economic growth at the end of the 1990s. It is also raising questions about the durability of Asian growth models and the extent to which they can – or should – be replicated.

Global GDP growth, which averaged 3.1 per cent during the 1980s, slowing to 2 per cent a year in the first half of the 1990s is forecast to average 2 per cent over the 1998-2000 period (World Bank 1998). This is well below the World Bank's 1996 projection of global output growth of 3.5 per cent annually between 1996 and 2005.

Developing country growth, forecast at 5.4 per cent annually (1997-2006) has been downgraded to 5.2 per cent but the medium-term projection for sub-Saharan Africa was barely changed at 4.1 per cent (2001-2007). However, sub-Saharan growth for the period 1998 to 2000 has been lowered to 3.1 per cent from 4 per cent previously.

The Asian crisis has affected Africa in four distinct ways:

- the contagion effect from the slowdown in global growth and the expansion of world trade. Sub-Saharan export growth slowed from 7 per cent in 1997 to 3.7 per cent in 1998, and is forecast to average 5 per cent over the period 1998-2007;
- the sharp fall in primary commodity prices, especially oil;
- a reduction in private capital flows though, because Africa attracts only 3 per cent of annual global FDI, it will be less affected than other developing regions;
- a reduction in foreign aid. Some of the large flows from multilateral and bilateral donor agencies to East Asia, Russia and Brazil will, almost certainly, impact on the level of ODA to Africa. The IMF expects net official flows to Africa to decline from \$7.7 billion in 1995 and \$6 billion in 1996 to an outflow of \$600 million over the three years from 1997 to 1999.

The medium term

Global growth in 1999-2000 is expected to be dominated by adjustment to the financial and economic crises in Asia, including Japan, and also in Russia and Brazil. But from 2001 onwards global growth of 3.2 per cent annually is forecast to be substantially above the average for the 1990s, estimated at 2.5 per cent [World Bank, 1998].

Two main factors account for the improved outlook early in the next century:

- recovery in both the EU and Japanese economies, and
- strong growth in the transition economies of Central and Eastern Europe.

The impact of the crisis on African manufacturing over the next few years could include:

- declining competitiveness – relative to Asia's increased devaluation-induced competitiveness
- a slowdown in the pace of the region's economic recovery reflecting lower commodity prices and the spillover effects of reduced global and world trade growth
- reduced availability of ODA funds for Africa
- higher offshore borrowing costs and a reduction in private capital inflows.

Source: UNIDO, The Impact of the East Asian Crisis on African Industry, Issue Paper, UNIDO, ECA, OAU, Symposium on the Implications of the Asian Financial Crisis on Industrial and Trade Prospects of African Countries, Abidjan, 18 September 1998.

THE WORLD IN 2020

The World Bank's baseline scenario for the world economy in 2020 [World Bank, 1997] projects a marked improvement in sub-Saharan Africa's economic performance. The region's share of global GDP is forecast to increase from 1.2 per cent in 1992 to 1.7 per cent in 2020 (table 2.6), due to a doubling in the rate of output growth from 2 per cent annually between 1974 and 1992 to 4.2 per cent between 1992 and 2020.

Table 2.6. Structural change in the global economy shares in global GDP, 1992 to 2020
(Per cent)

Economic grouping, country	1992	2020
OECD	81.5	66.7
Developing countries	15.7	29.1
(of which The Big Five)		
China	7.8	16.1
Brazil	1.4	3.9
India	1.7	2.5
Indonesia	1.0	2.1
Russia	0.6	1.5
	3.0	6.1
Other		
Malaysia, Philippines and Thailand	0.8	2.4
South Asia	0.3	0.6
Western Hemisphere	2.1	2.9
Sub-Saharan Africa	1.2	1.7
Middle East and North Africa	2.3	3.1
Rest of the World	4.0	6.5

Source: World Bank, Global Economic Prospects and the Developing World, 1997.

While developing countries, as a whole, virtually doubled their share of world GDP to 29 per cent from 15.7 per cent, the bulk of these gains flow to the so-called Big Five, comprising Brazil, China, India, Indonesia and Russia. Between them, they account for more than 60 per cent of the increased share of the developing world and transition economies. The Big Five's share of global GDP is forecast to double to 16.1 per cent in 2020 from 7.8 per cent in 1992.

The World Bank scenario implies that African countries will face even more intense competition in traditional and new export markets than in the past. The increasing specialization of the Big Five in various manufactures, especially labour-intensive ones, will create opportunities for African countries to exploit their comparative advantage in resource-intensive activities. But concentration of the Big Five on unskilled labour-intensive industries will generate "significant competitive pressures", and the World Bank warns that "few other developing regions will be able to develop a wide variety of lucrative manufacturing activities".

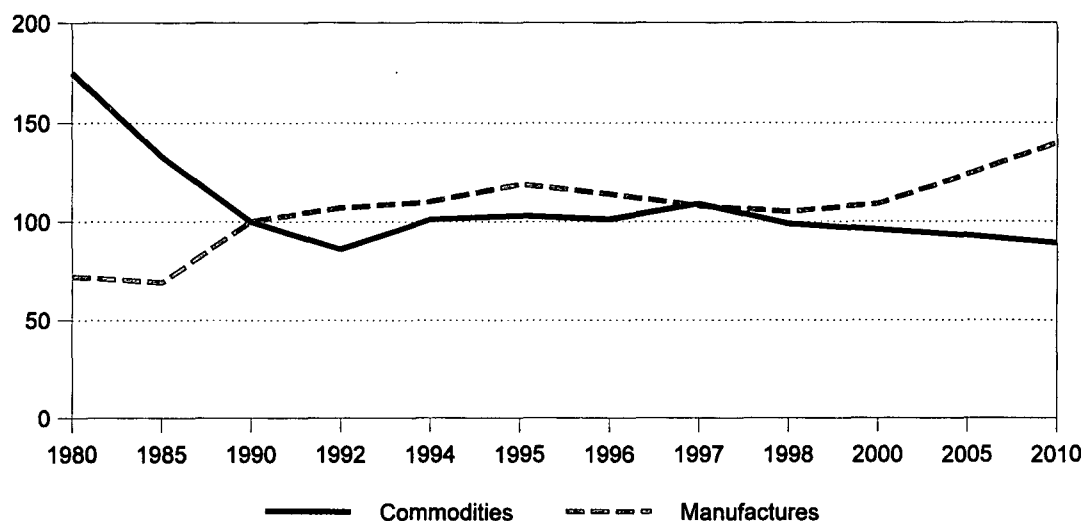
This does not mean that the way ahead for African industry is blocked. On the contrary, industrialists will have to find and exploit specialized, niche manufacturing opportunities where they can develop comparative advantage in highly-competitive global markets.

The baseline scenario assumes that there will be an excess supply of goods and services produced by the fast-growing regions, especially the Big Five, but also Hong Kong, Malaysia, Philippines, Thailand, Republic of Korea, Taiwan and South Asia, while there will be excess demand for their imports. As a result, their terms of trade will deteriorate, which would benefit many African countries exporting resource-intensive products. Despite this, the scenario projects declining real prices for primary product exports, due to the combination of rapid productivity growth, on one hand, and the low-income elasticity of demand for commodities, on the other.

But, because of the fall in world prices for unskilled labour-intensive products, such as clothing, textiles and footwear, exported by countries like China, India and Indonesia, African economies seeking to industrialize on the basis of such relatively low-technology industry will encounter considerable competitive resistance in global markets.

Figure 2.3 shows that between 1990 and 2010, commodity prices are forecast to decline by 11 per cent while those of manufactured goods are expected to rise 40 per cent, implying terms-of-trade deterioration of the order of 3 per cent annually for primary product exporters into which category most sub-Saharan economies fall.

Figure 2.3. Primary product price projections to 2010
(Non-energy raw materials and manufactured goods prices, in constant 1990 US dollars)



Source: World Bank, 1998.

Box 2.5. Determinants of economic growth

Recent empirical research on the determinants of economic growth concludes that:

- convergence will be greater - i.e. poor countries will close the gap with middle-income and rich countries more rapidly - where the initial level of real per capita income is low relative to the starting amount of human capital in the form of educational standards and life expectancy;
- the larger the stock of human capital, the faster the rate of economic growth;
- growth will be faster too where governments provide an enabling environment in the form of effective maintenance of the rule of law, the protection of property rights and efficient, transparent and equitable judicial systems;
- openness: the more open the economy to the forces of globalization - foreign trade, inward FDI and non-equity linkages - the faster the growth and convergence.

Negative influences include:

- high levels of government consumption spending as a ratio of GDP;
- a sizeable black-market premium in the foreign exchange market;
- political instability; and
- high levels of corruption.

Sources: Robert J Barro and Xavier Sala-i-Martin, *Economic Growth*, McGraw-Hill, New York, 1995.

THE BASELINE SCENARIO: IMPLICATIONS FOR AFRICAN INDUSTRY

Although no baseline scenario can be more than broadly indicative, there are important lessons for policymakers in Africa - some of them building on past experience.

1. The Big Five as a constraint on labour-intensive growth

The World Bank scenario (World Bank, 1997) implies that it is going to become more, rather than less, difficult for African economies to follow a mature-technology, labour-intensive growth path, reliant on low-wage labour. In addition to the limitations analysed in Chapter 8, the long-range scenario identifies two crucial obstacles for late-comer industrializers in Africa:

(i) The suggestion that "other developing countries", including sub-Saharan Africa, will be able to exploit comparative advantage in resource-intensive sectors is difficult to justify. Regions, such as sub-Saharan Africa, either maintain or increase their revealed comparative advantage in one or more of the agricultural, energy and natural resource sectors. The World Bank argues that experience in countries as diverse as Argentina, Australia, Canada, Chile, Malaysia, New Zealand and Thailand show that "efficient, well-functioning natural-resource-based sectors can provide an important source of income and a foundation for diversification and industrialization".

(ii) Because the projected advance of the Big Five will generate "significant competitive pressures in unskilled labour-intensive sectors", what would otherwise have been the natural growth path for sub-Saharan countries looks problematic. Africa will now have to develop "specialized, niche manufacturing lines where they can demonstrate competitive advantage in highly competitive world markets".

The problem with the latter strategy is one of sequencing, involving a combination of technological progress and experience effects. The implication is either that African manufacturing industry should leap-frog from its present highly under-developed state, with a few exceptions, to a stage where it can produce specialized, niche products, or that the niches contemplated should be limited in nature - such as craft and handiwork industries. Neither looks to be a realistically viable growth path.

2. Natural resource abundance and economic growth

An obvious alternative to a labour-intensive growth path for manufacturing industry in Africa is, as apparently envisaged in the scenario, a renewed, and possibly greater, emphasis on resource-driven growth.

In the past however, countries with a high ratio of resource-based exports to GDP have tended to grow even slower than resource-poor economies. Sachs and Warner (1995) find a "statistically significant, inverse and robust" association between natural resource intensity and GDP growth over a 20-year period. Only two countries out of 18 achieved GDP growth of more than 3 per cent a year during the 1971-1992 period. Both - Malaysia and Mauritius - did so largely by expanding their exports of manufactures from EPZs (Chapter IX and box 2.6), rather than through exploitation of their natural resource base.

While there is a clear negative relationship between resource intensity and growth, this does not justify the use of protection or subsidies as a basis for industrialization. Sachs and Warner warn that government policies to support non-resource industries might easily entail welfare costs that could exceed the benefits of diversification out of resource-intensive industry. Indeed, this is a lesson that many African countries have learned as a result of unsuccessful attempts to industrialize with a strategy of import substitution.

The Uruguay Round Agreements limit the extent to which African countries can use trade restrictions to foster industrialization. This and the extent of import penetration of many African economies by exporters from more industrialized economies, especially Asia and more recently South Africa, highlight the need for domestic manufacturing industry to compete more effectively with imports. Once again the priority is enhanced competitiveness via increased productivity, in turn implying the application of improved technologies.

3. Commodity dependence

Commodity dependence has long been considered a barrier to economic development - a theory supported by recent research. However, at the initial stages of the development process, most countries are restricted to a resource-intensive growth path.

According to the World Bank (1997) statistical analyses and case studies show that commodity dependence does not *necessarily* hinder economic growth, provided governments adopt appropriate policies and there is a "vibrant" private sector. Commodity dependence is often a symptom of low economic growth, not a cause. It identifies a range of market-friendly and enabling environment policies designed to alleviate the "adverse effects" of commodity dependence, thereby implicitly conceding that such dependence does, in fact, constitute a sub-optimal growth path. The solution is increased processing of raw materials, thereby adding value and creating more jobs, both directly and indirectly.

Box 2.6. African industrialization and the resource curse thesis

The resource curse thesis (Auty 1994) holds that resource-rich countries often squander their resource advantage because an overly optimistic assessment of growth prospects leads them to pursue inappropriate macroeconomic strategies. In sub-Saharan Africa, countries as diverse as the Democratic Republic of Congo (formerly Zaire), Nigeria and Zambia, and possibly - up to a point - South Africa, fit this mould.

A corollary of the thesis holds that resource-poor countries, conscious of their inherited disadvantage, may adopt better economic policies; Mauritius is an African example.

Most African countries (Chapter 9) opted for autarkic industrial policies in the 1960s and 70s. This is illustrated in Auty's study of six newly industrializing economies - market-modest, resource-deficient Republic of Korea and Taiwan Province, resource-rich and market-rich (in terms of size) Brazil and Mexico, and market-rich China and India. Auty concludes that those with the poorest resource endowments (Republic of Korea and Taiwan Province) industrialized more successfully than resource- and market-rich economies.

This happened despite the fact that the market- and resource-rich countries arguably enjoyed a wider range of industrialization options along with other benefits such as the capability to exploit critical mass, scale and scope economies and, experience effects.

Four conclusions flow from the resource curse thesis (Auty 1994); namely, that the richer a country's natural resource endowment:

- (i) the longer lax macroeconomic policies are tolerated - Nigeria and Zambia;
- (ii) the less pressure to achieve rapid "industrial maturation" ;
- (iii) the longer rent-seeking groups are tolerated and the more entrenched they become; and
- (iv) the greater the likelihood of decelerating and more erratic economic growth.

Source: Auty Richard M. (1994), "Industrial Policy Reform in Six Largely Newly Industrializing Countries: The Resource Curse Thesis" World Development, vol. 22, No. 1.

4. Export diversification

Many developing countries - Malaysia and Mauritius are classic examples - successfully reduced vulnerability to external shocks by diversifying their export base and export markets. Compared with primary commodities, the demand for manufactures is less cyclical and grows more rapidly, while export prices of manufactured goods have risen substantially relative to those of commodities - a trend which is forecast to continue at least until 2010 (figure 2.3).

Table 2.7 shows that diversified exporters and exporters of manufactured goods have enjoyed stronger export growth and more advantageous terms of trade that contributed to higher levels of investment and faster economic growth. The lesson for African exporters is to develop a focus on higher degrees of processing of raw materials.

Table 2.7. Trade and economic performance in developing countries, 1988-1994
(Annual per cent changes - unless otherwise indicated)

Type of exporters	Real GDP	Terms of trade	Export volumes	Investment (per cent of GDP)
Exporters of non-fuel primary products	2.8	-1.5	6.8	18.3
Exporters of fuel (mainly oil)	2.2	-3.5	6.6	22.6
Exporters of services	2.5	0.1	8.9	20.4
Exporters of manufactures	8.7	0.3	8.6	35.6
Diversified exporters	4.3	0.7	8.4	24.5

Source: Hoffmaister, Pradhan and Samiei (1996), "Have North-South Growth Linkages Changed?" (IMF Working Paper 96/54).

African dependence on primary product exports, including fuel, has diminished since 1970, but it remains higher in the 1990s than in the 1980s, and substantially greater than in either Asia or the Western Hemisphere. The changing composition of developing country exports reflects a shift in comparative advantage of many developing countries towards manufacturing, but this has occurred less in Africa than elsewhere.

Table 2.8. Diversification of developing country exports, 1970, 1980, 1990¹
(Percentage of merchandise exports)

Sector	Africa			Asia			Middle East and Europe			Western Hemisphere		
	1970	1980	1990	1970	1980	1990	1970	1980	1990	1970	1980	1990
Primary products (non-fuel)	62.8	17.0	31.2	49.4	30.7	16.0	10.7	1.8	5.7	64.5	42.1	39.9
Fuel	22.8	56.0	47.2	8.8	21.4	10.2	80.1	90.3	73.6	23.7	39.9	26.6
Manufactures	14.5	27.0	21.6	41.8	47.9	73.8	9.2	5.1	20.7	11.8	18.1	33.5

¹ Based on 65 developing countries for which data are available.

Source: United Nations Conference on Trade and Development data base.

Export market diversification has also contributed to the improved performance of many exporters. Here too, Africa has been bypassed by globalization. Its export markets remain relatively undiversified, with approximately half its exports going to Europe, while intra-regional trade is lower than in other developing regions, with the exception of the Middle East.

5. Responding to the challenge of globalization

One potential strategy for meeting the challenge from the envisioned rise of the Big Five is to seek to preempt the challenge through greater global production. This implies cross-border production by multinational corporations and their networks of affiliates, subcontractors and alliance partners.

The logic is straightforward. If sub-Saharan Africa is unable to exploit effectively its revealed comparative advantage in labour-intensive, low-wage manufacturing activities because of the competitive superiority of the Big Five (assumed in the scenario), one possible way of catching up - and getting ahead - technologically, is by subcontracting for, and networking with, multinational enterprises.

Policy and structural prerequisites for such a strategy are analysed in Chapter IX. The underlying assumption - challenged in some recent literature (Chapter IX) - is that openness to international trade and investment brings many long-term benefits, including technology transfer, greater access to finance and foreign exchange, enhanced export market access and faster productivity growth, partly as a result of increased competition in global markets.

The evidence showing that countries that have globalized more rapidly grow faster than those that have pursued a more autarkic industrial strategy, enhances the attraction of such a growth path. Furthermore, whatever the policy and ideological viewpoints of governments, the process of globalization has now attained such a momentum that small countries in Africa appear to have very little option than to participate in the process.

Implications for industrialization

Research and evidence on commodity-driven growth paths have three important lessons for the future of manufacturing industry in sub-Saharan Africa:

(i) To reduce commodity dependence, exploit comparative advantage and accelerate growth, countries must add value to primary product exports by way of industrial processing, thereby increasing manufacturing's share in GDP.

(ii) The growth of value-added commodity exports - foodstuffs, wood and furniture, ferro alloys, platinum, aluminium, horticulture, etc. - highlights the role of manufacturing in capturing greater domestic value-added, thereby boosting growth of output and employment, as well as exports.

(iii) Export diversification - of products and of markets - is increasingly dependent on value-added, again emphasising the role of manufacturing in the transition of economies from commodity dependence to industrial-led growth.

CHAPTER III.

AFRICAN MANUFACTURING: STRUCTURE AND GROWTH

After nearly two decades of stagnation and decline, initially sparked by the global oil-price crisis in the early 1970s, the sub-Saharan economy began to recover in 1995 when regional GDP increased by 4.4 per cent, and per capita incomes rose 1.3 per cent. This trend in rising per capita incomes was maintained in 1996/97 but, because per capita incomes today are lower than they were a decade ago, sub-Saharan Africa's performance is better described as recovery rather than growth. Assuming that the region continues to grow at around 4.5 per cent annually, it will take until the year 2006 to regain per capita income levels of 1982 which, in turn, were some 5 per cent below their peak in 1974.

A feature of the second half of the 1990s has been the broadening and deepening of economic recovery in the region. Since 1995, 80 per cent of African economies have achieved positive economic growth in sharp contrast to the situation at the start of the decade, when a third of African countries experienced economic decline. Real per capita incomes increased in 80 per cent of the African countries in 1997, compared with only half of them in the early 1990s.

An important reason for this improved growth performance is the recovery of the manufacturing industry. In the first half of the 1990s, MVA declined in almost half the region's 48 economies. In three-quarters of the economies, however, MVA growth rates were higher in the 1995-97 period than between 1990 and 1994.

Table 3.1 shows that after reaching 3.7 per cent in the 1980s, MVA growth averaged only 0.1 per cent annually during 1990-1997. After peaking in 1991 at \$41.8 billion (1990 dollars), sub-Saharan MVA fell almost 7 per cent to \$38.2 billion in 1994 - its lowest level since 1990. It has since recovered, and the outlook for 1998-2000 is favourable.

Table 3.1. Growth rates of manufacturing value-added, 1980-2000 (Constant 1990 dollars)

Period/Year	Growth rate of MVA* (per cent per annum)	
	Sub-Saharan Africa (including South Africa)	Sub-Saharan Africa (excluding South Africa)
1980-1990	1.4	3.7
1990-1997	0.8	0.1
1998*	0.1	5.7
1999*	2.0	4.1
2000*	1.7	2.7

* Provisional/projected figure

Source: UNIDO Data base

It is vital that this embryonic recovery is sustained and strengthened. Given the relatively depressed outlook for primary product exports, except energy, on which the region is already heavily reliant, manufacturing industry is the key to sustained output and employment growth and poverty alleviation across the continent.

Table 3.2. Shares in global manufacturing value added, 1970-2000 (Per cent shares)

Year	Developed economies	Economies in transition	Developing economies	Sub-Saharan Africa*
1970	85.4	6.5	8.1	0.2
1980	78.0	7.6	14.4	0.4
1990	76.2	7.0	16.8	0.4
1998 ^f	73.9	3.4	22.7	0.4
2000 ^f	73.2	3.2	23.6	0.4

^f forecast.

* excluding South Africa.

Source: UNIDO Database.

After expanding during the 1970s, sub-Saharan Africa's share of global MVA, excluding South Africa, has stagnated at a mere 0.38 per cent. The region's share of developing country MVA is projected to fall

significantly from 2.6 per cent in 1980 to 1.6 per cent in 2000, chiefly reflecting the rapid industrialization of South and South-East Asia.

Table 3.3 shows that MVA growth of sub-Saharan Africa outpaced the global average during the 1970s and 1980s, while falling well behind developing economies as a whole. Since the late 1980s, growth has slowed to a crawl, while the value of MVA has fallen in no fewer than 13 of the 33 sub-Saharan countries, for which data are available. In many others, growth has been no more than modest.

Table 3.3. Growth rates of MVA, 1970-2000 (Per cent per annum)

Period/Year	World	Developing countries	Sub-Saharan Africa*
1970-1980	3.1	6.5	3.8
1980-1990	3.2	5.1	3.7
1990-1997	2.4	7.0	0.1
1998	1.6	2.5	5.7
1999	0.8	2.3	4.1
2000	2.4	5.4	2.7

* excluding South Africa.

Source: UNIDO Database and World Bank.

While there is no single explanation for this, country experience suggests that the rapid growth of import competition, associated with globalization and trade liberalization, was a contributory factor. Low levels of investment, especially in skills development and technology, accompanied by weak infrastructure and overvalued exchange rates have meant that African industrial enterprises lost market share both at home and abroad.

Industrial concentration

Manufacturing activity in the region is highly skewed, with eight economies accounting for almost 90 per cent of the total (table 3.4). South Africa's share has fallen from over two-thirds in 1970 to 54 per cent but, despite this, industrial concentration has increased since 1970, reflecting mainly Nigeria's increased share of African industrial activity and the success of export-led industrialization in Mauritius, whose share has risen fivefold to nearly 2 per cent of the regional total.

Table 3.4. Industrial Concentration in sub-Saharan-Africa, 1970 and 1998
(MVA (\$ millions in 1990 prices) and percentage shares)

Country	1970		1998	
	(millions of dollars)	Per cent	(millions of dollars)	Per cent
South Africa	14 698	67.4	24 677	54.5
Nigeria	1 211	5.5	1 671	3.7
Côte d'Ivoire	900	4.1	2 105	4.7
Zimbabwe	769	3.5	1 716	3.8
Ghana	402	1.8	714	1.6
Cameroon	378	1.7	2 074	4.6
Kenya	330	1.5	1 066	2.4
Mauritius	76	0.3	782	1.7
TOTAL	18 764	86.1	34 805	76.9

Source: UNIDO database.

Box 3.1. South Africa's dominance of African manufacturing activity

Table 3.4 illustrates the degree to which sub-Saharan manufacturing activity is dominated by one country – South Africa. Although, this dominance did decline between 1970 and 1997, for the foreseeable future South Africa will continue to account for over half of sub-Saharan MVA. Not only that but the structure and pattern of industrial activity in South Africa is very different from that in the rest of the region as a whole.

Whereas, when South Africa is excluded food, tobacco and beverages make up 40 per cent of sub-Saharan MVA (table 3.5), its inclusion reduces that proportion to 23 per cent. Similarly, without South Africa, iron, steel, metals and non-ferrous metal products make up 6.5 per cent of MVA, but with South Africa that figure more than doubles to 14 per cent. When South Africa is included, machinery and transport equipment account for 14 per cent of MVA, compared with less than 7 per cent for the rest of the region.

South Africa is by far the dominant player in the region's industrial exports, estimated at \$26 billion (1990 prices) in 1997. South Africa contributed \$18.5 billion or over 71 per cent of the total.

Because of this South African dominance, the vast bulk of the data in this chapter excludes South Africa, whose industrial sector is covered separately in chapter VII.

INDUSTRY STRUCTURE

Sub-Saharan manufacturing industry – excluding South Africa - is dominated by production for domestic demand and the processing of raw materials for export. Three broad sectors account for over two-thirds of value-added, with food, beverages and tobacco products contributing the largest share (40.6 per cent), followed by clothing, textiles, footwear and leather products (14.3 per cent) and chemicals, petroleum refining and coal products (13.9 per cent). Food processing is the largest branch, accounting for 22.9 per cent of total MVA in 1996, followed by beverages (13 per cent) and textiles (8.9 per cent).

Not only do high technology and capital-intensive activities - other than the processing of raw materials, such as petroleum refining - account for less than 15 per cent of MVA, but there has been little growth in such activities. In 1970, industries, such as machinery, transport equipment and professional and scientific equipment, accounted for 5.6 per cent of regional MVA, but by 1996 their share had grown by only 1.2 percentage points to 6.8 per cent and this was mainly because of increased activity in the transport equipment sector.

Table 3.5. Structure of sub-Saharan manufacturing industry, 1970, 1980 and 1996*
(Per cent)

Branch	1970	1980	1996
Food, beverages and tobacco	39.4	35.0	40.6
Clothing, textiles, footwear and leather	17.7	14.3	14.3
Wood and furniture	4.8	5.7	3.9
Paper and printing	4.0	4.8	4.6
Chemicals, petroleum and coal products	12.6	12.6	13.9
Rubber and plastics	2.2	3.3	3.5
Glassware, pottery and non-metallic minerals	3.9	3.6	4.6
Iron and steel, non-ferrous metals and metal products	8.1	8.6	6.9
Machinery	5.6	12.2	6.5
Other	1.8	1.2	1.6
TOTAL	100.0	100.0	100.0

* Excluding South Africa

Source: UNIDO Database.

The structure of sub-Saharan manufacturing explains its sluggish growth. Activity is highly concentrated in those sectors, which are growing relatively slowly globally or where, indeed, global MVA has actually declined. As can be seen in table 3.6, global MVA has declined since the 1980s in nine branches of industry accounting for over a quarter of the region's manufacturing production.

Table 3.6. Industries in which global MVA has fallen since the 1980s

Branch	Per cent fall in global MVA	Peak year	Share in Sub-Saharan Africa MVA (per cent)
Textiles	20	1989	8.9
Iron and steel	18	1989	1.9
Footwear	17	1980	1.1
Clothing	13	1987	3.6
Leather products	11	1989	0.7
Non-ferrous metals	10	1989	1.2
Miscellaneous petroleum and coal products	8	1986	0.5
Industrial chemicals	6	1988	2.7
Petroleum refining	4	1986	5.0

Source: UNIDO Database.

Table 3.7 compares the growth rates of African MVA with those of the world as a whole, showing that in most branches of industry, the region has been building market share, albeit from a very low base. Despite this, sub-Saharan Africa's share of global MVA has barely changed since 1970, reflecting the fact that it has built market share in slow growth, or even declining industries. In beverages, clothing, textiles, footwear and wood and cork products, petroleum and coal products, rubber, non-metallic minerals, iron and steel, and non-ferrous minerals, sub-Saharan MVA has grown faster than that of the world as a whole. But in each case these branches expanded even slower than the average annual global MVA of 2.1 per cent.

Table 3.7. Industry branch growth rates, 1970-1996 (Excluding South Africa)

Branch	Global MVA growth rate 1970-1996 (per cent per annum)	Sub-Saharan Africa MVA growth rate 1970-1996	Share in Sub-Saharan MVA average 1970-1996 (per cent)
Food	2.1	2.6	20.2
Beverages	1.6	2.4	13.0
Tobacco products	2.3	1.4	5.0
Textiles	-	1.3	10.3
Clothing	0.4	3.4	2.9
Leather products	0.6	4.2	0.7
Footwear	-	0.9	1.4
Wood and cork	1.1	2.0	3.3
Furniture	2.0	1.3	1.3
Paper products	2.4	4.3	2.0
Printing	2.9	2.3	2.5
Industrial chemicals	2.1	2.3	2.4
Chemicals	2.1	3.3	5.4
Oil refining	2.4	1.8	5.1
Petroleum and coal products	1.9	4.5	0.5
Rubber products	1.3	2.7	1.5
Plastics	5.2	6.5	1.6
Pottery	-	-	0.2
Glassware	1.6	1.3	0.4
Non-metallic minerals	1.9	3.6	3.6
Iron and steel	-	3.3	2.0
Non-ferrous metals	1.2	1.8	1.3
Metal products	1.8	1.5	4.6
Machinery	1.9	-0.4	1.0
Electrical machinery	3.0	3.1	1.8
Transport equipment	2.6	4.2	5.2
All manufacturing	2.1	2.6	100.0

Source: UNIDO Database.

Table 3.8. Industries in which sub-Saharan Africa accounts for over 0.5 per cent of global MVA, 1970 and 1996 (Per cent share)

Branch	1970	1996
Food	0.5	0.6
Beverages	1.2	1.5
Tobacco products	1.0	0.8
Textiles	0.5	0.7
Leather products	0.3	0.6
Footwear	0.6	0.7

Source: UNIDO database.

Since 1970, sub-Saharan Africa (excluding South Africa) increased its share of global MVA in 19 out of 28 industrial branches, losing ground only in tobacco products, furniture, printing, petroleum refining, pottery, glassware, metal products and miscellaneous activities. Despite this, nowhere, other than beverages (1.5 per cent) does it account for more than one per cent of global MVA. Only in six of the 28 industrial branches does the region account for more than 0.5 per cent of global MVA.

Declining productivity

A striking feature of African industrial development since 1970, when compared with global trends and especially those in developed economies, has been the fall in productivity, which in 1996 was lower than at the start of the period (table 3.9). Global productivity grew at an annual rate of 0.77 per cent over the 1970-1996 period, while that in developing countries rose one per cent annually and in developed economies, 2.4 per cent a year.

Table 3.9. Output per head, 1970-1996 (1990 dollars)

Year	World	Developed economies	Developing economies	Sub-Saharan Africa
1970	21 435	38 240	6 663	7 818
1980	24 695	49 882	8 002	7 443
1990	25 744	63 453	7 321	7 924
1996	26 363	71 614	8 705	6 762
Growth rates per cent per annum	0.8	2.4	1.0	-0.5

Source: UNIDO Database.

The different productivity outcomes are explained chiefly by the very different patterns of industrial growth in developed and developing economies. The rapid growth of labour productivity in developed economies reflects the impact of investment in new plant and machinery, the adoption of modern state-of-the-art technologies and the restructuring of the manufacturing industry since the 1980s.

The capital-intensive growth mode contrasts sharply with the expansion of employment in manufacturing in the developing economies, including sub-Saharan Africa (table 3.10). Globally employment in manufacturing industry has grown at 1.3 per cent annually since 1970, but over the period it fell 15 per cent (approximately 0.5 per cent annually) in both the developed economies and the countries in transition, while increasing 187 per cent (4.2 per cent a year) in the developing countries. As a result, the developing economy share of global manufacturing employment increased from a quarter in 1970 to over 54 per cent in 1996, while that of the developed economies fell from almost half in 1970 to less than 30 per cent in 1996 (table 3.10).

Employment expansion in manufacturing exceeded the rate of population growth in sub-Saharan Africa. This was due almost entirely to a combination of strong output and employment growth during the 1980s. Since then, employment growth has fallen to approximately half the rate of population expansion (table 3.11), apparently reflecting slower output growth. There is little evidence in the aggregate data of any shift towards more capital-intensive production techniques.

Table 3.10. The changing pattern of employment in manufacturing industry, 1970, 1980, 1990 and 1996

	World	Developed economies	Economies in transition	Developing economies	Sub-Saharan Africa
1970 millions	149	71.0	39.0	39.0	1.0
Share (per cent)	100	-48.0	-26.0	-26.0	-0.6
1980 millions	175	70.0	44.0	61.0	2.0
Share (per cent)	100	-40.0	-25.0	-35.0	-0.9
1990 millions	203	65.0	42.0	95.0	2.0
Share (per cent)	100	-32.0	-21.0	-47.0	-0.9
1996 millions	205	60.0	33.0	112.0	2.0
Share (per cent)	100	-29.5	-16.0	-54.5	-1.0
Growth rate (per cent per annum)	1.3	-0.5	-0.5	4.2	3.3

Source: UNIDO Database.

Table 3.11. Sub-Saharan Africa: Output and employment growth in manufacturing, 1970-1996

Period	Output growth (per cent per annum)	Employment growth (per cent per annum)
1970-1980	5.6	6.1
1980-1990	1.9	1.6
1990-1996	- 1.0	1.6
1970-1996	2.6	3.3

Source: UNIDO Database.

Indeed, over the period as a whole employment grew faster than output, resulting in declining productivity, which, in turn, helps explain why sub-Saharan Africa is finding it so difficult to break into world export markets for manufactured goods.

Manufacturing employment pattern

Employment is concentrated in four labour-intensive sectors, which account for over half of total manufacturing employment and 48 per cent of MVA. Food manufacturing accounts for over a quarter of employment, followed by textiles (18 per cent), beverages (6.6 per cent) and clothing (6.5 per cent) (table 3.12).

Table 3.12. Employment in sub-Saharan manufacturing, 1996

Branch	Number (thousands)	Share (per cent)
Food manufacturing	510	25.3
Beverages	133	6.6
Tobacco manufactures	40	2.0
Textiles	367	18.3
Clothing	131	6.5
Leather products	23	1.2
Footwear	30	1.5
Wood products	88	4.4
Furniture	43	2.1
Paper products	56	2.8
Printing	73	3.7
Industrial chemicals	30	1.5
Other chemicals	67	3.4
Petroleum refining	14	0.7
Petrol and coal products	1	0.1
Rubber products	38	1.9
Plastics	37	1.8
Pottery	3	0.1
Glassware	9	0.4
Non-metallic minerals	61	3.0
Iron and steel	31	1.5
Non-ferrous metals	8	0.4
Metal products	95	4.7
Machinery	18	0.9
Electrical machinery	30	1.5
Transport equipment	48	2.4
Professional/scientific equipment	3	0.1
Other manufactures	24	1.2
TOTAL	2 011	100.0

Source: UNIDO Database

COUNTRY EXPERIENCE

MVA has increased since 1970 in three quarters of the 33 countries, for which data - of varying quality and coverage - are available in the UNIDO database, while in nine countries output declined (table 3.13). However, in a third of the 24 countries in which MVA has increased since 1970, value-added in 1997 was lower than in its peak year in the 1980s or even the 1970s (table 3.14).

The most impressive performance statistically, albeit from a tiny base, was achieved by Lesotho, where MVA has risen by some 450 per cent since 1980. Uganda too has an impressive record associated with the economic reforms adopted in the mid-1980s. In terms of development, however, Mauritius (7.8 per cent annually), Lesotho (9.9 per cent a year), Botswana (7.8 per cent) and Swaziland (8.4 per cent annually) have been the top performers.

Exports drive growth

A significant feature of their performance has been the role of exports. Because all four of the top-performing countries have small populations, two million people or less, the domestic market has not been large enough to drive industrial growth, which has depended on the development of export markets. Botswana, Lesotho and Swaziland are members of SACU, comprising South Africa itself, Botswana, Lesotho, Namibia and Swaziland, which has given them preferential access to the large South African market.

Table 3.14 highlights the extent to which manufacturing in sub-Saharan economies is in recovery rather than growth mode in 19 countries - more than half the 33 for which usable data are available - MVA in 1997 was lower than in an earlier peak year. On average, MVA in 1997 was one third below its peak.

Such comparisons must be interpreted cautiously since currency conversions obviously have an important influence. But the data still underscore the influence of overvalued exchange rates in constraining industrial growth in the CFA Franc Zone economies in the late 1980s and early 1990s and the de-industrializing effects of structural adjustment in economies, such as Kenya, United Republic of Tanzania, Zambia and Zimbabwe. The Nigerian data illustrate the impact of unbalanced energy sector-driven growth on manufacturing ("Dutch disease") where an overvalued exchange rate, supported by buoyant oil exports, has undermined the manufacturing industry.

Table 3.13. Sub-Saharan Africa: MVA growth by country, 1970-1998

Country	Percentage change in MVA	Growth rate (per cent per annum)
Angola	-19	-1.2
Benin	91	3.7
Botswana	288	7.8
Burkina Faso	25	1.3
Burundi	21	1.1
Cameroon	176	5.8
Cape Verde	51	2.3
Central African Republic	80	3.3
Chad	146	5.1
Congo	119	4.4
Dem. Republic of Congo	-54	-4.2
Côte d'Ivoire	59	2.6
Ethiopia and Eritrea	44	2.0
Gabon	-5	-0.3
Gambia	60	2.7
Ghana	36	1.7
Kenya	97	3.9
Lesotho	449	9.9
Madagascar	9	0.5
Malawi	72	3.1
Mali	156	5.4
Mauritius	286	7.8
Niger	141	5.0
Nigeria	14	0.7
Rwanda	-1	-0.1
Senegal	134	4.8
Seychelles	125	4.6
South Africa	3	0.2
Swaziland	330	8.4
Tanzania	19	1.0
Togo	47	2.2
Uganda	336	8.5
Zambia	51	2.3
Zimbabwe	41	1.9

Source: UNIDO Database.

MANUFACTURED EXPORTS

Table 3.15 shows that sub-Saharan Africa's share of global exports of manufactured goods has declined sharply at a time when that of developing countries, as a whole, has more than doubled. Africa's manufactured exports have grown at 5.5 per cent annually since 1970 during which period global exports of manufactured goods were increasing more than twice as fast - at 11.9 per cent a year.

As a result, the region lost its market share, primarily to developing countries whose manufactured exports were, as a whole, increasing at nearly 13 per cent annually. Sub-Saharan Africa's share of developing economy exports of manufactures fell from 7 per cent in 1970 to 1.3 per cent in 1990 and 0.78 per cent in 1995.

Table 3.14. Countries in which MVA has declined from earlier peaks, selected years
(Constant \$ millions 1990 - unless otherwise stated)

Country	MVA	Peak (year)	Subsequent trough (year)	1997 MVA	Per cent decline since peak
Benin	120	(1972)	60 (1984)	84 (1996)	-30
Burundi	114	(1992)	90 (1995)	91	-20
Cameroon	1 166	(1986)	619 (1993)	797	-32
Central African Republic	82	(1974)	27 (1986)	57	-30
Congo	135	(1974)	76 (1996)	75	-44
Côte d'Ivoire	2 112	(1986)	1 640 (1993)	1 987	-6
Democratic Rep of Congo	636	(1970)	23 (1997)	23	-96
Gabon	393	(1977)	172 (1997)	172	-56
Kenya	922	(1989)	592 (1993)	755	-18
Madagascar	182	(1978)	117 (1985)	128	-30
Malawi	232	(1992)	159 (1993)	223	-4
Niger	36	(1989)	13 (1995)	27	-25
Nigeria	6 941	(1992)	5 234 (1995)	5 332	-23
Senegal	548	(1977)	288 (1981)	507	-7
Somalia	45	(1977)	16 (1986)	20	-56
Tanzania	185	(1979)	98 (1985)	151	-18
Togo	121	(1970)	42 (1977)	91	-25
Zambia	989	(1989)	273 (1995)	333	-66
Zimbabwe	2 607	(1991)	1 569 (1995)	1 716	-34

Source: UNIDO database.

Table 3.15. Shares in exports of manufactured goods, 1970-1995, selected years (Per cent)

Economic grouping	1970	1980	1990	1995
Developed economies	81.2	80.9	79.2	75.1
Developing economies	11.4	14.7	17.5	23.2
Economies in transition	7.4	4.4	3.3	1.7
Sub-Saharan Africa*	0.8	0.4	0.2	0.2

* excluding South Africa.

Source: UNIDO Database.

Table 3.16. Growth rates of manufactured exports, 1970-1995 (Per cent per annum)

Period	World	Developed economies	Developing economies	Sub-Saharan Africa*
1970-1980	18.5	22	18.6	11.2
1980-1990	7.3	5.3	7.4	1.8
1990-1995	7.0	13.3	8.2	2.1
1970-1995	11.5	13.4	11.9	5.5

* excluding South Africa.

Source: UNIDO Database.

The region's manufactured exports (excluding South Africa) are dominated by foodstuffs (24 per cent of the total) followed by clothing (12.4 per cent), refined petroleum (10.6 per cent), wood and cork products (6.9 per cent) and iron and steel (5.4 per cent). Nine of the 28 branches of industry account for almost 80 per cent of the total, with exports of high-technology and skills-intensive items accounting for little more

than 5 per cent (table 3.17). In 1990, exports of manufactures accounted for 44 per cent of MVA, well below the 68 per cent ratio for developing countries and 52 per cent for the world as a whole.

Table 3.17. Sub-Saharan Africa: Exports of manufactures, 1995 (Excluding South Africa)

Branch	Value (millions of dollars)	Per cent of Total
Food manufactures	1 790	24.3
Clothing	913	12.4
Refined petroleum	782	10.6
Wood and cork products	505	6.9
Iron and steel	395	5.4
Non-ferrous metals	391	5.3
Industrial chemicals	369	5.0
"Other" manufactures	367	5.0
Textiles	344	4.7
High-technology goods*	404	5.5

* = Electrical and non-electrical machinery, transport equipment and professional and scientific goods

Source: UNIDO Database.

Four countries account for over two-thirds of the region's manufactured exports with 1995 exports in excess of \$1 billion each. Mauritius has been the star performer with its industrial exports growing at 13.6 per cent annually over the 25 years - faster than both the global figure and that for developing economies as a group. Its exports are dominated by clothing, which account for over half (53.5 per cent) and food manufactures (28.3 per cent). Textiles contribute a further 5.7 per cent.

Efforts by Mauritius to diversify from heavy reliance on clothing have borne little fruit as yet, and clothing has accounted for over half the manufactured exports for the last ten years. However, Mauritius is moving into high-technology activities, with its exports of professional and scientific goods increasing fivefold, albeit from a very low base, since the early 1980s. In 1995, its exports of such items amounted to \$48 million - two-thirds of the sub-Saharan total.

Recently, productivity growth in the Mauritian EPZ has slowed dramatically - to 1.3 per cent in 1997 from 7.4 per cent in 1995. Tight labour markets and increasing wage inflation have begun to dent the competitiveness of the country's clothing manufacturers. Both local and foreign manufacturers are increasingly considering shifting to lower-cost production centres, such as Madagascar and Mozambique.

Table 3.18. Sub-Saharan Africa's main exporters of manufactures, 1995 (Excluding South Africa)

Country	Exports (millions of dollars)	Share of total (per cent)	Growth rate 1970-1995 (per cent per annum)
Mauritius	1 516	20.6	13.6
Côte d'Ivoire	1 300	17.6	11.4
Kenya	1 148	15.6	11.6
Zimbabwe	1 036	14.1	8.8
Cameroon	412	5.6	..
Senegal	370	5.0	..
Nigeria	275	3.7	2.9
Ghana	224	3.0	..

Source: UNIDO Database.

Côte d'Ivoire's manufactured exports peaked at almost \$1.6 billion in 1992, before their subsequent decline partly reflecting the impact of CFA franc devaluation in January 1994. Exports are dominated by food manufactures (38.4 per cent), refined petroleum (16 per cent) and wood and cork products (14 per cent). Exports of manufactures have grown 11.1 per cent annually since 1970, almost keeping pace with the growth in global manufactured exports.

