

ABOUT THE REPORT

Africa is at a crossroad. After a long history of exploitation (slave trade and colonialism), violent conflicts (liberation struggles, civil wars, and military coups), and economic turmoil (the varied experiences of initial post-colonial economic development, devastation due to the Structural Adjustment Programmes of the 1980s and the 1990s), it has finally seen a decade of improved economic growth and greater political stability.

Once written off as a continent uniquely suffering from structural impediments to economic growth and development – poor climate, disadvantageous geography, - varying degrees of ethnic diversity, poor institutions, cultural prejudice etc – there is now widespread optimism about the future of the continent. The talk of ‘African growth tragedy’ is being replaced by a talk of ‘Africa rising’, with metaphors like ‘African lions’ – in obvious homage to that of ‘Asian tigers’ – flying around.

It is important that African countries begin to think seriously about – and implement – ways to upgrade their commodity sectors and, more importantly, promote the development of higher-productivity sectors, especially manufacturing but also some high-end services.

However, it is not yet clear whether Africa can turn the recent economic recovery into sustained economic development. First of all, the acceleration in economic growth over the last decade in several countries in the continent is owed to one-off factors, like the finding of important oil or mineral reserves (e.g., Equatorial Guinea) or the end of a prolonged civil war (e.g., Chad). More importantly, most of the acceleration in economic growth has been based on high prices of primary commodities³, and at that with relatively little upgrading within the commodity sectors themselves (e.g., making cocoa butter and powder instead of exporting cocoa beans). As such, the recent fall in commodity prices, likely to last for a while, is dimming the prospect of growth in the short- to medium-term⁴. More importantly, the failure of most African countries to use the recent commodity-based growth to start a more sustainable growth based on the development of the manufacturing sector

(including but not exclusively the processing of primary commodities) is making the continent’s long-term prospect worrisome – no country, except a few states exceptionally rich in oil (e.g., Qatar, Kuwait, Brunei) or very small financial havens (e.g., Monaco, Liechtenstein), has achieved high and sustainable standards of living without developing a significant manufacturing sector.

3 By primary commodities we mean goods that are not processed. This includes unprocessed agricultural goods (e.g. cocoa beans and tea leaves), natural resources (e.g. oil, natural gas and minerals) and unprocessed precious stones (e.g. diamonds and rubies).

4 Although in the case of primary commodities of which some African countries are net importers, especially oil, the fall in their prices can have positive impacts on those African countries.

In light of this, it is important that African countries begin to think seriously about – and implement – ways to upgrade their commodity sectors and, more importantly, promote the development of higher-productivity sectors, especially manufacturing but also some high-end services. This report is intended as a contribution to that thinking process.

After critically discussing the discourses of ‘African growth tragedy’ and of ‘Africa rising’ in Chapter 2, the report moves on to Chapter 3, where we discuss various theories arguing why developing countries need to use industrial policy that mainly (although not exclusively) target the manufacturing sector in order to transform their economies. We will show that there are a lot more economic theories that justify industrial policy than what even many supporters of industrial policy acknowledge. We will also examine theories that caution against, or even denigrate industrial policy and show how some of these theories have flimsy bases while even the more robust of them are often applied in an excessive way.

In Chapter 4, the report will provide empirical evidence demonstrating that virtually in all cases of successful economic development – both economy-wide and at the industry level – an active industrial policy has played an important transformative (and often decisive) role. We will show this by examining the historical experiences of today’s developed countries not just in the recent past (since World War II) but also when they faced similar challenges to the ones faced by African countries today, that is a more distant past between the 18th and the early 20th centuries. We will also examine the role of industrial policy in developing country that has had some success with it. A broad range of cases will be examined – not just the more developed ones (China, Brazil, Chile, Malaysia, and the United Arab Emirates) but also the less developed ones (Ethiopia, Rwanda, Vietnam, and Uzbekistan). We will look at not just the manufacturing sector (e.g., electronics, aluminum smelting, and shipbuilding) but also primary sectors (e.g., soybean, salmon, palm oil, horticulture) and services (e.g., tourism).

Having shown how industrial policy has played a critical role in real-world economic success stories, Chapter 5 examines two changes in the global economic environment that are supposed to have made it impossible for today’s poor countries, including the African ones, to draw lessons from the experiences of the more economically advanced countries in the past. One is the shrinkage in ‘policy space’ that has followed the establishment of the WTO and the proliferation of bilateral (and some regional) trade and investment agreements. The other is the proliferation and the strengthening of global value chains (GVCs) controlled by giant global corporations that make ‘nationalistic’ industrial policy less effective and less productive. In Chapter 5, we examine these arguments and show that, while they have changed what industrial policy measures can be used and are the most effective, these changes have not invalidated all types of industrial policy. There are still many industrial policy measures that can be used. Moreover, if anything, these changes have made it even more necessary for developing country industrial policy-makers to be ‘smart’ about devising development strategy and designing industrial policy measures.

Chapter 6 provides the summary and the conclusion of the report.

