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WORKING PAPER NO. 1

INDUSTRIALIZATION OF AFRICA WITHIN THE CONTEXT OF CURRENT GLOBAL ECONOMIC DEVELOPMENTS

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PAPER PRESENTED BY MR ARISTON CHAMBATI, CHAIRMAN AND CHIEF EXECUTIVE, T A HOLDINGS LIMITED, TO THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION IN VIENNA, AUSTRIA, FROM 31 OCTOBER - 4 NOVEMBER, 1994

EXECUTIVE SUMMARY

The task of creating world class industries in Africa requires the active support and participation by Heads of State in the formulation and implementation of development policies and industrialisation strategies. Such participation is vital if the goal of industrialising Sub-Saharan Africa and restoring its economies to a growth path is to be realised.

Economic conferences to be attended by selected political leaders and business executives from West Africa, Eastern and Southern Africa should be held on a regular basis so as to facilitate the exchange of ideas and formulation of viable economic strategies. Without such co-operation, Africa risks being further marginalised in the face of a more liberalised international trading system and the emergence of strong regional trading blocs.

Regional efforts to promote economic development in Sub-Saharan Africa need to be complemented by policy measures that encourage the establishment of small scale industries in rural growth points within domestic economies. Such measures would include the building of shell factories and the provision of an appropriate infrastructure in the form of roads, electricity, dams, clinics and banking services.

Provincial headquarters of central and local government departments must be allowed to source their requirements of food, protective clothing and building materials directly from small firms based in their provinces so as to minimise bureaucratic delays that might arise. If implemented correctly, such a programme has the potential to spread economic development to all parts of the country. Industrialisation has failed to take root in Africa because economic development has been concentrated in towns and cities, which are primarily consumption centres, with little or no development taking place in rural areas.

Small firms operating from rural growth points should be served by a common pool of services for repairs, maintenance, book-keeping etc. For individual firms, the cost of hiring specialists could be prohibitive, but the services can be made affordable if approached on a group basis.

Countries in Sub-Saharan Africa can pursue successful industrialisation strategies if political leaders actively participate in economic management and deliberate measures are introduced to promote equity markets and the establishment of small manufacturing firms in rural areas.

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"INDUSTRIALISATION OF AFRICA WITHIN THE CONTEXT OF CURRENT GLOBAL ECONOMIC DEVELOPMENTS"

According to figures released by the General Agreement On Tariffs and Trade (GATT), developing economies as a group have made significant strides in penetrating global export markets for manufactured goods within the last four decades. For the group as a whole, manufactured goods now account for 60 per cent of their exports, up from 5 per cent in 1955. At the same time, their share of world exports of manufactured goods rose from 5 per cent in 1970 to 22 per cent in 1993.

These impressive statistics do not tell the full story as they bring together countries in Asia and Latin America which have made tremendous progress and other countries, notably in Africa, where progress has been limited and in some cases reversed. Of the 22 per cent of world output attributed to developing economies, Asia accounts for 80 per cent of the output while the rest account for 20 per cent.

Africa's contribution is considered negligible as the continent continues to be marginalised in the emerging international economy.

A number of initiatives were launched in the past by the United Nations and other international organisations in an effort to accelerate the pace of industrialisation in Africa, but with limited success. The underlying causes of Africa's failure to industrialise are many and varied and these include:-

* Heavy dependence on exports of primary products, which is a legacy of the colonial approach to development.

* Relatively small size of the domestic markets for industrial goods which is a major constraint on industrialisation. Small markets discourage specialisation by firms and they also preclude the development of a modern capital or intermediate goods sector.

* Repression of market forces due to poor communications, poor infrastructure, low literacy, scarcity of skills and poor economic policy formulation. These factors resulted in the dual character of most African economies and the entrenchment of monopolies in industry and agricultural marketing.

* Inflexible economic structures which were not capable of adapting to changing global trends.

* Adverse external conditions including declining commodity prices, recession in developed economies, shortage of capital and declining terms of trade.