Kenya's manufactured exports have grown impressively too, increasing at an annual rate of 11.6 per cent. The country's industrial export base has diversified considerably since the end of the 1970s, when refined petrol accounted for 60 per cent of the total. In 1995, this share had fallen to 19.7 per cent, while that of iron and steel had grown to over 9 per cent from one per cent. Foodstuffs account for 14.6 per cent and the share of "other" manufactures has grown rapidly from 2 per cent in the late 1980s to 15 per cent in 1995.

Zimbabwe's exports of manufactured goods have grown at nearly 9 per cent a year since 1970. They are dominated by iron and steel and non-ferrous metals which account for over 34 per cent, while foodstuffs contribute 16 per cent and clothing and textiles 12 per cent, compared with 18 per cent in the early 1990s, reflecting the global slowdown in this sector.

IMPORTS OF MANUFACTURES

The scope for industrial expansion, based on domestic demand, is underlined by the growth in imports of manufactured goods. Manufactured import growth (7.2 per cent annually) since 1970 has outstripped that of industrial exports (5.5 per cent a year). In 1990, the import/MVA ratio was 1.91 compared with 1.55 for developing countries, as a whole, and 0.54 for the world.

Table 3.19. Sub-Saharan Africa: Main imports of manufactures, 1995

Branch	Value (millions of dollars)	Share (per cent)	Growth rate 1970-1995 (per cent per annum)
Machinery	7 438	22.5	7.5
Chemicals	5 496	16.6	9.0
Transport equipment	4 625	14.0	7.0
Foodstuffs	2 901	8.8	6.9
Refined petroleum	2 091	6.3	8.5
Iron and steel	1 892	5.7	6.4
Metal products	1 346	4.1	6.1
Textiles	1 324	4.0	3.5
Sub-total	27 113	81.9	n.a.

Source: UNIDO Database.

Manufactured imports are dominated by capital-intensive items reflecting comparative advantage. Machinery, including electrical machinery, chemicals and transport equipment account for more than 53 per cent of the total, while foodstuffs, refined petroleum, iron and steel, metal products and textiles make up a further 28.9 per cent.

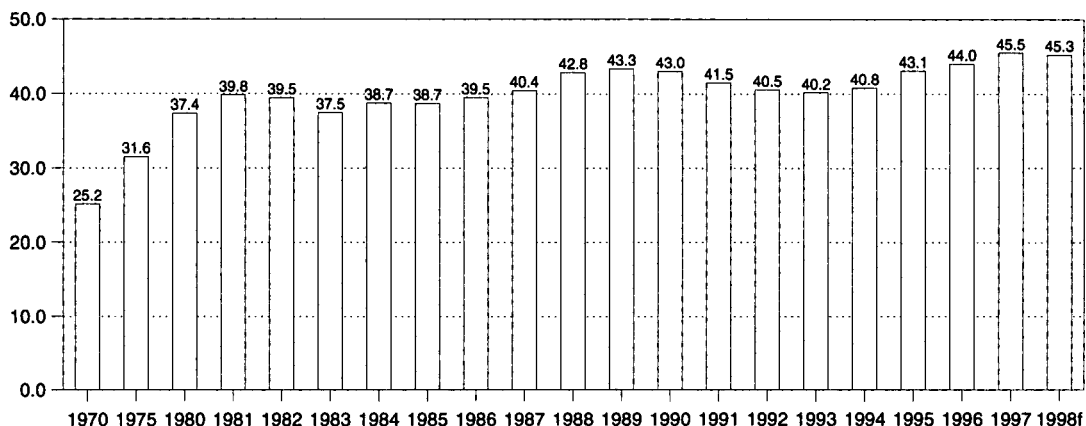
Future Prospects

During 1980-1998, MVA has grown even slower than GDP. MVA stagnated between 1982 and 1986, declining almost 6 per cent between 1988 and 1993, since then it has increased 12 per cent (figure 3.1).

Growth in MVA is correlated with rising per capita incomes. Syrquin and Chenery (1989) estimated that 75 to 80 per cent of structural transformation in a developing economy occurs between per capita income levels of \$300 and \$4000 (in 1989 dollars).

In their model, manufacturing's share in GDP increases from 10 per cent, where per capita incomes are below \$300, to an actual level of 28 per cent of GDP when per capita incomes reach \$4000. Adjusted for US inflation and exchange rate fluctuations, the structural transformation range of per capita incomes, in 1995 dollars, is from approximately \$600 to \$8200.

Figure 3.1. Sub-Saharan Africa: MVA, 1970-1998 (Constant 1990 billion dollars)



Source: UNIDO Database.

The implications for sub-Saharan Africa are daunting. In 1995, only 11 of the 48 countries were above the \$600 threshold - Cameroon, Côte d'Ivoire, Congo (Brazzaville), Gabon, Lesotho, Mauritius, Namibia, Botswana, Seychelles, South Africa and Swaziland.

Accordingly, it is not surprising that regional manufacturing growth was so disappointing. The policy implication is that MVA growth must be either:

- (a) export-led, because the domestic market is too small; or
- (b) the result of spillovers from strong resource-based growth - in the energy, mining or agricultural sectors.

The more successful African industrializers have either been those that focused on export-led growth or those where resource-driven export growth has spilled over into domestic consumer demand, the supply of primary materials for processing and beneficiation, and demand for industrial and intermediate inputs.

By the end of the 1990s, Mauritius is the region's sole example of export-led growth, albeit based on the very narrowly focused - and thereby potentially vulnerable - manufacture of garments for the EU and, to a lesser extent, US markets. Manufactured exports are expanding strongly in South Africa, but it continues to rely heavily on exports of primary products.

The rest of the region opted for the traditional combination of import substitution fuelled by resource-based export growth, until it became clear in the 1980s that this was unsustainable, as illustrated by the data in this chapter. The challenge for the next century is that of making a sustained transition to a competitive industrial economy (Chapters VII and IX).

CHAPTER IV.

COUNTRY EXPERIENCES

Since 1980, manufacturing industry has performed well in only two of the seven countries making up two-thirds of regional MVA - Mauritius and Cameroon (table 4.1). In the remaining five countries, MVA growth has fallen well behind the rate of population increase, so that MVA per capita has fallen. In three of the seven - Nigeria, Ghana and Zimbabwe - the share of MVA in GDP also decreased.

Table 4.1. Sub-Saharan Africa: GDP and MVA growth, selected countries, 1980-1997
(Per cent per annum)

Country	GDP growth	MVA growth	MVA share in GDP 1980	MVA share in GDP 1997
Nigeria	2.5	1.3	6.4	5.2
Côte d'Ivoire	1.1	1.3	12.5	13.0
Zimbabwe	3.3	2.0	24.7	19.2
Ghana	3.1	1.2	10.8	7.8
Mauritius	5.7	8.0	14.2	20.7
Kenya	3.3	3.9	9.6	10.6
Cameroon	2.3	6.7	7.6	14.8

* Per cent per annum

Source: UNIDO Database.

1. NIGERIA: MORE REFORMS NEEDED

Since independence in 1960, the state has been central to Nigeria's attempts to broaden and diversify its economy through industrialization. The federal government's four Development Plans, covering the period from 1962 to 1985, emphasized the role of manufacturing - especially heavy industry, chemicals, paper, petrochemicals, cement, automotive and steel. The federal state's industrialization strategy included large direct investments in government-owned enterprises and joint-ventures, including projects which private enterprise was either unable or unwilling to undertake on its own account.

State planning and public sector investment were the major factors influencing rapid growth in industrial output from 1970 to the early 1980s. The Third National Development Plan identified heavy and chemical processing industries as the locomotive for industrialization with the public sector playing the driving role by setting up core industrial projects, designed mainly to provide inputs for downstream industries.

The two other components of the manufacturing sector are large, mainly consumer, industries dominated by foreign-owned multinationals and a huge small-scale sector, undercapitalized, with obsolete technology and low skills levels, supplying the domestic market.

By the early 1980s, publicly-owned enterprises accounted for some 60 per cent of industrial production and 30 to 35 per cent of GDP, though, if the petroleum sector is excluded, this ratio halved to 15 per cent. In 1982 there were 125 public enterprises in the manufacturing sector, whose main focus was on the automotive, cement, chemical, iron and steel and pulp and paper industries.

According to the World Bank, the core enterprises which were "grossly inefficient", before the SAP was launched in the mid-1980s, have remained so [Faruque, 1994]. A 1987 survey of 34 manufacturing SOEs found that 80 per cent were operating at a loss, while none was working at more than 30 per cent of capacity, except for those in the cement and fertilizer sectors.

After growing at 12 per cent annually during the 1970s, MVA almost halved in the first half of the 1980s, before recovering following the adoption of an SAP in 1986. MVA then grew strongly to peak at \$4.1 billion (1990 prices) in 1992, since then it has declined by almost a quarter.

Although these fluctuations were highly influenced by currency movements, manufacturing's weak performance overall is underscored by the fall in its share of GDP from almost 14 per cent in 1980 to 8.9

per cent in 1996. While GDP grew only 1.7 per cent annually between 1980 and 1996 - not much more than half the rate of population expansion - MVA declined almost one per cent annually.

The poor performance of manufactured exports has been a contributory factor. These have grown 2.9 per cent annually since 1970, just over half the comparable figure for sub-Saharan Africa (5.5 per cent) and by 1990, exports of manufactures accounted for only 7.5 per cent of MVA, compared with 44 per cent for the sub-Saharan region as a whole.

Over-valuation of the Nigerian naira for much of the period has also constrained industrial growth both by undermining exports of manufactures and encouraging imports. The real effective exchange rate of the naira increased 50 per cent between 1990 and 1996 at a time when the average real exchange rate for all sub-Saharan countries declined nearly 18 per cent.

Industrial structure

In 1996, five sectors accounted for 61 per cent of total MVA in the region's largest manufacturing economy, after South Africa. Four features stand out:

- (i) The fall in the share of textiles from around a fifth of total MVA in the early 1970s to less than a tenth by 1996;
- (ii) Growth in the chemicals branch whose share doubled over the period;
- (iii) The surprisingly weak performance, in an oil-exporting country, of the refined petroleum sector whose share of MVA today is negligible, after accounting for as much as 14 per cent in 1981; and
- (iv) The slow growth of manufactured exports.

A distinctive feature of industrial development in Nigeria has been its capital-intensity. Employment grew strongly in the 1970s increasing 12.5 per cent annually, though this was reversed in the 1980s during which period employment fell 14 per cent. Although employment increased almost a quarter between 1990 and 1996, over the entire period (1970-1996) 368,000 new jobs were created at an annual rate of little above 14,000, which is very unsatisfactory in a country with a total population of over 100 million.

Table 4.2. Nigeria: Relative shares of main industry branches 1970, 1980, 1990, and 1996
(Percentage)

Branch	1970	1980	1990	1996
Food	12.1	6.2	15.4	17.9
Beverages	15.2	11.0	10.6	14.9
Textiles	23.5	9.5	14.6	9.9
Chemicals	6.2	2.2	13.0	12.3
Non-metallic minerals	2.4	3.6	6.2	6.0

Source: UNIDO Database.

Manufacturing expanded at 12 per cent annually during the oil boom (1973 to 1982) and its share of GDP tripled from 4 per cent in 1970 to 13 per cent by 1983. During that period, the public sector accounted for two-thirds of industrial investment, with many projects being highly capital-intensive as well as import dependent with little domestic value-added.

With an overvalued exchange rate and a tariff structure that favoured imports of raw materials and capital equipment, manufacturing became increasingly capital-intensive, focusing on assembly operations. While output tripled from \$900 million (1985 prices) in 1970 to \$2.7 billion in 1980, industrial employment stagnated and manufacturing exports - based on agro-processing - which accounted for a tenth of total exports in 1970, disappeared.

The combination of an overvalued currency, high levels of protection and heavy government and government-backed investment in capital-intensive "strategic" industries deterred private investment in those industries in which Nigeria might have been able to build competitive advantage. Between 1973 and 1978, the share of food processing and textiles (natural resource-based manufacturing) fell from 51 per cent to 36 per cent of industrial output, while that of relatively low value-added durable goods (assembly

industries) almost tripled from 7 per cent to 19 per cent. The share of another assembly industry - transport equipment - with a ratio of value-added to gross output of only 0.16, rose from 0.1 per cent to 11 per cent between 1972 and 1978.

This strategy had three main consequences:

- (i) increased public sector investment in capital-intensive and technology-intensive manufacturing;
- (ii) investment by the private sector also in capital and technology intensive industries, though with an emphasis on consumer, rather than producer, goods; and
- (iii) the growth of small privately owned and informal sector businesses alongside large formal firms in the private and public sectors.

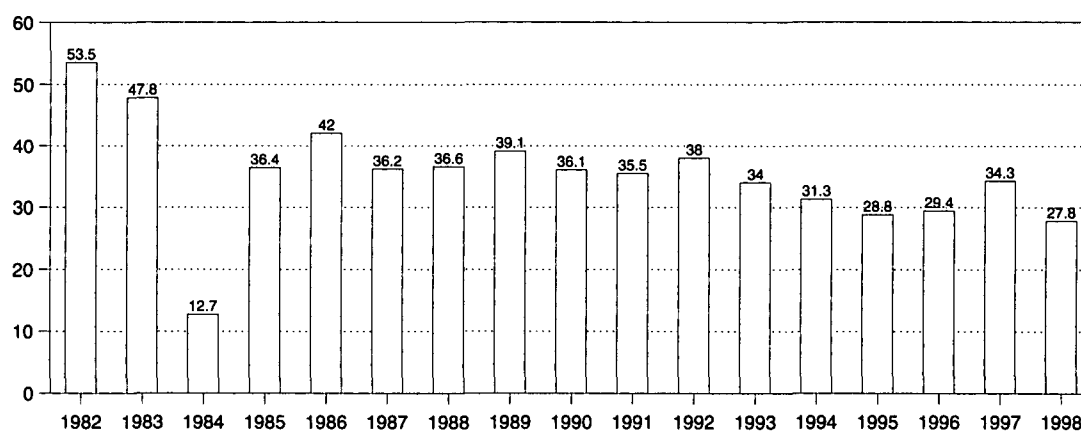
The 1972 and 1979 indigenization decrees diverted both public and private capital to the acquisition of existing foreign-owned assets rather than investment in new capacity. With the steep deterioration in the balance of payments in the 1980s, tariffs were raised and import licencing imposed, resulting in a highly protected, inefficient industrial sector insulated from international competition.

Expansion was heavily import-dependent with very low levels of domestic value-added, which accounted for only 14 per cent of the value of gross output. More than two thirds of the raw materials used by manufacturers were imported. By the 1980s, exports were virtually non-existent so that when oil prices weakened after 1981 and foreign exchange became increasingly scarce, import-dependent manufacturers were forced to cut production, and capacity utilization declined [Faruque, 1994].

Between 1982 and 1986, the volume of manufacturing production fell 60 per cent (figure 4.2), resulting in widespread redundancies, plant closures and increasingly high levels of spare capacity. During this period, industrial strategy shifted from public-sector-led growth, financed by oil revenues, to greater self-sufficiency and increased domestic resource-utilization (Fourth National Development Plan, 1981-1985).

Most of these parastatals performed poorly with a 1987 study of 34 enterprises finding that 80 per cent of them were operating at a loss. Most could not cover costs and none operated above 30 per cent of capacity utilization, except for some of the cement manufacturers and the state-owned fertilizer plant, NAFCON.

Figure 4.1. Capacity utilization in Nigerian manufacturing, 1982-1998



Source: Manufacturers Association of Nigeria.

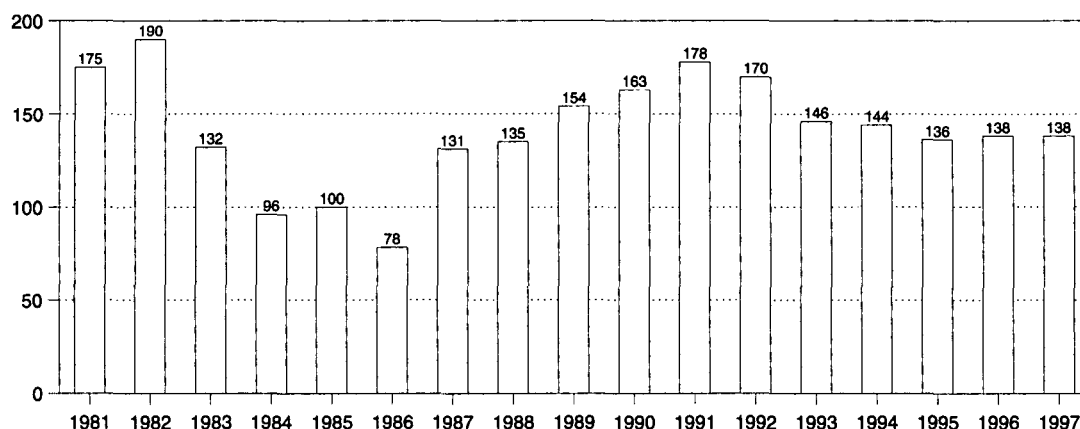
Structural Adjustment

Recognition of the failure of this strategy resulted in the adoption of the SAP in 1986, which provided for the privatization or commercialization of parastatals and a reduced role for the state in the economy. However, implementation of this new strategy was erratic, and after the initial burst of reforms (1986-1988), the programme ran out of steam and has only recently been revived.

The volume index of manufacturing production rose more than 50 per cent between 1984-86 and 1987-89 following the implementation of trade and foreign exchange reforms in the SAP in 1986 (figure 4.2).

Domestic-resource-based industries, wood products and furniture, textiles, some foodstuffs, rubber and minerals, were the main beneficiaries, but import-intensive and low domestic value-added branches (electronics and vehicle-assembly) did poorly. The index of vehicle assembly output (1985 = 100) averaged only 19 in the first half of the 1990s, while that for radios and television sets fell to 11.

Figure 4.2. Nigeria: Index of manufacturing production, 1981-1997



Source: Federal Office of Statistics, Lagos.

The SAP led to increased industrial efficiency, as measured by the domestic cost resource (DRC) ratio. The DRC, the ratio of domestic resources used in an activity, divided by the value-added in that activity at world prices, measures the net foreign exchange earned (or saved) by using domestic rather than imported resources. Where the ratio is below unity, an industry is efficient because the cost of resources used is lower than the foreign exchange earned (or saved), but where the DRC exceeds one, the activity is inefficient.

A DRC of less than one means that an industry may have comparative advantage, but the measurement is no more than indicative, since an industry-wide figure may blur the differences that exist between efficient and inefficient firms.

In 1989, the World Bank carried out a DRC analysis for 35 activities concluding that as a whole Nigerian manufacturing was inefficient with a DRC of 1:17. However, the survey showed that if administrative and advertising costs (excluding labour costs) were halved, the DRC in the long run would fall to 0.84.

At the start of the 1990s, rubber products, chemicals and pharmaceuticals were the most efficient branches, while electrical goods, furniture and wood products and leather manufactures were least competitive.

The DRC study found that public sector enterprises were mainly inefficient - regardless of sector. The Bank assessed two flour mills finding the state-owned one to be twice as inefficient as its private sector counterpart.

Table 4.3. Nigeria: Domestic resource cost (DRC) ratio by sector, 1987

Branch	Long-run DRC	Long-run DRC after halving administrative and advertising costs
Food, beverages and tobacco	1.06	0.66
Clothing and textile	1.35	1.07
Furniture and wood products	2.18	1.20
Rubber products	0.81	0.46
Chemicals and pharmaceuticals	0.87	0.56
Leather products	1.72	1.63
Electrical goods	12.80	2.73
Weighted average	1.69	0.84

Source: World Bank, *Nigeria Industrial Sector Study 1990*.

The study also found too that efficiency varied with size, large firms being more efficient than smaller ones, irrespective of sector. This explained the inefficiency of a domestic-resource-based industry, like leather goods, which had a large number of small firms with relatively weak management. In contrast, the chemical and pharmaceutical sectors scored highly, mainly because they were dominated by major multinationals with strong management and modern technology.

Infrastructure

The necessity for manufacturing firms to invest in infrastructure has affected the nature and speed of industrialization. A 1990 World Bank study found that all manufacturing firms employing more than 50 people had installed their own electricity generators. Only 8 per cent of manufacturing establishments did not have private generators compared with 35 per cent in Indonesia and 94 per cent in Thailand. Production losses from power failures were estimated at 10 per cent of normal hours worked in Nigeria compared with 7 per cent in Indonesia and 6 per cent in Thailand.

Similarly 63 per cent of Nigerian manufacturing firms did not have their own radio equipment or motorcycles compared with ratios ranging between 88 per cent and 85 per cent in Indonesia and - for radios - as high as 96 per cent in Thailand.

VISION 2010

Nigeria's Industrial Vision 2010 projects an annual GDP growth of 7 per cent between 1997 and 2000, accelerating to 9 per cent (2001 -2005) and then 10 per cent (2006-2010). Manufacturing is projected to grow at 29 per cent annually in the late 1990s, slowing to 14.8 per cent a year between 2001 and 2010.

Table 4.4. Nigeria: Manufacturing contribution to GDP, 1996 -2010, selected years
(Per cent)

Sector	1996	2000	2005	2010
Manufacturing contribution to GDP	6.9	15.0	20.0	25.0
Share of work force in manufacturing	7.0	12.0	17.0	23.0
Output share of GDP by branch:				
Agro-related	3.4	6.8	8.3	9.4
Construction	1.1	2.2	2.7	3.1
Non-metallic products	0.9	2.2	3.0	4.0
Basic chemicals	0.5	1.2	1.7	2.2
Metallic products	0.3	0.6	0.9	1.1
Agricultural machinery	0.1	0.1	0.2	0.2
Export-based industries	0.8	1.9	3.3	5.0

Source: Government of Nigeria, Vision 2010, 1996.

If achieved, this rapid industrial growth would increase the GDP share of manufacturing to 25 per cent in 2010 up from 6.9 per cent in 1996. Nigeria, refocusing on its natural comparative advantage in agro-related manufacturing would achieve the bulk of this growth. This sector's share of GDP will virtually increase threefold from 3.4 per cent in 1996 to 9.4 per cent by 2010 (table 4.4).

Exports

Non-oil exports - including rubber and cocoa - peaked at over \$1.6 billion (1990 dollars) in the late 1970s, falling 75 per cent to a trough of just over \$400 million in 1987, since then there has been a modest recovery. Vision 2010 sets an ambitious growth target for export-based industries, whose share of GDP is projected to increase from 0.75 per cent in 1996 to 5 per cent in 2010.

Industrial growth projections are highly optimistic and will only be achieved if Nigeria undertakes radical macroeconomic policy reform allied with a return to political stability. A UNIDO study [UNIDO, 1997] identifies the prerequisites for the expansion of non-oil exports:

- macroeconomic stability
- stability on economic policy
- a competitive real exchange rate
- elimination, as far as possible, of the anti-export bias associated with import substitution, including tariff rationalization and specific measures to promote non-traditional exports

- improvements in both the infrastructure and investment climate;
- a well-functioning financial sector; and
- reform of the land tenure system.

Real exchange rate appreciation since 1994 has undermined competitiveness, particularly in the region where the January 1994 CFA franc devaluation substantially improved the competitiveness of Nigeria's neighbours.

The unweighted average tariff was 35 per cent with most rates clustering between 10 per cent and 40 per cent. Capital goods attracted the lowest tariff (16 per cent), while intermediates paid rates of 31 per cent and consumer goods 48 per cent. Effective rates of protection (protection of value-added) were much higher ranging from 43 per cent for capital goods to 69 per cent for intermediates and 89 per cent on consumer items.

Under the revised tariff for the 1995-2001 period, the average unweighted tariff on manufactures will be 26 per cent in 2001. Capital goods will pay 16 per cent in 2001 (13 per cent under the new 1995 tariff), while intermediates face a rate of 22 per cent (18 per cent in 1995) and consumer items 37 per cent, down from 39 per cent in 1995.

Constraints on industrialization

Five main influences have constrained industrial growth in Nigeria since 1980.

- (i) Political instability was - and continues to be - a major constraint on economic growth, in general, and industrial growth, in particular.
- (ii) The "Dutch disease" effects of the oil boom undermined non-oil exports during the 1980s - an effect exacerbated by the failure to sustain the reforms initiated under SAP in the mid-1980s.
- (iii) High levels of capital-intensity and import dependence also undermined competitiveness. For almost 20 years, firms have been operating with very high levels of spare capacity - often semi-obsolete capacity - while the balance of payments constraint caused by weak oil prices severely constrained import-intensive manufacturing.
- (iv) Large extremely inefficient state-owned core industrial projects imposed a heavy burden on the rest of the economy, both in terms of the cost and quality of goods and services, and the fact that private capital did not flow to some branches of manufacturing that might otherwise have performed far more impressively.
- (v) Associated with this, the deterioration in, and high cost of, infrastructural services also contributed to manufacturing's weak performance.

Because employment growth of 5.5 per cent annually far outstripped that of MVA (0.8 per cent a year), productivity declined by a third during the period (table 4.5). The table shows that output per head - in constant 1990 dollars - was lower in Nigeria than in the region's other leading industrial economies, except Kenya, and lower even than the average for sub-Saharan Africa as a whole. However, such comparisons are bedevilled by currency conversions, which explain the much higher productivity figures in CFA Franc economies (Côte d'Ivoire and Cameroon).

Table 4.5. Output per head in sub-Saharan Africa's leading industrial countries, 1970-1996

Country	Output per head 1970 (1990 dollars)	Output per head 1996 (1990 dollars)	Percentage change 1970-1996
Nigeria	9 361	6 256	- 33
Côte d'Ivoire	26 998	29 715	+ 10
Zimbabwe	7 104	9 524	+ 34
Ghana	6 962	9 126	+ 31
Mauritius	5 514	6 237	+ 13
Kenya	5 136	3 401	- 34
Cameroon	14 925	13 573	- 9
Sub-Saharan Africa	7 818	6762	-13.5

Source: World Bank: African Economic Indicators, 1998.

2. GHANA: POTENTIALS AND CONSTRAINTS

After growing strongly in the first half of the 1970s, when MVA expanded 7.7 per cent a year, output peaked in 1976 at \$700 million (1990 prices), before collapsing to \$308 million in 1983. Since then output has recovered impressively, growing 5.6 per cent annually between 1983 and 1997 when it reached \$663 million. At this level, however, MVA was still below its mid-seventies peak.

Manufacturing is heavily reliant on the production of basic consumer goods for the domestic market, with food, beverages and tobacco products accounting for almost 40 per cent of total MVA. Other significant sectors are wood and cork products (10.1 per cent), non-ferrous metals (9 per cent) and chemicals (8.7 per cent).

Manufactured exports have performed poorly and at \$224 million in 1996 were 30 per cent below their 1981 peak of \$319 million. Since 1970, manufactured exports (in current dollars) have grown at an average annual rate of 5.8 per cent, accounting for only 19 per cent of MVA in 1990. Three branches account for three quarters of manufactured exports - timber products (38 per cent), non-ferrous metals (27 per cent) and refined petrol (11 per cent).

Table 4.6. Ghana: Relative shares of main industry branches 1970, 1980, 1990 and 1996
(Percentage)

Branch	1970	1980	1990	1996
Food	12.4	8.3	11.6	9.2
Beverages	11.6	15.5	11.9	10.4
Tobacco products	9.9	14.9	16.0	19.8
Wood and cork	9.4	6.6	11.1	10.1
Chemicals	4.4	4.5	6.8	8.7
Non-ferrous metals	12.1	12.0	14.3	9.0

Source: UNIDO Database.

Industrial development

Since 1970, industry has undergone three distinct phases (table 4.7):

- (i) In the first phase 1971-1983, industrial production declined over 47 per cent on a cumulative basis, or 5.2 per cent annually. Output fell more in mining and construction than manufacturing and agriculture, but continued to grow in services - mainly government and finance. On an average annual basis, manufacturing output (-5.4 per cent a year) fell almost four times as fast as GDP (-1.4 per cent).
By 1982-83, Ghana's economy had virtually collapsed (IMF 1995), with per capita income down by a third from its 1977 peak. Inflation was running at over 110 per cent and the parallel market exchange rate was over 20 times the official rate, while cocoa production had fallen by a third. In 1982, industrial capacity utilization was estimated at only 21 per cent of installed capacity in medium and large factories.
- (ii) The launch of the Economic Reform Programme (ERP) marked the turning point. During the two periods of structural adjustment (1983-1986 and 1987-1991), industrial output rose 87.6 per cent, expanding at an annual rate of more than 8 per cent. Manufacturing grew more rapidly - 8.8 per cent annually - than agriculture, mining, construction and services. But despite this, by 1991, manufacturing's share of GDP had fallen to 8.8 per cent from 11.3 per cent in 1971.
Manufacturing experienced two shakeouts during this 20-year period - the first fuelled by pervasive price controls, on the one hand, and the scarcity and high-cost of essential inputs, on the other. The onset of reform in 1983, led to the swift removal of quantitative import restrictions and the harmonization and reduction of import tariffs, which forced those industrial enterprises that had survived the downturn of the 1970s to become competitive or close down. The share of imports in GDP rose steeply from 2 per cent in 1982 to 19 per cent in 1987 as the economy opened up and some industries that had been highly protected previously - beverages, clothing and textiles, leather goods and processed foods - experienced great difficulty in adjusting to the new order.

Despite this, capacity utilization rates recovered to reach 35 per cent by 1987 and 44.5 per cent in 1992 with strongest recovery in clothing and textiles, metals, plastics and non-ferrous metals. Over the entire 1983-1989 period, manufacturing production recouped ground lost in the 1970s at the rate of more than 10 per cent a year.

- (iii) During the third phase (1992-1997), however, there was a marked downturn in economic performance [IMF, 1995] with MVA growth slowing to only 3.5 per cent annually.

Ghana: Vision 2020 (1995) says that while manufacturing benefited initially from the Economic Recovery Programme (ERP) reforms, the sector suffered from the subsequent "rapid liberalization" of foreign trade. This was compounded by the lack of capital to finance new investment, resulting in a slowdown in MVA growth to 0.3 per cent a year in the early 1990s.

Table 4.7. Ghana: Output growth, 1971-1997 (Per cent per annum)

Sector	1971-1983	1983-1991	1991-1997	
Agriculture	-1.4	5.4	4.0	
Industry	-0.9	3.0	2.8	
Manufacturing	-5.4	11.8	3.5	
Services	1.0	7.3	5.9	

Year	Shares in GDP (constant prices)			
	Agriculture	Industry	Manufacturing	Services
1971	50.5	18.6	11.3	28.3
1983	53.4	11.6	6.9	37.9
1991	44.4	14.3	8.8	43.9
1997	40.3	28.0	10.1	31.6

Source: IMF and Ministry of Finance, Ghana

To address these problems, two major initiatives were taken in 1994/95:

- the establishment of the Private Enterprise Foundation (PEF) under the trade and Investment Project (TIP), and
- the setting up of the government-sponsored Business Assistance Fund to assist "distressed but potentially-viable" industrial concerns.

Vision 2020 includes the extremely ambitious target of an annual growth rate of 12 per cent a year that would increase industry's share of GDP to 37 per cent from 16 per cent in 1995. Policies designed to boost industry included:

- measures to make manufactures more competitive internationally;
- to establish effective linkages between manufacturing and other sectors;
- the expansion of industrial production for both domestic and export markets; and
- the attraction of increased foreign investment for industry.

Table 4.8. Vision 2020: Sectoral growth targets, 1996-2000 (Per cent per year; constant 1993 prices)

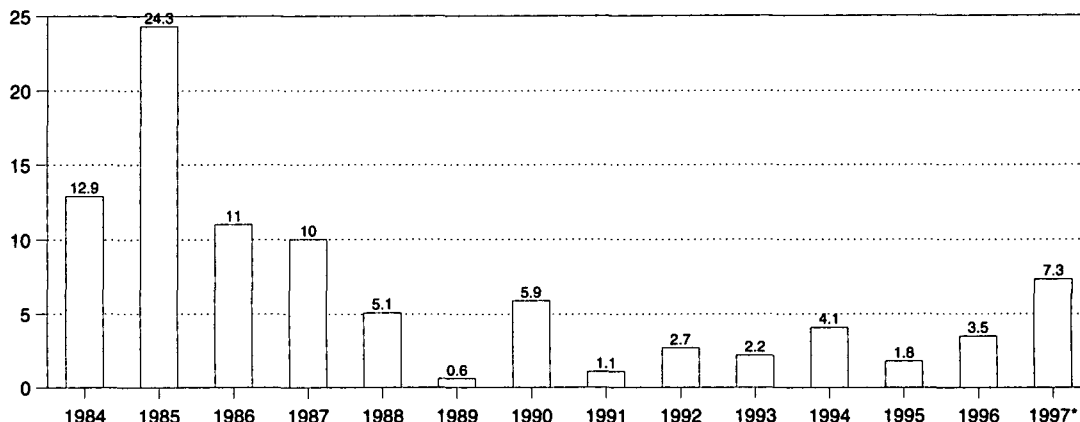
Period	Agriculture	Industry	Manufacturing	Services
1996-2000	3.8	11.4	9.5	9.6

Source: Government of Ghana: Vision 2020 (1995).

With GDP targeted to grow at 8 per cent annually over the period to 2020, manufacturing's share was expected to increase marginally from 8.5 per cent in 1993 to 8.8 per cent in 2000. Industry's share of GDP - manufacturing plus construction, mining, electricity and water - was projected to grow from 14.5 per cent of GDP in 1993 to 18 per cent, chiefly as a result of strong growth in the mining sector, predominantly gold, whose share was expected rise to 2 per cent from 0.15 per cent in 1993.

These projections have already turned out to be too optimistic, with growth of both GDP and manufacturing averaging 3.5 per cent annually (1994-1998). Accordingly, by 1997, manufacturing's share of GDP at 7.8 per cent remained well below its peak of 14 per cent in the early 1970s.

Figure 4.3. Ghana: Growth rates of MVA, 1984-1997



* provisional.

Source: Ghana Statistical Office, Lagos.

Indeed in 1997, the World Bank's Country Assistance Survey (CAS) projected a small decline in industry's contribution to GDP from over 17 per cent at the start of the 1990s to 16.6 per cent in 2000. While few of the recommendations in the CAS specifically target manufacturing, the broad thrust of the programme - the promotion of private sector investment - would clearly benefit industry considerably.

CAS believes manufacturing investment could be "jump-started" by promoting the private provision of first-rate infrastructure in, at least, one of country's EPZs. Private provision of infrastructure will help reduce the cost of infrastructure services in Ghana over the medium term. According to CAS, "The government is very conscious that, despite a highly liberal policy framework, inefficient and insufficient infrastructure services - in telecom, power, rail, ports, urban water supply, airports and roads - make Ghana-based firms and Ghanaian exports less competitive" [World Bank, 1997].

Today, Ghana has a broad, diverse industrial base driven by the processing of domestic, and in the case of aluminium smelting, imported raw materials, and manufacture to supply local consumer needs, as well as inputs for other sectors - agriculture, construction and mining.

In 1998, the four main concerns expressed by leaders of manufacturing industry were:

- Government's failure to create a sufficiently enabling environment for private enterprise;
- energy crisis, which caused an output decline of at least 30 per cent in the first half of 1998, since many firms were forced to operate at no more than half their capacity because of the sharp reduction in electricity generation, caused mainly by the impact of severe drought on the country's hydro-electric generating capacity. The main casualty was Ghana's largest industrial user, Volta Aluminium Company (Valco), which has closed four of its five potlines, as a result of which it has released electricity for other users to meet domestic demand.
- punitive nominal and real interest rates; and
- failure of the ECOWAS to implement agreed trade protocols that would widen the market and attract foreign investors.

The Government sees potential in four sectors - clothing, wood products and furniture, agro-industry and packaging, but the Association of Ghana Industries warns that the country lacks the critical mass necessary to attract the kind of FDI needed to transform the industrial sector.

Along with many other African governments, Ghana is going the export zone route designed to "transform Ghana into the Gateway to Africa". An EPZ has already been established at Tema, and other sites identified are Takoradi, Kumasi and the Volta region. In the first 18 months of the programme, some 46 projects were registered, over half of which are in operation.

The key attractions include a 10-year tax holiday, followed by a maximum corporate tax rate of 8 per cent, exemption from withholding taxes on dividends, 100 per cent foreign ownership, and a minimum wage rate of \$1 a day. Industrialists are sceptical, arguing that Ghana is more likely to attract footloose industries if the trade protocols for the ECOWAS free trade area, covering some 250 million people, were fully implemented.

A second - valuable - policy thrust is the programme with the United Nations, to foster small-scale businesses by running a subcontracting programme designed to "unbundle" the advantages of scale economies, thereby making them available to small and even micro-enterprises.

Such programmes are unlikely, however, to transform the manufacturing sector, whose future lies with increased FDI by multinationals. Since 1994 the Ghana Investment Centre has registered over 600 projects with a total investment value of \$1.15 billion. This excludes both mining projects, which are handled separately, and investments by local firms, which do not necessarily go through the Centre. There are no accurate figures of just how many registered projects are actually implemented, but the centre estimates that some 55-60 per cent of registered projects will go ahead. Services, especially support services for mining but also financial services, dominate, accounting for almost 60 per cent of the total, while manufacturing's share is a very modest 21 per cent and agriculture 10 per cent.

3. KENYA: IN SEARCH OF NIC STATUS

Manufacturing industry grew strongly immediately after independence in 1963 fuelled by rising rural incomes and the regional free trade within the East African Community of Kenya, Uganda and United Republic of Tanzania. Output grew 10 per cent annually between 1964 and 1978, but as the customs union with Uganda and United Republic of Tanzania began to unravel from the mid-1970s and policy switched towards import substitution, industrial growth slowed.

After the rapid industrial growth of the 1970s, manufacturing lost momentum so that by 1985 the sector's share of GDP, at 13 per cent, was little different from the 11 per cent 20 years earlier. By 1985, the share of imports in domestic supply had more than halved to 19 per cent from 44 per cent in 1972, while the share of exports in gross output had also fallen. Import substitution accounted for two-thirds of output growth in several branches of industry, and by 1985 gross investment in manufacturing fell sharply to half its 1978 level [Swamy: World Bank, 1994].

MVA grew at 5.6 per cent annually in the 1970s and 1980s to peak at \$923 million (1990 dollars) in 1989, before falling 36 per cent to \$592 million in 1993. It has since recovered to \$713 million in 1996 to give a 26-year growth rate of an unimpressive 3 per cent - marginally less than the rate of population increase. After being seen as a role model for other African states, Kenya began to lose the favour of the donor community - and foreign investors - at the end of the 1980s. Since then the economy has performed poorly, despite accelerated implementation of economic reforms.

Table 4.9. Kenya: Relative shares of main industry branches 1970, 1980, 1990 and 1996
(Per cent)

Branch	1970	1980	1990	1996
Foodstuffs	19.2	23.8	27.4	36.3
Beverages	12.3	8.8	9.8	9.3
Clothing and textiles	7.8	10.3	7.7	5.7
Chemicals	8.6	8.7	9.2	7.9

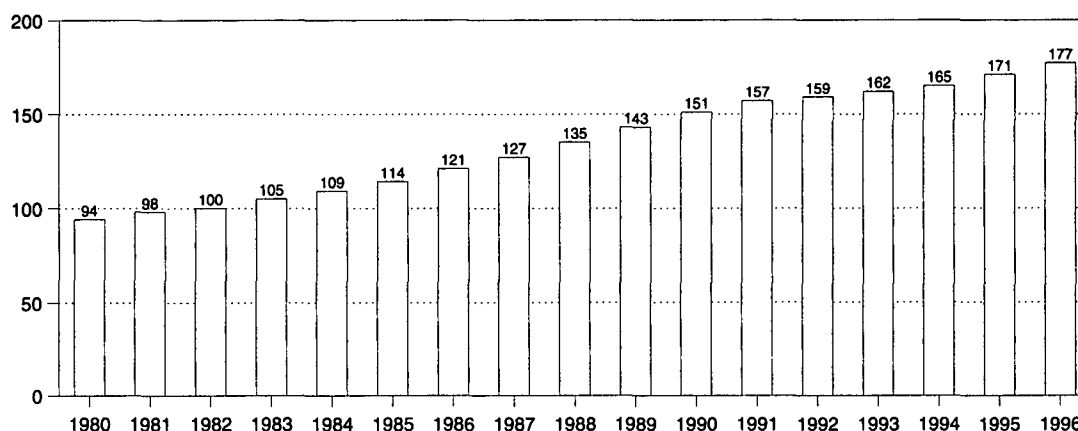
Source: UNIDO Database.

The most striking feature of Kenya's performance is the strong growth in food manufacturing, whose share of total MVA has almost doubled since the early 1970s, but did not spill-over into export growth. Indeed, the share of foodstuffs in manufactured exports fell from a peak of 33 per cent in the early 1970s to average 15 per cent in the first half of the 1990s.

Exports have played an important role in industrial growth accounting for nearly 60 per cent of MVA in 1990, since then they have more than doubled to \$1,147 million (current dollars). Much of this export growth occurred in the "other manufactures" sector, where sales increased to \$163 million between 1990 and 1995, followed by refined petroleum (+ \$94 million), iron and steel (+ \$88 million) foodstuffs (+ \$80 million) and non-metallic minerals (+ \$58 million).

Along with Nigeria, Kenya has experienced rapid employment growth (4.5 per cent annually since 1970) accompanied by falling productivity (-1.1 per cent a year). In recent years, this has become an increasingly unsustainable growth path, with employment expansion falling below 2 per cent annually during the 1990s, while the decline in productivity has accelerated, falling 34 per cent since 1988.

Figure 4.4. Kenya: Volume index of manufacturing production, 1980-1996



Source: Central Bureau of Statistics, Nairobi.

Until the early 1990s, industrial production was dominated by large joint ventures established between the Government and multinationals during the 1960s and 1970s. Many were granted monopoly rights and/or substantial protection against imports. "Kenyanization" and the drive for rapid industrialization resulted in large-scale public ownership in distribution and manufacturing, as well as public utilities and banking.

During the 1980s, manufacturing growth outpaced that of GDP, with the volume of production rising at an annual rate of 9 per cent, but this slowed markedly to only 2.6 per cent a year between 1990 and 1997.

Industrial policy

Kenya began to change direction at the end of the 1970s when the break-up of the EAC in 1977 forced the Government to rethink its industrial strategy which, until then, had relied on import substitution. The initial impact of the collapse of the EAC was even greater inward orientation, but this was followed (1980-84) by an initial - failed - attempt at industrial liberalization. The political and economic crisis surrounding the abortive coup attempt in 1982 forced the Government to focus on macroeconomic stabilization, and reform was put on the back burner, until it was revived when the World Bank made an industrial sector adjustment loan in 1988.

The slowdown in Kenya's economy in the first half of the 1980s from a GDP growth rate of over 6 per cent annually between 1960 and 1980 to 2.5 per cent a year (1981-85) gave rise to a shift in the development strategy, first outlined in Economic Management for Renewed Growth (Sessional paper No. 1 of 1986 SP-1). Although GDP growth recovered to 5 per cent annually (1986-90), not only was this followed by another slowdown to 2.2 per cent (1991-1997), but little progress was made in tackling acute underlying problems - poverty, underemployment and unemployment.

SP-1 sought to change the thrust of development policy in two crucial respects:

- (i) the Government would adopt an export-led growth strategy, which would focus on developing non-traditional (i.e. manufactured exports), thereby reducing reliance on commodities, mainly coffee and tea;
- (ii) the second leg of the strategy was a focus on small-scale industry, or Jua Kali enterprises.

Crucial to the strategy was the assumption that manufacturing - both large and small-scale - would become the driver of the economy. Highly ambitious targets were set for both the manufacturing industry and the economy as a whole.

The second phase of industrial liberalization from 1989 was largely successful, in terms of the phased removal of restrictions and the adoption of a more investment-friendly business environment. By 1991, all quantitative import restrictions had virtually disappeared, while the average imported weighted tariff had been reduced from 30 per cent in 1985 to 20 per cent in 1992. The highest tariff rate was lowered from 135 per cent to 60 per cent, the number of tariff categories halved from 25 to 12, tariff rates on non-competing imports were reduced and the import-GDP ratio began to rise. By 1997, there were only three tariff rates - the highest being 25 per cent.

In an attempt to boost manufacturing exports, nine EPZs were established along with a Manufacturing-Under-Bond programme. From a very low base, exports of manufactures grew 10 per cent a year between 1985 and 1991 - the result of import liberalization and exchange rate depreciation.

