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***Theme: Industrialization for inclusive and transformative development in Africa***

## **I. Introduction**

1. The call for Africa's structural transformation has gained unprecedented momentum in the policy debate on the continent's inclusive and sustainable development. Indeed, there is now consensus among African leaders and stakeholders that structural transformation of the continent's economy is a path to the promotion of sustainable development and the translation of its recent impressive growth rates into job creation and the delivery of quality social services essential to enhancing the economic productivity of the continent and its human development. Industrialization is recognized as the means by which developed and developing countries alike have achieved economic transformation, and this is the clearest route for Africa to pursue employment-generating growth and development. The promotion of industries – either by adding value to agricultural goods and commodities based on current comparative advantages or building competitive advantages in new industries – has been a hallmark of recent industrialization programmes. Growth of the industrial sector brings with it more high-income jobs, upstream and downstream linkages to domestic firms and ripple effects throughout the economy for both formal and informal workers.

2. Assessment of the quality of Africa's recent unprecedented growth record underscores the need for coherent inclusive industrialization and structural transformation strategies. The continent has averaged an annual growth rate of 5 per cent over the last decade, with some countries recording higher than 7 per cent, while a large part of its population has remained trapped in economic poverty, facing rampant unemployment and inequality (ECA and AUC, 2012). Indeed, the remarkable growth has not been translated into decent jobs (a key channel of distribution of growth) and sufficient quality social services accessible to all segments of the population, in particular women and youth. Although poverty rates have been falling, the pace is still too slow to enable the continent to achieve goal 1 of the Millennium Development Goals or most of the other goals.

3. Africa's growth has not been sufficiently inclusive and broad-based, because it has continued to rely heavily on the exploitation of raw materials with limited value addition, thereby failing to maximize returns to Africans from the wealth created from the continent's vast natural resources. It is against this backdrop that during the summit meeting of Heads of State in January 2008, African leaders expressed their renewed and greater interest in the industrialization of the continent, which is an imperative policy option for the continent's inclusive and transformative development. The drive for industrialization and structural transformation has been repeatedly echoed by the Joint Annual Meetings of the Conferences of African Ministers, including at their 2013 session, which underscored commodity-based industrialization as an imperative that was both possible and beneficial for the continent.

4. For Africa's industrialization and structural transformation to be inclusive, the continent requires developmental States and coherent long-term development planning frameworks with inclusive development goals – as advocated by the governance framework of the African Peer Review Mechanism (APRM), the African common position on the post-2015 development agenda adopted by Heads of State and Government in January 2014 and the African Union's Agenda 2063 – at the centre of their national development agenda. While African countries are acknowledging the critical importance of developmental States, if such States are to promote inclusive development and transformation, they shall require appropriate institutions and governance structures that foster interaction between the State and non-State actors in pursuing the goals of industrialization.

5. In this regard, the present paper analyses key issues that require consideration by African ministers of finance and economic planning in embarking on an industrialization process that is inclusive and transformative. Section II discusses the industrialization imperative for inclusive and transformative development in Africa and considers why inclusiveness matters. Section III addresses the question of how industrialization and structural transformation can be conducive to inclusive development and considers the need for active State policies that make inclusion a choice of development strategies rather than their by-product. Section IV sets out elements of a coherent policy framework for industrialization and inclusive and transformative development in Africa. Each section concludes with pertinent issues and questions for discussion.

## **II. Industrialization imperative for inclusive and transformative development in Africa**

### **A. Impressive growth rates in Africa**

6. Since the beginning of the twenty-first century and despite the turbulence in the world economy sparked by the 2008-2009 global economic and financial crisis, Africa has grown at an average annual rate of some 5 per cent, with some of its countries experiencing average growth rates in excess of 7 per cent. Among other factors, this growth has been underpinned by relatively high commodity prices, increased domestic demand – due in particular to increased investment in infrastructure and energy – and improved economic governance and management, but with a minimal contribution from the continent's industrialization process. Although African governments have always pursued industrialization, the share of manufacturing in aggregate output has stagnated or even declined in many of their countries, curtailing structural transformation or generating reverse structural transformation in countries where the informal sector has expanded. This highlights the need for more effective policies to foster industrialization and structural transformation in order to sustain growth and achieve inclusive development.