* Failure by private sector firms to invest in the upgrading of technology, skills and modernisation of equipment and production processes. In consequence, productivity has lagged behind that in other countries, making Africa's manufactured products uncompetitive on world markets.

* Misuse and inefficient utilisation of aid and other capital inflows.

Despite considerable aid and capital inflows, Africa continues to show a net outflow of financial resources. This is largely because funds received have gone into unproductive, and sometimes prestigious, projects that do nothing to augment the industrial and productive base. The result has been a huge debt burden which cannot be serviced and significant resource outflows to the developed economies and multilateral agencies as interest payments.

More importantly, a sizeable proportion of the aid inflows has found its way back to the developed economies through the corrupt practices of certain politicians. Lack of political stability has encouraged political leaders to divert aid money to offshore bank accounts as a precautionary measure and in some African countries, external debt is more than matched by funds held in private bank accounts overseas which is commonly referred to as flight capital.

It should also be noted that the widespread practices by some Western donors of giving tied aid has in many cases led to the importation of outdated and inappropriate technology. Such aid has been taken simply because it is available, without regard to the actual needs and requirements of the recipients of such aid. Persistent calls for change to such undesirable practices have largely gone unheeded.

Misuse of aid funds and general economic mismanagement lies behind the failure of many countries in Africa to diversify their exports. There is a continued heavy reliance on exports of primary products, with more than 80 per cent of export earnings coming from one or two primary products. For example, Zambia is in the same situation that it was at the time of independence in 1964 in that exports of copper still account for more than 80 per cent of its total annual export earnings.

Similarly, Nigeria is dependent on oil exports, Ghana on cocoa, Malawi on tea, Botswana on diamonds and Libya on oil. Zimbabwe has made considerable progress towards increasing its exports of manufactured products although exports of tobacco and gold still dominate.

Reliance on exports of primary commodities has meant that economic growth is largely governed by external factors in the form of international commodity prices. As a result, economic growth in Africa has tended to follow the boom and bust cycles of international commodity prices. Countries in Asia with more balanced economies and a greater manufacturing component have been able to achieve sustained levels of economic growth of more than 7 per cent per annum.

Apart from a few countries such as Nigeria and South Africa, domestic markets are relatively small and cannot serve as a basis for industrial growth and specialisation. The small size of the markets coupled with the suppression of market forces has encouraged the formation of monopolistic or oligopolistic structures within the economies. Lack of competition in the domestic market has left African companies ill-equipped to compete in the international market. There is evidence to show that companies facing stiff competition at home generally tend to do better in international export markets.

Factors which militated against the successful industrialisation of Africa in the past are still present, although some exist in a less pronounced form. The successful culmination of the Uruguay round of trade talks in April this year is a mixed blessing for Africa. A more liberal world trade regime with lower tariff barriers will create opportunities for developed countries, including those in Africa, to increase their exports to developed economies. However, this development also poses a real threat to newly established and previously protected industries. Lowering of trade barriers will speed up the process of integrating the world economy and Africa will not benefit much from this development unless efforts to promote industrialisation on the continent start to show some results.

Availability of raw materials and lowly paid labour no longer provide a dependable basis for industrialisation in Africa and other developing countries. Countries in Asia, notably Taiwan, South Korea and Hong Kong, have built strong industrial bases relying on a combination of low wages and advanced technology from the developed economies. However, this source of comparative advantage is transitory and tends to be eroded by competitive forces over time. Hence the successful countries are now facing strong competition for international investment from other countries, notably China and Vietnam.

A more worrying development is the emergence of powerful forces opposed to a more liberal world trade regime in the developed economies. There are those in developing countries who genuinely believe that the opening up of developed markets will lead to a migration of jobs from the industrialised countries to the developed economies, hence their opposition to efforts to integrate the world economy. Another fear is that the working conditions of workers in the industrialised economies will be reduced to match those found in the emerging economies as international competition intensifies.

Arguments that world trade is not a zero-sum game seem to have done little to allay these fears and the prospects are that high tariffs in developed countries will be replaced by tougher administrative and other non-trade barriers. Thus emerging global economic trends suggest that Africa will face significant obstacles in its efforts to industrialise.