A new economic policy blueprint - Sessional Paper No 1 of 1994 - underlined the policy shift, identifying the creation of "An Export Bias" as the prime objective for the industrial sector. SP-1994 blamed import substitution for the slowdown in industrial growth, acknowledging that while some manufacturing firms had been successful in exporting, "the manufacturing sector, as a whole, has not proved competitive". "A combination of protection from competing imports and limited competition within the economy has dulled the incentives to achieve maximum efficiency. Hence, the near-cessation of industrialization, giving rise to the urgent need for policy revision" [Government of Kenya, 1994].

The new policy thrust would work chiefly through market incentives and the "self-motivation" of private enterprise. Tariff reform was to be an essential step in rationalizing the manufacturing sector, while special assistance would be provided to the small-scale and Jua Kali enterprise sector.

PROSPECTS AND CONSTRAINTS

After accelerating temporarily to 5.7 per cent a year (1986-1990), manufacturing growth slowed markedly to less than 3 per cent annually between 1991-1997 (figure 4.4). One reason for this was the dramatic decline in MVA as a ratio of gross output, from 21.9 per cent in 1975 to 9.7 per cent in 1993.

A 1993 report [World Bank, 1993] suggested that Kenya needed to accelerate its GDP growth rate to 7 per cent a year during the 1990s to reduce urban unemployment and raise rural incomes. The strategy required an increase in both the investment rate to 26.2 per cent of GDP from 23 per cent at the end of the 1980s, and investment efficiency so that the ICOR could be lowered to four from around 6.5.

Table 4.10. Kenya: Share of MVA in gross output by branch, 1975-1993, selected branches

Branch	1975	1985	1993
Food products	18.4	11.5	6.9
Beverages	37.8	32.4	24.4
Textiles	28.3	23.5	37.5
Clothing	20.2	21.7	0.2
Paper and paper products	20.7	20.2	8.4
Industrial chemicals	20.1	14.1	0.9
Basic iron and steel	14.0	2.1	2.6
Transport equipment	40.0	12.0	0.6

Source: UNIDO Database.

The report described the targets as feasible, though not easy to achieve, especially in the light of falling aid disbursements, which would require Kenya to raise domestic savings levels while pursuing an export-led growth strategy. The scenario covering the period 1996-2000, projected manufacturing growth of 6 per cent annually, which with GDP growth of 3.9 per cent a year would result in a small increase in industry's share of GDP to 12.5 per cent by 2000.

In 1993, the World Bank estimated urban unemployment at 20 per cent, while average real wages were 45 per cent of 1980 levels. Even when the economy was growing at 5 per cent a year, formal sector job creation averaged 48,000 a year compared with an annual increase of 400,000 in the labour force, most of them educated and aspiring to wage-paying jobs.

The African Competitiveness Report (1998) identifies the weak infrastructure, corruption, and crime and policy instability as the main constraints on the economy. It notes that liberalization of the economy is paying off in the growth of non-traditional exports of manufactures which now account for half the total.

4. MAURITIUS: EXPORT-LED GROWTH

Mauritius is the one sub-Saharan economy that has achieved rapid economic growth since 1980 on the basic exports of manufactured goods. Exports, in current dollars, grew at an average annual rate of 14 per cent from \$360 million in 1983 to \$1.3 billion ten years later.

Three features distinguish Mauritius from the rest of sub-Saharan Africa:

- impressive and largely uninterrupted MVA growth rate of 9 per cent annually over 26 years;
- the extent to which this industrial expansion has been export-driven; and
- the combination of rapid output and employment growth, sufficient to ensure modestly rising productivity.

When the country's EPZ was launched in 1970, agriculture, almost entirely sugar, accounted for 98 per cent of exports. By 1993, agriculture's share had fallen below 30 per cent, while manufacturing accounted for 70 per cent, of which the clothing industry's share was 56 per cent. In the process, Mauritius had become the world's third largest exporter of woollen goods, largely on the strength of quota and duty-free entry to the EU under the Lomé Convention.

After a relatively slow start in the 1970s, exports from the EPZ increased dramatically in the 1980s growing at an annual average rate (current dollars) of 23 per cent between 1983 and 1993. The EPZ grew from 146 enterprises in 1983 to a peak of 586 enterprises in 1991, since then this number has declined to 480 in 1997. Employment rose from 22,500 in 1983 to almost 91,000 in 1991, before falling below 80,000 in the mid-1990s and recovering slightly to 82,000 in 1997.

Table 4.11. Mauritius: Shares in GDP, 1980-1997, selected years
(Per cent of GDP at current prices)

Year	Agriculture	Manufacturing	EPZ	Services
1980	14.3	15.7	n.a.	43.0
1985	12.8	17.2	8.0	46.3
1990	10.2	19.6	10.5	46.5
1995	9.7	23.7	11.7	49.7
1997	9.3	24.4	12.2	66.6

Source: World Bank (1995) and Economist Intelligence Unit (1999).

Despite the slowdown in the manufacturing sector, the economy continued to expand at over 5 per cent annually between 1990 and 1997, compared with a sub-Saharan average of 4.3 per cent.

With agriculture continuing to lose ground - its share in GDP was only 8.4 per cent in 1997 - and manufacturing relatively static at 23.5 per cent of GDP, recent growth has been driven by the services sector, whose share of GDP has increased nearly 50 per cent since 1990

Manufacturing's share in GDP grew strongly from 12 per cent in 1980 to 23.6 per cent in 1990. It has levelled off at around 24 per cent since. The clothing industry is now responsible for one tenth of GDP compared with 2 per cent in 1980 and over 42 per cent MVA, while the share of foodstuffs - still the second largest manufacturing activity - has fallen steeply from 64 per cent in 1970 to 11 per cent in 1996.

Table 4.12. Mauritius: Dependence on clothing production, 1970-1996, selected years
(Percentage)

Branch	1970	1980	1990	1996
Clothing	1.6	20.9	39.0	42.4
Foodstuffs	64.0	26.6	15.3	11.2
Beverages	11.6	15.5	11.9	10.8
Tobacco products	4.9	1.6	4.3	5.6
Textiles	1.7	6.4	5.4	5.4

Source: UNIDO Database.

In 1990, exports of manufactures of \$1,184 million were worth more than double MVA of \$523 million, highlighting the role of imported materials to which value is added locally in the EPZ. Clothing exports account for over half the total of manufactured goods, while foodstuffs comprise a further 28 per cent and

textiles 6 per cent. On the import side, textiles make up 25.4 per cent of imported manufactured goods, with foodstuffs accounting for 11 per cent and capital goods 21 per cent.

Industrial policy

After starting out on the import-substitution road, Mauritius has followed the East Asian export-driven growth path, relying heavily on low-wage labour and preferential, quota-free entry to the EU market, in particular, but also to North America. With the advent of full employment in the late 1980s, the pattern of industrial growth has had to change, with a growing emphasis on technological upgrading and a shift of focus towards service activities - especially financial services.

In 1961, the Meade Commission recommended a strategy of import-substitution industrialization. Fiscal incentives and tariff protection, financed by export taxes on sugar, were the chosen policy implements, while in 1964 a Development Bank was established to provide long-term financing at preferential interest rates to industry. This was followed in the mid-1970s, by the Development Incentives Act which extended protection through tariffs and quotas to "infant industries" producing for the domestic market under Development Certificates. Such companies also enjoyed temporary tax exemption on income and dividends, and were permitted to import capital equipment duty-free.

Since these incentives mainly encouraged capital intensive industry, and since the domestic market was small, the import-substitution strategy achieved little. By 1983, there were 154 companies with Development Certificates, mainly in food, beverages and engineering, employing less than 9,000 people.

The EPZ, launched in 1970, accounted for 13 per cent of the island's exports by 1976, but with the end of the sugar boom, growth in the economy, and with it, the EPZ, slowed. At the end of the 1970s, economic policy reform, especially exchange rate devaluation and domestic wage restraint, paved the way for rapid growth during the 1980s when GDP increased 5.2 per cent a year.

An initial 30 per cent devaluation of the Mauritian rupee in October 1979 was followed by a further 20 per cent devaluation in September 1981, and thereafter a flexible exchange rate strategy was designed, in tandem with terms of trade movements, to enhance export competitiveness.

In the 1990s, however, real wage increases were not matched by productivity growth in labour-intensive clothing manufacturing, thus eroding the country's competitiveness. Exports of clothing were also adversely affected by the downturn in the EU market, and increasingly aggressive competition, especially from low-cost East Asian exporters. Growth in the EPZ sector slowed from 7.4 per cent in 1995 to only 1.3 per cent in 1997, reflecting the decline in the rate of labour productivity growth from 7.5 per cent to 3.3 per cent.

With wages rising more rapidly than productivity, Mauritius faces the prospect of a growing number of footloose manufacturing concerns shifting to lower-wage locations, especially Madagascar and Mozambique.

Employment in manufacturing industry has barely changed since the late 1980s (1998 = 113,000, 1996 = 116,000), but over the same period MVA (at constant 1990 prices) rose 44 per cent, illustrating the extent to which growth has been achieved through increased investment and rising productivity.

Indeed, employment in the clothing sector has fallen 6 per cent from its 1989 peak, while MVA in clothing increased more than 50 per cent. Since 1980, productivity (output per head) in manufacturing has increased almost 75 per cent, while in the clothing sector it has more than doubled.

With the EPZ importing some 60 per cent of its requirements, the depreciation of the Mauritius rupee has squeezed net exports, which declined over 10 per cent in 1997 to \$445 million. Low elasticities of demand for EPZ exports and the concentration of such exports at the lower end of the export market have also weakened export performance.

Despite the fall in EPZ value-added, employment in the zone increased in 1997 for the first time since 1991, while the number of firm closures in the zone was the lowest for 10 years.

Box 4.1. FDI in Mauritius

FDI has played a pivotal role in the development of the Mauritian economy. UNCTAD, 1998. Inflows have, however, been relatively small, averaging \$22 million annually between 1985 and 1990 and \$23 million a year during the 1990s. The island's inward stock of FDI has doubled from \$163 million to \$323 million during the 1990s.

FDI inflows were tied to the country's comparative advantage in skilled, relatively low-cost labour; preferential access to the EU and US markets; a reasonably efficient infrastructure; a sound legal system, and "clearly articulated policies favourable to FDI."

The fact that low-skill activities account for some 98 percent of FDI since 1985 highlight the country's failure to move upmarket and diversify its industrial and export base.

Key problems that must be tackled urgently include:

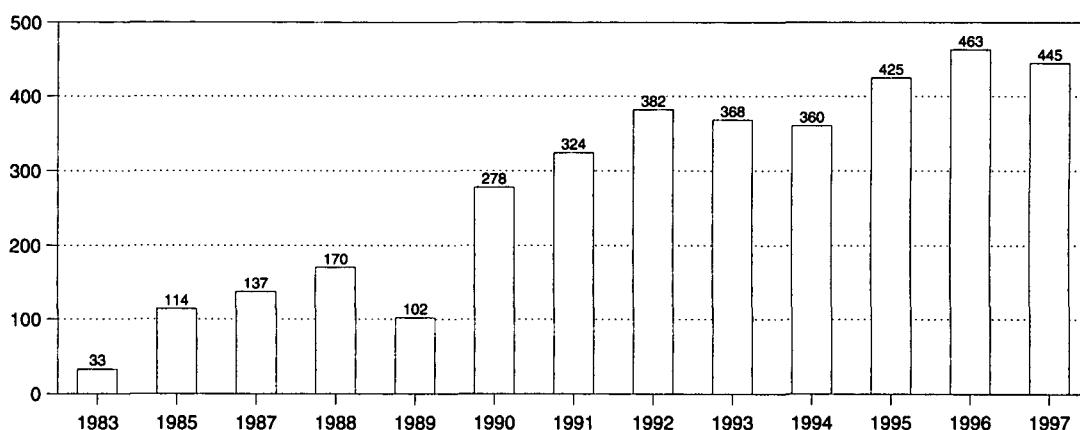
- Rising labour costs and slow growing productivity
- The erosion and elimination of preferential access to first-world markets
- The limited supply of high-technology skills

In common with some of the third-generation Asian Tigers, Mauritius must now develop new competitive advantage in existing industries (especially clothing, but also food processing), while creating advantage in new industries.

* UNCTAD: World Investment Report, 1998.

Productivity growth has played a key role in offsetting adverse market developments. Labour productivity in the zone grew by 7 per cent annually during the 1990-1997 period, reflecting heavy investment in modern, labour-saving technology.

Figure 4.5. Mauritius: Net exports EPZ, 1983-1997



Source: World Trade Organization (1995) Mauritius Trade Policy Review and EIU: Mauritius Country Report (various issues).

A significant new feature has been the impact of globalization in the form of growing intra-firm trade, resulting from outward investment by Mauritian firms in Madagascar and other East African countries. Between 1995 and 1997 exports to Madagascar rose 33 per cent annually, while re-exports to that country more than doubled, reflecting growing cross-border vertical integration. With labour scarce at home, Mauritian clothing manufacturers have been investing offshore, as a means of outsourcing labour-intensive activities, while still ensuring that parent firms capture some of the benefits.

Manufacturing employment has declined from 110,400 in 1995 to 105,850 in 1997, reflecting two trends:

- downsizing by some of the larger manufacturing firms, and
- increasing employment in the services sector.

Between 1990 and 1997, employment in large firms barely changed at 288,000, while that in small firms rose 37 per cent. As a result, the share of small firms in total employment increased from 32 per cent to 40 per cent.

Since 1990, the binding constraint on economic growth has been the scarcity of labour. The abundant low cost labour that fuelled growth in the 1980s was exhausted by 1990, forcing businesses to substitute

capital and technology for labour, wherever possible, or to export jobs to nearby African countries with plentiful supplies of low-wage labour.

There is scope for re-deploying labour from the sugar sector where some 50 per cent of operations (harvesting, handling and transport) could be mechanized, releasing an estimated 10,000 workers for employment elsewhere in the economy and the public service which is also overmanned.

A potential threat to growth will come from the phasing out of the Multi-Fibre Arrangement (MFA) over the next eight years to 2005, which will gradually erode the preferential access that Mauritian exports of clothing and textiles enjoy in the EU. Similarly, the implementation of the Uruguay Round Agreement (URA) on agriculture, together with the reform of the EU, sugar regime is likely to mean a lower price for the island's sugar exports early in the next century.

Accordingly, Mauritius will have to continue its drive to develop its services sector, while upgrading its technological capability so that it can make the switch from labour-intensive-driven growth to productivity-driven growth.

A comparison between Mauritius and comparators in East Asia, including Japan, highlights one major difference - the stagnation of TFP growth in Mauritius compared with strong growth in the East Asian economies.

Table 4.13 shows that factor productivity improvements made virtually no contribution to Mauritian growth over the period. Output growth was, in fact, driven by a combination of increased labour and human capital. The productivity of physical capital in Mauritius has declined since the 1980s, underscoring the need for improvements in total factor productivity.

Table 4.13. Mauritius and comparators: Selected economic indicators, 1983-1992

Country	GDP growth rate (per cent per annum)	Investment (per cent of GDP)	Private investment (per cent of GDP)	TFP growth rate (per cent per annum)
Mauritius	5.1	24.7	19.7	0.02
Hong Kong	5.4	27.8	-	3.65
Japan	3.5	29.7	26.4	3.48
Korea, Republic of	8.1	32.2	27.6	3.10
Singapore	4.9	41.5	31.2	1.19

TFP = total factor productivity growth

Source: World Bank Mauritius Country Economic Memorandum 1995.

Despite the country's under-performance, in terms of productivity, Mauritius was ranked the most competitive economy (out of 23) in the World Economic Forum's African Competitiveness Report (1998). Significantly, the executive survey shows that business people believe that restrictive labour regulations are the chief threat to competitiveness in the economy, followed by policy instability and inadequate levels of education. The implication is that greater labour market flexibility and increased investment in human capital will be needed to maintain the country's impressive growth momentum.

With the exhaustion of the pool of unemployed and underemployed labour during the 1980s, future growth will depend on:

- redeploying labour from lower productivity operations - sugar and the civil service
- increased investment, and
- increased total factor productivity, which requires greater investment in skills development, and upgrading of technological capability.

5. UGANDA: SUSTAINED RECOVERY

At independence in 1962, Uganda's small manufacturing sector accounted for 6.8 per cent of GDP. Output grew relatively strongly - 6 per cent annually - during the 1960s, largely because of the import replacement strategy. Activity peaked in 1970, by which time, manufacturing's share of GDP had almost doubled to 12.4 per cent.

The 1970s were a lost decade, beginning with the coup that installed the military dictator, Idi Amin, the expulsion of most of the Asian community and the eventual civil war which led to the return of civilian rule in 1980. By that stage, manufacturing was operating at less than 10 per cent of capacity, and manufacturing's share had fallen to 5.5 per cent of GDP.

The recovery under the re-installed civilian President, Milton Obote, was short-lived and industrial output fell almost 18 per cent. Recovery got underway in 1987 when the new National Resistance Movement administration implemented its ERP. Industrial output - at current prices - grew 12 per cent annually between 1987 and 1995, while the share of manufacturing in GDP rose from 4.8 per cent in 1987 to 7.2 per cent in 1995. In volume terms, output grew 56 per cent between 1987 and 1990 before slowing to grow 38 per cent over the next three years.

The ERP, founded on tight fiscal and monetary policies and a progressive programme of economic liberalization, was underpinned by a strong set of structural reforms.

Growth has accelerated during the 1990s, averaging 8 per cent annually, while MVA has expanded at 11 per cent a year.

Table 4.14. Uganda: Economic and industrial growth, 1983-1998
(Per cent per annum)

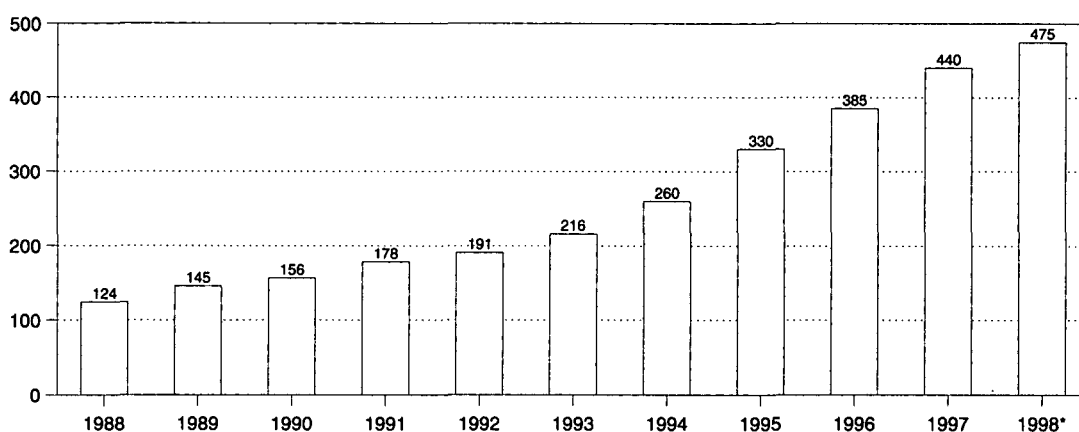
Period	GDP	MVA
1983-1990	3.5	4.1
1991-1998	7.8	8.5

Source: World Bank: African Economic Indicators 1998/99 and UNIDO Database.

While industrial production has grown strongly since 1987, the growth rate slowed in the 1990s, reflecting market limitations, on the one hand, and infrastructural bottlenecks to the expansion of exports, on the other. There is scope for increased import replacement and intra-regional export expansion, but given Uganda's technology and transport cost disadvantages as a landlocked state, there is little opportunity for extra-regional exports.

Most of the new investment during the 1990s has gone into manufacturing, which accounts for 70 per cent of investment between 1990 and 1995. The bulk of this has been import substitution, while some 40 per cent was agro-based, some of which were export-oriented. In 1995, a survey of domestic manufacturers found that only 8 per cent of output was for export, barely changed from 7 per cent in 1991.

Figure 4.6. Uganda: Index of industrial production, 1987 = 100



* Estimated.

Source: Ministry of Finance and Economic Development.

In 1996, a study [World Bank, 1996] concluded that the average rate of effective protection was extremely high, at over 90 per cent, despite far-reaching reforms and trade liberalization. This was the result of a cascading tariff structure, widespread exemptions on raw materials and intermediate goods and low levels of value-added. This, combined with various import taxes amounting to 37 per cent of the c.i.f. value of

imports, gave rise to a strong anti-export bias in the economy. The Bank urged the Government to restructure the tax system away from taxes on foreign trade to VAT and direct taxes, while making the duty drawback system much more effective.

The Government has since introduced value-added tax, while reducing the maximum import tariff to 20 per cent from 30 per cent and abolishing tax holidays. Its 1997-2000 policy programme includes restructuring the Uganda Revenue Authority along with tariffs and excise taxes.

Industrial policy

The main objectives of the reform programme since 1987 were:

- (i) macroeconomic stabilization;
- (ii) price liberalization in favour of export orientation and import substitution;
- (iii) establishing a competitive exchange rate;
- (iv) revitalizing and privatizing state-owned enterprises;
- (v) strengthening the balance of payments and normalizing relations with external creditors;
- (vi) liberalizing interest rates; and
- (vii) downsizing and restructuring the public service.

Exchange rate depreciation was a key factor in restoring appropriate incentives for production and exports. The Uganda shilling (Ush) was devalued from Ush 14 to the dollar in 1987, to Ush 400 by mid-1990 and Ush 1,200 in 1993. It has since stabilized, as inflation fell from 30 per cent in 1992 to an average of 9 per cent between 1993 and 1997, at around Ush 1,150 to the dollar. In tandem with devaluation, non-coffee exporters were allowed to retain 100 per cent of their foreign earnings to finance essential imports.

A central theme of policy since 1987 has been the return to private enterprise of businesses, mostly Asian owned, that were appropriated by the Amin regime during the 1970s. By the end of 1994 over 4,200 properties had been returned to their former owners and inward investment by Asian owners contributed substantially to the recovery of investment. The investment/GDP ratio recovered from 5 per cent in the 1980s to 19 per cent in 1996, and was projected by the IMF to reach 22 per cent by 1999.

6. ZAMBIA: THE DRIVE TO DIVERSIFY

Thirty-five years after independence in 1964, Zambia remains a mono-economy, captive to the vagaries of the copper market. For the next decade, if not longer, Zambia's economic performance will continue to depend on its copper mining industry, which is being privatized.

"The defining event in Zambia's recent economic history was the collapse in copper export earnings and the government's response to that collapse" [World Bank, 1996]. In 1990 US dollars, copper export earnings fell from \$3.4 billion in 1974 to \$1.8 billion a year later, reaching a low of \$725 million in 1994.

Two elements in the Government's response to this crisis have had a far-reaching impact on the subsequent economic performance:

- (i) Anticipating that the copper slump would be short-lived, Zambia borrowed heavily abroad. This gave rise to an unsustainable foreign debt burden that still inhibits growth and development;
- (ii) The foreign currency crisis caused by the fall in copper earnings led the Government to resort to domestic controls that stifled growth in other sectors and delayed the inevitable diversification that will have to take place in the 21st century.

With the privatization of the copper mines in 1997/98, the Zambian Government hopes to give the country some breathing space during which diversification, especially agriculture but also manufacturing and services like tourism, will take hold.

Despite the country's considerable potential - but as yet unexploited - comparative advantage in agriculture, economic policy immediately after independence focused on import-substituting industrialization. Industry grew rapidly in the 1960s and early 1970s, with chemicals, paper, metals and

non-metallic-mineral related products accounting for over half of MVA by 1975. Industrial expansion came to an abrupt halt in the wake of the collapse of copper earnings in 1975, especially in the four leading subsectors whose output halved during the following ten years.

After increasing 25 per cent during the 1980s, the volume of manufacturing production peaked in 1992, falling back to below its 1980 levels in 1995. Since then, output has recovered somewhat but is unlikely to regain its 1992 peak until 2001. In five branches of industry, accounting for almost two-thirds of manufacturing activity, output declined between 1990 and 1997. The only sizeable sectors to show growth were food, beverages and tobacco, which account for 28 per cent of total production.

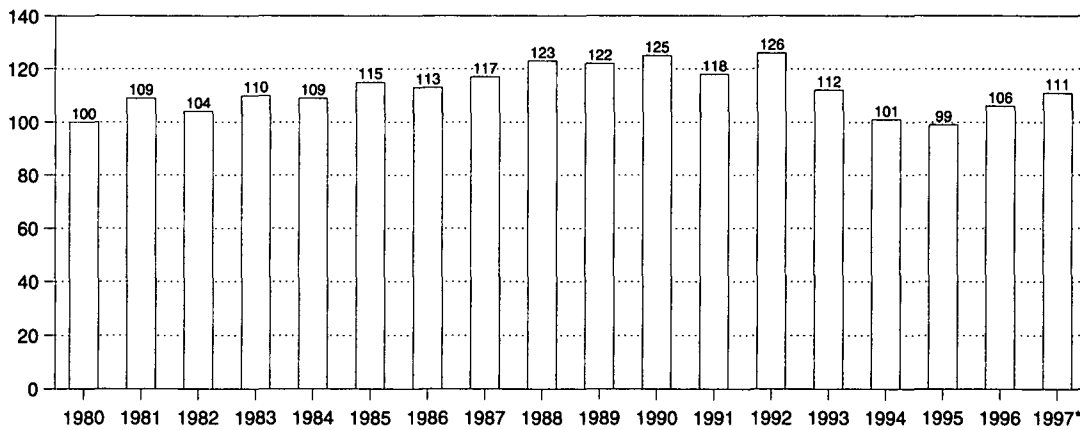
Table 4.15. Zambia: Growth rates of manufacturing value added, 1966-1997

Period	Per cent per annum
1966-1974	9.0
1975-1984	0.6
1985-1990	6.8
1991-1995	0.1
1995-1997	4.5

Source: Central Statistical Office, Lusaka.

Despite manufacturing's weak performance during the 1980s and early 1990s, the sector's share in GDP continued to increase, virtually quadrupling from 6.3 per cent in 1967 to 24 per cent in 1996. This gives a misleading impression; the main reason for manufacturing's increased share was not rising industrial production which has, in fact, declined (figure 4.7), but the steep fall mining's share of GDP (table 4.16) and the sluggish performance of agriculture since 1980.

Figure 4.7. Zambia: Volume index of manufacturing production, 1980-1997



* estimated.

Source: Central Statistical Office, Lusaka.

Table 4.16. Zambia: Shares in GDP, 1967, 1973, 1980, 1990 and 1996

Sector	1967	1973	1980	1990	1996
Agriculture	14.0	13.5	14.8	18.2	17.5
Manufacturing	6.3	12.3	15.5	22.5	24.0
Mining	40.3	35.0	22.7	18.1	15.2

Source: Central Statistical Office, Lusaka.

Industrial policy

Economic policy between 1965 and 1980 was characterized by:

- import-substitution-industrialization reliant on foreign exchange generated by the copper mines;
- pervasive controls and expansion of the parastatal sector, and
- neglect of agriculture

At the end of 1968, two large state-owned holding companies, INDECO (manufacturing enterprises) and ZIMCO (the mining sector), were established to extend state ownership of the economy. The net result was that by 1980, Zambia had a heavily protected state-led industrial sector with a copper enclave and a very backward farming sector [World Bank, 1996].

While there were some policy improvements in the 1980s, chiefly in agriculture, manufacturing remained subject to pervasive controls and state ownership. "The fact that most of the modern sector of the economy was under parastatals deprived it of the potential for flexibility and rapid adjustment" [World Bank, 1996].

As a result, when controls began to be lifted, following the change of Government in 1991, many manufacturing activities were ill-prepared for the challenge of competition from imports. The medium-term effect was the continuation of de-industrialization, which had started in the 1980s .

The period from 1991 to 1995 was one of radical and rapid reform, which included the abolition of exchange controls, freeing of both interest rates and exchange rate, tariff and trade liberalization and privatization.

Three influences have radically transformed the structure of manufacturing:

- changes in domestic demand;
- structural and policy barriers which constrained exports of manufactured goods; and
- growing competition from imports as a result of trade liberalization .

Table 4.17. Zambia: Structure of manufacturing output, 1975, 1990, 1994

Branch	Percentage of gross output		
	1975	1990	1994
Food, beverages and tobacco	27.4	39.3	54.9
Clothing, textiles and leather	12.5	12.2	7.7
Wood and furniture	5.2	2.3	2.3
Paper and printing	5.5	5.4	4.3
Chemicals and rubber	10.2	19.0	13.5
Non-metallic minerals	5.0	6.4	4.3
Basic metals	23.6	15.1	12.7
Other	0.5	0.3	0.2

Source: Central Statistical Office, Lusaka.

Four sub-sectors characterized as "boom and bust" industries - metal products, cement and non-metallic minerals, paper, and chemicals, rubber and plastics - thrived during the heyday of import substitution and high copper prices. None was able to diversify the markets into exports when local demand weakened. Their share of total output rose from 35 per cent in 1965 to 54 per cent ten years later, but by 1994 it had declined to 34.8 per cent.

The food sector's share doubled between 1975 and 1994 (table 4.17) due partly to the changed ownership structure after 1991, as state-owned food and beverage companies were privatized.

Clothing and textiles were adversely affected by trade liberalization after 1990, though in the recent years there has been some evidence of an upturn in exports of yarn and textiles. The fortunes of the mining-related subsectors - over 1,800 local suppliers to the state-owned Zambia Consolidated Copper Mines - fluctuated with the world price of copper and the output performance of mines. As copper output halved from its peak of over 700,000 tonnes annually in the mid-1970s to less than 350,000 in 1996/97, subsectors, such as engineering, metals and wood products, lost their market share.

Industrial production data suggest that the 1990-1995 period marked a shakeout in response to growing import penetration, especially from South Africa, the ongoing decline of copper production and stagnant domestic purchasing power. Whether the post-1995 recovery can be sustained depends heavily on the fortunes of the copper sector, on the one hand, and the Government's diversification strategy, targeting non-traditional exports and agriculture-led growth, on the other.

PROSPECTS

Privatization of many large manufacturing concerns - Zambia Breweries, National Breweries, Northern Breweries, National Milling Co, Chilanga Cement, BP Zambia, Rothmans Zambia, the Dairy Produce Board, Kafironda (explosives), Lint Company of Zambia, Metal Fabricators, Mulungushi Textiles, Zambia Sugar - has also led to a marked improvement in productivity and efficiency in the manufacturing sector.

Privatization of the copper mines is expected to boost economic activity considerably in the form of new investment in the copper mining industry, including the development of a major new mine (Konkola Deep), and increased output, productivity and exports, which will have far-reaching secondary effects on the manufacturing industry, especially on the Copper Belt.

In the mid-1990s, the magnitude of Zambia's economic crisis was summarized in a report of the Zambia Consultative Group, which noted that "deepening poverty in Zambia is reflected in the deterioration of nearly every major social indicator". Per capita income has fallen almost continuously since 1973, poverty has increased to the point where in 1994 some 70 per cent of the population lived in households where basic needs were not being met, and life expectancy had declined from 53 years in 1987 to 48 years in 1992 [World Bank, 1996].

The World Bank's baseline scenario for Zambia (1995-2005) assumes average GDP growth of 4.5 per cent annually, driven by a substantial increase in investment from 7 per cent of GDP in 1994 to an expected 20 per cent after 2000, primarily reflecting higher investment by the private sector. The projections point to flat, or declining, copper exports until the Konkola Deep copper mine comes on stream in late 2002. Non-metal exports were also expected to increase steadily, though nearing the end of the period, they continue to account for no more than a third of the total.

Agriculture is assumed to be the lead sector, growing at over 5 per cent a year, followed by manufacturing expanding at 4.3 per cent annually, while mining is projected to decline before a recovery sets in early in the next century.

Manufacturing growth is driven largely by increased agricultural processing, but its share in GDP shows a decline from over 33 per cent in 1991/92 to 28 per cent by 2004. Non-traditional exports have increased 150 per cent since 1990 from \$90 million (excluding electricity), to an estimated \$230 million in 1998. Non-traditionals now account for a quarter of total exports - up from 8 per cent in 1990.

Industrialists are optimistic that the bilateral trade agreement with South Africa and its neighbours in SACU - Botswana, Lesotho, Namibia and Swaziland - will lead to a \$300 million increase in the value of non-traditional exports over the next few years. In 1995, Zambian exports to South Africa were valued at less than \$30 million.

Non-resource-based manufacturing is "poorly positioned"

An assessment of Zambia's longer-term growth prospects is cautious about manufacturing's prospects warning that "experience so far does not offer much basis for optimism that manufacturing can be an important driving force of Zambian development in the short-to-medium term; non-resource-based manufacturing seems especially poorly positioned" [World Bank, 1996].

While Zambian industry is extremely competitive in respect of factory labour, which in 1994 cost \$30 a month compared with \$40 in Kenya, \$60 in Zimbabwe and \$110 in Mauritius, even with lower productivity, Zambian costs remain advantageous.

Weak infrastructure and scarce skills are undermining competitiveness

Unfortunately, competitiveness in Zambian manufacturing has been undermined by weak infrastructure, the critical scarcity of skills and the absence of the institutional framework needed for successful exporting in the late 1990s. "Infrastructure is highly inadequate for manufacturing companies that aim to conduct their business according to modern standards. The most serious problems are caused by inadequate electricity, roads, telephones and security" [World Bank, 1996].

7. ZIMBABWE: TRANSITIONAL ECONOMY?

After South Africa, Zimbabwe has arguably the most advanced, though not the largest, industrial structure in sub-Saharan Africa. MVA per capita in Zimbabwe in 1994 was \$137, almost double the average for the region of \$72, with \$25 for Kenya and \$625 for South Africa [World Bank, 1997]. Zimbabwe's per capita MVA is high relative to South Asia, which has large industrial sectors, though not relative to their populations, but tiny compared with the new industrialized Asian economies, such as Malaysia (\$1,136) and Thailand (\$703).

Table 4.18 identifies four distinct periods of industrial development since 1965. The initial period to 1974 was one of rapid growth, behind blanket import controls imposed in an effort to counter economic sanctions. From 1975 to 1979 the economy regressed under the pressure of intensified sanctions and the escalating liberation war. This was followed by a short burst of rapid expansion in the early 1980s, fuelled by the end of the war, lifting of sanctions, installation of a popularly-elected Government and an influx of foreign aid. During the 1980s, import controls were tightened as foreign exchange became increasingly scarce, constraining investment and intensifying the inward-orientation of the manufacturing sector. Manufacturing exports were, however, encouraged by a variety of incentive schemes.

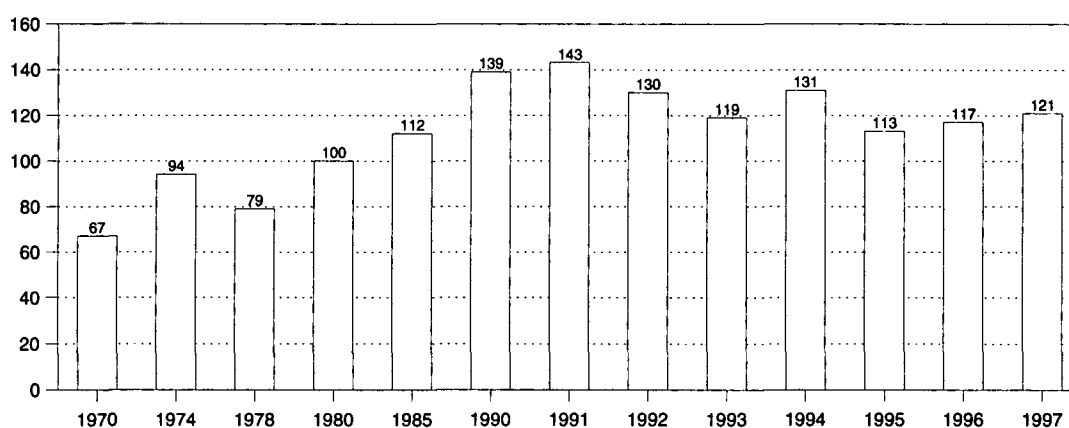
Table 4.18. Industrial development in Zimbabwe, 1965-1997 (Per cent)

Period	Average annual growth rate of GDP	Average annual growth rate of MVA	End year share of GDP	Development strategy
1965-1974	7.1	10.3	23.7	Import substituting industrialization
1975-1979	-1.4	-0.9	23.6	Intensification of economic sanctions and liberation struggle
1980-1990	4.0	3.1	20.5	Constrained growth
1990-1998	2.5	-1.3	15.1	Economic reform

Source: Central Statistical Office, Harare.

The period since 1990 is one of de-industrialization as manufacturing output fell sharply after 1991. Manufacturing was adversely affected by the abolition of import controls, and the phasing out of export incentives. These policy-induced effects were exacerbated by two severe droughts, increasingly aggressive competition from the "new" South Africa, and in the late 1990s, by growing domestic, political and economic uncertainties.

Figure 4.8. Zimbabwe: Volume index of manufacturing production, 1970-1997, selected years



Source: Central Statistical Office, Harare.

Although by 1990, manufacturing accounted for a quarter of GDP, the sector had run out of steam. Even though exports were encouraged in the late 1980s by export incentives, growth remained heavily reliant on domestic demand and, with a few exceptions, manufactured exports were incremental to domestic activity. Many, relatively high-cost inputs required by exporters - in agriculture and mining as well as manufacturing, were intrinsically uncompetitive at world prices [IMF, 1998].

According to the IMF's External Evaluation of the ESAF facility report (1998), Zimbabwe's "peculiar industrial structure" left no option for continued protection and the existing industrial sector had to contract.

"This made the reform progress in Zimbabwe more analogous to that in the transition economies than that in the rest of Africa: the first years of reform would likely be contractionary".

Indeed, this is precisely what occurred, and following the implementation of the SAP in 1991, manufacturing output which declined over 15 per cent is not expected to regain its 1991 peak until 2001, if at all.

The evaluation report is a classic instance of being wise after the event. The actual SAP "assumed" that, if existing distortions are removed, profitable investment opportunities would emerge and economic take-off would follow. Manufacturing industry was expected to be the engine of economic growth, with output expanding at an annual rate of 5.8 per cent, followed by the services sector with growth of 5 per cent, while agriculture's share in GDP would continue to fall.

Were Zimbabwe in the same category as many other African countries, such projections might have been realistic, but in 1990, by African standards, Zimbabwe was not just highly industrialized, but over-industrialized.

In low-income countries, excluding China, into which category Zimbabwe falls, the average contribution of manufacturing to GDP in 1991 was around 13 per cent. In Zimbabwe, located at the top end of the low-income group, the manufacturing share of GDP was approximately 25 per cent. The SAP assumption that manufacturing's share of GDP would continue to grow, despite the small domestic market, depended on a breakthrough in industrial exports that would more than offset the contractionary impact experienced in the import-replacement sector.

In the event, export intensity (percentage of output exported) fell from 15 per cent in 1980 to an average of 12 per cent between 1984-1992. Between 1990 and 1995, manufactured exports gained strength, though fragmentary evidence suggests that there was a marked slowdown in 1996/1997. Exports of manufactures grew 10 per cent annually from \$470 million in 1990 to \$760 million in 1995, compared with less than 3 per cent a year during the 1980s [Commonwealth Secretariat, 1998].

Fluctuating levels of exports are explained by:

- (i) Exports have traditionally been residual - they are less profitable than selling in the totally protected home market;
- (ii) Special factors, such as the preferential trade agreement with South Africa; and
- (iii) The encouragement of the 9 per cent export incentive and of the two-tier currency system in the late 1980s - both withdrawn in the early 1990s.

Competition and productivity

Concentration in domestic industry is very high contributing to a lack of competitiveness. The Confederation of Zimbabwe Industries (CZI) estimates that 518 firms that are members of its organization account for 86 per cent of industrial employment.

Table 4.19 shows both the Herfindahl index (the higher this is, the more concentrated and less competitive is the industry branch) and the four-firm concentration ratio in manufacturing. Concentration is extremely high in all sectors, except chemicals and metals.

Imports accounted for 42 per cent of gross output (in 1991), with very high ratios for transport equipment, chemicals and petroleum and other. These are the sectors where domestic value-added is least, though it is also low in metals.

Productivity levels in Zimbabwean manufacturing are low by international standards (table 4.20). Manufacturing is highly capital intensive - a capital stock to output of 0.95 in the early 1980s - nearly three times that of South Africa. Investment has grown strongly since the late 1980s. As a result, capital intensity is estimated to have increased. The CZI report (1994) found that firms could expand output by as much as 80 per cent without increased investment, pointing to high levels of spare capacity, as well as high capital-intensity.

Table 4.19. Concentration in Zimbabwean manufacturing, 1993

Sub-sector	Herfindahl Index	Four-firm concentration ratio (per cent)
Foodstuffs	0.12	60
Textiles	0.18	77
Clothing and footwear	0.17	79
Wood and furniture	0.13	64
Paper	0.09	51
Chemicals	0.05	32
Non-metallic minerals	0.26	91
Metals	0.05	38
Transport equipment	0.14	66

Source: CZI, Membership register, 1993.

Table 4.20. Labour productivity (value-added per worker) in manufacturing, selected countries, 1990

Country	Value added (millions of dollars)	Employees	Labour productivity: (value-added per employee)
Bangladesh	1 887	991 690	1 903
Chile	8 737	298 000	29 319
South Africa	23 172	1 462 000	15 850
Singapore	11 922	350 430	34 021
Zimbabwe	909	214 400	4 240

Source: World Bank, World Tables, 1994.

Linkages

Linkage effects are very important in Zimbabwe. These indicate that the percentage of commercial agricultural output used as inputs by manufacturing grew from only 16 per cent in 1965 to 60 per cent by the early 1980s. Roughly one third of industry's inputs stem from domestic commercial agriculture. The linkage going the other way is less pronounced, but rose from 42 per cent in 1965 to 48 per cent by 1981.

Industrial policy

The first comprehensive study of the protection system was undertaken in 1983 concluding that the average DRC was well above unity (1.27) and that the effective rate of protection was 133 per cent [Jansen, 1983]. In 1992, Ratanyake [1994] estimated the average level of effective protection to be 70 per cent (14 per cent on inputs, 25 per cent on output and an average materials-output ratio of 0.8). Ratanyake also found a very wide dispersion of protection rates ranging from 20 per cent to as high as 260 per cent.

Table 4.21. Zimbabwe: Tariff rates 1992 and 1997

Item	Average tariff rates (per cent)	
	1992	1997
Raw materials	10	5
Intermediate goods	20	15 - 30
Finished goods	30	40 - 85
Capital goods	n.a.	0
Surtax	20	20

Source: Zimbabwe: Enhancing Export Competitiveness (Commonwealth Secretariat, 1998).

The 1997 tariff led to a reduction in effective protection [Commonwealth Secretariat, 1998], with wide disparities ranging from 298 per cent in the case of motor vehicle assembly to 15 per cent for fertilizers and 40 per cent for a wide range of processed foods.

Zimbabwe has one of the highest tariff collection rates in the world. The actual duty collection rate as a percentage of imports is 24.5 per cent; second only to India. On an industry basis it is highest - over 31 per cent - in transport equipment, followed by wood and furniture.

In an effort to boost exports, EPZs were launched in 1996, with the chief incentive being a five year corporation tax holiday, followed by a 15 per cent annual tax rate during the life of the project. Tax exemption is also granted for dividends, royalties, interest and remittances.

Despite this, the EPZ package is not competitive, when compared with that of Mauritius, where firms are now not required to pay any corporation tax over the life of the project [Commonwealth Secretariat, 1998].

Table 4.22. Zimbabwe: Industrial production, 1965-1995

Period, year	Annual growth (Per cent)
1964 - 1974	7.9
1974 - 1980	1.4
1980 - 1990	4.9
1990 - 1997	- 2.0

Manufacturing's share in GDP (constant 1990 prices)	(Per cent)
1965	19.5
1970	21.0
1974	22.5
1980	25.0
1985	21.0
1990	20.5
1997	16.0

Source: Central Statistical Office, Harare.

Box 4.2. Zimbabwe: Reform boosts manufactured exports

During the first half of the 1990s, Zimbabwe outperformed other African comparators - Mauritius 6.5 per cent a year and Kenya 5.8 per cent - other than South Africa (13.6 per cent), but growth rates were less than half of those achieved by Asia's newly industrialized countries.

Global exports of manufactures rose by 8.8 per cent a year in the 1980s, during which period three of the four sub-Saharan economies in the table lost market share, slowing slightly to 8.5 per cent in the first half of the 1990s, during which South Africa and Zimbabwe regained share, but Kenya and Mauritius lost ground.

