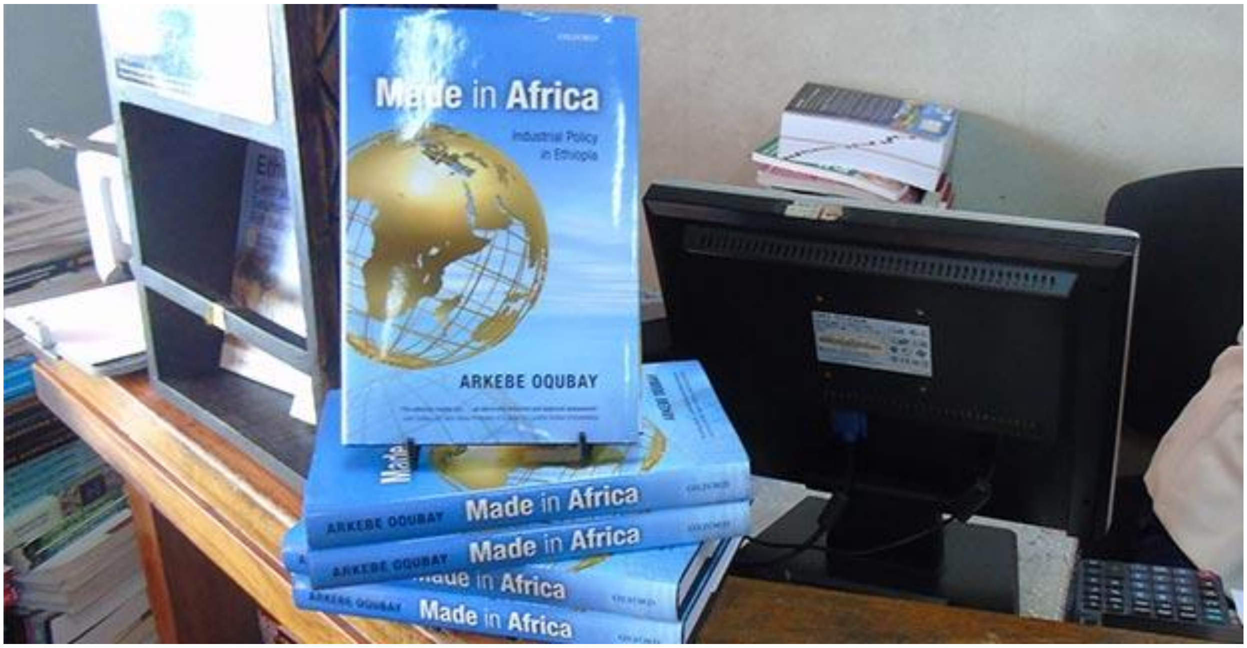
Recipe for Africa’s Success



For years, African countries have been told that the road to industrialization is long and full of intractable obstacles, made even more difficult by the need for institutional capacity to design and implement industrial policy. The conventional wisdom has been that industrial policymaking is a complex process which often involves difficult policy decisions and potential risks, particularly when policymakers get the sectoral or product choices wrong.

This thinking has, however, now been challenged in a ground-breaking study by Arkebe Oqubay (PhD), an African who has been at the centre of policy making in one of the continent’s fastest-growing economies – Ethiopia – for more than two decades. Made in Africa: Industrial Policy in Ethiopia, is an insightful scholarly work based on extensive field research and original documents and records, which many less well-placed researchers would have difficulty accessing. This makes the book unique and a major contribution to the ongoing discourse on the African Renaissance.

By now, we are all familiar with the “Africa Rising” story and the description of the continent as the “new global powerhouse”. Africa is indeed rising, particularly in terms of its economy, although it may be a bit premature at this point to call it a global powerhouse.

We are also familiar with the main factors behind its recent impressive economic performance. Domestic policy reforms have been important; but equally important were the commodity boom prior to the global economic crisis and the increasing demand for Africa’s primary products by fast-growing developing economies in Asia, China in particular.

When analysing the various contributing factors behind Africa’s growth, however, it is clear that the main driver of growth in the majority of African countries has been domestic consumption, especially rising demand for consumer goods, the construction boom and the mounting value of real estate. Unlike Asia, then, growth in Africa can be attributed more to consumption than to investment and manufactured exports. This partly explains the rapid growth of the services sector in Africa, which now accounts for half of the continent's output – and in some countries, more than three quarters of total domestic output.

