



## Industrialisation in Africa

*Compiled and Sourced by Mr. Arvind Sinha*

### **There is a long road ahead for Africa to emulate East Asia**



The great steel roofs of Nigeria's textile mills are an impressive sight, occupying block after block in the northern city of Kano. Yet from the ground a very different picture emerges. Entire estates sit eerily empty in what was once the country's industrial heartland. A handful of indigo-dye pits and the odd leather tannery constitute what little is left of a manufacturing business that was booming just a couple of decades ago. The collapse of Nigeria's textile industry, which has gone from employing more than 350,000 people to favour than a tenth as many, reflects a wider problem of deindustrialisation across Africa that has occurred during a decade of rapid growth driven by high commodity prices.

Over the past 15 years sub-Saharan African economies have expanded at an average rate of about 5% a year, enough to have doubled output over the period. They were helped largely by a commodities boom that was caused, in part, by rapid urbanisation in China. As China's economy has slowed, the prices of many commodities mined in Africa have slumped again. Copper, for instance, now sells for about half as much as it did at its peak. This, in turn, is hitting Africa's growth: the IMF reckons it will slip to under 4% this year, leading many to fret that a harmful old pattern of commodity-driven boom and bust in Africa is about to repeat itself. One of the main reasons to worry is that Africa's manufacturing industry has largely missed out on the boom.

The figures are stark. The UN's Economic Commission says reckons that from 1980 to 2013 the African manufacturing sector's contribution to the continent's total economy actually declined from 12% to 11%, leaving it with the smallest share of any developing region. Moreover, in most countries in sub-Saharan Africa, manufacturing's share of output has fallen during the past 25 years. A comparison of Africa and Asia is striking. In Africa manufacturing provides just over 6% of all jobs, a figure that barely changed over more than three decades to 2008. In Asia the figure grew from 11% to 16% over the same period.

To be sure, many countries de-industrialise as they grow richer (growth in service-based parts of the economy, such as entertainment, helps shrink manufacturing's slice of the total). But many African countries are de-industrialising while they are still poor, raising the worrying prospect that they will miss out on the chance to grow rich by shifting workers from farms to higher-paying factory jobs.

Premature deindustrialisation is not just happening in Africa, other developing countries are also seeing the growth of factories slowing, partly because technology is reducing the demand for low-skilled workers. Manufacturing has become less labour intensive across the board. That means that it is hard, and getting harder, for African firms to create jobs in the same numbers that Asian ones did from the 1970s onwards.

Yet deindustrialisation appears to be hitting African countries particularly hard. This is partly because weak infrastructure drives up the costs of making things. The African Development Bank found in 2010 that electricity, a large cost for most manufacturers, costs three times more on average in Africa than it does even in South Asia. Poor roads and congested ports also drive up the cost of moving raw materials about and shipping out finished goods.

Africa's second disadvantage is, perversely, its bounty of natural riches. Booming commodity prices over the past decade brought with them the "Dutch disease": economies benefiting from increased exports of oil and the like tend to see their exchange rates driven up, which then makes it cheaper to import goods such as cars and fridges, and harder to produce and export locally manufactured goods.

Africa's final snag is its geography. East Asia's string of successes happened under the "flying geese" model of development, where a "lead" country creates a slipstream for others to follow.

This happened first in the 1970s, when Japan moved labour-intensive manufacturing to Taiwan and South Korea. But Africa seems to have missed the flock. Africa leads leading goose like Japan. Light manufacturing is leaving China for neighbouring Bangladesh, Vietnam, Thailand & Indonesia rather than distant Africa, despite its promise of plentiful cheap labour. And in the coming century Africa will find it difficult to grow through that route.

Yet some African countries are bucking the trend. Ethiopia's manufacturing has grown by an average of over 10% a year in 2006-14, from a very low base, partly because it has courted foreign investors. We approached Holland's horticultural firms, China's textile and leather firms and Turkey's garment firms. Now we're bringing in German and Swiss pharmaceuticals.

Leading Economist feels that Ethiopia's relative success has come from its focused policy. Poor countries often find it hard to decide whether to spread their new infrastructure widely or to focus on the most promising areas. Rather than electrify the whole country, Ethiopia has concentrated on providing power and transport links to its industrial parks. It also seems wise to bring in firms with links to industries that already exist there. Domestic firms learn from being in the same value chain as the foreign firm. Firms buying from local suppliers tend to raise local quality by sending managers and technicians to them. This helps them to produce more sophisticated goods.

Ethiopia is not alone. Tanzania, where manufacturing output has grown 7.5% annually from 1997-2012, is wooing Chinese and Singaporean clothing firms and started building its first mega port and industrial park last month.

Nonetheless, factories are not creating nearly enough jobs for the millions of young people moving into cities each year. Most of them end up in part-time employment in low-productivity businesses such as groceries or restaurants, which are limited by the tiny domestic economy; Africa generates only 2% of the world's demand. To grow fast, African countries need to shift workers into more productive industries. Their governments need to provide the infrastructure and the incentives for manufacturing firms to set up. Without determined action, they risk another lost decade as the commodity bust deepens.

However, Africa particularly Nigeria, Tanzania & Ethiopia are facing boom of start-ups. Many individual enterprises has come up and are focusing on small manufacturing facilities, innovations which are helping them. Today Social Media is a great help to promote them worldwide. Many Industries such as garmenting particularly leather and high value shirts are getting manufactured and going all over the world.

Chinese investment in Africa is becoming a real blessing and there is a possibility in the long run China will help industrialisation in Africa.

***Compiled and Sourced by***

*Mr. Arvind Sinha*

*M/s. Business Advisors Group*

*Mumbai*

*Cell No. 9820062612 / 8108612612*

*Email ID : [arpsinha09@gmail.com](mailto:arpsinha09@gmail.com) / [lionasinha@gmail.com](mailto:lionasinha@gmail.com)*