"Pure" manufactures, which excludes semi-processed goods such as cotton lint, refined sugar, Ferro-alloys and iron and steel, rose 92 percent over the five year period, with clothing and textiles, wood and furniture, metal products, chemicals and plastics and foods, accounting for almost 63 per cent in 1995.

Fragmentary evidence suggests marked slowdown in the growth of manufactured exports since then, reflecting the loss of preferential entry into the South African market for clothing and textiles (though a bilateral trade agreement to restore preferences on a quota basis was signed in 1997), increasingly aggressive regional (mainly South Africa and Mauritius) and international competition, especially from Asia, and the appreciation of the real effective exchange rate between 1994 and mid-1997, before devaluing sharply in the final weeks of the year.

In the first half of 1998, however, the real effective exchange rate rose a further 20 per cent, undermining export competitiveness resulting in the retrenchment of 1,600 workers (40 per cent of their workforce) by the David Whitehead (Zimbabwe) textiles group and the threatened downsizing of leading textile exporter, Zimbabwe Spinners and Weavers in the final quarter of 1998 if conditions do not improve.

A 1994 report for the CZI by the Swedish Institute of Industrial Research concluded that Zimbabwe should have comparative advantage in two broad categories:

- semi-skilled goods, such as the simpler components and equipment, and
- agricultural-processing food, textiles and clothing.

Table 4.23. Zimbabwe: Manufactured export growth of comparators, 1980-1995
(Per cent per annum)

Country	1995 Value (millions of dollars)	Annual growth per cent	
		1980-1990	1990-1995
Kenya	606	- 2.4	5.8
Mauritius	970	22.0	6.5
South Africa	13 152	3.5	13.6
Zimbabwe	760	2.5	10.1
China	131 086	16.7	22.6
Pakistan	6 806	11.8	9.1
Malaysia	56 495	20.1	27.9
Chile	2 792	4.4	17.5
Bangladesh	1 921	9.4	15.9

Source: Zimbabwe: Enhancing Export Competitiveness, Commonwealth Secretariat (1998).

Table 4.24. Zimbabwe's exports of "pure" manufactures, 1990-1995

Branch	1990 (millions of dollars)	1995 (millions of dollars)	1990-1995 (percentage change)	1995 (percentage share)
Clothing	38.1	64.7	+ 70	10.7
Textiles	44.3	62.8	+ 42	10.4
Wood products and furniture	14.3	59.7	+ 317	9.9
Metal products	24.0	52.8	+ 120	8.8
Chemicals and plastics	25.7	51.7	+ 99	8.6
Foodstuffs*	23.1	46.5	+ 101	7.7
Grain milled products	7.3	39.5	+ 440	6.6
Machinery	25.8	35.8	+ 39	5.9
Jewellery	0.4	27.8	+ 7000	4.6
Leather and hide products	12.6	27.1	+ 115	4.5
Transport equipment	27.5	23.3	- 15	3.9
Petroleum and coal products	9.4	21.8	+ 132	3.6
Other manufacturing	61.2	89.1	+ 46	14.8

Source: Zimbabwe: Enhancing Export Competitiveness, Commonwealth Secretariat (1998)

* = dairy, meat and "other" foodstuffs.

8. COTE D'IVOIRE: RISING PRODUCTIVITY

MVA has doubled since 1970, increasing at 3 per cent a year. Output grew strongly from 1970 to 1986 when it peaked at \$2.1 billion (1990 prices), since then it has fallen 11 per cent to \$1.9 billion in 1996. In the 16 years to 1986, MVA expanded at 5.5 per cent a year and, as a result, manufacturing's share of GDP rose to 21 per cent in 1986 from 12.8 per cent in 1970. But since then, partly reflecting the impact of CFA franc devaluation in 1994, the share of MVA in GDP slipped to 15.5 per cent (1996).

Table 4.25. Côte d'Ivoire: Relative shares of main industry branches 1970, 1980, 1990 and 1996
(Per cent)

Branch	1970	1980	1990	1996
Food	17.7	23.8	20.9	19.8
Petroleum refining, petrol and coal products	22.7	14.2	24.7	24.2
Textiles	13.4	13.3	9.9	9.9
Chemicals	5.0	5.8	6.3	6.4
Wood and cork products	5.7	5.3	4.3	5.2

Source: UNIDO Database.

Two industries - foodstuffs and petroleum refining - dominate manufacturing accounting for 45 per cent of total MVA. Three other branches - textiles, chemicals and wood and cork products - contribute a further 21.5 per cent, so that five branches of industry account for two-thirds of total MVA.

Ivorian industry has a high ratio of exports to MVA by sub-Saharan standards and at 69 per cent in 1990, this was little different from the 67.8 per cent for developing countries as a group. Significantly three of the four largest branches of industry, foods, petroleum refining and chemicals, dominate exports of manufactured goods. Foodstuffs account for over 38 per cent followed by refined petrol (16.1 per cent) and chemicals (10 per cent). Productivity increased 10 per cent over the entire period, reflecting the larger increase in output (100 per cent) than employment (89 per cent).

There is no evidence to suggest that Ivorian industry is more capital-intensive or skill-intensive than elsewhere in the region, implying that the much higher level of output per head - nearly four-and-a-half times as great as that for the sub-Saharan region as a whole - is chiefly the result of currency conversion considerations.

After declining steeply in the late 1970s and early 1980s, productivity has more than tripled since 1983, increasing 31 per cent (one per cent a year) over the entire 26-year period (table 4.26). The table shows that, with the important exception of Mauritius, productivity has fallen in countries that have achieved above-average employment growth, while employment has stagnated in economies where productivity has risen.

Table 4.26. Productivity growth in seven main manufacturing countries, 1970-1996
(Per cent per annum)

Country	Output growth	Employment growth	Productivity growth
Nigeria	5.9	5.3	- 1.1
Côte d'Ivoire	3.1	2.4	0.9
Zimbabwe	3.0	1.5	1.1
Ghana	2.7	1.6	1.0
Mauritius	9.3	8.5	0.5
Kenya	3.3	4.6	- 1.1
Cameroon	2.9	2.8	- 0.3
Sub-Saharan Africa	2.4	3.3	- 0.5

Source: UNIDO Database.

9. LESOTHO: DIVERSIFIED MARKETS

The contribution of manufacturing to GDP increased remarkably since independence in 1966 and in recent years, manufacturing has been the most dynamic sector in the economy, other than construction, and the major source of merchandise exports. MVA, at constant 1990 prices, quadrupled between 1970 and the mid-1980s, albeit from a very small base of only \$11.5 million, increasing a further 130 per cent between 1985 and 1996 when it reached \$99.5 million.

Table 4.27. Lesotho: MVA growth rates, 1970-1996
(Per cent per annum)

Growth, branch	1970-1980	1980-1990	1990-1996	1970-1996
MVA	4.9	13.6	6.5	8.6
Foodstuffs	7.8	14.5	6.4	9.8
Beverages	7.3	12.8	5.6	9.0
Textiles	15.8	21.0		8.9
Clothing	4.1	22.3	10.8	12.4

Source: UNIDO Database.

Two industries - food manufacture (42 per cent) and beverages (28 per cent) - accounted for 70 per cent of the total, followed by clothing and textiles (14.5 per cent). Clothing achieved the fastest growth rate over the entire period (12.4 per cent), from a tiny base of \$165 000 in 1970 (1990 prices). Food manufacture, which expanded at almost 10 per cent annually over the period from a base of \$3.5 million (1990 prices), increased its share to 42 per cent from 30.7 per cent, and was the main source of industrial growth, accounting for 43 per cent of MVA expansion over the 26-year period.

Lesotho's tiny market (GDP of \$1 billion) and small population (1.8 million people) will not be able to sustain a substantial manufacturing sector, unless - as in Mauritius - industry is export-driven. Given the country's resource endowment and location - landlocked and surrounded by sub-Saharan Africa's largest

economy, South Africa - not only will industrial growth have to be export-led but, for the foreseeable future at least, it must be labour-intensive and heavily dependent on FDI.

A UNIDO study (1995) predicts that industrial growth is most likely to take place in the clothing and textile sector, especially garments. Policy should foster linkages between leading export-oriented enterprises and locally-owned firms, which would ideally focus on processing local raw materials. A second area where there is potential for industrial growth is resource-based processing, especially agricultural materials and animal products.

Lesotho derives competitive advantage primarily - indeed almost entirely - from its plentiful supply of very cheap labour compared with its chief regional competitor, South Africa. But wages are not low relative to LDCs, as a whole, especially those in East Asia, where labour efficiency is greater.

However, this advantage, relative to South Africa, is offset by Lesotho's weak infrastructure. Inland communications are poor, though improving, while utilities - water, electricity and telecommunications - are considerably more expensive than in South Africa and also less reliable. Per unit electricity charges in Lesotho (1994) were four times higher than in South Africa, while water costs were twice as great and telecommunications expenses 30 per cent higher. Lesotho also compares unfavourably with Swaziland, in terms of water and telephone tariffs, though charges for electricity are broadly the same.

However, the country's ready access to the highly-developed South African communications system and the port of Durban, gives Lesotho a competitive edge over many other sub-Saharan countries. Furthermore, the completion of the Lesotho Highlands Water Project will improve access to, and reduce the cost of, both water and electricity.

While Lesotho enjoys preferential access to EU markets, not only is this advantage shared with other African countries but it is being eroded with the progressive implementation of the Uruguay Round. Significantly more important is duty-free entry to SACU, though this is substantially offset by import competition from South Africa, which has constrained the development of industry catering to the domestic market.

Industrial structure

Manufacturing industry is dominated by a relatively small number of large firms, including parastatals, and some 50 ventures that qualified for assistance from the Government-owned Lesotho National Development Corporation (LNDC). The LNDC has a controlling stake in some of these ventures and a substantial equity stake in others. Together they account for the bulk of manufacturing activity.

Operating alongside these large (by Lesotho standards) firms are an estimated 60,000 small-scale enterprises, the bulk of them in the informal sector, producing low-value, often poor-quality goods for the home market.

The formal sector comprises two main types of enterprise:

- Ventures set by the state, primarily in the agro-industrial sector, to process local resources; and
- Foreign-owned firms, concentrated in clothing and footwear, especially garments, but also in light manufactures, notably electronics. They use labour-intensive techniques to process and assemble mainly imported materials and components for export. Accordingly, domestic value-added is low.

The failure of the state-owned enterprises led the Government to rethink its industrialization strategy in the late 1970s (Chapter V). Privatization and the attraction of foreign capital moved to the top of the policy agenda as the Government's role in industrial development became promotional rather than prescriptive.

Foreign investment accounts for the accelerated growth of manufacturing during the 1980s. Foreign inflow had its origins in four main influences which no longer apply, or which are in the process of being phased out:

- Economic sanctions against South Africa in the 1980s and early 1990s which encouraged firms, especially export-oriented ones, to relocate in Lesotho.
- The MFA under which there were no quotas covering textile exports to the US from Lesotho at a time when such exports from other countries were heavily restricted. This also encouraged clothing manufacturers to locate factories in Lesotho.

- The absence of quantitative restrictions on clothing and textile exports to the EU, and
- Duty-free access to the EU market under the Lomé Convention, though this preference was of little value because garments from Lesotho were excluded by the Lomé rules of origin which stipulated a degree of local processing that investors were unwilling to undertake. However, in 1993, Lesotho negotiated concessions under Lomé that entitled it to duty free access to the EU for three years.

It is clear that without these influences, the inflow of FDI into manufacturing would have been negligible. With the lifting of sanctions against South Africa, the temporary imposition of quotas on garment exports from Lesotho to the US (since lifted) and the phasing out of both the MFA and Lomé (in its present form), Lesotho has been forced to seek new incentives to attract foreign capital.

For the foreseeable future, Lesotho's comparative advantage will continue to be driven by labour costs, with the main opportunities for the attraction of new FDI likely to arise in the garments and consumer electronics areas, possibly supplemented by food manufacturing. However, in attracting labour-intensive industrial investment, Lesotho has to compete with larger regional markets that have a more sophisticated industrial base (Zimbabwe and, to a lesser extent, Zambia) and which have similar labour-cost advantages within SACU (Botswana, Namibia and Swaziland).

Manufactured exports, valued at \$90 million in 1992, were dominated by garments, which accounted for 65 per cent. Television receivers accounted for a further 11 per cent, while no other item exceeded three per cent of the total.

Lesotho has diversified its export markets significantly in recent years. Although the bulk of industrial exports go to other African countries, only the South African market is of any real significance. In 1993, SACU markets (almost entirely South Africa) accounted for 46 per cent of total exports, including non-manufactures, while 33 per cent went to the US and 18 per cent to the EU. Five years earlier, in 1988, SACU countries accounted for almost 80 per cent of the total, US 12.5 per cent and the EU 6.7 per cent.

CHAPTER V.

TRADE AND INDUSTRY

Foreign trade as an engine of growth

Post-1975 developing country success stories have, without exception, been export driven. From the mid-1950s to 1990, sub-Saharan Africa's share of global exports more than halved from 3.1 per cent to 1.5 per cent. As a result, the region "lost" foreign currency earnings, estimated at some \$65 billion at 1990 prices.

The striking characteristics of sub-Saharan trade patterns are:

- (i) heavy dependence on commodity and raw material exports; manufactures account for only 19 per cent of total exports compared with 54 per cent for all developing countries;
- (ii) by contrast, manufactured goods, accounting for more than 70 per cent of the total, dominate imports;
- (iii) high export concentration, with approximately three quarters of total exports being sold to developed economies, especially the EU (49 per cent in 1996). Other industrialized economies account for a further 23 per cent, of which 15.4 per cent go to North America and 3.5 per cent to Japan. Asia is the region's third largest export market (14.8 per cent);
- (iv) very low levels of intra-regional trade (table 5.9) in stark contrast with the situation in Asia;
- (v) concentration of both exports and imports within a handful of countries. Two countries, South Africa and Nigeria account for over half of sub-Saharan exports, while exports from 32 African LDCs in 1994 totalled only \$10.5 billion (17 per cent). Imports are similarly dominated by South Africa (37 per cent) and Nigeria (10 per cent), while the 32 sub-Saharan LDCs account for a quarter of the regional import bill.

Trade and growth

In the 1990s, trade and FDI have been the engines of economic growth. The success story economies of East and South-East Asia, positioned themselves to exploit opportunities flowing from the quickening pace of globalization. Sub-Saharan Africa was left behind, locked into a north-south pattern of external trade (table 5.7), heavily reliant on exports of raw and semi-processed materials, and slow to create competitive advantage (Chapter VIII), depending instead on traditional comparative advantage in the form of raw materials and plentiful, unskilled labour.

Table 5.1. Growth of GDP and exports in developing regions, 1991-1997

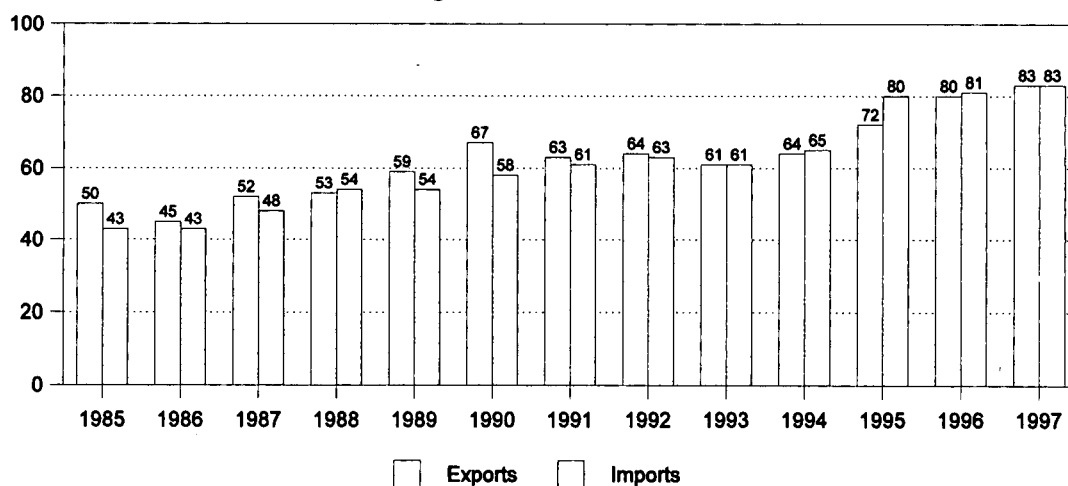
Region	Regional GDP growth 1991-1997 (per cent per annum)	Real export growth 1991-1997 (per cent per annum)
East Asia	9.9	15.2
South Asia	5.7	11.1
Latin America and the Caribbean	3.4	9.7
Middle East and North Africa	2.9	4.2
Sub-Saharan Africa	2.2	2.6

Source: World Bank, Global Economic Prospects and the Developing Countries, 1998/99

Table 5.1 highlights the close links between export expansion and GDP growth. The fast-growth economies were those, which expanded exports rapidly, while the sharp slowdown in East Asian GDP growth in 1997/98 was preceded by a loss of momentum and market share in global exports. Export growth in East Asian crisis economies (Indonesia, Republic of Korea, Malaysia, Philippines and Thailand) slowed to 7.9 per cent in 1997 from 12.6 per cent annual average between 1991 and 1997.

After falling by a third in the first half of 1980s, partly reflecting the sharp fall in oil prices, sub-Saharan exports grew rapidly for the rest of the decade, increasing 7.6 per cent a year, in dollar terms (figure 5.1). However, this slowed to only 3 per cent annually in the 1990-1996 period, partly due to the recession in Europe, but also the region's continuing loss of market share.

Figure 5.1. Sub-Saharan Africa: Foreign trade, 1985-1997



Source: World Trade Organization, *Annual Reports 1997/1998*.

In the 1990s, Africa's exports, including North Africa (Algeria, Egypt, Libya, Morocco and Tunisia) grew at less than 40 per cent of the annual global growth rate of 6.8 per cent, while the continent's import growth of 4.7 per cent a year also lagged behind that of the world economy as a whole (table 5.2).

Table 5.2. Exports and imports, 1996 and 1990-1997

	1996 (billions of dollars)	1990-1997 (growth rate per annum)
Exports		
World	5 300	6.8
Africa	123	2.7
Fuel exporters*	47	0.3
South Africa	30	3.7
Imports		
World	5 470	6.8
Africa	127	4.7
Fuel exporters	26	1.4
South Africa	33	8.7

* Algeria, Angola, Congo (Brazzaville), Gabon, Libya, Nigeria.

Source: World Trade Organization, *Annual Report 1998*.

By 1996, sub-Saharan Africa's share of global trade had fallen to 1.5 per cent, of which approximately 0.6 represented South Africa (table 5.3).

Table 5.3. Shares in global trade, 1997 (Percentage)

Region	Exports	Imports
Asia	26.0	24.2
North America	17.0	20.1
Latin America	5.3	5.8
Western Europe	42.9	41.4
Countries in Transition	3.4	3.5
North Africa	0.7	0.8
Sub-Saharan Africa	1.6	1.5
of which: South Africa	0.6	0.6
Middle East	3.1	2.6

Source: World Trade Organization: *Annual Report, 1998*.

Table 5.4 shows the extent to which the region has lost market share in both exports and imports, but especially the former, since 1980.

Table 5.4. Sub-Saharan Africa: Market shares of world exports and imports, 1980, 1990, 1996
(Percentage)

Type	1980	1990	1996
Exports	2.6	1.9	1.5
Imports	2.1	1.6	1.5

Source: World Trade Organization, *Annual Reports 1996/1998*.

Table 5.5. Leading exporters by share of sub-Saharan exports, 1985, 1990, 1997
(Per cent of total)

Country	1985	1990	1997
South Africa	32.5	34.8	36.5
Nigeria	25.0	20.5	17.4
Angola	4.5	5.8	5.3
Côte d'Ivoire	6.3	4.6	5.3
Gabon	3.9	3.3	3.7
Zimbabwe	2.2	2.6	2.8
Congo (Brazzaville)	2.1	1.5	1.9
Kenya	1.9	1.5	2.5
Dem. Republic of Congo (former Zaire)	1.9	1.5	0.6
Zambia	1.6	2.0	1.3
Botswana	1.5	2.7	3.5
Cameroon	1.4	3.0	2.9
Ghana	1.2	1.3	1.7
Mauritius	0.9	1.8	2.2

Source: World Trade Organization, *Annual Reports 1997/1998*.

Regional patterns

Two countries dominate the region's trade. In 1997, South Africa contributed more than a third (36 per cent) of exports, while Nigeria accounted for a further 17 per cent (table 5.5). The next largest exporters were Angola, almost entirely oil, and Côte d'Ivoire, with a share of 5.3 per cent, each.

Five features of table 5.5 stand out:

- the dominance of South Africa;
- the dominance of oil exporters - in 1996 fuel exports were worth over \$22 billion, or approximately 27.5 per cent of merchandise exports, although this was down from 36 per cent in the mid-1980s;
- the importance of food exports, worth more than \$10 billion in 1996 (13 per cent of the total);
- heavy reliance on mineral exports - worth more than \$14 billion in 1996 (18 per cent), of which South Africa accounted for over \$10 billion;
- the relatively minor role of manufactures. Only three sub-Saharan economies - Mauritius manufactures 70 per cent of total exports, South Africa, manufactures 43 per cent of the total and Zimbabwe, 30 per cent - are listed amongst the world's top 60 exporters of manufactured goods.

WTO figures suggest that sub-Saharan Africa's exports of manufactures were worth some \$18 billion in 1995 of which South Africa accounted for over \$12 billion (67 per cent), Mauritius \$1,080 million (6 per cent) and Zimbabwe \$700 million (4 per cent).

Agricultural products account for almost 60 per cent of sub-Saharan Africa's exports, while 40 per cent of all exports are classified as "unprocessed, static products" [Wood and Mayer, 1998]. Dynamic agricultural

products are defined as those with a high income elasticity of demand – i.e. demand grows more than proportionately for such products as per capita incomes rise. These include dairy, meat and fish products, fruit, vegetables, vegetable oils and nuts.

Table 5.6. Sub-Saharan Africa and East and South-East Asia: Shares of different classes of products in total exports, 1990 (Percentage)

Branch	Sub-Saharan Africa	East and South-East Asia
Processed commodities		
Minerals, metals and fuels	5.9	3.2
Dynamic agricultural products	1.8	3.6
Static agricultural products	4.2	5.0
(Sub-total)	-11.9	-11.8
Unprocessed commodities		
Minerals, metals and fuels	24.9	13.0
Dynamic agricultural products	12.9	6.0
Static agricultural products	39.4	9.2
(Sub-total)	-77.2	-28.2
Manufactured goods	10.9	60.0

Source: UNCTAD, *Trade and Development Report, 1998*.

Two aspects of table 5.6 stand out:

- the share of processed primary commodities in total exports in the two very divergent regions is very similar;
- Sub-Saharan Africa depends on unprocessed materials for more than three-quarters of total exports, compared with just over a quarter in East Asia. Not only that, but a very high proportion of this unprocessed group consists of static agricultural products;
- manufactured exports account for a minor share in sub-Saharan Africa, while they are predominant in East and South-East Asia.

Direction of trade

Table 5.7 contrasts the distinct north-south pattern of Africa's foreign trade with that of developing regions as a whole. Africa is far more reliant on developed economies (77.4 per cent) for its markets than the developing world as a whole (57 per cent). In addition, 51.4 per cent of African exports go to Europe (50 per cent to the EU) - three times as much as the ratio for developing economies, in general.

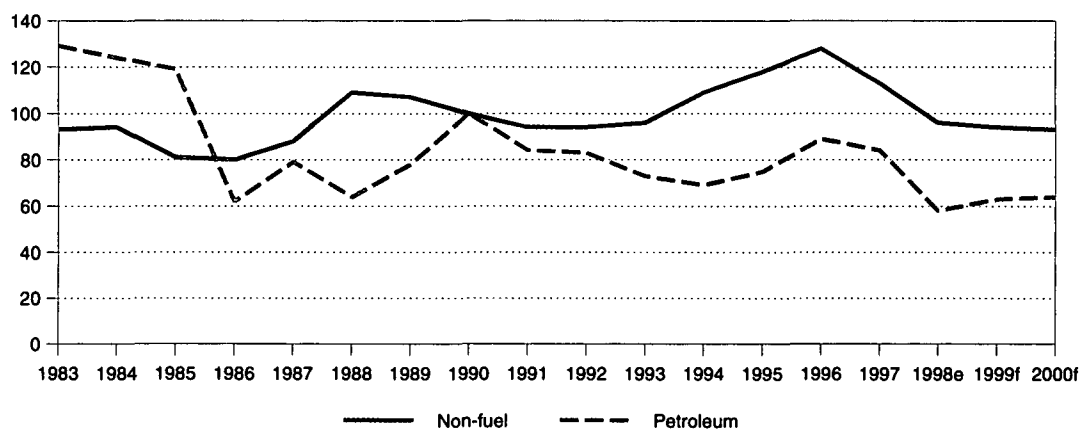
Africa is less dependent on the North American market and has very low levels of exports to Japan (2 per cent). The most striking feature, however, is that less than 22 per cent of Africa's exports go to other developing countries, compared with nearly 42 per cent for the developing world as a whole, underlining Africa's limited involvement in south-south trade and the obvious potential for future expansion.

Table 5.7. Exports by destination, 1995

Region	Developing Africa	All developing countries
Developed countries	77.4	56.7
(of which)		
Europe	51.4	19.3
North America	19.7	23.4
Japan	1.9	10.4
Others	0.9	1.7
Eastern Europe	3.2	1.7
Developing countries	21.8	41.5

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1996/1997*.

Figure 5.2. Primary commodity prices, 1983-2000 (In dollar terms)



e: estimated;

f: forecast

Sources: International Monetary Fund and World Bank (Global Economic Prospects and the Developing Countries 1998/99).

Africa's export prospects are highly dependent on future commodity prices. Over the medium term – 1998-2007 – the World Bank sees non-fuel prices edging lower at an annual rate of 0.2 per cent, while fuel prices recover very modestly (0.3 per cent a year). Over the same period, export prices of manufactures from G-5 countries are forecast to increase 1.8 per cent a year, implying that Africa's terms of trade will deteriorate at an average rate of around 2 per cent a year for oil importers and 1.5 per cent a year for energy exporters.

Commodity concentration

African countries do not only have highly-concentrated commodity exports, dominated by a limited range of products, but in many instances this concentration is also growing. Table 5.8 shows that five countries had a concentration index of over 80 per cent – i.e. one commodity comprising more than 80 per cent of exports - and another four with over 60 per cent.

Table 5.8. Concentration Index: Selected sub-Saharan exporters, 1980 and 1994

Country, type	1980		1994	
	Number of commodities exported	Concentration index	Number of commodities exported	Concentration index
Concentrated exporters:				
Angola		0.73	28	0.91
Nigeria	147	0.95	109	0.9
Gabon	46	0.76	41	0.85
Uganda	22	0.95	25	0.82
Congo (Brazzaville)	29	0.89	30	0.81
Seychelles	11	0.57	7	0.74
Malawi	47	0.49	47	0.70
Ethiopia	30	0.64	39	0.62
Burkina Faso	43	0.48	28	0.60
Sierra Leone	39	0.44	22	0.59
Burundi	26	0.59	16	0.57
Diversified exporters:				
Tanzania	83	0.28	73	0.26
Senegal	113	0.27	71	0.30
Kenya	143	0.38	148	0.31
Zimbabwe	87	0.26	176	0.31
Mauritius	55	0.69	111	0.32
Ghana	55	0.73	71	0.36
Cameroon	90	0.41	52	0.38
Côte d'Ivoire	154	0.38	106	0.41

Note: The Concentration Index ranges between zero and 1.0 with the latter representing the most extreme concentration.

Source: UNCTAD, *Handbook of International Trade and Statistics*, 1995.

The comparisons between 1980 and 1994 also show that concentration has been growing in Angola, Gabon, Seychelles, Malawi, Burkina Faso and Sierra Leone.

Among the diversified exporters, export concentration has fallen sharply in some cases (Mauritius and Ghana) was modest in others (Kenya, Cameroon and Tanzania), but increased slightly in others (Côte d'Ivoire, Senegal and Zimbabwe).

Table 5.9. Distribution of exports by commodity, 1985-1990

Commodity	Share of total exports (per cent)	Share of world market (per cent)
Cocoa	6.1	61.5
Coffee	8.7	21.3
Tea	1.1	15.2
Sugar	1.5	4.7
Fish	1.5	1.7
Cotton	1.6	8.0
Timber	1.9	3.1
Tobacco	1.3	10.2
Bauxite	1.4	46.8
Aluminium	0.9	2.3
Copper	4.5	17.9
Petroleum	41.4	8.2

Source: IMF (1995) Sub-Saharan Africa Growth, Savings and Investment, 1986-1993. Michael T. Hadjimichael et al.

Trade barriers

Africa's sluggish export performance cannot be explained by protectionism in developed export markets. Pre-Uruguay Round tariffs facing African exports to the "triad" regions of the EU, US and Japan averaged 0.75 per cent - about 18 percentage points lower than those facing the Asian NICs when they embarked on their highly successful export-led growth strategy. Furthermore, Lomé preferences give African exporters an edge over their non-ACP competitors.

OECD non-tariff barriers (NTBs) also cannot be held responsible, since the share of African exports subject to non-tariff barriers (11 per cent) is less than half that for other developing countries. As a result of Uruguay Round tariff reductions, the NTB coverage ratio for sub-Saharan Africa's non-fuel exports will fall from 11 per cent to around 3 per cent.

Most of Africa's exports to the EU are concentrated in relatively few tariff lines, and EU trade preferences cover a substantial share of these items. Preferences result in at least 97 per cent of each sub-Saharan country's exports entering the EU, duty-free.

But even with its preferential access to the EU under the Lomé Convention market, whose value is now being eroded as a result of the URA, Africa's share has shrunk from 7 per cent to 4 per cent over the past 20 years, while dependence on the EU market remained unchanged at some 40 per cent of total exports. Many smaller sub-Saharan countries still depend on the EU for three-quarters of their export revenues and are locked into a narrow range of unprocessed commodity exports, mainly crude petroleum, coffee, cocoa and cotton.

Indeed, a perverse consequence of trade preferences has been the manner in which they have diverted attention from developing competitiveness, encouraging governments to devote their energies to cultivating such relationships with industrial economies rather than promoting across-the-board competitiveness of exports.

Clothing and textiles

Apart from Mauritius, sub-Saharan Africa has failed to exploit its potential in the exports of clothing and textiles. In particular, the region's (excluding Mauritius) garment and textile firms have not taken advantage of the opportunities available under the Lomé Convention, which is to be restructured and renegotiated early in the next century.

At present, sub-Saharan clothing exporters to the EU benefit in two main respects:

- clothing exports are not subjected to quantitative restrictions (QRs), and
- under the Lomé Convention they are exempt from tariffs, provided the garments qualify as originating products.

The fact that exporters are currently exempt from QRs offers a window of opportunity for developing clothing and textile exports, especially to the EU, over the next six years until the eventual abolition of the MFA in 2005. Sub-Saharan countries, excluding South Africa, were exempted from the MFA for their EU exports. However, because only a handful of countries (Côte d'Ivoire, Mauritius, Swaziland and Zimbabwe) took advantage, the MFA has not been a serious obstacle to the development of garment and textile exports and its abolition will, therefore, have little impact.

Box 5.1. Impact of the Uruguay Round

The Uruguay Round Agreements are unlikely to have a major impact on sub-Saharan Africa, either in terms of lost preferences or of major increases in demand for the region's traditional exports. Africa's gains will be indirect - the spin-off of increased trade with other beneficiaries.

Africa already has favourable access to "triad" markets, especially in the EU and Japan. Analysis by the World Bank concludes:

- that any loss of preferences as a result of the Uruguay Round Agreements is unlikely to be great and "may well be compensated by gains in other markets through trade creation". The only measurable losses are likely to be in the EU, but these will be "more than compensated" by trade creation gains in other markets. However, the net gain is likely to be "so small as to be unnoticeable in comparison with other factors influencing exports and development in Africa";
- that average tariffs faced by African countries after the round will be "very small indeed" and that least developed countries will enjoy essentially duty-free market entry;
- that the coverage of non-tariff barriers will be reduced very considerably from around 11 per cent before the Round to 3 per cent afterwards;
- that the burden of higher food bills "appears overstated";
- that the conversion of NTBs to tariffs for agricultural imports should both increase export opportunities for African countries while substantially reducing the level of price instability in global markets for agricultural goods;
- that tariffs do not appear to have been a major constraint on the further processing and export of African commodities. "Tariff escalation" is not a general problem though it does apply to some value-adding activities;
- that the demands placed on African countries in terms of their own commitments under the Round are "very modest" and should not pose serious transitional difficulties;
- that African countries have chosen to bind their tariffs at "very high levels" and well in excess of actual tariffs, with many above 100 per cent.

Source: Peter Harrold, The Impact of the Uruguay Round on Africa, World Bank Discussion Papers, No. 311, 1995.

In one respect, however, the phasing out of MFA could have far-reaching consequences. The removal of existing incentives for multinational companies to source products from quota-free countries in Africa, could divert investment in manufacturing - essentially sub-contracting - to other regions. At present, the only sizeable sub-Saharan exporter of garments to the EU is Mauritius, which supplies products covered by quotas, but as a Lomé signatory, Mauritius is exempt from such QRs.

Because the US does not provide preferences for clothing and textiles, African countries could face post-URA tariffs on textiles and clothing in excess of 25 per cent. Furthermore, restrictions covering clothing and textile exports could remain in place until the end of the ten-year URA phasing-out period in 2005.

On static analysis, the overall impact of Uruguay Round trade liberalization on sub-Saharan Africa will be only slightly negative. As far as manufactured exports as a whole are concerned, countries most likely to suffer from the erosion of preferences in respect of semi-processed and manufactured exports will be Cameroon, Côte d'Ivoire, Gabon and Zimbabwe.

Box 5.2. The new Lomé Convention

Since 1975, successive agreements under the Lomé Convention have given developing countries in the Africa, Caribbean and Pacific regions trade preferences in European Community markets. Almost 99 per cent of all products exported by ACP countries to the EU enjoy free access to the Community market. These preferences far outweigh the general preferences offered to other developing countries since the EU GSP is not based on free access but on lower duties, while being tied to more and stricter quotas than those of Lomé. Moreover, Lomé preferences are contractual, whereas the GSP can be modified unilaterally.

The main restrictions on access of ACP products to the EU flow from the Community's Common Agricultural Policy as a result of which some products may not be exported to the EU or may incur prohibitive tariffs. Tropical products, however, normally enter the EU duty-free from ACP states while product protocols, covering bananas, sugar, beef and rum, give ACP exporters privileged entry for limited, but substantial, volumes of such products.

The impact of Lomé preferences has been disappointing; since 1976 the ACP share of the EU market has declined. The ACP share of imports originating outside the EU fell from 6.7 per cent in 1975 to 2.7 per cent in 1995, while the share of Asian developing countries, not eligible for ACP preferences, grew rapidly.

Following the Uruguay Round Agreements, which outlaw non-reciprocal trade agreements such as Lomé and the ongoing erosion of preferences flowing from the enlargement of the EU and the conclusion of regional trade pacts between the EU and the Mediterranean countries, the Convention is being restructured and renegotiated.

The EU has proposed a series of trade agreements between the Community and regional trading blocs. Such agreements would be reciprocal, but asymmetrical so that ACP countries would reduce their tariffs more slowly than the EU. One such agreement with the South African Customs Union (SACU) - South Africa, Botswana, Lesotho, Namibia and Swaziland, - is already possible in the wake of the EU-South Africa free trade agreement of 1999.

The EU believes other agreements could be negotiated with the Southern Africa Development Community (SADC), which could incorporate SACU. Other regional hubs that could provide a basis for such trade pacts include the East African Cooperation agreement (Kenya, Tanzania and Uganda), the Union Douanière et Economique de l'Afrique Centrale (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon), and the Union Economique et Monétaire Ouest Africaine (UEMOA) (Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, and Togo). Ghana could be brought into this arrangement, while Nigeria is large enough to justify a bilateral agreement with the EU.

The suggested timetable calls for the negotiation of free trade agreements between the EU and ACP regions by 2005. There would then be a 10-year transition period leading to full reciprocity by 2015. The existing Lomé arrangements would remain in place until 2005.

On the positive side, the Uruguay Round will create future opportunities for those countries that undertake the necessary domestic economic and trade reforms. The ability of African countries to develop and maintain viable textile and clothing exports will depend on their improving their cost competitiveness while also enhancing quality, style, design and delivery.

OBSTACLES TO EXPORT GROWTH

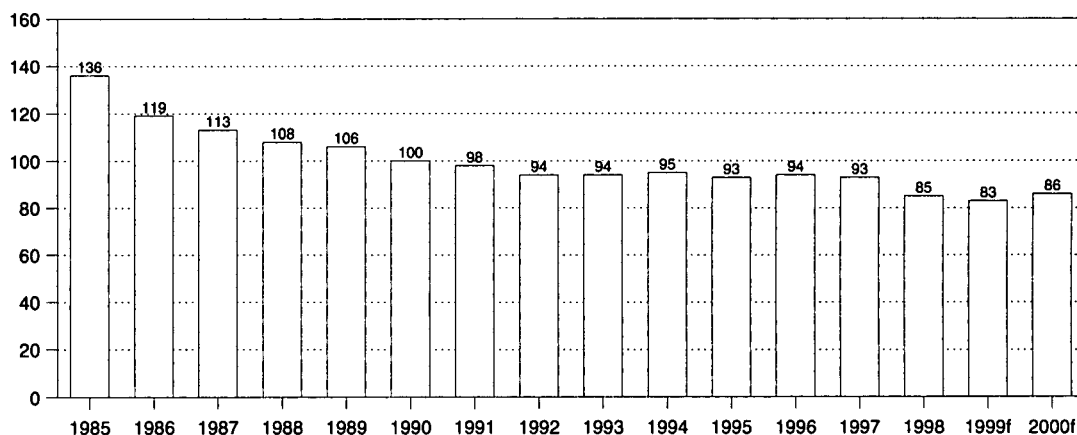
(1) Commodity dependence: Not only is the medium-term outlook poor for commodity exports, but commodity-dependent patterns of economic growth have proved to be unsatisfactory (Chapter II). With prices of manufactured goods expected to grow at over 2 per cent a year, while prices of all non-energy categories fall in constant dollars, the terms of trade for most African countries will continue to deteriorate (table 5.10).

Table 5.10. Commodity prices and projections, 1980-2010, selected years
(In constant 1990 dollars, 1990=1000)

Year	Energy prices	Non-energy	Agriculture	Metals
1980	224	175	192	132
1990	100	100	100	100
1995	63	103	110	85
1996	78	101	110	78
1997	58	109	120	84
2000	70	96	104	77
2005	67	93	100	74
2010	66	89	96	71

Source: World Bank *Commodity Markets and the Developing Countries*, May 1998.

Figure 5.3. Sub-Saharan Africa, terms of trade, 1985-1999 (1990 = 100)



f = forecast

Source: IMF, *World Economic Outlook* (various issues), and World Bank, *Global Economic Prospects 1997*.

(2) Transport costs: A study [Amjadi, Reinke and Yeats, 1996] concludes that transport costs have a "significant negative impact" on African exports and the location of manufacturing activity. Freight rates for African exports are some 20 per cent higher than those charged by the region's competitors. For some exports in which Africa has potential competitive advantage (clothing, textiles and footwear), African transport costs range between 15 per cent and 20 per cent.

Average, *ad valorem*, transport costs for all sub-Saharan exports (8.7 per cent) are more than eight points higher than the average import tariff on such goods, which is only 0.5 per cent.

Table 5.11. African transport costs for exports to the US, 1993 (Per cent)

Region, country	Average nominal freight rate	
	Africa	Other countries
All sub-Saharan Africa	8.7	7.2
East and Southern Africa	6.8	5.3
Mauritius	7.1	5.8
Nigeria	5.8	7.6
West Africa	11.3	10.0
South Africa	4.5	4.3

Source: Amjadi Azita and Alexander Yeats (1995), "Have Transport Costs Contributed to the Relative Decline of Sub-Saharan Exports?", World Bank Research Paper no. 1559.

With the post-URA average tariff on US imports from all sources at less than 4 per cent, freight costs of 15 per cent to 25 per cent are a far greater barrier to export growth than either tariffs or NTBs. Accordingly, international freight costs are a major deterrent to value-added processing in Africa

The World Bank says sub-Saharan Africa's net freight and insurance payments totalled \$3.9 billion in 1990/91 - about 15 per cent of the region's export earnings, while net transport and insurance payments average more than 25 per cent of total exports for 10 of the 30 countries for which data were available. For ten landlocked countries, the ratio was as high as 42 per cent. For all developing countries, the net transport cost to export ratio is 5.8 per cent compared with Africa's 15 per cent.

(3) Infrastructure: Table 5.12 illustrates the relatively under-developed state of physical infrastructure in the region. Africa has two-thirds as many telephone lines as Switzerland for 75 times as many people, while the local call completion rate is under 30 per cent compared with 70 per cent in OECD countries. In Chad, with 15,000 telephones, over 90 per cent of all calls are uncompleted. Uganda has 2,000 kms of paved roads, but only 10 per cent are in reasonable condition. In Nigeria, every firm with more than 20 employees has its own generator because of frequent power failures.

Table 5.12. Infrastructure indicators, 1960-1980 (Per 1,000 workers)

Type	Sub-Saharan Africa	Other developing countries	Industrialised countries
Telephones	14	70	485
Kilowatts of electricity generating capacity	118	277	1 936
Km of roads and railways	1	3	16

Source: William Easterly and Ross Levine, *Africa's Growth Tragedy*, World Bank Research paper, August 1995.

(4) Competitiveness: While weak infrastructure and high transport costs contribute to the region's loss of market share, the key determinants of competitiveness in the 21st century are more likely to be quality and cost of labour, level of technology and appropriateness, or otherwise, of national economic policies. The region's loss of market share mirrors its failure - even where it has comparative advantage - to become competitive (Chapters VIII and IX).

(5) Trade and payments liberalization systems: Ready access to imported inputs at world market prices is essential for competitiveness as also are realistic and market-determined exchange rates. Almost all sub-Saharan countries have substantially liberalized their foreign trade and payments systems in the last ten years, which will undoubtedly boost regional competitiveness. At the same time, real effective exchange rates are now much more competitive than in the 1980s, although they appreciated significantly in the mid-1990s (figure 8.1).

(6) Openness: Sub-Saharan economies are opening up, but they still lag behind the rest of the world. The region's "speed of integration index" was negative between 1961 and 1990, since then it has averaged 0.9 annually compared with 6.0 annually for low- and middle-income regions as a whole (table 5.13).

Table 5.13. Speed of integration*, 1981-2004

Region, type of growth	1981-1985	1986-1990	1991-1996	1997-2004
World trade growth	3.7	6.1	5.8	6.0
World output growth	3.2	3.3	2.0	3.3
Speed of integration	0.5	2.8	3.8	2.7
Developing countries	-0.6	0.6	5.9	1.9
Sub-Saharan Africa	-1.5	-0.7	0.9	0.4
East Asia	1.0	1.4	5.5	1.7
Latin America	-1.6	2.0	6.2	2.2

* Speed of Integration = rate of trade growth minus rate of output growth.

Source: World Bank, *Global Economic Prospects 1995*.

Openness rankings (table 5.14) for sub-Saharan countries in the early 1990s were very low with the exception of a handful in Southern Africa and oil exporter, Gabon. The rankings were compiled using real (1987 US\$) values of exports and imports of merchandise for the period 1990-1992 and calculating the trade ratio as a percentage of GDP evaluated using IMF purchasing power parity (PPP) scales for 130 countries covering the same period.

There is a very close relationship between a country's openness and its GDP growth rate, with open economies growing significantly faster than those constrained by trade and payments restrictions.

Table 5.14. African economies: Openness rankings, 1990-1992

Country	Per cent	Global ranking
Botswana	64.1	16
Swaziland	62.5	17
Seychelles	61.9	19
Gabon	61.8	20
Mauritius	40.2	37
Côte d'Ivoire	39.5	38
The Gambia	36.3	42
Equatorial Guinea	35.8	43
Liberia	33.0	45
Congo	31.7	47
Zambia	31.0	49
Guinea	30.0	51
Mauritania	28.4	54
Togo	26.7	57
Senegal	20.9	67
Zimbabwe	20.8	68
Comoros	20.1	69
Cameroon	18.4	72
South Africa	17.7	78
Lesotho	16.9	81
Sao Tome and Principe	16.9	82
Chad	15.8	86
Mali	15.7	88
Burkina Faso	15.3	89
Malawi	13.9	94
Niger	13.2	97
Nigeria	12.6	101
Kenya	11.6	103
Central African Republic	11.0	105
Guinea-Bissau	10.9	106
Tanzania	10.9	108
Madagascar	9.9	110
DRC	9.6	111
Ghana	8.9	112
Burundi	8.5	113
Uganda	8.3	114
Sierra Leone	7.8	116
Ethiopia	7.8	118
Rwanda	7.6	119
Somalia	5.7	126

Note: The openness rankings are compiled using real (1987 US dollars) values of exports and imports of merchandise for the period 1990-1992 and calculating the trade ratio as a percentage of GDP evaluated using IMF purchasing power parity (PPP) scales for 130 countries covering the same period.