Multilateral and bilateral aid to Africa is expected to fall as the industrialised nations now appear to be preoccupied with assisting countries in Eastern Europe reform their economies. This may explain why at the recent annual meeting of the IMF and the World Bank, the industrialised countries offered to create a reserve fund of $24 billion US dollars to assist developing economies, compared to $50 billion US dollars suggested by the developing countries.

There is a new realism in Africa which has been brought about by international economic trends and an admission that experiments with socialism in various forms have proved to be illusory in many cases. Since the early 1980's, more than 30 African countries have abandoned their experiments with socialism in favour of free market economies supported by the IMF and the World Bank. The results have been mixed.

Zambia introduced economic reforms in 1985 but these were abandoned in 1987 after inflation had risen to over 300 per cent, prompting widespread civil unrest. High interest rates produced widespread bankruptcies and record unemployment. The new government which came to power in 1991 reintroduced the reforms soon after coming into power and has persisted with their implementation in the face of fierce opposition from critics of the economic reform programme.

Nigeria embarked on its economic reform programme in 1986 but abandoned it in January 1994. Eight years of economic reform had failed to yield the expected benefits but instead had resulted in high inflation and interest rates, widespread bankruptcies and increased unemployment. In 1993, Kenya abandoned its economic reform programme on the same grounds.

In contrast, Ghana has been pursuing a path of economic reform for the last 14 years and has achieved some successes.

During that period, much has been accomplished to restore key sectors of the economy such as transport, health, education and utilities. Import liberalisation increased the private sector's access to previously restricted inputs and spare parts, especially for small enterprises; it also broadened competition from imported products in the fields such as textiles and electronics. Realignment of an overvalued currency created opportunities for exports, but adversely affected those industries that depend on imported inputs.

For Zimbabwe, the economic structural adjustment programme which was introduced in 1991 has been relatively successful, although limited progress has been made in correcting the imbalance in wealth distribution. Some fine tuning is still required and there is need to broaden the industrial base by encouraging the creation of indigenous enterprises, particularly in the rural areas.

Efforts to industrialise African economies must address some fundamental and deep-seated cultural, historical, social and economic practices which are inimical to the process of economic development.

Industrialisation has failed to take root in some African countries because economic development has been concentrated on consumption centres in towns and cities, with little or no rural development taking place.

Rural development in many African countries has been haphazard and has tended to follow preferences of local politicians to the exclusion of strategic and natural growth points.

Local beneficiation of primary products prior to their export outside the country or transfer to urban areas should be encouraged through government initiatives to set up growth points and improve the infrastructure such as roads, water, dams, electricity and telephones. Small-scale industries such as weaving, brick-making, vegetable canning and textiles could be accommodated in such centres near sources of raw materials. Government departments constitute an important market for various products such as uniforms, food, building materials, office equipment and stationery. This market power can be used as a tool for promoting industrial development in rural areas by providing a ready market for companies established in growth points.

It is to be regretted that little has been done to implement the LAGS PlAN OF ACTION, which was a statement of development strategy adopted by African Heads of State at the meeting of the OAU held in April, 1980. The plan endorsed objectives of the African States to achieve a more self-reliant, more economically integrated Africa by the year 2000.

Economic self-reliance based on deliberate policies to mobilise local resources for industrial development must form the cornerstone of industrialisation strategies in Africa.

The goal of economic integration should be pursued more actively as it alleviates the constraint on industrial specialisation due to small domestic markets. Such noble goals will not be easy to achieve in practice as they require the individual interest of nations to be subsumed under the broader interests of the continent.

As stated previously, the trend is towards greater international economic integration and specialisation. Africa cannot be equated with Asia but the notable successes achieved by some countries in that region provided useful lessons for the continent.

An abundance of natural resources is neither a necessary nor sufficient condition for a successful industrialisation policy, as countries in Asia have so ably demonstrated. Africa cannot therefore assume that its industrialisation drive will succeed simply because it has the natural resources, there are other factors to consider. There is enough empirical evidence to show that an industrialisation strategy is likely to succeed in countries which meet the following conditions:-

* Favourable demand conditions in the form of sophisticated and discerning consumers;

* Strong competition in the domestic market; and

* Developed supply networks.