7. There is little doubt that Africa continues to make steady progress in addressing some of its key social and economic challenges, in particular in the areas of health, education, gender empowerment and extreme poverty. In many countries, the incidence of extreme poverty is on the decline.<sup>1</sup> Attending primary school is becoming the norm in Africa, with most countries having achieved universal primary school enrolment (defined as enrolment rates above 90 per cent). Nearly one half of African countries have achieved gender parity in primary school. On average, 20 per cent of seats in African national parliaments are held by women, a figure that is surpassed only by Latin America and the Caribbean. There have been significant improvements in the health sector as well. On average, the under-five mortality rate declined from 146 deaths per 1,000 live births in 1990 to 90 deaths in 2011. Similarly, the maternal mortality rate declined from 745 deaths per 100,000 live births in 1990 to 429 in 2010, representing a 42 per cent decrease. Unprecedented gains have been made in reducing the incidence, prevalence and number of HIV/AIDS-related deaths. The adult HIV/AIDS prevalence rate in Africa declined from 5.9 per cent in 2001 to 4.9 per cent in 2011 and on average, HIV/AIDS-related deaths have declined by 32 per cent since 2005, as a result of scaled-up antiretroviral treatment and the declining incidence of HIV.

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<sup>1</sup> Available continent-wide data indicates that the extreme poverty rate fell from 52.3 per cent in 2005 to 48.47 per cent in 2008 (World Bank 2013).

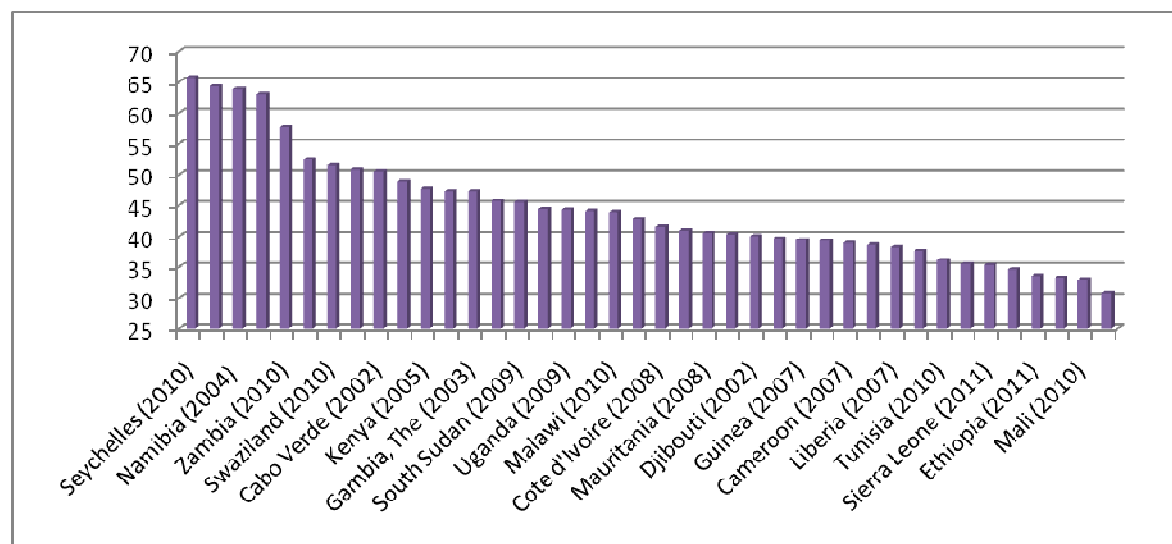
## B. Exclusion of a large segment of the population from the benefits of growth

8. Despite Africa's decade-long growth record and the positive social trends mentioned above, these developments have not translated into the creation of a sufficient number of decent jobs and the broad-based economic and social development needed to reduce the high poverty and rising inequality rates seen in many countries. Social development challenges persist, and a substantial number of people are left behind, deprived of opportunities to improve their productive capacities. A large segment of the population is still unable to meet its basic needs. Nearly one half of Africans (48 per cent) are below the international poverty line of \$1.25 per day; on average, 72 per cent of young people in Africa live on less than \$2 a day. Burundi, Ethiopia, Nigeria, Uganda and Zambia have a youth poverty rate of over 80 per cent (Mubila et al., 2012). In 2013, as recorded by the United Nations, the underweight prevalence rate on the continent was second only to southern Asia (United Nations, 2013). And while the world is on track to meet target 7C of the Millennium Development Goals for the proportion of the population using improved drinking water sources, Africa is not. The continent accounts for more than 40 per cent of people without access to safe drinking water worldwide. Furthermore, most of the continent is unlikely to meet the improved sanitation component of target 7C. Sanitation coverage increased just 4 per cent over the period 1990-2010, and stark disparities exist between rural and urban areas in the availability of adequate sanitation.