Source: Shigeru Otsubo, *Globalization - A new Role for Developing Countries in an Integrating World*, World Bank Policy Research Working Paper 1628, July 1996.

EXPLAINING AFRICA'S TRADE STRUCTURE

Sub-Saharan Africa's present export structure is largely the result of the region's unusual combination of human and natural resources. "By comparison with other developing regions, it has both a poorly educated labour force and extensive natural resources (relative to the size of its population)..." [Wood and Mayer, 1998].

Wood and Mayer show that the small share of manufactures in total exports reflect the region's low ratio of human capital (skills) to land. Similarly, the low level of skills per worker explains why the share of primary products, processed in Africa, is also small. The Wood-Mayer study finds that there are some 13 mainland sub-Saharan countries with "predicted" shares of manufactures in total exports in excess of 20 per cent - the predictions being based on skill/land ratios. However, only three mainland countries - Kenya, South Africa and Zimbabwe (Mauritius is excluded because it is not a mainland economy) - have realised their "predicted" levels. Some ten countries - Burundi, Côte d'Ivoire, Gambia, Ghana, Malawi, Rwanda, Sierra Leone, Swaziland, Togo and Uganda - have actual ratios averaging 5 per cent compared to an average predicted share of 25 per cent.

Most of this under performance can be explained by inadequate infrastructure and prolonged economic mismanagement, particularly of the exchange rate. However, resource endowment, such as minerals in Ghana and Sierra Leone, and location (the cost of imported inputs in landlocked economies, like Burundi, Rwanda, Malawi, Swaziland, and Uganda) also help explain the low levels of manufactured exports [Ibid].

Two crucially important trends need to be highlighted:

- (i) sub-Saharan Africa's exports of manufactures are dominated by resource-based and medium-technology products, and
- (ii) the region's share of developing world exports of manufactures has fallen dramatically.

Table 5.15 shows that the region's share of developing country exports of manufactures fell from 7 per cent in 1980 – of which 5 per cent was South Africa and Mauritius – to 1.4 per cent in 1996 (1.3 per cent South Africa and Mauritius). The table also shows that the region's share is dominated by resource-based and medium-technology exports (chiefly South African exports of machinery and intermediates), illustrating Africa's failure to exploit its apparent comparative advantage in labour-intensive, low-technology exports.

THE OUTLOOK

Small markets, low per capita incomes and backward technologies in sub-Saharan Africa highlight the role of foreign trade and FDI in industrial development. Low levels of intra-African trade, low export-MVA and high import-MVA ratios underscore the opportunities for export-driven industrialization. The adoption of SAPs, embracing trade liberalization, and continent-wide efforts to strengthen, revive and develop new regional economic integration schemes, are all evidence of renewed attempts to industrialize through regionalization and globalization.

Export-driven growth is both more difficult and easier to achieve in the new world order. Easier because the WTO agreements (the Uruguay Round) have lowered tariffs and eliminated many non-tariff barriers to trade. More difficult because the era during which sub-Saharan countries could expect preferential treatment for their exports of manufactured goods to OECD economies is fast drawing to a close. Future competitive strategies must be based on the assumption that such preferences will either no longer be available or will become increasingly insignificant.

Table 5.15. Regional shares of developing country manufactured exports, 1980 and 1996
(Percentage)

Type, region	1980	1996
TOTAL		
Asia	78.1	78.4
Latin America	7.6	16.7
Sub-Saharan Africa	7.0	1.4
Middle East	7.4	3.5
RESOURCE-BASED		
Asia	60.4	64.8
Latin America	13.9	27.7
Sub-Saharan Africa	11.0	2.6
Middle East	14.7	4.9
LOW TECHNOLOGY		
Asia	89.2	79.7
Latin America	3.6	12.1
Sub-Saharan Africa	4.9	1.7
Middle East	2.3	6.5
MEDIUM TECHNOLOGY		
Asia	73.7	66.6
Latin America	8.5	28.1
Sub-Saharan Africa	8.4	2.5
Middle East	9.4	2.8
HIGH TECHNOLOGY		
Asia	96.6	88.6
Latin America	1.6	10.6
Sub-Saharan Africa	11.0	0.2
Middle East	0.7	0.5

Source: Sanjaya Lall, *Exports of Manufactures by Developing Countries: Emerging Patterns of Trade and Location*, Oxford Review of Economic Policy, vol. 14, No. 2, 1998.

In addition, the nature of global competition has changed with a growing emphasis on non-price factors of competition - quality, style, design, adaptability to specific markets, and the availability of after-sales service. This has eroded the advantage of duty preferences while underlining the need for a more comprehensive strategy to develop competitiveness in global markets than one focusing purely on cost and price criteria.

Setbacks to the Asian Tigers in 1997/98 illustrate the suddenness with which economic fortunes can change, as well as their implications for other countries. The substantial currency depreciation experienced by a number of East and South-East Asian exporters will intensify the difficulties of sub-Saharan manufacturers both in maintaining their existing market shares - at home and abroad - and in seeking to expand and diversify their industrial exports.

Opportunities

On the positive side, there are three main opportunities for African industry to expand exports and increase its import competitiveness:

(i) **Intra-regional trade** is extremely low by international standards - only 10 per cent of the total (table 5.16). A number of regional economic integration schemes are either under negotiation or actually being implemented, which will lead to increased volumes of pan-African trade.

Table 5.16. Intra-regional trade, 1997

Region	Per cent of total trade
Asia	50.7
North America	36.2
Latin America	20.5
Western Europe	67.0
Countries in transition	18.9
Africa	9.4
Middle East	6.6

Source: World Trade Organization, Annual Report, 1998.

South Africa's rapid penetration of sub-Saharan markets (Chapter VII) illustrates the opportunities open to firms that have the right approach, as well as the necessary skills and resources, and those that are not held back by overvalued exchange rates and tiresome government regulations.

Regional trade levels in Africa are much lower than in other regions, with the exception of the Middle East, because:

- (a) most sub-Saharan countries are importers of manufactures, foodstuffs and fuel, which limit the scope for intra-regional trade given the overwhelming commodity-based nature of the region's exports;
- (b) similar resource endowments resulting in limited complementarity and scope for regional commerce;
- (c) infrastructural bottlenecks, especially transport, impede regional trade and the regulatory environment;
- (d) even where African companies do produce manufactured goods they are often of poor quality and expensive;
- (e) for capital goods and equipment, first-world suppliers offer extended and better credit terms; and
- (f) many importing firms in Africa are multinational subsidiaries who prefer to deal with parent firms.

(ii) In the light of the region's adverse trade balance in manufactures, there is enormous scope for **national and regional import replacement**. Africa - including North Africa - imported manufactured goods worth over \$81 billion in 1996, but the region exported only \$31 billion of manufactured goods, leaving net imports of \$50 billion. Of those imports, less than \$5 billion were supplied by other African countries, so that African economies were net importers of \$45 billion of manufactured goods from outside the continent, again underlining the scope for increased intra-regional trade.

(iii) **Export diversification:** the region must diversify both its export base, initially by increasing value-added to primary products, and its export markets, by reducing its relative dependence on the EU and seeking market opportunities elsewhere, especially the Big Five (Chapter II).

Future prospects

However, assuming that the Wood-Mayer analysis is broadly right, the structure of African exports is unlikely to change rapidly. Although skill levels will rise in Africa, they will also increase in other developing regions. Population growth will mean that the amount of land per worker will decline in all developing regions. Accordingly, Africa's relative position is unlikely to change radically over the next 25 years. While the Wood-Mayer "predictions" point to increased manufactured exports in some countries, on balance the region is likely to remain mainly an exporter of primary products. Indeed, the recent pattern of investment, with its focus on primary exports, especially energy, agriculture and mining, substantiates this viewpoint.

To match Latin America's achievements in the field of manufactured exports, African countries must rapidly improve their skill levels, but even this would still leave the region heavily reliant on commodity exports. Wood and Meyer conclude that export growth will have to be mainly through the expansion of natural-resource-based activities – especially processed and unprocessed primary products.

Such generalizations must be qualified, in the light of the enormous diversity of human and natural resources among African countries. Undoubtedly, there are a number of countries which, with improved education, infrastructure and policies, could increase their levels of manufactured exports substantially. Equally, there are others for whom primary products offer, by far, the greatest scope for export growth.

The policy imperatives are clear:

- Economic growth must be export-driven, since domestic markets are small and FDI often targets export-oriented, usually primary commodities, industries.
- Existence of very low ratios of manufactured to total exports and low levels of intra-regional trade point to the considerable scope for the expansion of exports of manufactured goods, though probably only in a few countries. Appropriate policies, especially in respect of exchange rates and tariffs, are central to such export growth.
- Capacity-building – especially skills and technological advance – is a prerequisite for faster export expansion and greater export diversification.

CHAPTER VI.

FINANCING AND INVESTMENT

That inadequate and inappropriate investment has contributed to sub-Saharan Africa's lack-lustre growth record is beyond dispute. This is the case on two levels:

- in private enterprise where the response to macroeconomic (and political) reform has been disappointing in many, if not most, African economies; and
- in the public sector where fiscal constraints have forced governments to economise on investment, especially in physical infrastructure and institutional capacity.

Table 6.1 highlights three aspects of sub-Saharan Africa's recent investment experience:

- decline in the investment/GDP ratio since the mid-1970s;
- inadequate level of investment which at 16.6 per cent of GDP since 1985 - assuming a capital-output ratio of five - is sufficient, at best, for GDP growth of no more than 3.3 per cent annually, implying real per capita income growth of around 0.5 per cent a year; and
- The steep decline in public sector investment, which has fallen more than 60 per cent since 1984.

Table 6.1. Investment in sub-Saharan Africa, 1975-1997 (Per cent of GDP)

Type of investment	1975-1984	1985-1990	1990-1997
Gross private investment	10.3	10.1	12.1
Gross public investment	12.6	7.7	6.0
Gross domestic investment	22.9	17.8	18.1

Source: World Bank, *African Development Indicators 1998/1999*.

While there is no single explanation for this, the sharp fall in public sector investment is undoubtedly partly to blame for the weak performance of private sector investment. The deterioration of the African state (Chapter IX) and of the region's physical infrastructure have discouraged private sector investment to a significant extent, though this is impossible to quantify. There is considerable evidence to show that appropriate public sector investment - in physical infrastructure, training and skills development and in governance - "crowds in" private sector investment. Countries that adopted economic reform programmes giving priority to fiscal rectitude, regardless of the consequences for investment in the public sector, are paying a heavy price in terms of long-term development potential.

Table 6.2 compares recent investment performance in sub-Saharan Africa with that in other developing regions and also reveals that savings, total investment and private sector investment have all been lower than in the four other geographical regions.

Table 6.2. International comparisons of savings and investment, 1990-1997

Item, region	1990-1994	1995-1997
Investment		
Sub-Saharan Africa	16.4	16.9
Western Hemisphere	20.2	20.5
Asia (excluding Japan)	27.2	28.7
NIAE*	31.4	31.9
Industrialized economies	20.9	20.7
Private investment		
Sub-Saharan Africa	11.6	12.3
Western Hemisphere	15.3	15.4
Asia (excluding Japan)	18.6	20.3
NIAE*	24.4	25.2
Industrialized economies	16.9	17.0
Domestic savings		
Sub-Saharan Africa	15.7	16.1
Western Hemisphere	18.2	18.2
Asia (excluding Japan)	30.9	33.2
NIAE	33.7	32.9
Industrialized economies	20.6	21.1

* NIAE = Newly industrialized economies of Asia.

Source: IMF African Department and World Economic Outlook database.

Investment efficiency

While investment efficiency in sub-Saharan Africa as measured by the ICOR has improved from 9.5 between 1975 and 1984 to 6.4 in the 1990s (table 6.3), this ratio remains high by developing world standards.

Table 6.3. Sub-Saharan Africa: Capital-output ratios, 1975-1997

Type	1975-1984	1985-1989	1990-1997	1975-1997
GDP growth, per cent per annum	2.4	2.4	2.6	2.5
Investment per cent of GDP	22.9	17.1	16.6	19.3
Implicit capital-output ratio	9.5	7.1	6.4	7.9

Source: World Bank, African Development Indicators 1997.

Short period comparisons could be misleading, especially in economies which are subjected to adverse external shocks - drought, floods, falling commodity prices or civil unrest. But over the 22-year period, from 1975 to 1997, the capital-output ratio was just under 8, which is very high by developing country standards (table 6.4), underscoring the relative inefficiency of investment in the region.

Table 6.4. Capital output ratios: Global comparisons, 1990-1997

Region	Investment (per cent of GDP)	GDP (per cent growth)	Implicit capital-output ratio
Asia	33.4	8.7	3.8
Africa	20.0	2.6	7.7
Middle East and Europe	22.4	4.0	5.6
Western Hemisphere	20.5	3.7	5.5
Sub-Saharan Africa	16.6	2.8	5.9

Source: *Africa: Is This the Turning Point?* Stanley Fischer, Ernesto Hernandez-Cata and Mohsin S. Khan, IMF, 1998.

Table 6.4 appears to reflect an improving situation with the capital-output ratio significantly lower than over the long-run (table 6.3), and lower also than in Africa as a whole. Unfortunately, this would seem to be the result of the utilization of previously spare capacity in sub-Saharan economies rather than the greater efficiency of fresh investment.

Foreign financing

Low levels of domestic savings - a function of small, under-developed private enterprise sectors, low levels of per capita income and large public sector fiscal deficits - have forced sub-Saharan economies to rely heavily on foreign capital. Table 6.5 shows that sub-Saharan Africa:

- is more reliant than any other developing region on foreign capital (6.5 per cent of GDP in 1994/1995); and
- relies far more than any other region on ODA, which accounted for over two-thirds of foreign capital inflows in 1994-1995.

Table 6.5. Long-term net resource flows to developing countries, 1996

Economic grouping	Per cent of GDP	Private share (per cent)	Official share (per cent)
All developing countries	4.7	88	123
Western hemisphere	5.0	106	-6
Middle-East & North Africa	1.5	27	73
Asia	6.2	91	9
Sub-Saharan Africa	5.4	25	75

Source: World Bank, *Global Economic Prospects and the Developing Countries 1996 and 1997*.

FDI

Of enormous importance too is the nature of private capital flows, given the pivotal role of FDI not just in financing industrial growth, but also in transferring technology and expertise, and providing market access for exports of developing countries.

In the 1998 African Competitiveness Report [World Economic Forum], foreign-owned firms operating in Africa were asked to identify the most important factors determining investment decisions and in conducting business once an investment is made.

(i) Political stability: By far the most important influence is political stability, identified as a top priority issue by 76.5 per cent of respondents and as important by a further 22.4 per cent (table 6.6).

(ii) Predictability and reliability of governments policies and regulations was listed as very important by 61 per cent, and important by a further 34 per cent.

(iii) Inadequate infrastructure was a very strong concern for 32 per cent, and strong for another 38 per cent of respondents.

(iv) Corruption was ranked the fourth main concern, though it varied widely from country to country.

Since 1994, FDI flows to sub-Saharan Africa have averaged over \$4.3 billion, more than double the average for the 1986-1991 period of \$1.7 billion a year. The flows have, however, been extremely skewed with almost 85 per cent flowing to oil producers, Nigeria and Angola, and five other economies - South Africa, Ghana, Botswana, Uganda and United Republic of Tanzania. Sub-Saharan Africa's share of global inflows has averaged 1 per cent in recent years.

Since 1980 the regions' share of the global stock of inward investment has fallen sharply from 4.7 per cent in 1980 (of which 3.3 per cent was in South Africa), to 1.6 per cent in 1997 (South Africa 0.4 per cent and Nigeria 0.5 per cent). Between them these two countries account for \$31.8 billion (59 per cent) of the region's \$54 billion stock of foreign investment.

The primary sector accounts for some 40 per cent of Africa's stock of inward FDI, while manufacturing's share has increased slightly from 29 per cent at the end of the 1980s to 30 per cent in 1996. Services have lost ground, with their share dropping to 27 per cent in 1996 from 33 per cent in 1989. US corporations have started to invest more in manufacturing and service activities, while French firms have targeted the primary sector.

Table 6.6. FDI in sub-Saharan Africa: Main locations, 1980-1997, selected years

Country	Stock 1980	Stock 1997	Stock 1986-91	Inflows 1992-97
South Africa	16 465	14 243	-162	3 723
Nigeria	2 406	17 578	4 368	8 793
Angola	61	3 339	1 014	1 650
Zimbabwe	7 023	2 458	60	412
Namibia	1 935	1 721	156	672
Botswana	150	1 542	354	790
Liberia	-	1 392	1 200	86
Ghana	221	1 143	66	808
Cameroon	330	1 142	-96	112
Zambia	25	1 066	600	350
Côte d'Ivoire	530	966	300	-25
Gabon	511	919	320	-235
Congo	309	751	90	180
Kenya	344	742	210	108
Tanzania	47	694	-	600
Uganda	9	642	-	640

Source: United Nations, *World Investment Report* (1998).

The UK , with FDI of \$5 billion or 26 per cent of the total (1982-1996) has been the largest direct investor in Africa, followed by France, \$4.7 billion or 24.6 per cent. The US holds third place with 17 per cent, followed by Germany (7 per cent) and Japan and the Netherlands (5.7 per cent, each).

Determinants of FDI

According to the 1997 African Competitiveness Report, the five most important influences determining FDI in a country are:

- (i) size of the national market in the target country;
- (ii) expected market growth rate in the target economy;
- (iii) ability to repatriate capital and profits;
- (iv) productivity and work habits of workers; and
- (v) infrastructure.

Significantly, often-advocated industrial policy interventions, such as reduced corporate tax rates for specific activities, subsidized loans, tax holidays and other investment incentives, appear to have little impact on FDI decisions.

Upstream government activities, such as public investment in education and infrastructure that "crowd in" private sector investment by reducing costs and raising productive efficiency are shown to attract FDI.

The Forum finds too that most foreign investors are market servers - targeting large, fast growth domestic markets. In making their investment decisions, such market-serving businesses are willing to compromise on country characteristics, such as labour costs, investment incentives and contract enforcement, in order to secure a foothold in a large, fast-growth market.

But where FDI is inspired by the desire to create and exploit an export platform (EPZs), low-cost production sites and investor protection are critical since the investment is far more "footloose".

Again the crucial importance of competitiveness is highlighted - export-driven FDI is closely correlated with a country's competitiveness. The Forum's survey finds that:

- the higher a country's competitive index, the greater the likelihood of it being considered as an appropriate location for FDI by an exporting firm;
- the less corruption in a country, the more FDI it is likely to attract; and
- the lower the corporate tax rate, the higher the level of foreign investment.

Recognition of the important benefits of FDI, such as technology transfer and access to global marketing networks, which stretches well beyond the actual finance it brings into a country, is a partial explanation of the intensity of competition for such inward investment. This is particularly so where export platform investment is concerned. Exporters do not need to establish themselves in large markets, but can shop around for the most competitive and profitable location.

Labour quality

A survey by international business and financial advisory group [Ernst and Young, 1994], while citing "large market potential" as the most important reason for offshore investment by 94 per cent of the 230 of its global client companies surveyed, also emphasises the quality, rather than the cost, of labour.

The survey found that neither access to raw materials nor plentiful supplies of low-cost labour were "high priority drivers". Labour quality, rather than low-cost labour, had become the major determinant of inward investment. For foreign investors, the local availability of highly-qualified personnel is of crucial importance, without whom there is little justification for locating an industrial operation.

A study by the Deloitte and Touche Consulting Group reaches a similar conclusion, finding that 76 per cent of investment in the ten foreign locations most favoured by US multinationals was in high-wage economies, led by Sweden. Fifty-five per cent of US manufacturing FDI targeted European locations, followed by Asia and the Pacific (16 per cent), Latin America (13 per cent) and Canada (11 per cent). Central America accounted for three per cent, and Africa and the Middle East one per cent, each.

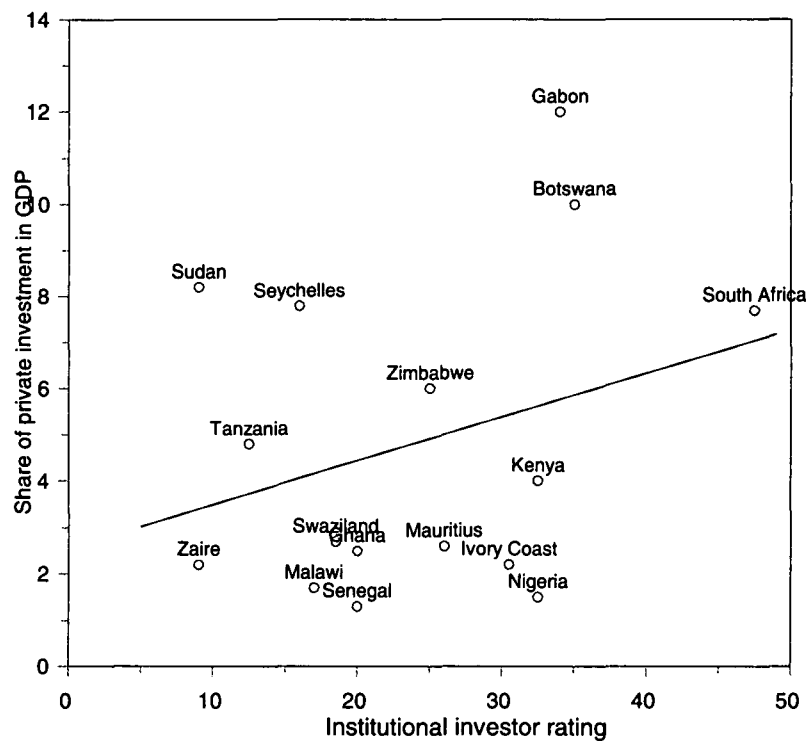
Brazil was the second largest destination after Sweden, with the UK in third place. The decreasing importance of low wage costs is reducing the appeal of many developing countries to foreign investors. "A country's ability to meet worldwide best-practice standards is more critical for competing in the global market than accessing cheap labour". Manufacturing industries require flexibility and developed world skill level to ensure that product quality satisfies world standards [Ibid].

Ernst and Young noted three other decisive influences:

- expected returns (78 per cent);
- the need for a strategic business location (67 per cent);
- pre-empting competition (52 per cent).

Figure 6.1 illustrates the relationship between risk and private investment using Institutional Investor risk ratings. The diagram shows that high levels of perceived risk (i.e. a low risk rating score where, on the horizontal axis, a score of 50 represents least risk and one of 0, maximum risk) are correlated with very low levels of private investment. The Democratic Republic of Congo (former Zaire) Malawi, Senegal, Ghana and United Republic of Tanzania all have poor risk ratings and low rates of private investment, while South Africa has a good risk rating and high levels of investment, together with Botswana and Gabon.

Figure 6.1. Private Investment and Country Risk Average, 1979 -1992



Source: Collier, P. and C. Partillo (1996) Background Paper on Private Investment. *Risk and the Policy Environment: What Can African Governments Do?*

Future prospects

Africa's recent economic recovery will not be sustained without substantially increased levels of investment. Assuming that the capital-output ratio (table 6.3) can be lowered by improving the productivity of capital to around five, the investment/GDP ratio would have to rise approximately 30 per cent to achieve a target growth rate of 6 per cent a year.

The constraints to such an investment ratio - similar to that achieved by a handful of Asian economies - are considerable:

- savings levels are too low, though this is improving slowly with the reduction in public sector deficits. The danger (Chapter IX) is that deficit reduction will become an end in itself, rather than the means to an end, resulting in even further declines in public sector investment - in physical infrastructure and in human capital (health, education and training), thereby further undermining the capacity of the state. In virtually all African economies, public sector investment levels need to rise rather than fall, to "crowd in" private investment (Chapters V and VIII).

- the region's dependence on ODA. Flows of ODA to sub-Saharan Africa have been declining, falling from \$13.9 billion in 1990 to \$10.7 billion in 1996. This trend is likely to continue [IMF, 1998 and World Bank, 1998], highlighting the need for African economies to attract increased inflows of FDI, supplemented by portfolio inflows of both debt and equity funds, and increase domestic savings capacity.
- supply-side obstacles to investment, both domestic and foreign (boxes 6.1 and 6.2), will have to be eradicated though this will inevitably be a slow process. According to the IMF [1998], the keys to increased private investment in sub-Saharan Africa are:
 - (i) maintenance of a stable macroeconomic environment;
 - (ii) improved governance "to avoid capricious interference with private activity and to develop a transparent, stable legal and regulatory environment that reduces the risks that currently hinder private foreign and domestic investors" [IMF, 1998];
 - (iii) increased domestic savings thereby reducing dependence on foreign capital;
 - (iv) trade liberalization;
 - (v) privatization;
 - (vi) civil service reform;
 - (vii) banking and financial sector reform;
 - (viii) increased labour market flexibility.

Box 6.1. Determinants of private sector investment

Serven and Solimano identify four crucial determinants of private investment in developing economies:

- the ratio of public investment to GDP, which is positively correlated with private sector investment. Investment in infrastructure and human capital "crowds in" rather than "crowding out" private sector investment. A one percentage point increase in the public investment/GDP ratio raises the private sector/GDP investment ratio by 0.25 of a point;
- output growth has a lagged positive impact on the private investment ratio with a coefficient of 0.15, implying that a 10 per cent rise in real GDP would boost the private investment/ GDP ratio by 1.5 percentage points;
- the higher the foreign debt/GDP ratio the lower is the private investment ratio to GDP, and
- a one per cent increase in inflation instability reduces the private investment ratio very marginally.

These determinants apply universally but in Sub-Saharan Africa specific obstacles are evident:

- The productivity of capital in many countries is adversely affected by inadequate physical infrastructure (Chapter VIII). This is partly because government spending in many countries favours wages and social transfers rather than physical infrastructure.
- Infrastructure and investment in human capital."
- Barriers to international trade are high and openness generally low (Chapter V) which also reduces the return to capital, partly by restricting the market size and scope to exploit scale economies.
- High levels of corruption in some countries are a deterrent to private sector economic activity and certainly to foreign investment.
- High levels of risk also reduce investment levels because entrepreneurs raise their hurdle rate of return to adjust for increased risk. In sub-Saharan Africa perceived risk levels are high because of political instability and civil unrest, but also because property rights may not be adequately protected, inflation rates have been very high until 1995 and frequent substantial currency devaluation has reduced the home currency return to foreign investors.
- Low levels of savings (table 6.2) mean that access to capital is limited and the cost of finance is often high.

Sources: Luis Serven and Andres Solimano, *Striving for Growth After Adjustment: The Role of Capital Formation*, World Bank, Washington, D.C., 1993.
IMF, 1998.

Box 6.2. African frontrunners

The World Investment Report (1998) published by UNCTAD, identifies six sub-Saharan countries which it classifies as "frontrunners" in terms of attracting FDI. The six – Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia and Uganda – are heterogeneous, in terms of levels of development and in their reliance on different sectors for economic expansion. UNCTAD says the six have performed well in attracting FDI because:

- Almost all have made considerable progress in acquiring or regaining political stability in recent years. One reason why the Hyundai vehicle-assembly plant was established in Botswana was the country's strong track record of political stability.
- All have made special efforts to improve their regulations governing FDI. Most have revised their investment codes in recent years. Government regulations impose less of a burden on business competitiveness in frontrunner states than in most African economies, according to the 1998 African Competitiveness Report.
- Privatization – approximately a third of the 2,040 privatizations undertaken in sub-Saharan Africa before 1997 were in the six frontrunner states.
- High rates of GDP growth in the last 10 years.

While natural resource endowments explain much of FDI inflows into frontrunner states, natural resources alone are not enough to attract investment. Political stability, and a stable and transparent regulatory environment allied with sound macroeconomic policies are equally essential.

Source: UNCTAD, *World Investment Report*, 1998.

Financial sector reform

Most SAPs rightly accord high priority to financial sector reform. These reforms target key weaknesses that evolved in the pre-reform era:

- (i) a narrow financial structure, dominated by commercial banks. With a few exceptions - notably South Africa, Zimbabwe, Kenya, Nigeria and Ghana - the non-bank financial sector has, until the 1990s, been neglected. Since 1990, there has been a burst of financial sector diversification, including:
 - proliferation of stock markets;
 - growth of non-bank financial institutions (insurance companies, pension and provident funds, mutual funds); and,
 - a substantial increase in the number of banks, frequently merchant or investment banks, specializing in trade and corporate finance and in wholesale banking transactions with medium-sized and large customers
- (ii) the dominance of the state in the finance sector. In many countries, the main banks were state-owned, while governments exercised control - directly or indirectly - over the money supply, interest rates, lending policies and the allocation of credit. Real interest rates were often low or negative which discouraged savings and impeded financial intermediation;
- (iii) high reserve ratios of banks, averaging 20 per cent to 25 per cent of deposit liabilities, thereby driving a wedge between deposit and lending rates and increasing the cost of funds to the enterprise sector;
- (iv) the operation of governments as major borrowers in the money and capital markets, thereby "crowding out" private sector investors.

During the 1990s, many countries have adopted reform programmes designed to rectify these shortcomings. Central banks have strengthened prudential regulation procedures in accordance with the Basle Accords. Governments have stepped in to restructure or close "financially distressed" institutions. The number of stock exchanges has grown rapidly with the opening of new markets in Botswana, Ghana, Malawi, Namibia, United Republic of Tanzania, Uganda and Zambia. Several countries have opened up their stock markets to foreign investors, thereby both raising the country's investment profile - and that of its market-listed companies - while also attracting inflows of portfolio capital.

Box 6.3. UK disinvestment from Africa

In 1994, Paul Bennell published a study of UK manufacturing investment in Africa. He found that 90 per cent of UK manufacturing investment in Africa (excluding Namibia and South Africa) was located in 14 "Anglophone" countries accounting for 55 per cent of the continent's total population and 58 per cent of MVA (Bennell, 1994). The 14 countries are Gambia, Ghana, Liberia, Nigeria, and Sierra Leone in West Africa, Botswana, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe in Southern Africa and Kenya, United Republic of Tanzania and Uganda in East Africa.

His main findings were;

- (i) Annual net manufacturing investment by British companies in all of Africa (excluding South Africa) rose 60 per cent from £63 million a year in 1980-87 to £99 million a year between 1988 and 1992.
- (ii) There was an inverse relationship between UK manufacturing investment and the macroeconomic performance of individual countries. The largest increases were recorded in countries with either small improvements or deteriorations in their macroeconomic policies, as assessed by the World Bank.
- (iii) In 1989/1990 90 UK companies had a total of 336 equity involvements in manufacturing enterprises in the 14 sub-Saharan economies. By mid-1994 this had fallen to 65 companies with equity stakes in 233 manufacturing firms. Half of the 1989 parent companies disinvested during this period - one third of them completely and 20 per cent of them partially. Disinvestment was concentrated in three countries - ironically the more industrialized economies - Kenya, Nigeria and Zimbabwe.
- (iv) Approximately, one third with existing equity investments in the 14-country region disinvested during the 1980s, ranging across a broad spectrum of industrial activities - automotive, chemicals, engineering, textiles, plastics, glass, paper and packaging, pharmaceuticals, metal products, bicycles and food and beverages.
- (v) Only nine UK-based companies invested in 18 manufacturing projects between 1989 and 1994.
- (vi) By the end of the 1980s, some 20 parent companies accounted for 70 per cent of all UK-owned manufacturing investment in the region.

Bennell reaches two principal conclusions:

There was widespread disinvestment by UK parent companies with manufacturing equity involvements in the 14 Anglophone countries between 1989 and 1994. Investment policy is, therefore, as much about retaining existing players as attracting new ones.

The impact of "massive devaluations" of African currencies on the sterling values of production and profit for parent companies was "particularly serious".

Source: Paul Bennell. *British Manufacturing Investment in Sub-Saharan Africa. Corporate Responses During Structural Adjustment.*, Institute of Development Studies, Working Paper No. 13, December 1994.

Table 6.7. Market capitalization of sub-Saharan stock exchanges, 1997

Country	Millions of dollars
South Africa	232 069
Nigeria	3 646
Zimbabwe	1 967
Kenya	1 811
Mauritius	1 663
Côte d'Ivoire	1 228
Ghana	1 130
Zambia	705
Namibia	689
Botswana	613
Swaziland	129
Total	245 650

Source: IFC, *Emerging Market Factbook 1998*.

Venture capital companies have been established, several of them by international investing groups, such as the World Bank's private sector investing arm, the International Finance Corporation (IFC), and the Commonwealth Development Corporation.

In tandem with privatization programmes a number of governments are experimenting with private-public investment projects - possibly the most ambitious being the Maputo Corridor project linking South Africa's industrial heartland of Gauteng Province with the Mozambique port of Maputo.

Taken together, these initiatives will strengthen the continent's financial infrastructure, while enhancing the efficiency of the financial intermediation process. As a result, in the medium term, not only will domestic savings levels rise, but also savings mobilization will become more efficient and investment levels and efficiency will increase.

Box 6.4. The Maputo Corridor

The Maputo Corridor project, based on the rehabilitation of core road, rail and port infrastructure between the Mozambican capital and South Africa's industrial heartland of Gauteng is the most ambitious development scheme in Southern Africa, attracting over \$600 million.

This is just the beginning. An estimated \$7 billion-worth of private-sector projects are planned or being developed in the Corridor area. These include:

- Rehabilitation of the port of Maputo, at a cost of \$85 million. The Government of Mozambique has now identified the preferred bidder to manage, operate and maintain the port and dredging activities, and an official announcement is expected soon.
- Development of the \$700 million Pandé gas field in Inhambane and construction of a pipeline to Maputo. This will be undertaken by US multinational, Enron, in 1999. The second phase of the scheme will involve extension of the pipeline into South Africa, at an estimated cost of \$300 million.
- A direct reduced iron and steel plant in Maputo using magnetite feedstock from South Africa and gas from the Pandé gas field. The project, backed by South Africa's Industrial Development Corporation (IDC), includes an electric-arc furnace steel plant to produce long steel products downstream from the IDC direct reduced iron plant in Maputo and a slurry pipeline from South Africa. Other equity partners in the project include Duferco of Switzerland and Enron.
- A \$250 million scheme to survey the development potential of building material resources in Maputo province.
- The \$300 million Red River ilmenite/magnetite and vanadium project near Tzaneen.
- Rehabilitation of the Maputo rail network at a cost of \$70 million. The Government has also identified a preferred bidder to establish a joint venture company to manage, operate and maintain the southern Mozambican rail network.
- Construction of a border post, probably on a build, operate, transfer basis (BOT), at Ressano Garcia/Komatipoort. Preliminary design of the \$33 million project has been completed; construction is likely to take three years.
- Iscor's \$300 million heavy-minerals project adjoining Red River.
- Construction of the Witbank to Maputo toll road. Building work on the Moamba-Maputo section of the \$400 million road, for which the Trans African Concessions consortium has been awarded a 30-year concession, commenced in April.
- Estimated investments of \$1.43 billion in the development of petrochemical and stainless-steel clusters at Secunda and Middelburg.
- A forestry project south of the Mozambican capital, currently under investigation by South African firm Sappi.
- Some \$37 million-worth of agro-industrial projects in Mpumalanga.
- A variety of investment opportunities in the Mozambican fishing, forestry and tourism sectors.
- A \$2 billion hydroelectric dam at Uncua on the Zambezi river. This may eventually supply power to the Mozal aluminium smelter being planned by South Africa's Gencor.
- Development of heavy mineral-sand deposits on the lower Mozambican coastline, also being planned by Gencor.
- A R3 billion fertilizer plant in Maputo.
- An eco-tourism project in the Maputaland region south of Maputo. This is being backed by a US investor, James Blanchard III.
- The possible linkage of South Africa's Kruger National Park with the Banhine-Xinave/Gonr-re-Zhou park in Mozambique.

This level of foreign investor interest represents a major turnaround for Mozambique. Protracted civil war, rigid bureaucracy and the government's adherence to statist economic policies meant that it rarely featured as a favoured location for foreign MNCs - over the 1985-1990 period.

Source: The Economist Intelligence Unit, *Business Africa 1998*.

Investment and productivity

The level and efficiency of investment drive economic growth, with productivity increasing rapidly on the back of high levels of investment in software - education, training, skills development and technological progress. Because sub-Saharan Africa is the world's most backward region, technologically, it stands to benefit enormously from the impact on productivity of "catch-up" investment in human capital.

But this process will be diluted by understandable efforts to boost employment in relatively low-skill, and low-productivity activities - small-scale agriculture, labour-intensive manufacturing and services (especially tourism) and the informal sector. For this reason, sub-Saharan Africa is unlikely - at least in the next decade - to secure the kind of productivity growth enjoyed by the industrialized and newly industrializing economies.

Box 6.5. Investing in Mozambique

A development strategy for the private sector is one of the cornerstones of the Government's reform and economic development plan, outlined in May 1997. This includes an overhaul of the country's archaic commercial code, which is certainly necessary. A foreign firm entering Mozambique for the first time can spend six months and up to 10 per cent of its initial investment merely getting itself incorporated. Indeed, a study for the world Bank identified no less than 145 different steps, many of them duplicative, that must be fulfilled when setting up a company. However, this process is now being rationalised.

Investment incentives

The Mozambican government offers a series of financial incentives to encourage investment. To qualify for these, potential investors must submit their proposals to the Centro de Promoção de Investimentos, the country's investment-promotion centre, which will charge 0.1 per cent of the proposed investment for its services. Incentives on offer include the following:

- Full exemption from customs duties and consumption and circulation tax on some equipment for greenfield investments.
- An 80 per cent reduction of corporate tax (currently 30 per cent for agricultural concerns, 40 per cent for industrial companies, and 45 per cent for commercial/service operations) and supplementary taxes during the period of recovery of investment expenditures in Niassa, Tete and Cabo Delgado Provinces. A 65 per cent reduction of the same taxes is offered on investments located outside other provincial capitals, while 50 per cent cuts are available for investments in the capitals of other provinces.
- Deduction from the taxable income of operating ventures of 100 per cent of investments in new equipment, plant and infrastructure and construction for up to five years.
- Deduction for losses for tax purposes of expenditures on construction, rehabilitation of public roads, schools, sewage systems, and training of Mozambican workers.

Investment guarantees

Mozambique is a signatory to the Multilateral Investment Guarantee Agency (MIGA), the Overseas Private Investment Corporation (OPIC) and the International Convention for Settlement of Investment Disputes. In addition, the 1993 Investment Law contains a range of investment guarantees including:

- Security and legal protection of property over goods and rights in connection with investments made.
- Freedom to import equity capital or loans to carry out investments.
- The remittance of funds abroad in connection with exporting foreign investors' profits, payment of royalties and other charges abroad, loan repayments and interest charges due abroad, and any amounts paid as just and equitable compensation.
- Repatriation of capital invested upon liquidation or sale, total or partial, of good or rights of an investment undertaking.
- Just and equitable compensation in the event of expropriation based on "absolutely necessary and weighty reasons of public and national interest, health and public order".

Source: The Economist Intelligence Unit, *Business Africa 1997*.

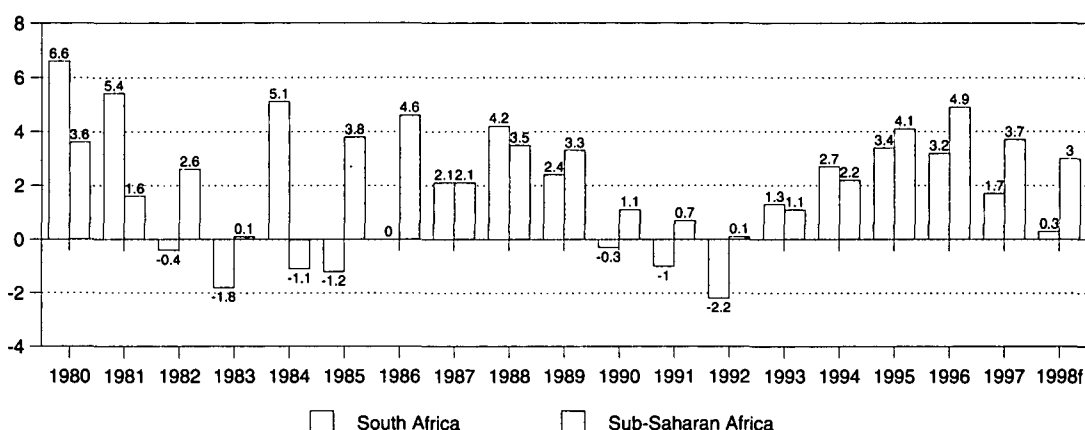
CHAPTER VII. SOUTH AFRICA'S ROLE

The re-emergence of South Africa as a major player in the sub-Saharan region, rather than being isolated from it politically and economically by the apartheid system, will have far-reaching repercussions for industrial and economic development on the continent.

South Africa dominates the sub-Saharan economy, accounting for 45 per cent of sub-Saharan Africa's GDP (current prices) - although in constant price terms, its share is closer to a quarter - and for 58 per cent of regional MVA, 42 per cent of exports and 38 per cent of imports. It also dominates intra-regional trade, supplying 40 per cent of intra-regional exports to the rest of sub-Saharan Africa.

Ironically, South Africa's economic growth performance, both under apartheid and sanctions and since the release of President Nelson Mandela from detention in 1990, has been even weaker than that of sub-Saharan Africa as a whole (figure 7.1).

Figure 7.1. South Africa: Real GDP growth, 1980-1998



f = forecast

Sources: South African Reserve Bank, and the IMF.

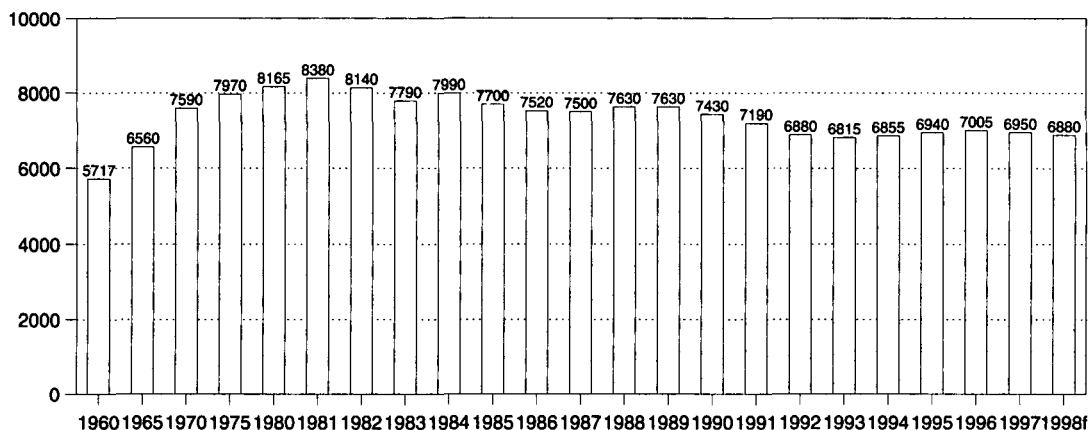
To some extent, this is consistent with the growth theory, whereby more advanced economies expand at a slower pace than less developed ones - the concept of convergence. However, the protracted decline in real per capita incomes over the past 20 years, which has continued in 1997/98, allied with escalating unemployment and deepening poverty for a substantial proportion of the population, underlines just how unsatisfactory recent economic performance has been (figure 7.2).

Real per capita income in 1998 is estimated at 6,880 rand (constant 1990 rand), the same as in 1992 which, in turn, was the lowest figure since 1966 (figure 7.2). Accordingly, real per capita incomes today are virtually unchanged from their levels of 30 years ago, highlighting the challenge facing the country in the 21st century.