These three conditions are either absent or in the formative stage in many African countries. As a result, there is no incentive for domestic companies to add value to raw materials before exporting them. Clearly, what is required are deliberate policies to promote consumer education, competition and supply linkages between small-to-medium enterprises and the large established companies.

A well designed consumer education programme supported ny legislated national consumer product standards can serve as a basis for improving the international competitiveness of African's manufactured products. The quality of products needs to be improved as part of the reform process from controlled and protected economies to free market economies that are subject to global competitive forces. In most cases, companies are no longer dealing with captive markets that can accept shoddy products at exorbitant prices. Introduction of mandatory national quality standards would improve the level of awareness amongst both consumers and companies, which could serve as an incentive for domestic suppliers to improve the quality of their products.

Prior to the introduction of reforms, the industrial sector in many African countries was dominated by public sector enterprises which had a virtual monopoly in the supply of essential products and services such as telecommunications, agricultural marketing, air travel and urban transportation. For example, a study conducted in Zimbabwe in 1993 found that out of 7 000 manufactured products being made locally, almost 50 per cent of them had a single supplier while 80 per cent had 3 or less suppliers.

While the combination of a high degree of industrial concentration and high barriers to entry does not necessarily lead to abuse of market power by monopolists and oligopolists, the scope for exercising such power exists. What is needed are policies which promote competition in domestic markets which are a useful testing ground for companies wishing to compete internationally. Such measures could take the form of either a mergers and monopolies commission or, where this is not practical, legislation against unfair business practices which stifle competition.

Africa has been through a decade of falling per capita income, increasing hunger and accelerating ecological degradation. Economic growth has not kept pace with the increase in population. Growth in real GDP declined from 4.8 per cent per annum in 1988 to 1.9 per cent in 1992.

The problem of slow economic growth has been exacerbated by a high population growth rate, averaging 3 per cent per annum. People on the continent are almost as poor today as they were in the 1960's and in some cases they are worse off than they were before.

The greatest challenge facing the continent is to provide productive employment for a labour force that will expand by about 350 million between 1990 and the year 2020. In order to avert widespread starvation, create jobs and improve standards of living, its economies will need to grow by at least 5 per cent per annum.

Structural adjustment programmes in Africa have not been an unqualified success. The burden of adjustment has largely fallen on the unemployed and the poor, a fact which has been seized upon by leading charity organisations who charge that economic reform programmes should either be abandoned or overhauled. Cost recovery measures have limited the access of the vulnerable groups to essential services such as health, education and housing.

In practical terms, there is no viable alternative to structural adjustment programmers and accompanying market reforms. However, greater attention needs to be paid to the protection of the disadvantaged groups. Economic reform programmes that have been formulated to date have not set aside adequate resources for social development.

The International Monetary Fund and the World Bank have admitted as much and hopefully, future programmes will pay particular attention to this crucial aspect.

In the short-term, the removal of tariff barriers and the dismantling of exchange controls has led to the closure of inefficient and uncompetitive industries. Without some major changes, economic reform programmes and growing international competition can only lead to rapid deindustrialization in Africa. A dynamic and successful industrialisation process is characterised by the collapse of inefficient companies and rapid growth of efficient and competitive firms. Workers shed off by unsuccessful firms are absorbed by successful ones.

This has not been the experience in Africa as the majority of workers losing their jobs have failed to secure employment in the surviving companies. Structural unemployment has continued to rise because remaining firms have not been able to expand fast enough on the required scale. In many cases surviving firms have also retrenched workers as they strive to become leaner and more competitive. What is lacking is the emergence of new companies to take the place of those that have folded up.

Industrial development has not taken off in most African countries largely because economic activities have been confined to a few urban centres.