For Arkebe, this form of development path goes against the established and desired trend since it implies that the structure and composition of African economies have shifted from agriculture to non-tradable services, without going through a process of manufacturing development marked by significant productivity improvements, formal job creation, exports of manufactured goods and the application of technology to the wider economy. Equally striking is that in the period between 2004–2012, of the 45 African countries where the share of services in total output rose, 30 experienced a contraction in the contribution of manufacturing to total output.

Indeed, on average, the share of African manufacturing in total value added fell from 15pc in 1990 to 12pc in 2000 and 10pc in 2011. In effect, therefore, many countries in Africa experienced deindustrialization. It also implies that the growth of the services sector (which averaged over five perCent for the period 2002-2012) was not linked to manufacturing activities and complementarities between the two sectors are yet to be fully developed.

For some observers, in particular market fundamentalists, Africa's recent deindustrialization simply reconfirms the conventional wisdom – that African countries are not yet in a position to develop and sustain manufacturing activities. For Arkebe, however, this is an ill-informed and unimaginative view of Africa and what the continent can do and can achieve.

The book presents compelling evidence for his conclusion that, "an industrial policy can work even in a very poor African country like Ethiopia." This is based on detailed research covering three important economic sectors in Ethiopia: cement, floriculture, and leather and leather products.

The ups and downs in the development of these industries, the policies that worked and those that failed, and the lessons learnt are documented meticulously, with academic rigour and sound theoretical underpinnings. In this respect, although the book concerns industrial policymaking in Ethiopia, I agree with the author that the findings and policy conclusions, "have a wider relevance beyond Ethiopia."

In fact, the originality and the value addition of the book lie in its implications for other African countries and in the lessons it offers to those engaged in policy formulation and implementation. I travel to many African countries and LDCs in South Asia and work with policymakers. I am repeatedly asked the question how Ethiopia managed to achieve and sustain a double-digit growth rate for over a decade.

Many think of it as a country prone to droughts, mass starvation and political instability. They wonder how a country with this unfortunate recent past, lacking a rich endowment of natural resources, has been able to attain such growth and become one of the 10 fastest-growing economies in the world. The answers to this and many other questions are provided in this remarkable book. A few of its insightful findings and observations are worth highlighting.

The connection between theory and reality, and the explanations for policy divergence and convergence, are presented clearly and in a language that even non-economists can follow. This is useful, especially for policymakers who often lack the time or the background knowledge to understand the theoretical underpinnings of the policies being proposed by experts.

Before embarking on his PhD programme at the School of Oriental & African Studies (SOAS), University of London, Arkebe spent nearly two decades in policymaking at different levels of government, including as Senior Advisor to the Prime Minister of Ethiopia with Ministerial rank. This extensive hands-on policy experience gave him insights that most researchers lack. The resulting balanced analysis of theory and policy implications is very rare, as academic writing tends to focus on theory, with only generic or scant treatment of policies, while at the other end of the spectrum, international organisations tend to provide policy advice without explaining the theoretical underpinnings.

Using concrete examples, the book demonstrates that industrial policies work better when they are designed to be sector-specific: In other words, policies that work in one industry or sector may not necessarily work in another. As described in this book, the policies that were instrumental in the development of the cement industry, for example, were ineffective when it came to floriculture.

The book similarly highlights the need for industrial policies to be adaptive because the effectiveness of policies at different stages of development may not be the same. As Arkebe puts it, "policies that were appropriate at one stage may have to be adapted later." It is, therefore, possible that industrial policy outcomes may be uneven or distinctly different, depending on the sector.

Why this is the case is explained in the book, which identifies three key factors that determine the pace and scope of policy outcome: "industrial structure" (i.e. industry-specific factors, such as the nature of economic actors, the industry's "latitude for performance", and the industry's level of development); "linkage dynamics" (i.e. the industry's scope to generate linkages in different sectors); and "politics" (i.e. the political factors that influence policy decisions). However, Arkebe stresses that, "overall, what matters for the evolution and effectiveness of industrial policy is the way these three factors interact."