These figures are significant in two respects:

- (i) they cast doubt on the extent to which South Africa can become the leader of the African renaissance - the locomotive that drives the regional economy, especially that of southern Africa, in the 21st century. If South Africa is, in fact, going to play that role, its economic performance must improve radically.
- (ii) South Africa is the dominant player in the sub-Saharan economy, not just in terms of its contributions to regional GDP, exports and MVA, but also because of its high and growing levels of penetration of sub-Saharan economies - notably trade, but also FDI and non-equity linkages. Along with Nigeria, it is the only economy that has the capability to transform past adverse regional contagion effects into positive neighbourhood effects.

Figure 7.2. South Africa: Real income per head, 1960-1998 (Constant 1990 prices)



f = forecast

Sources: South African Reserve Bank and The Economist Intelligence Unit.

Manufacturing

MVA, in constant 1990 dollars, grew at over 5 per cent annually between 1965 and 1980, before slowing to a crawl (0.2 per cent a year) during the 1980s. The 1990s have also been disappointing, with MVA increasing at only 0.75 per cent a year.

As a result, manufacturing industry's share in GDP, which peaked at around 29 per cent in the early 1980s, has declined to 25 per cent (table 7.1).

Table 7.1. Shares in GDP, 1946-1997, selected years (Constant 1990 prices)

Year	Agriculture	Mining	Manufacturing	Services
1946	7.5	21.0	13.5	53.5
1960	7.2	22.5	18.8	46.0
1970	5.0	18.8	24.4	44.9
1980	5.1	11.7	28.9	46.7
1990	5.3	9.7	25.5	51.7
1997	5.6	8.6	24.9	53.1

Source: South African Reserve Bank Quarterly Bulletin, June 1994 and June 1998.

The most striking feature of South African manufacturing is its capital intensity. Between 1936 and 1981 the sector's capital stock grew at an annual rate of 7.5 per cent, while employment failed to keep pace with industrial output growth. As a result, the capital-labour ratio virtually doubled between 1936 and 1970, increasing a further 85 per cent between 1971 and 1988.

At the end of the 1980s, economy-wide capital-labour ratios were more than twice those of comparator countries - the Republic of Korea, Brazil, Mexico and Malaysia (table 7.2).

Table 7.2. Capital-labour ratios: South Africa and comparators, selected years

Country	1961-1965	1971-1975	1981-1985
South Africa	13.8	18.1	27.0
Brazil	3.6	6.5	10.6
Mexico	6.5	12.4	18.4
Republic of Korea	1.0	4.3	11.8
Malaysia	3.3	6.1	12.1

Source: World Bank, Discussion Paper of the Economy of South Africa., No. 1, January 1992.

Until the mid-1950s, manufacturing was driven by the pattern typical of most emerging industrializing countries - the replacement of imported consumer goods with domestic production, fostered by import controls and tariff protection. Domestic production of labour-intensive manufactures, downstream activities, was also encouraged and accounted for much of the growth in employment.

Once the phase of "easy" import substitution was completed, South Africa, unlike the successful industrializers of East Asia, focused on even greater inward orientation, extending protection to upstream, capital goods and capital-intensive industries. This undercut the potential for further development by downstream labour-intensive operations, thereby raising the capital-intensity of manufacturing and indeed the economy as a whole (table 7.2).

Economic sanctions and the disinvestment by major multinationals during the 1980s allied with growing industrial unrest, fostered even greater capital intensity, as export markets were closed to South African goods and the drive to replace imports moved ever further upstream.

This historical growth path is still affecting the country's drive for manufacturing competitiveness adversely (see Competitiveness below). Policy began to change in the 1980s, but the major break with the past came with the change of government in 1994 and the decision to sign the URAs and pursue an export-led growth strategy.

Competitiveness

Sub-Saharan industrial powerhouse it may be, but South Africa does not rate highly as a world class player. In 1997, it ranked 44 out of 52 countries in the World Economic Forum's Global Competitiveness Report, while in 1998 it ranked seventh out of 23 African countries in the Africa Competitiveness Report (Chapter VIII).

Conscious of the need to upgrade technologically and competitively, South Africa is opening up its economy through a programme of trade liberalization in line with its Uruguay Round commitments. Since the 1980s, the country has moved from an isolated stance, under a highly-protective tariff regime, towards outward orientation with moderate protection.

Studies by the South African Industrial Development Corporation (IDC) demonstrate that several downstream industries - metal products, automotive components, wooden furniture, and footwear - are "fundamentally uncompetitive." The IDC identifies three core factors that it believes could be addressed so as to provide the springboard to enhance competitiveness:

- (i) raw material disadvantages in terms of price, quality and service;
- (ii) upgrading of human resources; and
- (iii) high overhead and marketing costs.

Table 7.3. Comparisons of South Africa's manufacturing import tariffs, 1996

Economic grouping, country, type	Average tariff rate
Low-income economies	
India	27
Pakistan	50
Tanzania	19
Zambia	13
Middle-income economies	
Zimbabwe	40
Mauritius	30
Chile	1
Brazil	11
Upper Middle-income economies	
South Africa (20 per cent in 1994)	11
Argentina	11
Venezuela	13
Korea	7
High-income economies	
EU	10
US	5
Australia	10
Canada	8

Source: Industrial Development Corporation, *The Dynamics of South African Manufacturing Competitiveness*, Johannesburg, 1997

Raw material disadvantages

Although South Africa has perceived advantages in terms of processed and semi-processed commodities - carbon steel, stainless steel, aluminium, timber products - such advantages are seldom passed on to downstream users. Often such downstream firms find they can source materials at lower cost internationally. Because raw materials account for 45 per cent to 60 per cent of the total production cost of some metal products, the competitive disadvantage of using local supplies can be considerable.

"Import parity pricing" perpetuated by a lack of rivalry among materials suppliers and some remaining tariff duties are a major source of competitive disadvantage and the IDC calculates that South African manufacturers have a 19 per cent disadvantage, relative to "world prices". Countries as diverse as Brazil, Chile, China, India, Italy, Republic of Korea, US and some African states, have a clear cost competitive advantage over South African manufacturers because they are able to source lower cost materials domestically. As a result, furniture, automotive components, stainless steel, aluminium and wire products industries in these countries have a cost advantage over South Africa. Inconsistent supply, poor quality of materials and long delivery lead-times in South Africa accentuate industry's competitive disadvantage.

Human resources and wage costs

Traditionally, South African manufacturers have relied on relatively low-cost labour to gain a conversion cost advantage over OECD countries. In footwear, unit labour costs are 150 per cent higher in the Republic of Korea, 250 per cent higher in Australia, over 300 per cent in Italy and more than 400 per cent in the UK. But unit costs are significantly lower in other African countries and in Asia. However, wage-cost advantages are invariably offset by productivity differences. Italy, Australia and the UK have productivity levels some 400 per cent higher than South Africa.

Furthermore, South African wages have already reached the level at which the country cannot compete with low-wage suppliers. Increasingly the country is moving into the "medium-wage" band where it faces competition from Brazil, Mexico and the Republic of Korea.

To be able to compete successfully with manufacturers from such countries, South Africa will need "substantial investment in the upgrading of skills and technology." Core competencies in design, global marketing, total quality management and just-in-time management will have to be developed, while at the same time, there is likely to be some reduction in the employment of low-skilled personnel.

Box 7.1. South Africa's competitive advantage

South Africa enjoys competitive advantage in four broad areas (IDC 1997):

- (i) minerals
- (ii) mineral beneficiation
- (iii) agriculture, and
- (iv) "best performing" industries

Considerable investment and expansion has taken place since the early 1990s in the field of minerals beneficiation, though policymakers concede that such activities are, for the most part, highly capital-intensive, thereby making little direct contribution to solving the country's escalating unemployment crisis.

In an effort to shift the focus towards competitiveness but with greater employment intensity, the IDC in 1997 identified "best performers" using a combination of revealed comparative advantage and degree of export market penetration, along with a combined competitiveness index. In this index, industry branches are ranked in terms of:

- low rates of effective protection
 - low anti-export bias
 - low levels of subsidies
 - high profitability/return on assets
 - high value-added as percentage of total production
 - high rates of growth in factor productivity
 - labour remuneration, and
 - opportunities for import replacement
-

High overhead and marketing costs

South African firms have elaborate overhead administrative and sales structures, which have resulted in their having significantly higher overhead and marketing costs than their international counterparts.

Table 7.4 identifies those industries in which the IDC believes South Africa is competitive.

Table 7.4. South African competitive industries, 1997		
Best export-oriented industries		Best performing manufacturing sub-sectors
As per revealed comparative advantage	As per degree of penetration in world markets	As per competitiveness index
<i>Food and related products:</i> Sugar, starches, insulin and wheat Gluten, vegetables and fruit (fresh and preserved)	<i>Food and related products:</i> <i>Cereals and preparation thereof,</i> beverages	<i>Wearing apparel</i>
<i>Textiles, clothing and related:</i> Textile yarn, woven fabrics of synthetic fibres	<i>Textiles, clothing and related:</i> Men's suits and trousers, footwear, travel goods, hand-bags, etc.	<i>Footwear</i>
<i>Wood-related products:</i> Wood and cork, chemical wood pulp, paper and articles thereof	<i>Wood-related products:</i> Wood and cork and manufactures thereof, furniture and parts thereof, chemical wood pulp	<i>Tanneries and leather finishings</i>
<i>Chemicals:</i> Inorganic chemicals, fertilisers, petroleum jelly, mineral waxes	<i>Chemicals:</i> Organic chemicals, fertilisers, petroleum-related products, tyres	<i>Leather products</i>
<i>Non-metallic mineral products:</i> Building and monumental stone	<i>Machinery:</i> Agricultural machinery or parts thereof, trailers and other vehicles (not motorized), railway equipment	<i>Furniture</i>
<i>Basic metals:</i> Basic iron and steel products, ferro-alloys, non-ferrous basic metal products	<i>Basic metals:</i> Basic iron and steel products	<i>Paper containers</i>
	<i>Metal products:</i> Wire, cables and cordages of iron and steel	<i>Industrial chemical products</i>
		<i>Industrial and other machinery</i> <i>Electrical appliances</i> <i>Non-ferrous metal products</i> <i>Basic iron and steel</i> <i>Fabricated metal products</i>

Source: Industrial Development Corporation, *The Dynamics of South African Manufacturing Competitiveness*, Johannesburg, 1997

The composition of exports

As the economy opens up, the composition of exports will change. Table 7.5 illustrates the changes that have taken place since 1970, underlining the declining share of primary products and the growth of manufactured exports, which now account for over half the total. Post-apartheid economic policy is designed to further promote this trend.

Table 7.5. Composition of exports, 1970-1974 and 1990-1994 (Per cent)		
Exports	1970-1974	1990-1994
Food and live animals	28.8	13.2
Crude materials (excluding fuels)	31.2	18.6
Mineral fuels	1.6	13.1
Manufactures	37.6	52.9
Not classified	0.8	2.2

Source: IMF: South Africa, *Recent Economic Developments*, 1996.

REGIONAL IMPLICATIONS

As the South African economy restructures, positive neighbourhood effects can be expected to predominate, though the impact of greater import- and investment-penetration of their economies has had some transitional adverse repercussions in southern African economies. In essence, this represents the regionalization of the southern African economy, with spin off effects as far afield as Kenya, Uganda and Ethiopia in East Africa, the Democratic Republic of Congo in central Africa and Ghana, Burkina Faso, Mali and Côte d'Ivoire in the west.

After decades of business and economic isolation, South African companies are diversifying their activities by broadening their geographic and sectoral base.

The "South Africanization" of southern Africa has three distinct dimensions:

- (i) A positive element in the form of South African investment, often by way of joint venture or alliance, but also by buying state-owned companies, as a result of privatization. South African firms - and even parastatals - have been particularly active in the privatization programmes of both Mozambique and Zambia, while in Zimbabwe, South Africa's largest banking group, ABSA, has bought a 27 per cent stake in the recently privatized Commercial Bank of Zimbabwe.
- (ii) A negative aspect in the form of increased market penetration by imports from South Africa, which could force some manufacturers in the region to close. The closure of Dunlop Ndola, the downsizing of the US pharmaceutical group, Johnson and Johnson, and the restructuring of Colgate-Palmolive in Zambia, along with similar, but less radical, restructuring of the chemicals and food sector in Zimbabwe, has alarmed business leaders and government officials, for whom it is evidence of de-industrialization. While this trend may have negative implications for local industry in neighbouring states, it often has positive implications for consumers, farmers, miners and industrialists in the supply of cheaper and better inputs.
- (iii) The most negative aspect for many in business and government is the essentially one-sided nature of the relationship. South African penetration of SADC markets - and indeed African markets as a whole - has grown rapidly since 1992, but none of Pretoria's neighbours has yet managed to break into the South African market on a significant scale. SADC industrialists - other than those in SACU, the customs area comprising Botswana, Lesotho, Namibia and Swaziland, as well as South Africa - complain that the playing field is lopsided. South African exporters have the benefit of some state assistance, while Pretoria's import tariffs on items in which its SADC neighbours have comparative advantage, such as clothing, textiles, footwear, foodstuffs and agricultural produce, are such that exports from the region are often uncompetitive.

To overcome this problem, both Zimbabwe and Zambia have negotiated bilateral trade agreements with South Africa that will allow some exports to enter the South African market on a preferential tariff basis. Zambian industrialists estimate that the trade agreement will lead to a \$300 million increase in "non-traditional" exports to South Africa - doubling non-traditional exports to all markets, which totalled \$314 million in 1997.

Regional trade

Southern Africa is on the brink of a new trade order that will substantially influence the nature and pace of industrialization, resulting in far-reaching restructuring of the region's manufacturing sector.

A free trade agreement between South Africa and the EU is scheduled to be implemented from January 2000, with the aim of removing tariffs on most trade in both directions within ten years. Although some restrictions on the entry of certain South African products will continue to be evident, most industrial products produced in South Africa will be able to enter the EU market, duty-free, in three years. Within ten years, South Africa is required to remove duties on approximately 86 per cent of its total imports from the EU.

The agreement will open up opportunities for South African manufacturers, in particular in steel and steel products, ferro-alloys, aluminium products, furniture and automotive production. In addition, possibilities arise for the establishment of completely new industries to produce for the EU, as well as for the South African and SADC markets.

The EU has traditionally been South Africa's largest export market, accounting for over 40 per cent of the total, followed by Asia (27 per cent) and the rest of Africa (18 per cent). Exports to Africa are, however, different from those to the rest of the world. Exports to the EU and Asia are dominated by commodities and semi-processed goods (mining, agriculture, iron and steel, and non-ferrous base metals). Those to Africa include a much higher proportion of consumer goods (motor cars, refined sugar, tobacco products, medical goods, insecticides) making up almost 30 per cent of the total in 1997.

Both South Africa and other southern African countries, while enjoying a variety of benefits, will also have to bear costs resulting from the implementation of South Africa's FTA with the EU. The benefits of a stimulus to economic growth in South Africa should be felt across the wider sub-region. In addition to a lowering of import costs in general, there should also be a boost to employment and increased FDI.

Adjustment costs of the FTA will be felt in the short term by South Africa's SACU partners. There will be increased competition with locally-produced goods from EU goods (both in the South African market and in each of the SACU markets). Moreover, the removal of duties on a substantial part of total imports will mean a sharp reduction in customs revenue -- which is pooled by SACU and distributed among its five members, and which forms an important part of the total state revenue of the smaller states.

Moreover, the introduction of the new FTA with South Africa coincides with new efforts by the EU to replace the fourth, and last, Lomé Convention with the African, Caribbean and Pacific (ACP) countries with new economic partnership agreements with sub-regional groupings in developing countries. It is the EU's intention that these should contain greater reciprocity than has been the case in the past, but the developing countries can be expected to put pressure on the EU for assistance in the development of their own regional cooperation and integration efforts. In the longer term, the success of future agreements with the EU is likely to depend on the consolidation of the role of the private sector as the engine of growth and development.

Box 7.2. Intra-regional trade in southern Africa

The Southern African Custom Union's exports to the rest of the continent totalled \$3.56 billion in 1996 while imports from Africa were only \$850 million, leaving South Africa and the other members of SACU (Botswana, Lesotho, Namibia and Swaziland) with a trade surplus of \$2.7 billion.

Table 7.6. SACU's main trading partners, 1996 (Millions of dollars)

	Exports to	Imports from	Balance
Zimbabwe	1 102	275	+ 827
Mozambique	545	18	+ 527
Zambia	380	42	+ 338
Malawi	225	74	+ 151
Mauritius	210	4	+ 206
Democratic Republic of Congo	200	112	+ 88
Kenya	195	30	+ 165
Angola	142	61	+ 81
Total (including others)	3 560	851	+ 2 709

Source: ABSA Bank.

This trade pattern is likely to become considerably more unbalanced before the pendulum swings back. South Africa is often a cheaper, speedier and more convenient, supplier of more appropriate products than EU, North American or Asian sources. On the other hand, Pretoria's main demands are for capital and skills-intensive imports that the rest of African cannot provide.

Such an unbalanced trade account has generated vociferous demands from other African countries - especially Zimbabwe and Zambia - for strategic trade agreements designed to level the playing field. While both countries have, in fact, negotiated bilateral trade pacts with South Africa, these are unlikely to prove successful given the structural nature of the trade gap. Sub-Saharan countries need to focus on competitiveness rather than bilateral trade agreements that will soon be overtaken by regional trade deals.

Industrial strategy

The potential implications for manufacturing industry are enormous:

- (i) While some substantial South African firms may be able to compete with imports from the EU, few SADC enterprises have the technology, expertise and critical mass to be able to do so. Accordingly, their growth prospects will depend on being able to arrange alliances or sub-contracting agreements, either with South Africa or EU firms that would enable them to share the benefits of the FTA agreement.
- (ii) Improved market access for commodity exporters, especially in agriculture, would increase export competitiveness in the region as a whole.
- (iii) FDI inflows can be expected to increase, as multinational firms use southern Africa as a low-wage-cost, natural-resource-abundant conduit for penetrating EU markets.

The "Flying Geese" effect

Location is crucial in the attraction of FDI, as evidenced by the East Asian experience. The "Flying Geese" model refers to the Asian experience, when Japan was the "lead goose" and the Asian Tigers of Hong Kong, Singapore, the Republic of Korea and Taiwan benefited from offshore FDI by Japanese firms as they moved upmarket into more sophisticated and high-technology activities. Sub-Saharan Africa could benefit similarly if South African firms follow the Japanese lead in Asia.

However, the extent to which South Africa could create a "flying geese" situation in the 14-member SADC is problematic. The South African Reserve Bank estimates that outward FDI by South African firms in SADC tripled from \$120 million in 1991 to \$300 million in 1994, with the bulk of this \$170 million being in Swaziland and over \$60 million in Botswana. Since 1994, the trend has probably accelerated, suggesting that Pretoria's SADC capital stock now exceeds \$500 million.

That South Africa will have to restructure its industries to make them more competitive is clear, but it is unclear whether this will have the "Flying Geese" effect on its neighbours, as was the case with Japan in Asia. Two trends stand out:

- location of new major minerals-beneficiation plants on the coast in neighbouring Mozambique (Mozal aluminium, the proposed iron ore plant at Beira), to cut transport costs and exploit low-cost energy; and
- relocation of labour-intensive factories in low-wage economies - the shift of some clothing factories to Lesotho and Malawi being obvious examples. With average wages in South African manufacturing more than double those in Botswana, four times those in Zimbabwe and between seven and ten times those in Zambia and Malawi, the scope for cost-savings is enormous.

UNCTAD (1997) argues, however, that South Africa has a pool of unemployed labour and might well prefer to locate job-intensive projects at home rather than elsewhere in SADC, while today low labour cost is seldom a decisive factor in plant location.

A key difference between Asia and Africa is that in the Asian case it was demand from the US and EU for goods produced in Asia that drove manufacturing's expansion. But in Africa such external demand is largely confined to primary product exports - precisely the kind of investment now taking place in the region, especially Mozambique.

UNCTAD (1997) concludes that while South Africa has the potential to become a regional growth pole for sub-Saharan Africa, it is unlikely to generate a flying geese, regional industrialization model in the near future. "At present, the geese do not seem ready for take-off".

Such a conclusion may well be premature as the volume of South African FDI in sub-Saharan Africa has grown rapidly since sanctions were lifted in the early 1990s. The drive north is essentially two-pronged:

- A growing number of South African-based multinationals, especially but not only the mining houses like Anglo American, De Beers, and Anglovaal, is searching for new resource-driven opportunities, mainly in the form of take-overs or joint-ventures. Others in consumer goods and foodstuffs, like South African Breweries, Ilovo Sugar and Tongaat-Hulett, are on the hunt for markets, as well as opportunities to expand production. Offshore investment drive is no longer restricted to mining, agriculture and manufacturing - the services sector is also well-represented

in distribution, hotels and tourism, transport and communications, computers and banking (Stanbic, First National Bank and ABSA).

- The South African invasion is generating a "demonstration effect" of its own, forcing first-world multinationals to rethink and restructure their African operations, along with the "new" multinationals from South East Asia – the Republic of Korea, Taiwan, Singapore, Malaysia and China. For many of these firms, the strategy is essentially similar - use South Africa, easily the region's largest market, as a platform to penetrate the sub-Saharan economy, thereby exploiting scale economies and other synergies.

Regional strategies pursued by South African firms fall into five overlapping and interlocking categories:

- (i) South Africa as a platform for market entry to sub-Saharan Africa, especially southern and eastern Africa. Increasingly, multinationals - South African and foreign-based - are using South Africa as a base for regional operations, especially in manufacturing, but also financial services and tourism;
- (ii) Resource-seeking investment, primarily by mining houses, but also tourist and energy companies;
- (iii) Market-seeking investment by retail and manufacturing groups, as well as banks. Such activity has taken two main forms - inward investment by companies, such as South African Breweries, the Shoprite-Checkers, Pepkor and Metro groups in retailing - or exporting;
- (iv) Market integration - mainly South African, but also some international firms seeking to establish globally competitive businesses, resorting to cross-border vertical integration to exploit cheap energy in Mozambique or low wage labour in Malawi or Zambia; and
- (v) Diversification by firms whose business has traditionally been South African-based but, as domestic and global competition intensifies, are seeking growth and diversification opportunities elsewhere in sub-Saharan Africa.

CHAPTER VIII.

COMPETITIVENESS

Until the mid-1990s, African governments and the donor community, including international agencies, paid relatively little attention to competitiveness. Economic policymakers saw the concept largely in terms of relative wage levels, inflation and exchange rates, while SAPs and ERPs focused on macroeconomic fundamentals.

The net effect has been to create an environment in which competitiveness is seen mainly as the responsibility of corporate managers. This situation is changing. The inclusion of two sub-Saharan economies - South Africa and Zimbabwe - in the Global Competitiveness Report published by the World Economic Forum was followed in 1998 by the World Economic Forum's first Africa Competitiveness Report.

This measures the competitiveness of 23 African economies - all but three of them in sub-Saharan Africa - based on estimates of their medium-term growth prospects, while adjusting for levels of initial income. The index is calculated using a weighted average of the results of an Executive Survey of African businesses and data collected from international institutions (the World Bank, the IMF, the United Nations) and African central banks, ministries of finance and departments of statistics.

Overall competitiveness is based on an average of six indices:

- openness
- government
- finance
- labour
- infrastructure, and
- institutions

The survey shows that:

- small, dynamic stable economies with solid export bases, perform best. The three top sub-Saharan economies - Mauritius, Botswana and Namibia - fall into this category;
- countries in the top half of the ratings are largely those that have managed to avoid the high levels of political and economic turmoil that have bedevilled economic performance over much of the continent;
- moderate performers include those undertaking reforms, but are still recovering from long periods of weak performance. Even "model" reformers, such as Ghana and Uganda, are included in this group because, even after a decade of largely-successful reform, per capita GDP levels are still lower today than in 1970;
- a feature of some of the moderate performers is the sporadic, or erratic, nature of their reform programmes. Both Kenya and Zambia fit into this mould;
- those ranked near the bottom include countries that have suffered recent political or civil turmoil (Ethiopia, Angola and Mozambique), or military dictatorship (Nigeria); and those that have been slow to implement economic reforms or are constrained by severe demographic, environmental or geographical factors, such as landlocked Malawi.

Neighbourhood effects

A feature of the rankings is the neighbourhood effect - the geographic grouping of the more competitive economies in North Africa (Egypt, Tunisia and Morocco) and in southern Africa - Botswana, Lesotho, Mauritius, Namibia, South Africa and Swaziland.

Table 8.1. African competitiveness ranking, 1998

Ranking	Country	Competitiveness index
1	Mauritius	0.87
2	Tunisia	0.79
3	Botswana	0.54
4	Namibia	0.43
5	Morocco	0.40
6	Egypt	0.38
7	South Africa	0.34
8	Swaziland	0.22
9	Ghana	0.09
10	Lesotho	0.06
11	Côte d'Ivoire	-0.09
12	Zambia	-0.09
13	Kenya	-0.15
14	Uganda	-0.16
15	Burkina Faso	-0.21
16	Tanzania	-0.24
17	Ethiopia	-0.25
18	Mozambique	-0.32
19	Cameroon	-0.38
20	Zimbabwe	-0.40
21	Malawi	-0.43
22	Nigeria	-0.48
23	Angola	-0.79

Source: World Economic Forum, *Africa Competitiveness Report (1998)*.

"Problematic" factors

The executive survey asked how problematic certain factors were for doing business. The aggregated mean results, scored from: 1 = very strong, to 4 = no impact, for 17 sub-Saharan countries (table 8.2) show tax considerations at the top of the list, followed by difficulties in raising finance and weak infrastructure. Corruption is also ranks high at number four. followed by inflation.

Table 8.2. Problematic factors affecting competitiveness in sub-Saharan business, 1998

Factor	Ranking (17 countries)
Tax regulations and/or high rates	1
Financing	2
Inadequate infrastructure	3
Corruption	4
Inflation	5
Policy instability	6
Crime and theft	7
Inadequate educational levels	8
Regulations for starting businesses	9
Coups or political instability	10
Regulations on foreign trade	11
Labour regulations	12
Worth ethic of the labour force	13
Uncertainty surrounding costs of regulations	14
Foreign currency regulations	15
Transfer costs in exporting capital	16
Public health concerns	17
Safety or environmental regulations	18
Geographical location of your firm	19
Price controls	20
Tribal conflict	21

Source: World Economic Forum, *African Competitiveness Report, 1998*.

At the other end of the spectrum, executives concluded that the least risk factor was that of tribal conflict, followed by price controls, disadvantages of location, public health concerns and, ranked 16 out of 21, transfer costs incurred in repatriating capital.

A feature of the rankings of problematic factors is the emphasis on either macroeconomic considerations - tax, financing, infrastructure, inflation and policy instability - or governance factors, such as corruption, crime and theft, regulations for starting new businesses and political instability.

Significantly, labour force concerns - the availability of skilled personnel, labour regulation and work ethics of the labour force - are ranked in the middle ground, while social and environmental issues appear to be of only limited concern.

Table 8.3 illustrates the problematic areas cited most often by respondents as their top five concerns. The table shows that the five main problems identified by executives are the same as those in the weighted responses for the surveys as a whole (table 8.2)

Table 8.3. Five main problematic concerns by number of respondents, 1998

Taxation	11
Financing	11
Infrastructure	11
Corruption	9
Inflation	8
Inadequate educated labour	6
Crime and theft	6
Policy Instability	5

Source: World Economic Forum, *African Competitiveness Report, 1998.*

Implications

The findings are more serious for some countries than for others. Where executives identify policy shortcomings, such as policy instability, high inflation rates, price controls, labour, foreign trade or foreign exchange regulations or regulatory obstacles to starting new enterprises, these can be resolved relatively speedily, although reducing inflation may be a slow process. In this situation, it will be possible for policymakers to improve national competitiveness within a matter of a few years.

Where, however, the problems concern the quality of labour (the supply of educated personnel, work ethics), governance issues (corruption, crime and theft, uncertainty surrounding costs of regulations), political issues (coups and political instability or tribal conflict), or medium-term structural issues (the physical infrastructure), it will take far longer to improve a country's competitiveness.

Table 8.4 suggests that enhancing competitiveness at the national level in Africa will be a lengthy process. While there are a number of steps that could be taken to improve competitiveness in the short to medium term by eliminating bureaucracy, improving access to finance, slowing inflation and reforming the policy environment, competitiveness in all the countries reviewed is also being constrained by longer-term structural and social issues.

Clearly infrastructural improvements will take several years to achieve, while increasing the supply of skills and the quality of labour is also a long-run challenge. Changing attitudes, in respect of the work ethics and corruption, and building sound socio-political institutions to improve certainty and reduce political and policy instability are also long-term tasks.

In sum, building competitiveness at the national level will take time, though it may be short-circuited, at least partially, by enhanced competitiveness at enterprise level.

A two-tier concept

However defined, competitiveness is essentially a two-tier concept - comparative advantage at the national level and enterprise-driven, strategic, or competitive, advantage. At the national level, competitiveness has been defined as "strategic government intervention in the economy to build national competitiveness" [Phillips, 1992].

Table 8.4. Competitiveness time frames, 1998

Country	Ranking	Priorities	Time frame
Botswana	3	Labour, inflation, financing, infrastructure	Long
Burkina Faso	15	Financing, infrastructure, tax, regulations, coups	Medium/long
Cameroon	19	Corruption, financing, tax infrastructure	Medium/long
Côte d'Ivoire	11	Tax, policy, finance, education, infrastructure	Medium
Ethiopia	17	Infrastructure, tax, finance, corruption	Long
Ghana	9	Inflation, finance, tax, infrastructure, corruption	Medium/long
Kenya	13	Corruption, infrastructure, crime, finance, policy instability	Long
Malawi	21	Infrastructure, finance, crime, corruption, education	Long
Mauritius	1	Labour, education, policy instability, inflation	Medium
Mozambique	18	Infrastructure, tax, crime, education, corruption	Very Long
Namibia	4	Education, work ethic, labour, crime	Long
Nigeria	22	Infrastructure, corruption, political and policy instability	Long
South Africa	7	Crime, tax, labour, work ethic, education	Medium/long
Tanzania	16	Tax, finance, infrastructure, inflation, regulations	Medium
Uganda	14	Finance, infrastructure, tax, corruption, political instability	Long
Zambia	12	Finance, tax, inflation, crime, education and infrastructure	Long
Zimbabwe	20	Tax, inflation, infrastructure, corruption, policy instability	Medium

Source: World Economic Forum, *African Competitiveness Report, 1998*.

Ultimately, it is enterprises - not countries or governments - that compete with one another for orders and markets. But it is enormously difficult, if not impossible, for even the most efficient firms to be globally competitive in an uncompetitive national economic environment, characterized by high taxes, rampant inflation, high real interest rates, an overvalued exchange rate, and weak infrastructure and institutions.

Comparative advantage is the source of national competitiveness, while competitive advantage refers to enterprise-level competitiveness. In this dichotomy, the primary role of the state - of national industrial policy - should be to create the appropriate enabling environment within which enterprise managers in the industrial sector can build competitive advantage.

Both types of advantage - comparative and competitive - are dynamic and change over time. Countries move up and down the World Economic Forum's league table of competitiveness reflecting the success and failure of governments in enhancing national competitiveness. Economic success stories among the developing economies have been those which "created" comparative advantage at the national level rather than relying on resource-driven growth which exploits inherited advantage in form of mineral or oil deposits, the combination of favourable climatic conditions and arable land and/or plentiful low-wage, though not necessarily low-cost, labour. Mauritius is such an example.

Michael Porter has argued that comparative advantage is created when an economy progresses from the factor-driven or resource-driven stage of economic development to the investment-driven, and subsequently innovation-driven stage. No African country - let alone least developed African country - has yet attained Porter's investment-driven stage, though Mauritius, and to a lesser extent South Africa, are progressing in that direction.

Competitive advantage

Unlike countries, enterprises seldom inherit competitive advantage. They must, therefore, create it. Where the "home base" matters, advantage is location-specific so that the competitive advantage achieved by the firm is dependent primarily upon the comparative advantage of the country.

A firm may exploit "pure comparative advantage" when it is located in a country where factor costs are low - the proposed Mozal aluminium smelter in Mozambique is an example, where the aim is to exploit low energy costs (box 8.1). EPZs are established chiefly to exploit low wage costs.

Box 8.1. What drives competitiveness

The World Economic Forum (WEF) defines competitiveness as a country's ability to achieve sustained high rates of growth in per capita real income - a yardstick that is highly appropriate for LDCs. The 1996 Global Competitiveness Report identifies eight factors that drive national competitiveness:

- (i) The openness of the economy to international trade and finance - the assumption being that open economies outperform closed ones.
- (ii) The role of the government, budget and regulation measures, the impact of high levels of public spending and regulation. The assumption is that excluding the "crowding in" effects of public investment, countries with lower levels of state intervention, including public spending and taxation will perform better than those with large public sectors.
- (iii) Financial market development - the more highly developed are banking and capital markets, the faster the economy will grow.
- (iv) Infrastructure - a well-developed, well-maintained physical infrastructure is crucial to sustained growth.
- (v) Technology - a country's capacity in basic and applied sciences - an enhanced scientific capability - adds "immeasurably" to future output growth.
- (vi) Management measures the capacity of business to respond to market opportunity "in a creative and flexible manner".
- (vii) Labour markets measure the extent of government restrictions on labour flexibility - the hiring and firing of labour, the quality of industrial relations, the impact of taxes on work incentives. The more flexible the labour market, the faster the economy's underlying growth capacity.
- (viii) Judicial and political institutions measure the extent to which legal and political systems provide for low transaction costs in terms of property rights and legal contracts. An honest and efficient judicial system and a political environment that respects property rights are important factors underlying the performance of the economy.

The index is compiled using both quantitative and survey data, with openness, government, finance and labour being 75 per cent quantitative data and 25 per cent survey data, while infrastructure and technology are 25 per cent quantitative and 75 per cent survey data. Management and institutions are 100 per cent survey data.

The relationship between this competitiveness index and the growth of economies is "unmistakably positive" - a high competitive score is strongly correlated with rapid economic growth and the relationship is both statistically and economically significant. The statistical relationship in the 1996 report suggests that the difference in medium-term growth, due to the gap in competitiveness between the highest and lowest ranked countries (Singapore and Russia), was of the order of 9.3 percentage points per year.

Source: "Why Competitiveness Counts", Jeffrey Sachs in The Global Competitiveness Report 1996.

Where labour costs between countries are similar - as is often the case in Africa - other influences may account for the advantage enjoyed by firms. Labour may be more productive because it is better educated, or the infrastructure may be superior so that operating costs are lower. In such cases too, advantage arises at the national level - better infrastructure or more educated workers.

A comparison between the two African countries - neither of them LDCs - listed in the World Economic Forum's 1997 Global Competitiveness Report and Asian NIEs illustrates how countries secure superior advantage.

Table 8.5. World Competitiveness Report 1997: Sub-factor rankings

Type	China	Malaysia	Indonesia	South Africa	Zimbabwe
Overall rankings	29	9	15	44	51
Openness	48	16	5	49	52
Government	12	6	5	28	45
Finance	16	6	25	32	42
Infrastructure	40	8	22	26	53
Technology	37	23	29	34	47
Management	43	20	32	37	47
Labour	8	20	6	52	4
Institutions	24	26	37	50	41

Source: World Economic Forum, Global Competitiveness Report 1997.

"Pure" competitive advantage arises where an economic activity is footloose - where the enterprise is able to build a market share without the benefit of a higher level of national competitiveness or comparative advantage - the Japanese vehicle transplants in the EU and US in the 1980s.

Lessons from Asia

The distinction between comparative advantage and competitive advantage highlights the challenge to policy makers. It is common cause that the state should foster national competitiveness (comparative advantage) through the creation of a business- and investment-friendly enabling environment.

In the light of the major structural differences between the first generation East Asian tigers and developing countries as a whole, African policy makers can learn more from the recent experiences of the second-tier NIEs - Indonesia, Malaysia and Thailand - though this must be qualified for the following reasons:

- Global business conditions have changed radically since the "take-off" of the second-tier NIEs. In particular, "technology entry levels" have risen, implying that African firms will need to invest more in the acquisition of the necessary technology, while employing more highly-skilled personnel than would have been the case 20 years ago. Furthermore, global competition is far more intense at the end of the 1990s than it was in the 1970s and 1980s – the more so since the steep 1997/98 depreciation of "Asian crisis" currencies and the sharp slowdown in their export growth.
- The 1997/98 downturn in the Asian economy highlights the potential dangers of some aspects of the policies they pursued in the financial sector – specifically financial liberalization. African policy makers must take heed of these lessons.
- At least in the medium term, few - if any - African countries seem likely to attract the huge inflows of FDI enjoyed by the three Asian economies.
- In the medium term too, African countries are unlikely to benefit from the positive spillovers of the "cluster" effect which enhanced industrial growth in East and South-east Asia.

These differences notwithstanding, the three Asian NIEs with their strong natural resource base and weak (early) human capital base have more in common with late-starting LDC industrializers, especially but not only, in Africa. Their growth experience is potentially more appropriate - and relevant - for LDCs than that of the individualistic first generation tigers.

Rapid industrialization in these three countries had its origins in:

- appropriate macroeconomic policies;
- an outward orientation;
- the attraction of FDI; and
- effective selective interventions.

Two further prerequisites must be satisfied for such an industrialization strategy to take root:

- The institutional capacity, crucial to maintaining appropriate economic policies, undertaking selective interventions and attracting FDI, must be created or strengthened.
- Sustained economic growth is impossible without an efficient infrastructure.

Macroeconomic stability

The five pillars of macroeconomic stability were:

- pro-savings policies;
- maintenance of sustainable fiscal positions ;
- low inflation;
- competitive exchange rates;
- rapid corrective responses to macroeconomic problems.

To this list must be added policies that:

- liberalize trade and investment and foster globalization;
- eliminate price distortions.

LABOUR COSTS

Given the region's high unemployment, low-cost labour ought to be a major source of competitive advantage. Table 8.6 suggests that this advantage may have been exaggerated, with several Asian countries having lower wage costs than those in Africa.

Table 8.6. Manufacturing wages 1985-1994: Selected countries
(Wages: US\$ per annum, including supplements)

Country, area	1985	1994
Sub-Saharan Africa:		
Malawi	1 035	874
Kenya	1 795	1 113
Zambia	2 324	1 660
Zimbabwe	3 241	2 239
Mauritius	1 063	3 866
South Africa	4 466	9 348
North Africa:		
Egypt	2 058	1 751
Morocco	2 434	3 784
Asia:		
China	286	340
Sri Lanka	529	837
Indonesia	921	1 001
Bangladesh	557	1 016
India	1 298	1 269
Pakistan	1 323	2 139
Philippines	1 257	2 857
Malaysia	3 375	4 555
Thailand	2 392	4 917
Republic of Korea	3 476	14 295
Taiwan	3 832	14 469
Hong Kong	4 808	15 160

Source: UNIDO 1996

Table 8.7 shows that even very low wage economies, such as Malawi, have more costly labour than China and Sri Lanka, while Zimbabwe and Mauritius, are more expensive than Indonesia, Bangladesh, India and Pakistan. South African labour costs are twice those of Malaysia and Thailand.

Given evidence that productivity is higher in East Asia, it is clear that, whatever the theory might suggest, sub-Saharan Africa does not have a comparative cost advantage relative to key Asian economies, where labour is concerned.

Wage costs vary greatly across activities and industries. Table 8.7 relates wage levels to different skills levels and professions.

Table 8.7. Average wage levels for different jobs, 1994/95, selected countries

Country	Unskilled workers (dollars per day)	Skilled workers (dollars per day)	Technicians (dollars per month)	Middle management (dollars per month)
Zimbabwe	2.71	3.7 - 4.7	190 - 300	700 - 1300
Mauritius	5.5 - 6.8	6.8 - 10.3	210 - 400	560 - 1100
South Africa	7.3 - 12.0	11.7 - 14.8	n.a	n.a
China	2.05 - 5.18	4.0 - 9.6	n.a	n.a
Sri Lanka	1.25	2.2	90 - 280	210 - 400
Vietnam	1.15 - 1.22	1.75 - 1.90	55 - 150	152
India	2.40 - 3.3	4.2 - 6.2	128 - 200	285 - 430
Bangladesh	1.66	2.33	63	n.a.
Indonesia	2.00 - 2.87	5.98	215	369

Source: Commonwealth Secretariat (1998). *Zimbabwe: Enhancing Export Competitiveness*, Report for the Ministry of Industry and Commerce, Government of Zimbabwe. Economic Affairs Division, Commonwealth Secretariat.

Table 8.7 highlights the fact that African countries, like Zimbabwe and Mauritius, are relatively expensive at the supervisory and management levels, partly reflecting the scarcity of skills.

In any event, the scope for using low-cost labour to drive competitiveness is increasingly circumscribed by the advance of technology. Table 8.8 illustrates the diminishing importance of direct labour costs in total industrial costs in modern business, highlighting the importance of the quality of labour and of non-labour costs in competitiveness education.

Table 8.8. Components of cost for a typical manufacturing firm 1960s versus 1990s

Type	Per cent of manufacturing cost		Per cent of total cost	
	1960s	1990s	1960s	1990s
Direct labour	40	10	36	7
Direct materials	35	35	32	24
Manufacturing overhead	25	55	23	39
Manufacturing costs	100	100	90	70
SGA1			10	30
Total costs			100	100

Note: 1 SGA = selling and general administrative expenses.

Source: David Besanko, David Dranove & Mark Shanley, "Economics of Strategy", 1996, John Wiley & Sons, Inc., p 502.

Assessing the situation in Zimbabwe, the Commonwealth Secretariat (1998) concludes that the country cannot establish a long-term competitive edge in the pure cost of low-skill labour. "Its edge must lie in labour intensive activities, in moving up the skill, quality, flexibility and design ladder."

INFRASTRUCTURE COSTS

Table 8.9 suggests that, on the whole, utility and infrastructure costs in sub-Saharan African are competitive with those in an Asian economy (Thailand). Interviews with executives [Commonwealth Secretariat, 1998] revealed that greater emphasis is placed on access to infrastructure, with tariffs being a secondary issue. Foreign investors are highly critical of long delays in securing utility connections and the need to make "facilitative" payments to expedite the provision of services.

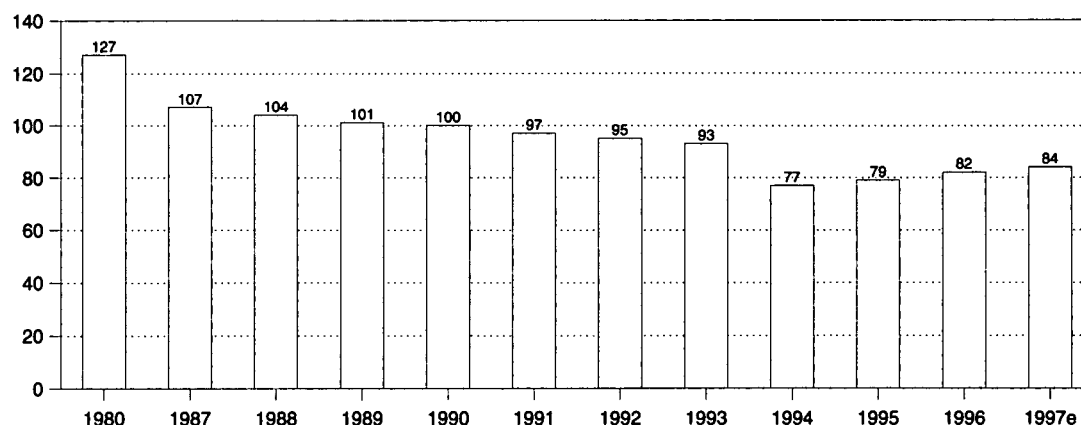
Table 8.9. Infrastructure indicators for selected economies, 1996-1997

	Zimbabwe	South Africa	Kenya	Mauritius	Botswana	Thailand
UTILITIES RATES						
Electricity rates (\$/kwh)	0.048	0.064	0.022	0.076	0.096	0.044-0.10
Water rates (\$/m ³)	0.34	0.298	0.35	0.52	1.02	0.40-0.65
Telecommunication cost to EC (\$/min)	2.58	2.21	4	1.65	4.04	2.1
FACTORY CONSTRUCTION AND RENTAL						
Standard factory building construction costs (\$/sq.m.)	160	230	115	185	160	95-200
Standard factory building rental costs (\$/sq.m./month)	2.13	1.64	1.61	2.5	3.6	n.a.
Quality of infrastructure	Average	Above average	Average	Average	Above average	Above average

Exchange rates

Between 1980 and 1987, an index of African exchange rates, weighted by GDP, fell 87 per cent from 100 to 13, reflecting the steep depreciation of regional currencies. Because sub-Saharan Africa experienced far higher inflation than most of its trading partners, the depreciation of the real exchange rate (figure 8.1) was much less dramatic. The real effective exchange rate fell 35 per cent between 1980 and 1996 and 18 per cent during the 1990s.