Pronouncements to decentralise industrial activities has not been matched by deeds and concrete action. Development of rural industrial centres which has occurred has been undertaken half-heartedly and as an afterthought. A concerted effort to develop the infrastructure in rural growth points is called for with emphasis on providing communications, health, water, educational and other infrastructure facilities.

The large resource base found in rural areas is not being exploited to maximum effect as resources continue to be absorbed by existing firms in a few urban centres. In consequence, rural-to-urban migration continues unabated, further exacerbating problems of overcrowding, housing shortages and general congestion in major towns and cities.

It is fashionable nowadays to argue that the role of the state in economic development is to crate a conducive atmosphere for business and that less government involvement in economic activity is to be preferred. This view is not supported by the experience of countries of the Association of South East Asian Nations (ASEAN). In South Korea, Malaysia and Singapore, the role of the state in the economy has been enormous. Their success has been marked by direct state intervention in the economy through the banking system, financial system and production. The state can play a critical role in laying the basis for overall economic development by providing common facilities and infrastructure such as education, roads, electricity etc.

In Africa, central government and local authorities have huge requirements for various products and services which do not require sophisticated technology to manufacture and can easily be produced by small-to-medium enterprises in rural areas. Such requirements include vegetables for hospitals, prisons and schools; protective clothing for workers; bricks needed to put up schools and clinics etc.

Governments can facilitate the creation of small scale industries in rural growth points by building shell factories in locations that are supported by a well developed infrastructure in the form of roads, electricity, water, schools, clinics and banking services. Given a developed infrastructure and a ready market for their products, small scale enterprises established in such areas are likely to succeed and this can lead to a chain reaction, attracting other industries.

These small scale operators should be encouraged to share professional services, such as repairs, book-keeping etc., without necessarily forming into cooperatives. For example, hammer millers could get together and hire a professional person to repair and maintain their machines. As individuals, the cost of hiring such a person could be too great but the service becomes affordable if approached on a group basis. Payment for services rendered would be made through a fund to which members of the group would make monthly or quarterly contributions.

Industrialisation will not take root in Africa as long as the focus remains on supporting and assisting existing industries, greater potential for growth exists in virgin areas in rural growth points. There is an urgent need to promote industrial activity in rural areas.

As part of a new dispensation, a greater emphasis must be placed on utilisation of local expertise as much as possible. Local experts and consultants can assist the process of industrialisation through a clearer understanding of the local conditions and culture. However, the point which needs to be emphasised is that the overall aim should be to provide a simple but effective infrastructure so that products can be moved to markets without undue delay.

The equipment and level of technology used by small scale operators at growth points must be simple to operate. Given the amount of sunshine that Africa enjoys, it is surprising that solar technology has not been developed to its full potential. Use of solar energy and widespread use of electric generators in growth centres can provide a constant source of electricity which can be shared by small entrepreneurs and the surrounding community.

Due to the inadequate investment in infrastructure, many institutions are deteriorating, both physically and in terms of their technical and financial ability to perform efficiently.

Much industrial capacity stands idle because of falling domestic incomes, poor investment choices, failure to develop export opportunities and the high cost of securing much needed foreign exchange.

The reasons for Africa's failure to industrialise have been well documented, what is less clear are the possible solutions to these problems. In developing new approaches to deal with the problems, it will be necessary to take account of new realities created by the changing world economic scene and internal weaknesses of each country. Solutions must evolve out of the peculiar circumstances of each country and the level of development already attained.

Given that domestic markets are relatively small, the focus must be on creating viable industries based on supplying regional markets. Provided the quality is right, there is no reason why domestic companies should not be able to compete successfully in these markets against suppliers from develcped countries. Asia is a case in point, the proportion of non-Japanese exports that go to other Asian developing countries rose from 26 per cent in 1986 to 37 per cent in 1992. In contrast, intra-African trade is estimated at 5 per cent of the continent's trade volumes.

An opportunity to enhance industrial development in East Africa was lost when the East African community was dissolved, largely for political reasons. It is gratifying to note that regional groupings have been established to try and revive the concept. In West Africa, there is the Economic Community of West African States (ECOWAS) while in Southern Africa there is the Community of Eastern and Southern Africa (COMESA). In addition, there are efforts to coordinate industrial development in Southern Africa through the Southern African Development Coordination Conference (SADCC).