The nexus among these variables has important implications for policy design and implementation and also, as the author points out, "for the type of selective intervention chosen to promote industrialization."

These are significant and useful policy messages, but I believe, the book's most striking and perhaps most original contribution is how the author links all these findings with the importance of "policy independence," which enables a developmental state to learn by doing, by copying and by making mistakes, and by learning from failure.

"Government policy learning" as well as "collective learning" of government and key stakeholders in the economy is seen as critical for effective policy formulation and implementation. Arkebe`s research shows that, "the outcomes of industrial policies depend not only on policy content, but also on the complementarity and coherence of industrial policy instruments. More importantly, the outcome depends on effective institutions, coordination, and collective learning by government and economic actors."

If other African countries are curious about Ethiopia and wish to learn why it has been successful in promoting certain sectors and fostering sustained growth, they will be well advised to read,*Lessons from Industrial Policy in Twenty-First Century Africa*.

The centrality of "policy independence," which allows governments to make policy choices free of political pressure either from external forces or domestic interest groups, is emphasised. More importantly, the author argues and demonstrates, again with concrete examples, that policy independence "means reserving the right to make mistakes and, in the process, to learn from them. Policy independence also means the freedom to make major policy decisions that entail risks and bold experiment."

Considered from this perspective, it is easy to understand why Ethiopia continues to defy conventional wisdom and initiate bold economic and social projects, including the construction of one of the largest hydro dams in Africa, an extensive housing construction programme and a vision for transforming Ethiopia from a least developed country (LDC) into a vibrant middle-income economy within the coming decade.

Another ground-breaking policy lesson described in the book is the role of "intermediary institutions" in the development of specific sectors, particularly in informing and influencing policy decisions. Learning from the East Asian experience, Ethiopia encourages the emergence of industry associations to represent the collective interests of a given industry. Such intermediary institutions facilitate policymaking by providing up-to-date information, monitoring and articulating the binding constraints facing the industry as a whole, and communicating its intentions and concerns to the relevant government departments.

The author argues that these institutions have been critical in sectoral policy formulation and implementation because they helped to offset insufficient institutional capacity at government level and weak coordination both among federal government agencies and between federal and regional governments. However, the case studies presented in the book show that the impact of intermediary institutions in influencing policies has been uneven. Those which were less organised, which had scant understanding of the industry's concerns, which were "passive with respect to influencing policymaking" and whose members "lacked a common vision" were less effective in prompting the appropriate government policy responses.

The difficulties that the leather and leather products industry continue to face are partly attributed to the failure of the industry association to represent the industry with a focused objective and clear vision. This contrasts with the active and successful role played by the horticulture producers and exporters association.

The policy implication is that to be effective, such intermediary institutions should represent the interests of a small group and should actively transmit the intentions and concerns of their members to relevant government agencies, preferably at the highest level of government. Representing a sub-sector with focused objectives and vision simplifies communication with government and is likely to succeed in influencing policymaking.

Another type of institution which African countries have in the past been advised to avoid, but which Arkebe shows to have been an effective policy tool in mobilizing and channelling finance into the right sectors in line with priority policy objectives, is the national development bank. The book shows that when knowledge about the sector is well established – which is essential for screening and appraising loan requests – and when projects are too large to be financed from personal savings or local private banks, the Development Bank of Ethiopia has been an important and less costly source of finance.

The author offers overwhelming evidence to support the case for a national development bank and for the role that such a bank can play, especially when guided by a developmental State with a clear vision and plan of where it wants to go. Indeed, the book's ultimate message can be summarized as: active industrial policy based on continuous policy learning is a *sine qua non* for diversification into more dynamic sectors such as manufacturing and for manufactures, export-led growth and development.

Manufacturing in turn is critical for structural transformation because it lends itself to productivity improvements and learning by doing, and because of its potential for linkages and economies of scale. However, for industrial policy to work, "active industrial policies and an activist State [should] go hand in hand." In the author's view, it is futile to aim for industrialization and structural transformation without an activist developmental State. His overall message for African countries is simple: know where you want to go first, and with a development-focused proactive State willing to keep its policy independence and to learn from others and its own mistakes, you will reach your destination. This book should thus be required reading both for policymakers, especially in Africa, and for scholars in this field.

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