Figure 8.1. Sub-Saharan Africa: Real effective exchange rates, 1980-1997



Index 1990 = 100

e = estimated.

Source: World Bank, *African Development Indicators*, 1997.

Box 8.2. Zimbabwe: FDI and competitiveness

UK investors are the largest in Zimbabwe along with South Africa. A recent survey of 51 UK companies, two-thirds of which had operations in Zimbabwe while the rest exported to that country, found that investors ranked the country favourably as an African location, though less attractive than Botswana and South Africa. However, the country did not compare favourably with Asian or Latin American locations.

Zimbabwe's main locational advantages (table 8.10) were good infrastructure, literate workers, security, political stability, and a high quality of life for expatriates, while its main disadvantages were cumbersome bureaucracy, difficulties in obtaining work permits for expatriates, the policy of indigenization, its landlocked nature and its small market.

A more limited survey of the perceptions of 11 Hong Kong enterprises in manufacturing and services who were considering overseas investments found that Africa has a low ranking as an investment destination compared with Asia.

Zimbabwe's locational disadvantages were seen as:

- doubts about future political stability
- lower growth potential than in South-east Asia
- high inflation
- real exchange rate appreciation
- remoteness from markets and component supply centres.

Source: *Zimbabwe Trade and Investment Consultants Report 1997*.

Table 8.10. UK investor perceptions of Zimbabwe's locational advantages, 1997

	Number of mentions
ADVANTAGES	
Good infrastructure	18
Security/stability	18
Education standards	13
Quality of life	11
Skills of workforce	5
Good government	4
Low labour costs	3
DISADVANTAGES	
Bureaucracy	16
Indigenization policy	7
Small market size	7
Work permit problems	6
Poor telecommunications	5
Corruption	5

Source: Commonwealth Secretariat (1998). *Zimbabwe: Enhancing Export Competitiveness*, Report for the Ministry of Industry and Commerce, Government of Zimbabwe. Economic Affairs Division, Commonwealth Secretariat.

As Chapter V shows, the fall in the real effective exchange rate index has not been matched by an improvement in the region's market share of global export markets, nor indeed by an increase in the inflow of FDI. Between 1981 and 1994, when real exchange rates depreciated, exports grew at 2.3 per cent annually, while effective market growth was 4.9 per cent a year. Table 8.11 shows that in only five of the 15 sub-Saharan countries listed, actual export expansion exceeded that of the effective market, defined as a weighted average in import volume growth in the country's export markets [World Bank, 1997].

Table 8.11. Relative export growth: Sub-Saharan Africa selected countries, 1981-1994

Economic grouping, country	Average annual growth 1981 – 1994 per cent per annum	Effective market growth 1981 – 1994 per cent per annum
World	5.5	5.5
High-income countries	5.6	5.4
Developing countries	4.9	5.2
Asia	11.3	6.9
Western Hemisphere	4.3	5.9
Middle East and North Africa	1.2	5.6
Sub-Saharan Africa	2.3	4.9
Angola	9.5	5.2
Cameroon	7.0	4.3
Ghana	6.5	4.5
Kenya	5.5	1.5
Botswana	5.5	3.0
Gabon	2.7	4.8
Zimbabwe	1.9	4.2
Nigeria	1.9	6.1
Côte d'Ivoire	1.7	4.2
South Africa	1.4	4.7
Madagascar	0.4	5.2
Senegal	0.1	3.6
Zambia	-0.9	5.6
Sudan	-3.3	6.5
Ethiopia	-3.7	3.7

Source: World Bank, Global Economic Prospects and The Developing Countries, 1997.

"The message to African policy makers is clear; the things that businesses - foreign, domestic, producing for the domestic or export market - say are the most serious constraints are within the control of African governments. Get the fundamentals right and businesses already working in the country will be able to grow" [Jeffrey Sachs, 1998]. In this context, the Dakar Declaration on the Future Competitiveness of African Economies (see Annex A) focused on four groups of interrelated issues, namely macroeconomic framework, governance and regulatory framework, factors of competitiveness at the firm level and the external environment.

A catalytic role for foreign investment

There is a limit as to how far African governments, constrained by scarce resources and skills, can go in making their economies more competitive. Where the private sector is weak and undeveloped, the creation of an enabling environment for business will more than likely yield disappointing results, certainly in the short-to-medium term.

Experience in Asia, Latin America and, more recently, in East and Central Europe, highlights the crucial catalytic role of FDI in building competitiveness. Even where markets are small and countries landlocked, African governments may attract FDI by implementing a strategy of capacity-building for competitiveness. This implies creating an enabling environment in the form of:

- macroeconomic stability;
- an efficient and cost-effective infrastructure;
- a skilled workforce;
- a level playing field in terms of incentives and regulations;
- competitive tax rates;
- transparency in governance; and
- a competitive exchange rate.

Where the macroeconomic, institutional and infrastructure framework is conducive, enterprises will become competitive on the basis of a country's comparative advantage. Governments can help to create comparative advantage through appropriate capacity-building policies, but ultimately it is the task of corporate management to secure orders and build market share.

CHAPTER IX.

INDUSTRIAL STRATEGY AND POLICY: THE WAY FORWARD

At independence in the 1950s and 1960s, newly elected sub-Saharan administrations saw industrialization as the logical, preferred road to self-sufficiency and self-sustained growth. Rapid industrial development would enable them to shake off the shackles of colonial trading patterns, a near-total dependence on highly volatile commodity exports, and an equally heavy reliance on manufactured imports; it would generate higher productivity and more and better-paid jobs for their fast-growing populations. The shift of labour and other resources from low-productivity agriculture to high-productivity manufacturing and the development of linkages between enclave mining, energy or plantation agriculture and an emergent, modernizing manufacturing industrial sector was expected to create millions of new jobs, simultaneously raising living standards.

Industrial policy, in the immediate post-colonial era, was driven both by the desire to break away with the past and by the belief that Africa could follow the OECD countries into the industrial revolution. Political factors had a role to play in setting industrial policy, which was much influenced by state-driven, centrally planned, big-push heavy industry strategies popularized by the Soviet Union in the 1930s and 1940s and by India after independence.

For a time the inward-focused strategy appeared to be working (Chapter III). Industry expanded at 14.6 per cent annually between 1965 and 1973 - the tail end of the golden age of rapid global economic expansion. But the conjuncture of the changed global environment after the first oil price crisis in 1973/74, alongside mounting evidence that import-substitution industrialization was losing momentum in most African countries and the successes of the newly industrializing Asian economies forced a rethink.

In its seminal report on the state of the sub-Saharan economy in 1980, the World Bank warned that the policy of inward industrialization was "biasing the incentive system against objectives to which governments give high priority - agriculture, exports, food production and rapid industrial development" [World Bank, 1980].

The "typical" trade and exchange rate regime in sub-Saharan Africa at the end of the 1970s encouraged import-intensive industry, discouraged the development of industries using local raw materials and favoured assembly-type and packaging industries. These provided very few benefits to the economy either in foreign exchange, employment or skill development. The nearly complete protection given to manufacturing "gives no incentive for growth in productivity. Infant industries tend, therefore, never to grow up" [World Bank, 1980].

In the 1980s, fuelled also by the philosophies of Reagonomics and Thatcherism in OECD countries, as well as by increasingly powerful evidence of the Asian miracle, the industrial policy pendulum began to swing and issues like deregulation, trade liberalization, privatization and, most recently, globalization took the centre stage. Table 9.1 illustrates the shift in policy over the past 40 years, though it should not be interpreted literally to suggest that intervention, indigenization, self-sufficiency and state-ownership are no longer on the policy agenda. Instead, the table shows merely that almost all African governments have broken away with some, perhaps most, aspects of their interventionist, command-economy of the past.

Table 9.1. The evolution of industrial policy, 1960-2000

1960s - 1970s	1980 - 1995	1995 - 2000
<ul style="list-style-type: none">• Intervention and regulation	<ul style="list-style-type: none">• Market-orientation and deregulation	<ul style="list-style-type: none">• Industrial governance
<ul style="list-style-type: none">• Self-sufficiency and indigenization• Public ownership• Import controls and tariff protection	<ul style="list-style-type: none">• FDI• Privatization• Trade and investment liberalization	<ul style="list-style-type: none">• Privatization and FDI• Public-private sector co-operation• Promotion of clusters
<ul style="list-style-type: none">• Inward-driven industrialization• Industrialization to achieve structural transformation	<ul style="list-style-type: none">• Outward orientation• Promoting efficient industries	<ul style="list-style-type: none">• Supply-side support from SMEs• Global competitiveness

Structural adjustment

In the 1980s, structural adjustment was the catch-all name given to strategies, invariably funded by the World Bank and IMF, to revive developing economies that had fallen behind, especially but not only in Africa. At the end of the 1990s, the success of structural adjustment is still being queried. The consensus view, perhaps, is that SAPs mark the beginning of an evolutionary process of economic change in Africa but that, certainly initially, the focus was too narrow, and not enough attention was paid to socio-political dimensions, including poverty alleviation.

Since the early 1990s, adjustment policies have begun to change with a more direct focus on poverty reduction than before and also with a growing recognition that in the globalized world economy, the capacity of the state to drive change is receding. In part, this is a reflection of the declining share of ODA in total flows to the region (table 9.2), but it is also the result of the World Bank's own study of the decline of the African state [World Bank, 1997].

Table 9.2. Net capital flows to sub-Saharan Africa, 1984-97

Type	1984-1989	1990-1996	1997
Net private flows	3.6	4.4	8.9
Net direct investment	1.1	2.9	7.7
Net portfolio investment	-0.8	-0.2	2.6
Other net investment	3.3	7.1	8.4
Net official flows	5.1	7.1	8.4

Source: World Bank, World Debt Tables (various issues and Global Development Finance Reports (1997 and 1998))

The 1990s focus on competitiveness has further broadened the policy debate to the point where it is no longer credible to suggest that "getting prices right" by dint of "pure" adjustment strategies is sufficient to turn a low-income, heavily-agricultural African economy, into a modern industrial state. Competitive drivers (Chapter VIII - box 8.1) and productivity growth depend on much more than allocative efficiency embodied in getting prices right.

Structural adjustment policies have contributed substantially to economic recovery in sub-Saharan Africa, through tariff and exchange rate reform, reform of agricultural marketing, reform of investment regimes, the restructuring of state enterprises and of the financial sector. But they have made little contribution to such crucial elements of the competitive matrix, such as infrastructure investment, building institutional capacity, and fostering technological progress and improved management.

Whatever successes structural adjustment may have achieved, the undeniable fact remains that de-industrialization has occurred in many sub-Saharan economies, and that - on past performance - manufacturing activity will not be revived without initiatives stretching beyond those normally associated with adjustment packages. Since 1980, few African SAPs have paid specific attention to manufacturing. Virtually none, until the mid-1990s, have even mentioned the concept of competitiveness, other than within the context of wage levels and exchange rate competitiveness.

SUB-SAHARAN MANUFACTURING INDUSTRY AT THE CROSSROADS

During the last decade, manufacturing's contribution to GDP declined to 14.1 per cent in sub-Saharan Africa and remained unchanged in almost half the 48 countries of the region, falling by more than two percentage points in a third of the countries, while increasing in only one fifth. For the region as a whole, there has been a shift away from manufacturing towards energy, mining, utilities and services [African Development Bank, 1998].

Not only has manufacturing growth been sluggish during the 1990s, but it has been "appreciably slower than in the 1980s". The share of sub-Saharan Africa in MVA of developing countries has declined from 2.6 per cent in 1980 to 2.4 per cent in 1990 and is estimated to fall to 1.6 per cent in 2000 (table 9.3). Only one country, Uganda, achieved average annual industrial growth rates in the 1990s that were five percentage points above those of the 1980s and this reflected a recovery situation rather than breaking new ground. In 70 per cent of the countries where this comparison can be made, growth has been slower during the 1990s [African Development Bank, 1998].

Table 9.3. Share of sub-Saharan Africa in GDP and MVA of developing countries, 1980, 1990 and 2000 (Percentage)

Share	GDP			MVA		
	1980	1990	2000 ^a	1980	1990	2000 ^a
Share of developing countries in world	16.5	17.6	21.7	14.4	16.8	23.6
Share of sub-Saharan Africa in developing countries						
• excluding South Africa	5.3	4.7	3.9	2.6	2.4	1.6
• including South Africa	8.4	7.3	5.9	6.8	5.2	3.3

^a Projected figures.

Source: UNIDO data base

Region-wide estimates of manufacturing performance mask far-reaching differences in national performance, but the data in table 9.4 shows that in almost half (20 out of 43) of the countries listed, the share of MVA in GDP declined between 1980 and 1997.

In 25 of the 43 countries, MVA growth rates have been slower in the 1990s than the 1980s, while in only six countries MVA growth exceeded 5 per cent annually. None of these six - Equatorial Guinea, Guinea, Lesotho, Mauritius, Namibia and Uganda - can be classified as typical.

Table 9.4. Manufacturing: growth rates and shares in GDP, 1980-1997

Country	Growth Rate of MVA (per cent per annum)		Share in GDP (per cent)	
	1980-1990	1990-1997	1980	1997
Angola	-2.0	-3.7	8.5	3.1
Benin	1.2	1.9	9.5	7.1
Botswana	9.2	3.8	4.8	3.9
Burkina Faso	0.9	2.5	10.5	9.9
Burundi	9.6	-3.2	9.8	13.4
Cameroon	10.4	0.8	7.6	14.8
Central African Republic	3.1	0.7	5.9	6.6
Chad	3.4	0.3	24.9	19.3
Congo	4.8	-2.5	8.1	5.9
Côte d'Ivoire	-0.8	4.9	12.5	13.0
Democratic Republic of Congo	0.6	-5.7	11.9	10.1
Equatorial Guinea	1.7	7.4	1.5	1.5
Ethiopia and Eritrea	3.4	2.0	8.9	10.1
Gabon	-1.4	2.6	12.1	17.3
Gambia	4.4	1.4	4.9	5.6
Ghana	0.6	2.0	10.8	7.8
Guinea	5.1	5.7	2.6	3.9
Guinea-Bissau	-3.0	0.0	64.4	24.0
Kenya	4.6	2.9	9.6	10.6
Lesotho	12.3	7.3	5.3	11.0
Liberia	0.4	2.1	6.7	8.4
Madagascar	-2.5	1.2	28.4	20.0
Malawi	3.6	1.6	13.4	13.5
Mali	8.6	4.8	4.9	8.5
Mauritius	9.7	5.8	14.2	20.7
Mozambique	-3.6	-1.4	40.5	16.1
Namibia	6.1	5.8	3.2	6.1
Niger	6.5	1.4	3.3	6.6
Nigeria	1.5	1.0	6.4	5.2
Reunion	4.6	2.6	10.0	9.7
Rwanda	1.6	-7.1	14.5	8.4
Senegal	4.6	3.6	11.0	13.2
Seychelles	5.8	1.9	7.3	8.7
Sierra Leone	-3.1	-0.7	13.3	9.1
Somalia	0.5	1.4	4.2	5.5
South Africa	0.2	0.7	25.8	21.9
Sudan	0.0	3.2	10.3	8.2
Swaziland	6.3	4.3	22.7	30.9
Togo	-0.4	1.4	11.9	10.2
Tanzania	-1.2	4.2	5.3	3.8
Uganda	3.7	11.0	5.4	6.7
Zambia	4.1	0.7	17.1	22.2
Zimbabwe	4.0	-0.7	23.5	19.2

Source: UNIDO Database.

FIFTEEN LESSONS OF EXPERIENCE

Country case studies (Chapter IV) and the discussions of competitiveness (Chapter VIII) and industrial strategy pinpoint both the lessons of past experience and the road map for the future.

1. Competitive exchange rates

Exchange rate overvaluation not only constrained both agricultural and manufacturing growth in many sub-Saharan countries, but also fostered inefficient industries, whose subsequent restructuring following trade liberalization partly explains manufacturing's sluggish performance since 1980. Until 1994 the CFA Franc Zone maintained an overvalued exchange rate that constrained the growth of manufactured exports, and there are concerns that the Franc Zone's proposed fixed parity with the single European currency (the euro) will result in a similar exchange rate overvaluation.

2. State ownership

Unlike Asia, where there are instances of state-owned industrial enterprises performing efficiently and successfully, sub-Saharan Africa's parastatal sector has been - and in many instances still is - a drain on the exchequer and an obstacle to investment and expansion by private enterprise. Restructuring, usually involving privatization or commercialization, is having beneficial consequences most notably in Mozambique and Zambia, but other countries (Côte d'Ivoire, Ghana, Kenya, Senegal, South Africa, United Republic of Tanzania and Uganda) are also in the process of industrial restructuring through privatization.

3. Inward-focused industrialization

Most sub-Saharan countries have abandoned inward-industrialization, though there are still residual pressures for protection in economies where manufacturing production has declined during the transition process from protectionism to outward-orientation (box 9.1).

One result of these pressures has been the re-introduction of some import curbs, usually in the guise of anti-dumping regulations.

Box 9.1. The impact of restructuring and import competition on manufacturing firms

Due to import competition, many manufacturing enterprises in sub-Saharan Africa have been struggling to survive during the 1990s:

- In Ghana, which enjoyed robust manufacturing growth rates during the 1990s, Lall (1993) found that large swathes of manufacturing industry had been devastated by import competition.
- In Malawi, the manufacturing sector has had a desperately difficult time with a number of firms being undercut by competition from cheap imports, while high interest rates imposed to curb inflation also undermined industrial performance [ADB, 1998].
- In Cameroon a survey conducted in mid-1996 found that 80 per cent of industrial enterprises were unable to increase output because of numerous obstacles including primary material supply (99 per cent of respondents), deterioration of equipment (86 per cent), financing (82 per cent), and transport problems [EIU, 1997].
- In Kenya, the last few years have been traumatic for many firms. The manufacturing sector has suffered from macroeconomic instability and uncertainty and a deterioration in the business environment.
- Both Zambia and Zimbabwe have been hard-hit by import penetration from South Africa. In Zimbabwe's case, South Africa's share of the country's total import bill has risen from 20 per cent in 1990 to 37 per cent in 1997. In Zambia industrial and commercial restructuring, partly flowing from privatization, has brought in many South African-owned firms who are sourcing their supplies from South Africa rather than local industry. Industrial restructuring has led to the closure or downsizing of manufacturing enterprises, such as Dunlop (tyre manufacture), Johnson and Johnson and Colgate Palmolive (toiletries and medical supplies).
- Clothing, textiles and footwear manufacture in South Africa has fallen sharply in recent years in the face of intense import competition from Asia, especially China.

5. Dutch disease

Nigeria is the classic example of the Dutch disease in sub-Saharan Africa. Notwithstanding political uncertainties and infrastructural and policy shortcomings, Nigeria is a highly profitable location for energy investment. In recent years, it has attracted far more FDI than any other sub-Saharan country, including South Africa (Chapter VI). The combination of this and the buoyancy of oil earnings, and the Government's policy of allowing the accumulation of external debt arrears, has resulted in an overvalued exchange rate which, in turn, has undermined industrial exports and import replacement.

Other sub-Saharan countries have been similarly affected when world prices for their primary product exports have been strong.

6. Infrastructure

Nigeria, Kenya, Zambia and, most recently, Ghana (Chapter IV) are countries where economic growth, in general, and manufacturing expansion, in particular, are being constrained by infrastructural problems. Poor infrastructure also has an indirect impact on growth through its adverse impact on FDI.

7. Institutional capacity

Throughout the report the assessment of industrial performance, competitiveness, export growth and industrial policy, highlights the degree to which the deterioration of the African state is affecting economic growth adversely [World Bank, 1997].

8. Governance and corruption

Economic performance and, indirectly, manufacturing growth have been constrained by poor governance and corruption [IMF, 1997 and 1998]. The efficacy of economic reform depends on the quality of governance in an economy. "A lack of transparency and accountability in public policy-making and excessive government intervention and regulation of economic activities have invited widespread rent-seeking behaviour and corruption" [IMF, 1997].

A growing number of studies, including competitiveness reports by the World Economic Forum, show that weak governance is a major cause of sub-standard economic performance and a deterrent to both domestic and foreign investment.

9. Regionalization

The slow progress of regional economic co-operation has contributed to the very low level of intra-regional trade, thereby limiting market size and scope, and holding back export expansion.

10. Commodity dependence

The failure - or inability - to diversify their economies and export base has left most sub-Saharan economies heavily reliant on a narrow range of commodity exports (Chapter V). Arguably, breaking out from this natural resource-dependence syndrome is the single most important challenge facing most sub-Saharan economies. Global experience suggests that resource-deficient and small market-economies in sub-Saharan Africa, such as Lesotho, Mauritius, Swaziland, are likely to abandon autarkic industrial policies sooner and embark on a growth path of export-led manufactured goods (Chapter V) [Auty, 1993].

11. Technology, productivity and skills

"Very low and, in some cases, declining levels of factor productivity is the fundamental problem that has undermined the ability of industrial enterprises in Africa to withstand heightened import competition and break into export markets" [Bennell, 1997]. Data on productivity is poor, but Collier and Gunning (1999) found that in four countries, labour productivity declined between 1992 and 1996. In Ghana, valued added per worker (in constant cedis) declined 60 per cent in the machinery industry (1991-1993), 39 per cent in furniture, 13 per cent in bakery products and 5 per cent in wood. Only in food processing and clothing (0.7 per cent and 6.6 per cent respectively) did productivity improve.

Low task efficiency of workers is also a serious problem. Table 9.5 shows that the number of garments produced per machine operator during an eight-hour shift in Ghana, Kenya or Zimbabwe is much lower than in China and India. Because of low productivity, the only way that African enterprises can maintain competitiveness is by currency depreciation. "The real cost of lagging productivity is the low standard of living that it brings" [Biggs and Ratauri, 1997].

Table 9.5. Task level efficiency in standardized garment production in selected countries, 1994

Item	Zimbabwe	Kenya	Ghana	India	EPZ China
Men's casual shirts	36507	12-15	12	16	18-22
Men's jeans	36503	n.a.	n.a.	n.a.	n.a.
Index of Unit of Labour cost	0.03	0.03	0.02	0.03	0.04

Source: Biggs and Ratauri (1997): *Productivity and Competitiveness in African Manufacturing*, RPED Discussion Paper No. 80, World Bank.

Biggs and Ratauri (1997) highlight the role of technology training in enhancing productivity. If Ghana, Kenya and Zimbabwe were to double the number of workers trained by firms from 9 per cent to 18 per cent, they estimate that average productivity would rise by as much as 6 per cent. They conclude that the quality of firms' internal technical learning efforts is much lower than in Asia or Latin America. Moreover, learning from external sources is "extremely weak or missing altogether" in the three African countries.

12. FDI

The decline in aid inflows, both absolutely and relatively, and the growing integration of the world economy through globalization, foreign investment by multinational corporations and non-equity linkages ranging from strategic alliances to sub-contracting and licensing agreements, underscore the crucial, catalytic role of FDI. Its influence spreads far wider than access to finance. The FDI package invariably brings with it access to skills, technology, patents, products, brand names and foreign markets. It is no coincidence that since 1980, the world's fast-growing economies have been driven by FDI.

In a reversal of the hostility to foreign private capital that characterized the 1970s and early 1980s, most African countries are now actively engaged in promoting foreign investment. Although absolute inflows have risen substantially (Chapter VI), the region's performance remains weak in relative terms. Furthermore, the distribution of inflows is heavily skewed, both in favour of a few countries and in favour of energy and mining projects, with little finding its way to manufacturing other than to consumer industries (beverages, food-processing) catering to the domestic market. There has been very little FDI in export-oriented manufacturing, with the exception of minerals beneficiation.

Low levels of FDI reinforce the comment that in Ghana, Kenya and Zimbabwe "most firms are technologically isolated from the rest of the world" [Biggs and Ratauri, 1997]. In their understandable anxiety to foster the development of domestic skills and promote employment of indigenous people, African governments are wary of expatriate managers and technicians. Yet, evidence shows that multinationals provide better training and provide the most effective channel for the transfer of technology.

13. The "missing middle"

The vast bulk of sub-Saharan enterprises fit into the small- and medium-scale category. The "middle", comprising medium-large indigenous or national enterprises, as distinct from foreign - or expatriate-owned, businesses, is missing. As a result, some governments - Nigeria and Kenya in the 1970s and 1980s, Zimbabwe in the 1990s and, most recently, Namibia and South Africa, - have sought to "indigenize" large foreign-owned enterprises or use privatization as a vehicle for "empowering" indigenous entrepreneurs.

The Nigerian experiment has been modified. Some countries have both run foul of accusations of corruption and "crony capitalism", perceived by bankers and foreign investors as a deterrent to investment in the countries concerned. In Zimbabwe, the operation of the "reserved list", stipulating that a minimum of 30 per cent of the shares in certain service activities, including construction though not manufacturing, must be owned by local investors, has deterred some foreign investors, resulting in the loss of planned projects.

The case for creating, by African standards large-scale enterprises (by global standards medium-scale enterprises), to fill the gap left between foreign-controlled multinationals and largely small-scale indigenous sector is a powerful one. Less obvious though is whether this is better done by fostering the growth of small-scale firms instead of using a variety of measures and policies to engineer the change of ownership of existing enterprises, including parastatals.

It is too early to pass judgement. The Nigerian experiment did not succeed. Those elsewhere and, potentially most importantly in South Africa, are too recent for any considered evaluation. The key danger is that indigenization and empowerment policies may reduce the inflow of foreign capital, or, possibly worse, attract the kind of FDI that the country would be better without. This is recognized by Uganda in inviting the return of Asian entrepreneurs who left in the 1970s, by Zambia and Mozambique in inviting foreign investors and even farm-settlers from an erstwhile enemy, South Africa, and by Nigeria in scrapping its indigenization decrees.

14. Small- and medium-scale enterprise

A crucial objective of economic reform in sub-Saharan Africa is the promotion of small- and medium-scale enterprises. Liberalization, deregulation, competition policy and privatization all have a role to play in levelling the playing field, thereby widening the range of business and investment opportunities open to small-scale and new entrepreneurs.

Evidence on the impact of incentives and structural changes designed to boost small enterprise is scanty, contradictory and controversial. In many countries, representatives of small business, have claimed that trade liberalization and the abolition of import licensing have harmed rather than helped them. One study [World Bank, 1996] finds that in Ghana, 41 per cent of firms, initially classified as micro-enterprises and employing 1 to 9 employees, graduated to become small enterprises (10 - 49 employees). Five per cent reached either medium- (50 - 99 employees) or large-scale (100+ employees), while 54 per cent remained in the micro-enterprise category (table 9.6). The proportion of graduates was far smaller in Cameroon (14 per cent), Kenya (12 per cent) and Zimbabwe (4 per cent).

The survey of four countries found that half the firms graduated from micro-enterprises to larger units, which compares with earlier estimates of 20 per cent [Liedholm and Mead, 1992]. Significantly too, the survey found that very few firms graduate to medium/large scale - the probability of a micro-firm becoming large (100+ employees) is less than 5 per cent. In contrast, many small enterprises (10-49 employees) become medium- and large-scale firms. In Kenya and Zimbabwe, 27 per cent of medium-scale firms became large.

The data [World Bank, 1996] also show significant downsizing by large- and medium-scale firms. In Ghana, 60 per cent of medium-scale firms and a quarter of large ones, reduced employment, though it is unclear to what extent this represented the restructuring of inefficient firms in response to policy reform.

Table 9.6. Firm mobility between start (microenterprises) and present (Per cent)

Current no. of employees	Ghana	Zimbabwe	Kenya	Cameroon
36168	54	46	55	67
10-49	41	26	26	26
50-99	3	11	14	3
100+	2	17	5	4

Source: Tyler Biggs and Pradeep Srivastava (1996): *Structural Aspects of Manufacturing in Sub-Saharan Africa*, World Bank, Discussion Paper no. 346

Analysis of the data is bedevilled by conflicting cross-currents. While some small firms are growing, many large ones are rightsizing - the net impact of which has been the expansion of dynamic small- and medium-scale sectors.

Furthermore, in a world where only the globally competitive can hope to survive, the efficiency and progressiveness of small enterprise is being tested. Loveman and Sengenberger (1990) conclude that: "the economic performance of small enterprises (in OECD countries) is, on average, inferior to that of large enterprises; productivity levels as well as profit rates appear to be lower, the capacity for innovation and technological improvement smaller. The average social standard of the quality of jobs and the conditions of work are also inferior in the small firm".

Although there is little empirical evidence on the topic, the probability is that small-scale enterprises in Africa experience the same disadvantages as those in OECD economies. Pack (1993) questions whether there is a case for fostering *de nouveau* small-scale businesses to sub-contract components and services to large firms. This, he warns, would be more likely to hamper than help large firms by raising their costs.

"Sub-contracting is encouraged by large markets, low transaction costs and the efficiency of potential suppliers. In the African environment, these pre-requisites are not satisfied" [Pack, 1993].

In Ghana, it was found that informal sector enterprises lacked an adequate educational base to develop technological capacity [Lall and Wignarjara, 1992]. Accordingly, "they are destined to die out as modern industry emerges". Similarly, in Kenya most small- and medium-scale enterprises adopted a defensive, rather than aggressive, stance to increased levels of import competition. Managers tended to reduce employment and shift to non-tradeables in an effort to avoid competing with imports rather than tackling it head-on by investing in new technology and equipment and developing new skills and strategies.

While SME's may not always be competitive, especially in the initial phase of their operations, there are a number of socio-economic objectives which they fulfil, such as employment, regional development and meeting local consumer needs. While there are strong arguments for promoting SME's for these and other reasons, efforts would need to be made to foster an enabling environment through the provision of business development services - using market principles - to enable these to enhance their competitiveness. It is in this context that the promotion of collective efficiency among SME's through clusters and networking in production and marketing assumes critical importance.

15. Competitiveness

Four different performance indicators in this report illustrate sub-Saharan Africa's low competitiveness rating:

- (i) Loss of market share, in terms of global exports and global MVA, and the threat of losing domestic market share to low-cost imports, especially from Asia. This occurs even in products and industries where the region has inherited natural comparative advantage.
- (ii) De-industrialization: manufacturing's sluggish growth, relative to GDP as a whole, and the limited evidence of structural transformation, both within the economy at large and within manufacturing moving upmarket into more technologically- and skills-intensive activities.
- (iii) Failure to develop manufactured exports on the scales achieved in Asia and Latin America.
- (iv) Inability to attract substantial inflows of FDI, except into non-manufacturing activities - mining, energy, tourism.

Until recently - the mid-1990s - little attention at the national, or even international, level has been paid to fostering competitiveness in sub-Saharan African industry. The forces of globalization have forced both multinational and domestic firms to become competitive, but competitiveness at the enterprise level is unsustainable without efficient infrastructure, competitive skills, education and appropriate macroeconomic policies.

THE CRITICAL MASS APPROACH

At the end of the 1990s, the focus of industrial policy in Africa seems to be shifting. In some respects the wheel has turned a full circle, with echoes of the 1950s and 1960s debate over the relative merits of balanced versus unbalanced growth. The new debate is different, however, underlining the need for critical mass - or "balance" - in economic strategy.

Critical mass has four distinct connotations for economic policy:

1. Broadening the reform canvass

A broad-based approach, designed to ensure progress on a number of fronts simultaneously, is necessary, if economic reform is not to be derailed by a lagging sector or by inadequate resources. In effect, this is likely to be an impossible task, since resources will never be adequate and bottlenecks are certain to arise. But the approach is distinct from that of many earlier structural reform programmes that target a specific sector - agriculture finance or education - while leaving the rest of the economy to make do as best it can. The net result is a shortage of skills, poor management, weak institutional capacity, and a deteriorating infrastructure - as has happened in so many sub-Saharan countries, which will soon undermine progress on one front. That Zambia may have a far better macroeconomic policy environment than Zimbabwe is little comfort in a situation where poverty and unemployment are increasing and where investment is being deterred by a shortage of skills and a deteriorating physical infrastructure. Preoccupations with budget deficit reduction - as an end in itself - have diverted attention from some of the consequences, especially in the form of deteriorating institutional capability [World Bank, 1997].

2. Acknowledging the socio-political dimension

The post-1990 focus on governance and poverty alleviation is no more than the start of a lengthy process in Africa. Political disillusionment with hardships, created by structural adjustment and the yawning chasm between conditions on the ground and the widely publicized, but often-exaggerated, claims of governments, donors and lenders, have lent reforms a bad name [Alesina, 1998].

3. Market size

Market size is a key determinant of both industrialization and inward FDI; sub-Saharan economies, with a median market size of only 6.5 million, are at an enormous disadvantage. Historically, countries with large populations and/or high per capita income have industrialized earlier and faster than small, poor countries, reflecting the significance of scale and scope economies, market opportunity and, especially recently, FDI.

4. Inclusiveness

Perhaps most important of all, the critical mass approach to policy emphasises inclusiveness. For the foreseeable future, in sub-Saharan Africa the debate over the different roles of private and public sector will be replaced by the acknowledgement that, without a symbiotic relationship between the two, the region will continue to underperform economically.

This does not mean that the private-public debate is now irrelevant, but that the state must focus on its core responsibilities - education, health-care, defence, law and order and physical infrastructure. The private sector and private capital will increasingly become the engine of growth while private-public sector co-operation - especially in the provision of infrastructure, education and training - will become the norm where the state lacks the resources and capability to fulfil its core tasks.

Inclusiveness also means that - especially in small least developed economies - there will be instances of market failure where state intervention is needed. The important requirement is not that the state should never intervene, but that its intervention should be confined to situations in which it is the only actor willing to participate, because the risks or costs to the private sector are too great, and also where the perceived benefits will exceed anticipated costs, or where it has a comparative advantage relative to other actors.

Inclusiveness implies that industrial policy - strategic government intervention in the economy to build national competitiveness [Phillips, 1982] - must be part of, and consistent with, the other elements of a holistic development strategy.

Box 9.2. Productivity in Ghana, Kenya and Zimbabwe

An analysis of total factor productivity in Ghana, Kenya and Zimbabwe concludes:

- that African manufacturing displays similar structural relationships to those found in other developing regions;
- considerable variations in the technical efficiency of firms across the three African countries, with efficiency highest in Zimbabwe in each sector while Kenyan firms are more efficient than those in Ghana in at least two of four sectors. This is a notable finding if only because both Kenya and Zimbabwe have much lower "structural adjustment" ratings in the eyes of the World Bank and IMF, than Ghana, which has been widely regarded as a success story;
- medium-sized firms appear to be the most efficient in the sample. In firms employing at least 20 people, efficiency increases with firm size, before declining for the largest firms. Firms employing 100 to 199 workers are the most efficient in clothing and textiles, while in the two other sectors (food processing and metalwork) the most efficient firms on average are those employing between 50 and 99 people;
- on average African firms have lower levels of total factor productivity in international terms. African firms are well below the best-practice frontier for firms in other developing regions, although this is less so in the food processing sector;
- a one per cent increase in the number of workers trained on-the-job - both inside and outside the firm - could increase value added by as much as 60 per cent;
- informational links established through FDI increase value added by 30 per cent - a comparable benefit to that obtained by technology transfer through licensing arrangements or technical assistance;
- access to working capital contributes to a 37 per cent increase in value added, but the contribution to firm productivity of access to longer-term bank loans is insignificant;
- in very small firms training is the most important single contributor to value added, while access to working capital results in a 40 per cent improvement. Previous experience of the entrepreneur/owner and the age of the firm - both influencing the firm's "knowledge and human capital" are also positively associated with value added;
- within very small firms, firms in the formal sector have "substantially higher levels of value added" than informal firms.

Source: *Structural Aspects of Manufacturing in Sub-Saharan Africa: Findings from a seven country Enterprise Survey*. World Bank Discussion paper No. 346, 1996.

PRECONDITIONS FOR INDUSTRIALIZATION

Drawing on the Asian experience, it can be concluded that six conditions must be met for a country to achieve rapid industrial growth [Roemer, 1994]:

- (i) Stable political regimes in which, as far as possible, economic policymakers are insulated from political pressures and rent-seeking.
- (ii) Prudent macroeconomic policies - the avoidance of large fiscal deficits and foreign or domestic debt burdens, competitive exchange rates, market-determined interest rates and prices, low, stable inflation.
- (iii) Investment in infrastructure and human capital.
- (iv) Factor markets, especially for labour and capital, to be left relatively free to adjust to market forces.
- (v) Positive strategies to foster FDI.
- (vi) Transparency in public decision-making, so as to minimize the scope for corruption.

Growth in MVA is correlated with increases in per capita income. On Syrquin/Chenery estimates (Chapter II), the range of per capita incomes at which most industrialization occurs is estimated at between approximately \$600 and \$8,200 (1995 prices). Because no more than a quarter of sub-Saharan countries had reached that threshold by 1995 - Botswana, Cameroon, Congo, Côte d'Ivoire, Gabon, Lesotho, Mauritius, Namibia, Seychelles, South Africa and Swaziland - the combination of inadequate domestic demand and small markets is a major obstacle to industrial development.

The policy implication of the Syrquin/Chenery finding for most of sub-Saharan Africa is straightforward; MVA growth must be either:

- export-led, or
- countries must pursue a resource-driven industrialization path, whereby increased output and incomes in agriculture, energy, and mining stimulate domestic demand for manufactured goods and also provide inputs for value-added processing by industrial firms.

In addition to market size, four other sets of factors have influenced the pattern of industrial growth in low income economies.

(i) Resource endowment: Resource-poor countries have little option, but to industrialise and/or develop services, like tourism. In contrast, manufacturing has tended to be a lagging sector in resource-rich states because investment returns are higher in resource-based industries - oil in Angola and Nigeria, copper in Zambia, diamonds in Botswana, coffee in Uganda, cocoa in Côte d'Ivoire. But the role of resources is ambiguous since rapid primary sector growth creates a larger market for manufactured goods than would otherwise exist - inputs into the primary sector, the processing of primary sector output (especially agricultural produce) and consumer items required by primary sector employees.

(ii) Prior conditions: Industrialization proceeds more rapidly where a platform for industry already exists underlining the importance of linkages, scope economies and cluster effects.

(iii) Location: Regional cluster effects - specifically cross-border investment by Japan and, more recently, by other East and South-east Asian economies contributed to MVA growth in the Asian region. By contrast, until recently, industrialization in sub-Saharan Africa has been constrained by the so-called "contagion effect" - clusters of small, weak, poor performance, economies.

(iv) State of the agricultural sector: Agriculture plays a significant role in the pattern and timing of industrial development. Arguably, manufacturing in countries with a strong farming sector - Côte d'Ivoire, Kenya, Mauritius, Zimbabwe - has outperformed that in countries where agriculture has lagged behind (Mozambique, United Republic of Tanzania or Zambia).

INDUSTRIAL GROWTH PATHS

In sub-Saharan Africa, where markets are small, infrastructure is weak and skills and technology are far from the efficient frontier found in industrialized countries or in Asia and Latin America. The role of manufacturing industry, which has been largely confined to the production of basic consumer goods for the domestic market, is often supplemented by the processing of foodstuffs (Chapter III). Exports of manufactured goods have made little contribution to industrial growth, except in an atypical economy, such

as Mauritius, while African industry is heavily weighted towards those industrial branches that have experienced below-average rates of MVA growth since 1980.

Box 9.3. Agriculture-led growth

A strong case can be made for an agriculture demand-led industrialization strategy in Africa since, not only does the region have comparative advantage in several agro-based industries, but such industries are relatively labour-intensive and also use relatively low technology.

There are three main links between agricultural and industrial growth:

- Manufacturing output rises as larger volumes of farm production are processed, and also as the value-added element increases.
- Farm demand for manufactured inputs - fertilizers, chemicals, pesticides, implements, fuel, vehicles, building materials - increases domestic demand.
- There is a high income elasticity of demand for manufactured goods. Increased agricultural output generates consumer demand for manufactures as a result of increased employment, productivity and real wages.

The poor performance of Africa's agricultural sector in recent years has contributed to de-industrialization. During the 1970s, manufacturing output grew twice as fast as agricultural production - 3.6 per cent annually as against 1.7 per cent - but the post-1980 slowdown in agricultural growth had a severe impact on manufacturing. Agricultural growth slowed from 1.8 per cent annually between 1970 and 1990 to 0.7 per cent in the 1990-1994 period, while food availability per capita also fell. It is no coincidence that Africa's industrial growth rate slowed - and turned negative - over the same period. De-agrarianization contributed to de-industrialization.

Industry in African economies with a strong farming sector - Kenya, Mauritius, Zimbabwe - has outperformed those where agriculture has stagnated. In 1989, it was estimated that food production needed to increase 4 per cent annually to prevent a decline in food availability per capita. Growth of this magnitude in farm output was forecast to stimulate domestic demand-driven industry growth by 6 per cent a year.

Agriculture-led industrialization has a particular appeal to low income countries. Given the difficulties encountered in seeking to develop an export-platform from an existing state of low industrialization - with MVA accounting for only 9 per cent of GDP as in LDCs as a whole - and the very severe limitations to import-substitution industrialization in small economies, the driving force for industrialization will have to be the spin-off from the exploitation of natural resources. Hitherto, industrial growth has been largely resource-based - as in the cases of diamonds in Botswana, oil in Nigeria, Gabon and Cameroon, sugar in Mauritius, tobacco in Malawi and Zimbabwe and coffee and tea in Kenya.

The scope for manufactured value-added is underlined by a UNIDO estimate that the share of processed to total agricultural production in most African countries is between 10 and 15 per cent, while in the developed economies, the ratio is typically above 80 per cent. Industry in developed countries adds a value of \$184 to each tonne of agricultural raw materials, whereas in developing countries, it adds only \$40.

UNIDO finds a number of agro-industry branches in which many African countries have international comparative advantage (a Revealed Comparative Advantage of over 100 per cent) and in which their competitiveness is improving. Leather and wood products, along with many foodstuffs, are important examples, while competitiveness has also increased, though only for a small number of countries, in clothing. Other agro-related branches with potential include various inputs to agriculture, as well as the construction industry.

"Highest priority" should be given to the processing of coarse grains (especially maize), while the oil seeds industry, fish processing and animal feed production also have potential. UNIDO is gloomy about export prospects for textiles in the "vast majority" of African countries, but sees opportunities in markets, given the fact that per capita consumption levels of clothing and textiles in Africa are the lowest in the world.

In view of Africa's generally low income levels, production for the domestic market should be price-driven rather than quality-driven with manufacturers seeking to keep prices competitive with imports, especially second-hand clothing, which has secured a substantial foothold in the African market. UNIDO also sees opportunity for some African countries to manufacture textile machinery.

Exports of clothing are not ruled out, but strategic alliances advocated with retail chains could significantly influence those exports. Export strategy should be product specific and exporters could target markets vacated by Asian manufacturers whose costs - and exchange rates - have forced them to move upmarket into higher price segments. However, the 1997/98 devaluations in Asian crisis economies may have made such a strategy less promising.

The leather industry has significant unrealized potential because Africa has by far the lowest per capita shoe consumption in the world. Demand is highly income-elastic and will rise strongly with per capita incomes.

Source: UNIDO (1997), *Agro-Related Industrial Development in Africa*. (Alliance for African Industrialization programme).

Four different - in some instances overlapping - industrial growth paths have been identified:

(i) Agriculture-led industrialization: A large number of sub-Saharan economies fit into this category - countries whose existing export base is dependent on agriculture, or which have large populations for whom agriculture provides a livelihood and which could become the platform for industrialization.

(ii) **Resource-based industrialization:** This remains the most likely and attractive route for those economies with a resource-rich base. It includes Angola, Nigeria, Republic of Congo and Gabon (oil and gas), the Democratic Republic of Congo (former Zaire) and Zambia - copper, cobalt and diamonds.

(iii) **Cluster economies:** Those which stand to benefit from the creation of regional customs unions or free trade areas. The most likely potential beneficiaries are in Southern Africa where the proposed free trade protocol of the SADC could create a platform for export-driven growth.

(iv) **Export-led growth:** Although this is the most attractive growth path, replicating the experience of most of the East and South-East Asian tigers, would be the most difficult for sub-Saharan economies facing formidable constraints - especially their deficits in infrastructure, skills and relation technology and an undeveloped private sector.

Such growth path categorization is no more than illustrative. No government can afford to base its industrial policy on such criteria alone since, at any stage in a country's development, there will be investment opportunities in different sectors. A strategy that prioritizes resource-driven industrialization or export-led growth could be incompatible with other strategies.

