

ERA 2013: Making the Most of Africa's Commodities:

Industrializing for Growth, Jobs, and Economic Transformation

The world has witnessed sweeping political and economic changes over the last half century that have reformed global power structures, reconfigured international relations, loosened old hegemonies and allowed new ones to emerge, and led to serious rethinking of development paradigms. They now provide a huge opportunity for Africa to emerge as a global economic power—and present a serious challenge. Exploiting one and managing the other will require leadership, vision and strategies for long-term development. To unleash its potential, especially given the new spirit of an Africa on the rise, Africa must define and own its development agenda. Individually and collectively, African countries must embark on a bold transformation driven by massive industrialization to address youth unemployment, poverty, and gender disparities. There is a real opportunity for African countries to create jobs and promote economic transformation through a commodity-based industrialization process, capitalizing on Africa's resource endowments and high commodity prices and on opportunities presented in the changes in the organization of global production process. Maximizing Africa's commodities for industrialization involves adding value to soft and hard commodities and developing forward and backward linkages to the commodity sector.

Key Messages

1. Massive industrialization based on commodities in Africa is imperative, possible, and beneficial. Resource-rich countries show that commodity-based industrialization is possible—despite criticism that it is a hard industrialization path. Massive resource-based industrialization through value addition and linkage development will yield employment, income, price, and nonprice benefits, as well as dynamic benefits of diversified technological capabilities and deeper industrial structure. Progress has been seen in forward and backward local linkages to the hard, energy, and soft commodity sectors in some of the African countries. Ethiopia, Nigeria, South Africa, and Egypt present good examples of making the most of hard (industrial) commodities.
2. Processing of primary soft (food) commodities opens up opportunities for value addition and commodity-based industrialization in Africa. Agro-processing is one of the most-developed manufacturing sectors in Africa. Most countries have agro-processing industries, with intercountry variations. Large-scale, resource-intensive interventions are vital to expand and upgrade agricultural production. Kenya's upgrading trajectory has been remarkable in fostering strategies to support local upgrading processes, and Algeria provides some instructive lessons on what individual firms can do to facilitate upgrading in the agro food sectors.
3. Success requires a good understanding of the critical factors that influence linkage development in particular and resource-based industrialization in general. These include the technical characteristics of the global value chains, industry structure dominated by multinational lead firms, lead firm strategies, location and geographical agglomerations, trade barriers and government policies. Resource-based industrialization strategies in African countries must consider global, regional and national dimensions of linkage development.
4. Interventionist state policies play a critical role. Upgrades in commodity processing require a supportive policy environment, domestic firm capabilities, and sector regulatory frameworks. Export restrictions have increased the value-added content of exports and domestic production. Policies such as local content measures can increase the breadth of backward linkages. Measures to target skills development, technological capabilities and access to capital, and buyer-supplier cooperation at every stage of the value chain, are crucial. Continental policy initiatives present an opportunity for addressing some of the challenges.

Recommendations

1. Design industrial policy within the national development planning framework and create appropriate institutional policy mechanisms to increase effectiveness and competitiveness. African governments need to make a strategic response, working closely with other stakeholders, through formulating and implementing industrial policy
2. No, one size does not fit all. Frame specific, evidence-based policy for commodity-based industrialization for each country to ground government initiatives that foster linkage development and accelerate the process within each country, sector, and dominant value chain.
3. Enforce supply chain development program and monitoring mechanisms among lead firms. A regulatory framework creates a moral imperative for firms to focus their attention on supply-chain development, and sectoral policies can encourage upgrading of other, non-commodity firms.
4. Develop local skills and technological capabilities among linkage firms. Increase the depth of local linkages by targeting skills development, technological capabilities, access to capital, and buyer-supplier cooperation along the value chain. Engage the lead commodity firms to promote local linkage strategy, including procurement, sourcing, and processing, and promote the emergence of local lead firms.
5. Negotiate regional trade arrangements. Regional markets can facilitate local production linkages within and between African countries by provide learning opportunities and allowing domestic firms to build their production capabilities in a staged, step-by-step process.
6. Urgently address infrastructure constraints and bottlenecks to aid in the development of the commodity sector and linkages, boost availability of unskilled and semiskilled jobs, and provide job training in higher artisanal skills.
7. Improve policy implementation through coordination among relevant ministries. Improved coordination in the private sector, and between farmers, growers, processors, and exporters, will foster systemic competitiveness along the entire local value chain and enable firms to meet the end-markets requirements of price, quality, and standards.
8. Understand the technical characteristics of the global value chains and the structure of the industry. The technical characteristics of the global value chains and the structure of the industry must be taken into account when determining the best strategies for local upgrading and moving into more profitable and more sustainable activities of regional and global value chains.