Such regional initiatives ought to be encouraged and supported. Regional economic groupings can be advantageous to the industrialisation process, provided it has clear objectives and an equitable basis for sharing the benefits. It is also vital that the rules of the regional organisation should conform to international trade and investment conventions.

Regional trade cooperation will yield maximum benefits if member countries institute reforms to create a competitive environment in domestic markets. As previously mentioned, this could be achieved through the establishment of a monopolies and mergers commission or alternatively, through legislation outlawing cartels and other unfair business practices. It must be understood that not all monopolies are bad and that some industries of necessity need to be operated as monopolies.

Care must be taken not to replace public monopolies with equally inefficient and exploitative private monopolies.

Progress in the privatisation of public enterprises has been slow due to :-

* Lack of political commitment to the process;

* Genuine fear that companies being privatised could end up in the hands of privileged groups and multinational companies in the ownership of productive assets; and

* Relatively small domestic financial markets which cannot raise the required funding.

Political objections to privatisation can be overcome if ways and means can be found of ensuring that indigenous entrepreneurs acquire some of the companies being privatised. It is essential that some of the external assistance received from abroad should be loaned to indigenous entrepreneurs to allow them to acquire companies being shed off by government. A complication could arise where the entrepreneurs do not have equity of their own, resulting in over exposure for the providers of loan financing.

There is a consensus that small to medium enterprises (SME's) have a greater capacity to create jobs than their large counterparts. The assumption is that small companies are by definition more innovative and flexible and therefore better placed to compete on international markets. Unfortunately, it is mostly small companies who have been adversely affected by the introduction of economic reform programmes. High inflation and interest rates have led to widespread bankruptcies and financial stresses in a large number of small companies.

The situation can be improved by the establishment of special facilities which would allow the small companies to borrow at concessional rates of interest. More importantly, such companies should be encouraged to establish themselves in rural growth points, thus creating employment in these areas. However, this will not happen unless the infrastructure in these areas is improved, particularly road network, water supply and electricity. Widespread use of solar energy would be pivotal to the development of rural centres.

On a broader scale, those external organisations providing aid or loan funding to African countries should take measures to ensure that the money is accounted for and used for purposes for which it was intended. Industrial development on the continent will continue to be limited as long as external financial assistance received ends up in offshore bank accounts of corrupt politicians.

The onus is on both the providers of assistance and African governments themselves to prevent this from happening.

Moves to diversify the export base from primary products can lead to serious short-term balance-of-payments problems and there is need for external support. The IMF is providing this assistance to countries with formal economic reform programmes but the resources provided are not always adequate.

In conclusion, Africa's failure to industrialise has been due to both internal and external causes. Due to changes taking place, there is a greater willingness and determination by African governments to address internal weaknesses as evidenced by widespread adoption of economic reform programmes. Political reforms have been introduced in many countries and there is greater transparency, good governance and accountability.

The enthusiasm by African countries to reform their economies and become part of the global economy can only be sustained if it is matched by a genuine commitment from developed countries to assist their efforts. Industrial companies in Africa are by and large still using outdated and mostly inefficient technology. Therefore, it may be necessary to give such industries some breathing space in which to adjust and re-equip before they are required to comply with the liberalised international trading regimes.

Without such a concession, industrialisation will not take root in Africa and the continent will continue to act as a reservoir of agricultural raw materials and mineral resources for the developed world.

Based on the discussion above, new approaches to stimulate industrialisation in Africa must be based on the following :-

* Improvement of infrastructure in rural growth points;

* Creation of viable industries geared to supplying regional and/or international markets;

* Creation of a competitive environment in domestic markets;

* Transfer and upgrading of technological skills;

* Special assistance to small medium enterprises through the provision of seed capital;

* Diversification of exports from primary products.

Such changes will not guarantee success but at least they will give Africa a realistic chance of achieving meaningful industrial development.

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