Box 9.4. Policy lessons of the Asian economic crisis

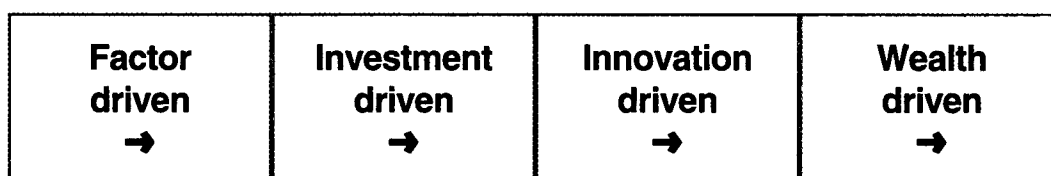
Three main lessons can be drawn from the Asian economic and financial crisis:

- Financial liberalization failed in Asia leaving a trail of undercapitalized banks with large portfolios of non-performing loans and a vulnerable industrial sector. African policymakers can learn from this experience – notably that liberalization of the capital account of a country's balance-of-payments should not go ahead until appropriate regulatory and supervisory mechanisms are in place in the domestic financial sector.
 - For the foreseeable future most African countries will be heavily reliant on inflows of ODA. The medium term outlook for such flows is not encouraging with the aid budgets of Development Assistance Committee countries having fallen to 0.22 per cent of GNP – the lowest since such data were first compiled 50 years ago. Accordingly, governments must make better use of ODA inflows while donors, for their part, should tie disbursements to appropriate economic, political and social policies. African countries must also continue to court FDI and in some cases portfolio inflows, especially where these help bolster fledgling stock markets and finance privatization programmes.
 - Ultimately, however, growth will have to be financed domestically, underlining the need for strong financial systems capable of mobilizing domestic savings efficiently. This implies low inflation, effectively supervised financial sectors and good governance which would help deter capital flight.
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STAGES OF COMPETITIVE DEVELOPMENT

In his theory of "stages of competitive development", Michael Porter [1990] argues that, notwithstanding the diversity of economies, there is a clear-cut emergent pattern of development. Countries move from an initial factor-driven stage (similar to Adam Smith's agriculture-first phase) through an investment-driven phase to one where innovation becomes the driving force (figure 9.1).

Figure 9.1. Four stages of national competitive development



Source: Porter Michael E. (1990), The Competitive Advantage of Nations, The Free Press, New York.

The factor-driven stage is characterized by natural-resource-intensive activities - agriculture, mining and energy - or labour-intensive manufactures. All of sub-Saharan Africa, with the possible exception of South Africa, fits into this category, though virtually none (the only exception being Mauritius) has yet managed to move away from natural-resource dependence to labour-intensive manufacturing.

The investment-driven stage is associated with the manufacture of intermediate and capital goods (heavy and chemical industrialization), while human-capital abundance is required before a country can attain the innovation-driven stage. While sub-Saharan Africa has yet to reach the innovation-driven stage, only South Africa has attained investment-driven status.

Twinning growth paths and competitive stages for sub-Saharan economies suggests that, for the foreseeable future, most will be confined to the factor-driven stage which, in turn, implies a focus on some combination of agriculture-led industrialization and resource-driven growth.

In the 21st century, location and clusters could exert an influence, especially since the conclusion of the 1999 South Africa-EU free trade agreement and with prospects for subcontracting and cross-border vertical-integration spin-offs for other Southern African economies within SADC. In the longer-run similar, but smaller spin-offs, might arise from the future development of ECOWAS, the East African Co-operation agreement and COMESA.

Such spin-off effects will materialize only where governments and firms succeed in building competitive advantage in the face of the envisaged challenge in the field of labour-intensive manufacturing from the Big Five (Chapter II).

The distinction between comparative advantage and competitive advantage (Chapter VIII) highlights the challenge to policy makers. It is common cause that the state should foster national competitiveness (comparative advantage) through the creation of a business- and investment-friendly enabling environment. The state will also need to target selective interventions designed to foster particular industrial activities and sectors, although in Africa the capacity to intervene is thinly spread. In this regard, Africa's reliance on sectoral technical assistance will need to be directed towards enhancing the efficacy of the administrative system to intervene efficiently.

Unless governments are prepared to protect domestic manufacturing, only internationally competitive enterprises will prosper. Accordingly, the central role for industrial policy in sub-Saharan Africa in the 21st century will be "strategic government intervention in the economy to build national competitiveness" [Phillips, 1982].

While, ultimately, competitiveness arises at the enterprise level, the role of the state - and of industrial policy - in fostering competitiveness cannot be exaggerated. Poor infrastructure, inadequate skills, poor industrial governance, and outdated technology constrain industrial development.

All four elements of the competitiveness mix - infrastructure, industrial governance, skills and technology - are dependent in varying degrees, on the state. If the state fails to maintain law and order, guarantee the security of individual and investments, protect intellectual property rights, provide an efficient infrastructure, adequate education and health systems, enterprise-level competitiveness will be undermined.

IMPLICATIONS FOR POLICY

The opening up of African economies to international competition will not guarantee greater competitiveness, but could simply eliminate domestic production altogether (Chapters IV and VIII). It is increasingly acknowledged that competitiveness extends well beyond purely economic influences, such as the real exchange rate. A wide range of issues, often seen as non-economic or purely domestic, influence a country's capacity to compete internationally. Many of these factors are influenced by domestic policy at three distinct levels:

- industry level;
- sub-sectoral level; and
- enterprise level.

Industry-wide policies

A predictable, stable and transparent policy regime is central to industrial growth. Factors influencing industrial governance extend from macroeconomic strategies to the availability of a skilled workforce and an agreed framework within which pricing, employment and investment decisions are made. Good governance implies transparency, participation, accountability, the rule of law and equity. There is a major role for capacity-building here.

Adherence to WTO rules, the elimination of non-tariff barriers and progressive tariff reductions are found in most African states today. Such policies have come under attack in recent years, not least because they are perceived - sometimes rightly - to have contributed to de-industrialization. Some international agencies have begun to call for a slower pace of trade liberalization to give lagging countries and firms more time to prepare themselves for global competition.

The choice is a difficult one since there is a mass of evidence to show that more open economies are more competitive and grow more rapidly. However, as the evidence of de-industrialization in sub-Saharan Africa shows, trade liberalization certainly has its downside - in the short-to-medium term. Despite this, the process seems bound to continue, though governments now accept that they have a role to play in countering transitional adverse effects of liberalization by providing supply-side support to affected industries and enterprises.

Capacity-building for private sector development is necessary also in helping private sector organizations, such as chambers of industry and commerce, to develop and expand their services to members. In sub-Saharan Africa, in particular, the database of economic and industrial statistics and information is weak. There is a role for both governments and donor agencies to fill such gaps, thereby helping improve the quality of business decision-making.

Sub-sectoral strategies

In a globalized world economy the scope for industrial targeting has diminished. Export demand and import competition constitute the most powerful forces driving investment and restructuring decisions at enterprise level. However, there may still be a case for time-bound subsector support. SME development, including the promotion of industrial clusters and networking, is an obvious case.

Enterprise-specific policies

Two specific kinds of policies may be appropriate at the enterprise level:

- policies to encourage firms to improve manufacturing technology and practices by sponsoring total quality management, insisting that firms secure ISO standards, setting up a Standards Bureau, supporting research and development spending, etc.
- policies to expand physical but especially human capital.

RELEVANCE OF THE ASIAN EXPERIENCE

During the 1990s, arguably undue attention has been paid to strategies for replicating Asia in Africa. The weaknesses of such an approach have been rudely illustrated in the 1997/98 financial and economic crisis in Asia and the 1990s slowdown and difficulties of the Japanese economy, which between them underscore the fragility of economic success.

Four other problems have arisen from the preoccupation with Asia's success:

(i) Since the Asian economies made their successful transformation, the nature and character of the global economy has changed. Some of the implications of this change and how it might affect the early years of the next century were assessed in Chapter II. Should the Big Five emerge along the lines mooted in the World Bank's scenario, replicating Asian policies of the performance of the 1980s and 1990s might prove inadequate and unsuccessful. (World Bank, 1997).

(ii) There is no single Asian role model, but a variety of different experiences from which policymakers can learn - subject to the limitations noted in (i).

(iii) The quantum difference in prior conditions between the pre-industrial take-off in South and East Asia and those still current in much of sub-Saharan Africa is most obvious. In its 1997 Ghana Country Assistance Review, the World Bank notes that, although Ghana's social development indicators are better than the average for sub-Saharan Africa and compare favourably to higher-income countries in the region, they are "a long way from levels reached by East Asian countries before they began their rapid growth" [World Bank, 1997]. Elsewhere, the report quotes Ghana's *National Capacity Assessment (1996)*: "Ghana's capacity to handle various technical and managerial activities in most sectors of the economy has worsened in the last two decades and efforts to rebuild these have not been successful." The damage

to the region's physical infrastructure and institutional capacity and its ramifications for economic growth and industrialization cannot be ignored.

(iv) The fourth concern is that of the social and political mood. It is far from obvious that Africa's poor and deprived communities will demonstrate the willingness to work long hours with low pay, to endure the authoritarianism characteristic of much of East and South-East Asia, and to defer consumption for many years, thereby increasing savings ratios dramatically as in Asia.

These caveats notwithstanding, the lessons of Asia's success – and of its recent setbacks - must guide African industrial policy in the 21st century. The crucial ingredients have been:

- appropriate macroeconomic policies;
- outward orientation;
- attraction of FDI; and
- effective selective interventions.

Two further prerequisites must be satisfied for an industrialization strategy to take root:

- institutional capacity, crucial to maintaining appropriate economic policies, undertaking selective interventions and attracting FDI, must be created or strengthened; and
- sustained economic growth requires efficient infrastructure.

The implication is that the scope for selective interventionist, industrial policies is constrained by a variety of factors including:

- limitations on protectionism inherent in the WTO Uruguay Round Agreements;
- technical, administrative and budgetary constraints;
- the fact that obstacles to African industrialization are economy-wide, rather than specific, necessitating broad across-the-board – critical mass – strategies, instead of piecemeal selective interventions.

Accordingly, governments should concentrate their limited resources on implementing broad industrial development strategies. In the light of the drastic deterioration in the institutional capacity of the African state, priority should be accorded to rebuilding and refocusing the state, while simultaneously maintaining appropriate macroeconomic policies.

"Successful industrialization is the outcome of the interplay between incentives, capabilities and institutions, not simply concentration on one to the exclusion of others", according to Lall. Getting appropriate incentives in place - "getting prices right" - will be better than an inward-focused uncompetitive industrial regime, but it will not promote upgrading and diversification if technical skills, management, technology and institutional support are not available. Equally, satisfying these crucial supply-side requirements will be counterproductive if the incentives are wrong [Lall, 1991].

The critical mass approach recognizes the gaps that exist. The institutional, infrastructural and policy shortcomings that have constrained industrialization over the past 25 years are appropriate for sub-Saharan Africa in the third millennium. This means that a strategy for agriculture is every bit as central to industrialization as an industrial policy. It also means that capacity-building, the eradication of corruption, the improvement of standards of industrial governance are equally important as a narrow focus on macro-economic stability.

THE CHALLENGE FOR THE 21ST CENTURY

The case for a holistic, critical mass approach to industrial development in sub-Saharan Africa has been argued above, in the light of the fact that in the new global economic order of the 21st century, much of what was taken for granted 20 years or even 10 years ago, is no longer applicable.

Globalization

The forces of globalization and technological progress have been less kind to sub-Saharan Africa than to other developing regions. Living standards have diverged from those of the first world and the fast-growing newly industrialized and industrializing Asian economies. While the four Asian NIEs - Hong Kong, the Republic of Korea, Singapore and Taiwan - increased per capita incomes from 18 per cent of the industrial country level in 1965 to 66 per cent in 1995, in sub-Saharan Africa, per capita income levels halved from 14 per cent of the OECD level to just 7 per cent. (IMF 1997 and UNIDO, 1996).

The IMF reports a "sharp decline" in the upward mobility of developing countries within the international distribution of income which, in sub-Saharan Africa's case, is largely explained by its continuing marginalization in terms of trade and investment flows and its share in global MVA.

Reversing marginalization implies greater openness:

- tariffs in sub-Saharan Africa average about 27 per cent compared with 15 per cent among East Asian countries;
- average non-tariff barrier coverage ratio is many times higher than in fast-growth developing economies;
- sub-Saharan Africa attracts less than 3 per cent of global FDI.

On the broad policy front, African governments have to react to the challenges of globalization by acting decisively and convincingly in the areas of:

- maintenance of macroeconomic stability
- improved governance
- increased investment in physical infrastructure
- increased investment in human capital
- effective policies to enhance the country's technological capability
- privatization
- increased policy complementarity

Policy complementarity

According to the IMF (1997) there is a strong overall correlation between policies and growth. Countries with open trade policies, a stable macro economy and a small public sector have grown faster than those less open and less stable and have an oversight public sector and had larger governments [UNIDO, 1996]. This view, however, has been contested by Rodrik (1999) who finds weak linkage between openness and growth, unless complimentary policies are in place.

The most striking finding of the IMF study was that no single policy - such as openness - was sufficient to ensure high growth. Policy complementarity - critical mass in the sense of tackling weaknesses on several fronts simultaneously - is crucial. Good performance in just one of these categories is a necessary, but not a sufficient, condition for rapid growth. "Poor performance in one policy area" can hold an economy back says the IMF, and no policy by itself is sufficient for fast growth. Good policies are "mutually reinforcing" [IMF, 1997].

Productivity, technology and competitiveness

"Most of large-scale industry in Africa, private and public, is not competitive at international prices" [Pack, 1993]. It is not obvious that conventional adjustment packages that progressively expose manufacturing industry to increasing competition is working. Many firms may fail if policy is confined only to costs and prices, ignoring quality, style, design and delivery dates. While incentive packages embodied in adjustment programmes are essential, Asian experience shows that there is more to industrialization than incentives.

One of the most striking lessons of recent economic development is that physical capital accumulation has played a relatively minor role in industrial growth which, instead, has been driven by increases in total factor productivity. Software - in the form of skills, training and technology - plays a far greater role than hardware (physical capital).

It is increasingly acknowledged that in the 21st century, international competitiveness must be at the top of the policy agenda, rather than a sub-text, or excluded altogether. The critical mass and policy complementarity approach to competitiveness emphasises the two-dimensional nature of the concept - at national as well as enterprise level (Chapter VIII) - but also the need for a holistic strategy that is economy-wide, while including sector-specific strategies.

ROLE AND CONTRIBUTION OF THE REFORMED UNIDO

In the post-Uruguay Round and post-Asian crisis period, the global economic environment poses new challenges for the multilateral institutions, all of which are engaged in rethinking strategies and restructuring their organizations. Within this overall context and based on its mandate, UNIDO has developed a new portfolio of integrated services (table 9.7) to address the needs of developing and transitional economies focusing on the three core dimensions of sustainable industrial development:

- Competitive economy
- Sound environment
- Productive employment

Table 9.7. UNIDO's Service Modules

<i>Capacity-building levels</i>	<i>Competitive economy (making industry more efficient)</i>	<i>Sound environment (environmentally friendly industry)</i>	<i>Productive employment (promoting employment through industry)</i>
Policy and strategy	Industrial policy formulation and implementation	Environmental policy framework	SME policy framework
	Statistics and information networks	United Nations Framework Convention on Climate Change and Kyoto Protocol	Policy for women entrepreneurship development
Institutional capacity-building	Metrology, standardization, certification and accreditation	Energy efficiency	Entrepreneurship development
	Continuous improvement and quality management	Rural energy development	Upgrading agro-industries and related technical skills
	Investment and technology promotion	Cleaner production	
Enterprise support services		Pollution control and waste management	
		Montreal Protocol on substances that Deplete the Ozone Layer	

Source: UNIDO, Service Modules, Economy, Environment, Employment, Vienna, 1999.

In December 1997, UNIDO approved a Business Plan on the Future Role and Functions of the Organization that delineates future activities in two major areas:

1. Strengthening industrial capacities through:
 - promotion of investment and related technologies;
 - industrial policy advice based on action-oriented research;
 - institutional capacity-building at country and sectoral levels;
 - quality, standardization and metrology;
 - industrial information through networking, including information on the transfer of technology;
 - industrial statistics;
2. Cleaner and sustainable industrial development through:
 - support programmes on environmentally sustainable industrial development strategies and technologies including the transfer of environmental technologies within industrial subsectors, assigned high priority;
 - development of specific norms and standards relating to environmentally sustainable industrial development strategies and technologies and implementation of international protocols, agreements and conventions.

The Business Plan also calls on UNIDO to promote the development of SMEs as the principal means of achieving equitable and sustainable development. Geographical priority should be given to Africa and the world's least developed economies.

UNIDO Service Modules: sharper programming focus

To sharpen the focus of UNIDO's services and align them to the Business Plan, the priority areas defined in the Plan have been organized into technical service modules. Each module represents UNIDO's approach to addressing an area of major concern in industrial development. Modules embody self-contained know-how or technical expertise supported by proven methodologies and tools.

The service modules (table 9.7) constitute UNIDO core competencies, forming the building blocks for designing integrated programmes. Each integrated service reflects UNIDO's dual role as a global forum and as a provider of technical assistance. In its global forum role, UNIDO monitors state-of-the-art advances in industrialization with potential to enhance the ability of countries to achieve sustainable industrial development. In its capacity as a provider of technical co-operation, UNIDO assists in capacity-building in both the private and public sectors, helps formulate and implement industrial policies and deliver services to private industry, especially in the small- and medium-scale sectors. In all cases services will be flexibly combined to provide a comprehensive tailor-made response to meet a specific country's needs.

Alliance for Africa's Industrialization

An important effort towards enhancing industrial development in Africa was initiated by UNIDO through the establishment of the *Alliance for Africa's Industrialization*. Launched in October 1996, the *Alliance* serves as a platform for focusing the attention of African decision makers and the international community on the industrial development challenges facing the continent and its growing marginalization in global manufacturing. The *Alliance* recognizes that globalization has changed the nature and pattern of industrialization and that competition and strategic alliances are becoming important components of business strategy. Integration with the global economy is critical to gain access to markets, relevant technologies, skills and know-how and thus open the way for African countries to go global and join the mainstream globalization process. The *Alliance*, therefore, underscores the principal role of the private sector in promoting industrial transformation and sustainable economic development. Since its launch, the *Alliance* has been successful in achieving a number of objectives (box 9.5 and Annex I).

Box 9.5. Implementation of the Plan of Action of the Alliance for Africa's Industrialization

Coordinating Mechanism

- Plan of Action endorsed by the Conference of African Ministers of Industry (CAMI) held in Accra, Ghana, May 1997.
- Establishment of patrons group, a group of Heads of State, a Ministerial Steering Committee and a Joint UNIDO-OAU-ECA Secretariat (see also Annex I).
- Establishment of Industrial Partnership Councils (IPC's) in several African countries to serve as platforms for public-private partnerships.

Capability building

- Launching of an African privatization network
- Networking among African Investment Promotion Agencies
- Training programme for African policy-makers
- Needs assessment for establishing commercial information centres in African countries

Agro-industry development

- Meeting on promoting competitiveness of agro-industries in Africa
- Consultations for establishing institutional partnerships for promoting agro-industries as part of Tokyo International Conference on African Development (TICAD II)
- Analyses of scope for replicating Asia's agro-industrial experience in Africa

Investment and Private Sector Development

- Private Sector Forum with African business representatives
- Round Table of Executives of African Investment Promotion Agencies (AAIPA)
- Investment Promotion and Partnership Forums
- Conference on Industrial Partnerships and Investment in Africa

Advocacy

- Launching UNIDO Newsletter "Industrial Africa"
 - Forum on Role of NGOs in Private Sector Development
 - Forum on implications of Asian financial crisis for African economies
-

A programme of particular relevance to Africa is the UNIDO Partnership Programme, which involves the development of linkages and alliances between UN Agencies, civil society organizations and the business community, with the aim of improving the impact of technical co-operation programmes in developing and transitional economies. UNIDO is setting up partnerships with multinational firms, universities, host governments, civil society organizations and business groups, such as chambers of industry, so that the problems of industrialization can be tackled together.

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ANNEX 1

Final Communiqué of the First Meeting of the Patrons Group of Heads of State and Government of the Alliance for Africa's Industrialization

We, the Heads of State and Government, meeting in Algiers, Algeria, on 13 July 1999, in our capacity as the Patrons Group of the *Alliance for Africa's Industrialization* (AAI), on the occasion of the 35th Ordinary Session of the Assembly of Heads of State and Government of the Organization of African Unity and at the initiative of His Excellency Mr. Henry Konan BEDIE, President of the Republic of Côte d'Ivoire and Chairman of the Patrons' Group:

- **Having Examined** the progress made in the implementation of the Abidjan Declaration of 23 October 1996, and the Plan of Action of the *Alliance for Africa's Industrialization* by African Countries in close collaboration with UNIDO, OAU and ECA;
- **Aware** of the crucial role which industrialization will have to play in the quantitative and qualitative structural transformation of African societies, job creation and poverty eradication and reaffirming in this regard, our commitment to the objectives and principles set out in the Abidjan Declaration establishing the *Alliance for Africa's Industrialization* (AAI);
- **Recalling** the Declaration of the Assembly of Heads of State and Government of the OAU held in Harare, Zimbabwe in June 1997 on the Industrialization of Africa (AHG/Decl.4 (XXXIII));
- **Taking Note** with satisfaction of the elaboration in 1998/1999 by UNIDO of about fifteen country programmes in close collaboration with African countries as part of implementation of the Plan of Action of the *Alliance* and the initial financial contribution made by UNIDO towards the launching of these programmes as well as the efforts deployed to draw up other similar programmes during 1999 and the years 2000/2001;

DECIDE AS FOLLOWS:

1. To intensify the implementation of the *Alliance for Africa's Industrialization* (AAI) as an African strategy aimed at ensuring the continent's industrial development;
2. To do our utmost to reverse the present trend in the decline of direct investment flows to Africa and to increase Africa's manufactured products with a view to doubling, during the first decade of the new millennium, Africa's share in world industrial production.
3. To this effect, to promote a national consensus among all the stakeholders in the industrial sector through the establishment, among others, of industrial partnership councils in order to ensure the formulation, as early as possible of appropriate and coherent policies and facilitate their implementation.
4. To finalize the composition of the *Alliance for Africa's Industrialization* (AAI) Steering Committee through the appointment of representatives from the private sector.
5. To mobilize first and foremost our own internal resources towards the industrialization of Africa and to eliminate all existing obstacles and constraints to investments that hold out prospects for technologies, know-how and management.
6. To intensify our efforts for advocacy of the industrialization of Africa and our determination to mobilize financial resources in favour of national programmes within the context of the *Alliance* through bilateral contacts and visits to development partners.
7. To broaden the concept of the donors meeting initially planned by the 13th Meeting of the Conference of African Ministers of Industry (CAMI) and endorsed by the OAU Declaration on the Industrialization of Africa ("AHG/Decl.4(XXXIII) and to convene it as a Conference on Industrial Partnerships and Investment in Africa scheduled to take place in Dakar on 20 and 21 October 1999, in which we will also participate.

To this end, we request the International Community to support our efforts with the following actions:

- 1) Give more sustained attention to bilateral and multilateral cooperation programmes by contributing to the attainment of the *Alliance's* objectives;
- 2) Provide substantial financial support to fund country programmes drawn up in the context of the *Alliance*.

Furthermore, we invite all African countries, our development partners, multilateral financial institutions, the Programmes and Agencies of the United Nations system and the Private Sector, both local and foreign, to actively participate in the Conference on Industrial Partnerships and Investment in Africa in order to establish new partnership ties between African Governments and these institutions as well as Public and Private Sector enterprises in the context of the *Alliance for Africa's Industrialization (AAI)*.

ANNEX 2

Dakar Declaration on the Future Competitiveness of African Economies

I. PREAMBLE

The Forum on the Future Competitiveness of African Economies was held on the threshold of the new millennium, at a time when many African countries have established frameworks for economic recovery. But recovery might prove elusive if the trend in declining competitiveness, manifested in Africa's share of world output, trade and foreign direct investment, is not arrested and significantly reversed. This is particularly so in the face of the profound transformation of international economic and geopolitical relations, the most significant of which is globalization driven by liberalization and leading to integration of markets for goods, services and capital. The new international trade relations call for commitment and compliance with new global norms and agenda, posing challenges of considerable dimensions.

It is against this background that key decision makers from the public and private sectors, and civil society, including academia, gathered in Dakar, Senegal, from 3 to 5 March 1999, to discuss policy options for enhancing the continent's long-term competitiveness in the global economy. The Forum focused on four groups of interrelated issues, namely macroeconomic framework, governance and regulatory framework, factors of competitiveness at the firm level and the external environment.

II. ISSUES AND RECOMMENDATIONS

II.1. MACROECONOMIC FRAMEWORKS

Even though Africa is a continent with the highest return of investment, it is perceived as lacking an enabling environment, whereas decisions pertaining to investment are sensitive to perceptions concerning macroeconomic stability as well as policy predictability.

A stable macroeconomic framework has proved not to be sufficient to improve competitiveness. Other factors, such as the absence of a long-term development vision, declining capital inflows, the external debt overhang, the volatile nature of capital and unfair competition must be adequately addressed.

Accordingly, it is recommended that:

- i. Macroeconomic and sector policies be guided by a national long-term development strategy, that reflects society's aspirations, to ensure sustainable competitiveness;
- ii. Governments and their development partners give particular attention to the formulation and implementation of appropriate macroeconomic policy in relation to specific national needs. This requires measures to build capacity in the fields of policy analysis and evaluation;
- iii. Special emphasis be laid on the mobilization of domestic resources, an active and broad-based financial sector be promoted for mobilizing savings and channelling them effectively in order to stimulate investment and growth;
- iv. Governments play a pro-active role, and where appropriate, undertake selective intervention to promote or strengthen the productive sector;
- v. Governments rationalize public expenditures and redirect them towards human development, physical and institutional infrastructures to boost national productivity; and
- vi. An aggressive advocacy strategy be pursued, which would include targeting G7 leadership, with the aim of achieving immediate debt cancellation and thereby increasing the availability of direct resources for social sector development.

II.2. GOVERNANCE AND THE REGULATORY FRAMEWORK

Good governance and a more transparent, predictable and effective regulatory framework are strategic areas where African countries need to pursue ever more vigorously their past and current efforts. Eliciting and maintaining both domestic and foreign investors and trade partners' confidence and trust in the transparency and integrity of the regulatory framework may be at least as critical as the sheer availability of highly profitable business and investment opportunities. Decentralized power sharing by all stakeholders ensures the checks and balances essential where civil society and other institutions of restraint are weak and work in hostile environments, making them unable to take part in governance.

Globalization and world trade liberalization put more pressure on governments in both donor and recipient countries to uphold transparency and fight corruption in trans-border trade and finance. Transparency and accountability in public management reinforce the legitimacy of government and nurture trust between public officials and the people. Transparency and accountability in economic management, especially in fiscal and financial matters, (i) help boost investors confidence and create an environment where public and, most importantly, private investment decisions are made in the most economically and socially efficient manner and (ii) act as a potent deterrent against corruption.

Since institutions provide the framework for the exercise of governance, **it is recommended that:**

- i. Peace, stability and security be of primary concern by all;
- ii. Governments elicit the confidence of citizens by ensuring the rule of law, respect of human rights, accountability, transparency, predictability of policies and the enhancing of state capacity as an arbitrator and strategist;
- iii. Harmonization/establishment of business law regulations be promoted to enhance business activities;
- iv. Strategies be put in place to ensure full participation of the large number of people currently excluded from the formal economy. Governments and civil society should work together actively to foster greater openness;
- v. The poor image of Africa be addressed by sending signals of positive progress in implementing good governance not as a conditionality but as national agenda, empowering Africans to disseminate balanced information about Africa;
- vi. Civil society be strengthened and given space to operate and contribute to policy formulation; and
- vii. Systematic approach be instituted to fight corruption, adhering to all initiatives at regional and global levels, and more transparent business environment be promoted.

II.3. FACTORS OF COMPETITIVENESS AT THE FIRM LEVEL

Competitiveness at the firm level lies in the ability of the firms to make sustainable profits in competitive markets.

A highly skilled and well-trained labour force is

essential for increasing domestic productivity, facilitating economic diversification and attracting investment. However, school enrollment is declining across the continent and education and training systems are not designed to provide the requisite range of skills.

The financial sector is also not adapted to the needs of firms since access to capital is restricted by rigidities in the financial system. The absence of accurate and up-to-date data on firms creates difficulties with regard to risk assessment and the creation of a supportive policy environment. Lack of access to and application of technology is a further major inhibiting factor to the competitiveness of African firms.

Globalization has created need for a new approach to adjust the structure of local firms to compete in a global setting based on knowledge, information networking and strategic alliances.

Accordingly, in order to ensure that firms have available the right of mix of skills, **it is recommended that:**

- i. Governments achieve targets in the areas of basic numeracy, literacy and public health;
- ii. The necessary links be created between skill requirements at the firm level and the curricula of education systems; and
- iii. There be more direct investment of industry in human resource development accompanied by efficient monitoring of the quality of training.

In the area of finance, **it is recommended that:**

- i. The range of financial instruments be complemented by developing venture capital funds, start-up funds and loan guarantee funds;
- ii. Resources be mobilized through the development of municipal bonds and a generally more proactive role of local governments, voucher privatization and the development of stock exchanges including regional stock markets;
- iii. Capital expansion be promoted through stock markets; and
- iv. Use be made of the full range of available financial instruments including companies financing their own investments so as to promote better financial viability.

In the are of technological upgrading, **it is recommended that:**

- i. Research and development be promoted through the adoption of new approaches to regional cooperation. These could consist in establishing technology innovation centres to pool information on global opportunities for

product and technology development, facilitating the clustering of firms and investing in new technologies to achieve economies of scale and linkages with local support industries;

- ii. Industrial restructuring be facilitated with a view to improving the competitive position of local industry in a global setting including the establishment of strategic alliances, partnerships, exploiting the options of mergers and acquisitions both within countries and internationally;
- iii. Industrial strategies and policies be formulated for improving overall competitiveness;
- iv. Entrepreneurship be fostered, and development of small, medium and micro enterprises be clustered; and
- v. Standardization and quality control be promoted to meet international norms and consumer requirements.

II.4 EXTERNAL ENVIRONMENT

In the context of the ongoing globalization of the world economy, a more contemporary strand of thought on the rationale of regional integration in Africa has emerged. This suggests that regional integration within the framework of the Abuja Treaty is useful for learning to adapt to the challenge of integration into the global economy and building up the capacity and knowhow to respond to increasing international competition. In this sense, regional integration is seen as a critical factor in enhancing the competitiveness of African economies and an essential component in pursuing a strategy of sustainable development.

In addition to the traditional challenges (extreme balkanization, large number of land-locked countries, long common borders and lack of equipment), African governments must now cope

with unprecedented acceleration of technological change and the distributional consequences of globalization as the new global economy does not benefit all countries equally.

Accordingly, it is recommended that:

- i. African countries take decisive steps to access and develop relevant information technology and establish a continental strategic information system;
- ii. African countries build capacity to compete in international markets, to participate in WTO and other trade arrangements and to negotiate internationally;
- iii. African countries enhance the capacity to formulate common positions on global issues; and
- iv. Appropriate strategies be identified to speed up the implementation of the Abuja Treaty establishing the African Economic Community.

III. FOLLOW-UP MECHANISM

A Committee comprising representatives of the five regions of the continent (Central, East, Southern, West and North Africa), as well as the international organizations that sponsored the Forum, will be established to follow-up the Forum's Declaration.

Chaired by the representative of the host country, the Committee will be a high level entity open to the private sector and civil society organizations.

The Committee will prepare a plan of action for implementing the conclusions and recommendations of the Dakar Forum and will periodically report on its activities.

Dakar, 5 March 1999

STATISTICAL ANNEX

Table A.1. Distribution of World MVA and GDP ^a

Year	MVA				GDP			
	Developed market economies	Transition economies	Developing countries	World total	Developed market economies	Transition economies	Developing countries	World total
1980	78.0	7.6	14.4	100.0	77.6	5.9	16.5	100.0
1981	78.1	7.6	14.3	100.0	77.6	5.9	16.5	100.0
1982	77.3	8.1	14.6	100.0	77.2	6.1	16.7	100.0
1983	77.0	8.3	14.7	100.0	77.2	6.2	16.6	100.0
1984	76.7	8.2	15.1	100.0	77.2	6.1	16.7	100.0
1985	76.5	8.3	15.2	100.0	77.1	6.1	16.8	100.0
1986	75.8	8.1	16.1	100.0	77.0	5.9	17.1	100.0
1987	75.4	8.0	16.6	100.0	76.8	5.8	17.4	100.0
1988	75.4	8.0	16.6	100.0	76.8	5.8	17.4	100.0
1989	75.4	7.9	16.7	100.0	76.9	5.7	17.4	100.0
1990	76.2	7.0	16.8	100.0	77.1	5.3	17.6	100.0
1991	76.1	6.4	17.5	100.0	77.1	4.9	18.0	100.0
1992	75.8	5.7	18.5	100.0	77.1	4.2	18.7	100.0
1993	75.1	5.0	19.9	100.0	76.8	3.8	19.4	100.0
1994	75.5	3.8	20.7	100.0	76.8	3.3	19.9	100.0
1995	75.1	3.8	21.1	100.0	76.5	3.2	20.3	100.0
1996	74.3	3.6	22.1	100.0	76.1	3.0	20.9	100.0
1997	74.0	3.5	22.5	100.0	75.8	2.9	21.3	100.0
1998	73.9	3.4	22.7	100.0	75.9	2.8	21.3	100.0
1999 ^b	73.8	3.3	22.9	100.0	75.9	2.8	21.3	100.0
2000 ^b	73.2	3.2	23.6	100.0	75.6	2.7	21.7	100.0

^a At constant 1990 prices.

^b Projected figures.

Source: UNIDO estimates based on data provided by various national and international sources.

Table A.2. Distribution of MVA among selected developing regions ^a (Per cent)

Year	Sub-Saharan Africa ^b	North Africa	Latin America and Caribbean	South and East Asia ^c	China ^c	West Asia and Europe	All developing countries ^b
1980	2.6	3.5	46.6	25.3	10.0	12.0	100.0
1981	2.7	3.7	43.9	27.0	10.1	12.6	100.0
1982	2.8	3.8	42.6	27.4	10.5	12.9	100.0
1983	2.6	4.0	39.9	29.4	11.1	13.0	100.0
1984	2.5	4.0	38.8	30.3	11.8	12.6	100.0
1985	2.6	4.0	38.1	29.4	13.2	12.7	100.0
1986	2.5	3.8	38.0	30.3	13.2	12.2	100.0
1987	2.4	3.6	36.1	31.7	13.8	12.4	100.0
1988	2.4	3.8	33.8	32.9	15.3	11.8	100.0
1989	2.4	3.7	32.9	34.1	15.5	11.4	100.0
1990	2.4	3.4	31.5	36.1	15.6	11.0	100.0
1991	2.3	3.3	30.4	37.0	17.2	9.8	100.0
1992	2.1	3.3	29.2	36.7	19.5	9.2	100.0
1993	2.0	3.0	28.4	36.5	21.4	8.7	100.0
1994	1.7	2.9	27.6	36.7	23.4	7.7	100.0
1995	1.6	2.8	25.6	37.6	24.6	7.8	100.0
1996	1.6	2.6	24.9	37.5	25.6	7.8	100.0
1998	1.6	2.7	24.6	35.2	28.0	7.9	100.0
1999 ^d	1.6	2.8	23.3	35.2	29.4	7.7	100.0
2000 ^d	1.6	2.8	22.6	35.0	30.2	7.8	100.0

^a At constant 1990 prices.

^b Excluding South Africa.

^c Hong Kong SAR and Taiwan are included in South and East Asia.

^d Projected figures.

Source : UNIDO estimates based on data provided by various national and international sources.

Table A.3. Share of MVA in GDP ^a

Year	World	Developed economies	Transition economies	Developing countries ^b	Developing regions					
					Sub-Saharan Africa ^b	North Africa	Latin America and Caribbean	South and East Asia ^c	China ^c	West Asia and Europe
1980	22.7	22.8	29.3	19.8	9.8	12.1	24.4	18.3	33.0	13.5
1981	22.6	22.8	29.1	19.7	10.4	13.0	23.0	18.6	32.1	14.5
1982	22.3	22.4	29.5	19.6	10.3	12.9	22.8	18.2	31.2	15.4
1983	22.4	22.3	30.0	19.8	10.1	13.6	22.7	18.7	30.9	16.0
1984	22.7	22.5	30.3	20.4	10.2	14.1	22.9	19.7	30.7	16.5
1985	22.8	22.7	30.8	20.7	10.9	14.2	23.0	19.5	31.9	17.4
1986	22.6	22.2	30.9	21.4	11.0	14.6	23.6	20.7	31.8	17.3
1987	22.8	22.4	31.4	21.8	11.2	14.6	23.4	21.7	32.1	17.8
1988	23.1	22.6	31.9	22.0	11.2	16.0	22.9	22.2	33.4	17.5
1989	22.9	22.5	31.6	22.0	11.0	15.4	22.8	22.3	33.7	17.4
1990	22.6	22.3	29.8	21.5	10.9	14.3	22.1	22.2	33.1	16.3
1991	22.3	22.0	29.1	21.6	10.6	14.1	21.3	22.2	34.5	16.7
1992	22.0	21.6	29.6	21.8	10.5	14.2	21.1	22.1	36.4	16.2
1993	21.6	21.2	28.4	22.2	10.4	13.8	21.2	22.2	37.6	16.1
1994	21.9	21.5	25.0	22.8	9.8	13.9	21.1	22.6	39.5	15.8
1995	22.4	22.0	26.8	23.3	9.7	14.3	20.9	23.2	40.5	16.4
1996	22.3	21.7	26.7	23.6	9.6	13.9	21.1	23.3	41.2	16.6
1997	22.6	22.1	26.6	23.9	9.6	14.2	21.2	23.5	41.6	17.0
1998	22.5	21.9	26.9	24.1	9.9	14.4	21.2	23.2	42.2	17.0
1999 ^d	22.3	21.6	26.4	24.0	10.0	15.0	20.7	23.2	42.6	17.3
2000 ^d	22.3	21.6	26.5	24.2	9.9	15.0	20.5	23.2	43.1	17.5

^a At constant 1990 prices.

^b Excluding South Africa.

^c Hong Kong SAR and Taiwan are included in South and East Asia.

^d Projected figures.

Source: UNIDO Database.

Table A.4. Average annual real growth rate of MVA and GDP (Per cent)

Economic grouping	MVA					GDP				
	1980-1990	1990-1997	1998	1999 ^a	2000 ^a	1980-1990	1990-1997	1998	1999 ^a	2000 ^a
World	3.2	2.4	1.6	0.8	2.4	3.0	2.3	2	1.9	2.5
Developed market economies	2.8	1.9	1.5	1.3	1.8	2.9	2.0	2.2	2.6	2.0
Transition economies	2.8	-8.4	-0.6	-2.1	1.7	2.1	-6.6	-1.5	-0.3	1.3
Developing regions ^b	5.1	7.0	2.5	2.3	5.4	3.8	5.2	2.0	2.5	4.5
Sub-Saharan Africa ^b	3.7	0.1	5.7	4.1	2.7	2.5	2.1	3.3	2.8	3.1
North Africa	4.7	2.3	5.5	7.5	4.5	2.5	2.4	3.6	3.4	4.5
Latin America and the Caribbean	1.3	3.1	2.1	-2.6	2.3	1.7	3.5	2.3	-0.3	3.3
South and East Asia ^c	8.4	7.4	-2.4	2.9	4.5	5.9	6.3	-1.4	2.9	4.5
China	10.7	15.5	9.3	7.6	8.3	10.2	11.6	7.8	6.6	7.0
West Asia and Europe	4.0	1.9	3.2	0.5	6.9	1.8	1.5	3.6	-0.1	5.2

^a Projected Figures.

^b Excluding South Africa - recorded under developed market economies.

^c Hong Kong and Taiwan are included in South East Asia.

Source: UNIDO estimates based on data provided by various national and international sources.

Table A.5. Percentage share of developing countries, including South Africa, in world MVA and GDP (At constant prices)

Year	Share of developing countries in world MVA ^a	World MVA	Share of developing countries in world GDP ^a	World GDP
1980	15.0	100.0	17.0	100.0
1981	15.0	100.0	17.1	100.0
1982	15.3	100.0	17.3	100.0
1983	15.3	100.0	17.2	100.0
1984	15.6	100.0	17.3	100.0
1985	15.8	100.0	17.3	100.0
1986	16.6	100.0	17.6	100.0
1987	17.2	100.0	17.9	100.0
1988	17.1	100.0	17.9	100.0
1989	17.2	100.0	17.9	100.0
1990	17.3	100.0	18.1	100.0
1991	17.9	100.0	18.5	100.0
1992	19.0	100.0	19.1	100.0
1993	20.3	100.0	19.8	100.0
1994	21.2	100.0	20.3	100.0
1995	21.6	100.0	20.8	100.0
1996	22.6	100.0	21.3	100.0
1997	23.0	100.0	21.8	100.0
1998	23.2	100.0	21.7	100.0
1999	23.4	100.0	21.7	100.0
2000	24.0	100.0	22.1	100.0

^a Including South Africa.
Provisional/projected figures.

Source: UNIDO estimates based on data provided by various national and international sources.

Table A.6. Percentage share of total MVA of all developing regions, including South Africa

Year	Sub-Saharan Africa ^a	North Africa	Latin America and the Caribbean	South and East Asian developing countries ^b	China ^c	West Asian and European developing countries	All developing regions ^a
1980	6.8	3.3	44.6	24.3	9.5	11.5	100.0
1981	7.1	3.5	41.9	25.8	9.6	12.1	100.0
1982	7.0	3.7	40.7	26.2	10.0	12.3	100.0
1983	6.4	3.9	38.3	28.3	10.6	12.4	100.0
1984	6.2	3.8	37.4	29.2	11.3	12.1	100.0
1985	5.9	3.9	36.8	28.4	12.7	12.3	100.0
1986	5.6	3.7	36.8	29.3	12.8	11.8	100.0
1987	5.4	3.4	35.0	30.7	13.4	12.0	100.0
1988	5.4	3.6	32.8	31.9	14.8	11.5	100.0
1989	5.3	3.6	31.9	33.1	15.0	11.1	100.0
1990	5.2	3.3	30.5	35.0	15.2	10.7	100.0
1991	4.9	3.3	29.6	36.0	16.8	9.5	100.0
1992	4.5	3.2	28.4	35.8	19.0	9.0	100.0
1993	4.2	2.9	27.8	35.7	20.9	8.5	100.0
1994	3.8	2.8	27.0	35.9	22.9	7.6	100.0
1995	3.8	2.7	25.0	36.7	24.1	7.7	100.0
1996	3.6	2.6	24.4	36.7	25.1	7.6	100.0
1997	3.5	2.5	24.2	36.6	25.8	7.7	100.0
1998	3.4	2.6	24.1	34.6	27.5	7.8	100.0
1999	3.4	2.7	22.8	34.6	28.8	7.6	100.0
2000	3.3	2.7	22.2	34.4	29.7	7.7	100.0

^a Including South Africa.

^b Including Hong Kong (Special Administrative Region) and Taiwan.

^c Excluding Hong Kong (Special Administrative Region) and Taiwan.

^{*} Provisional/projected figures.

Source: UNIDO estimates based on data provided by various national and international sources.

Table A.7. Percentage share of MVA in GDP in developing countries and Sub-Saharan Africa, including South Africa (At constant 1990 prices)

Year	Developing countries (including South Africa)	Sub-Saharan countries (including South Africa)
1980	20.0	16.2
1981	19.9	16.9
1982	19.8	16.5
1983	19.9	15.7
1984	20.5	15.9
1985	20.8	15.7
1986	21.4	15.6
1987	21.9	15.7
1988	22.1	16.0
1989	22.0	15.7
1990	21.5	15.4
1991	21.6	14.8
1992	21.8	14.6
1993	22.2	14.5
1994	22.7	14.1
1995	23.3	14.3
1996	23.6	14.0
1997	23.9	14.1
1998	24.0	13.8
1999	23.9	13.8
2000	24.4	13.6

Provisional/projected figures.

Source: UNIDO estimates based on data provided by various national and international sources.



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