## C. Growing inequality which could undermine the continent's efforts to industrialize

9. The limited impact of growth on livelihoods and access to social services has contributed to growing gender, income and rural-urban inequalities. In turn, inequality has tempered the nexus between growth and poverty reduction, resulting in a rising incidence of poverty in many countries. The Gini coefficient for Africa was 44.2 in 2008, ranking it second to Latin America and the Caribbean (Ortiz and Cummins, 2011).

**Figure: Income distribution: A huge divide between the richest and the poorest**



**Source:** World Bank Indicators (WBI).

10. The figure above reveals high income inequalities for a sample of selected 20 African countries, in most cases with little change over the years.<sup>2</sup> There are differences across subregions, however. In West Africa, some countries have made remarkable progress in reducing income inequality. The Gini coefficient dropped by almost 7 points in Côte d'Ivoire, falling from 48.4 to 41.5, and Mali, from 40 to 33, while in the Niger the reduction was almost 10 points – from 43.9 in 2005 to 34.6 in 2008. By contrast, income inequalities have increased dramatically in Southern Africa – with Gini coefficients well above 50 in most countries in the subregion. Overall, it is interesting to note that income inequality remains higher in middle-income countries than in low-income countries in the subregion.

11. Gender inequalities also persist. In countries such as Algeria, Côte d'Ivoire and Mauritania, women's wages are barely half those of men for comparable work. Gender and spatial disparities in access to social services are also of critical concern. On average, in Africa, births to women in the richest quintile are nearly three times more likely to be attended by a trained professional than births to women in the poorest quintile. In all, 90 per cent of women living in urban areas had at least one antenatal care visit during pregnancy, compared to 71 per cent of women living in rural areas. Children and adolescents from the poorest households are at least three times more likely to be out of school than children from the richest households; and the poorest households are more than twice as likely to be stunted as children from the richest households, leading to further school dropouts.

#### **D. Dependence on informal sector employment**

12. Growth in the subregion has been largely jobless, instigating increasing dependence on informal sector employment. The decade-long high growth performance in Africa as a whole has largely been driven by exports of minerals, crude oil and primary agricultural commodities. Between 2002 and 2012, oil, metals and other mineral exports accounted for more than two thirds of export growth in Africa; crude oil alone accounted for more than 50 per cent of Africa's merchandise exports in 2012 (ECA and AUC, 2014). To the extent, however, that these commodities are produced using capital-intensive technologies and undergo little or no value addition, their contribution to employment is marginal.

13. Notwithstanding the employment-creating potential of agriculture, the sector's contribution to aggregate output and gross domestic product (GDP) growth has either stagnated or declined in most countries. The share of manufacturing in Africa's GDP remained at around 12 per cent between 1980 and 2010, compared to a share of more than 31 per cent in East Asia, where labour-intensive industries induced high and sustained growth and helped lift hundreds of millions of citizens out of poverty (ECA and AUC, 2013, p.1). The manufacturing sector accounts for approximately 9 per cent of employment in Africa. Agriculture, on the other hand, despite its low productivity, continues to dominate the GDP and employment shares of most African countries accounting for one third of the continent's GDP and 62 per cent of its employment in 2012. According to Margaret McMillan and Dani Rodrik, the average manufacture-agriculture productivity ratio in Africa is 2:3 (McMillan and Rodrik, 2011). This means that the majority of the African workforce is employed in activities (mainly traditional agriculture) with less than half the productivity of manufacturing.

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<sup>2</sup> According to ECA calculations based on World Bank World Development Indicators, November 2013.

14. Women and young people are disproportionately affected by the failure of most African economies to create sufficient opportunities for decent employment. In 2012, 84.9 per cent of women in Africa – the majority of them family-contributing workers – were employed in vulnerable employment, compared with 70.6 per cent of men. Where young people are concerned, formal employment is becoming extremely elusive and the majority of young Africans are either underemployed or self-employed in the informal and agricultural sectors. Although youth unemployment rates in Africa excluding North Africa are lower than in most other regions, they are significantly higher than adult unemployment rates: African youth unemployment in 2012 was around 12 per cent, while adult unemployment was around 6 per cent. Young people categorized as “not in employment, education or training” are increasing in number and in their discouragement represent a threat to social cohesion and political stability in many countries. The situation is compounded by the fact that social protection programmes are limited in coverage and provide few benefits (ILO, 2013).

15. Despite this sombre picture, labour market outcomes in Africa have shown positive trends since 2009. In 2012, employment growth remained firm at around 2.9 per cent and the employment-to-population ratio reached 65.1 per cent, driven primarily by the increased participation of women. The indicator of the working poor<sup>3</sup> is continuing its downward trend in Africa, owing partly to the implementation of minimum wage policies that have pushed wages above the international poverty line in some countries (United Nations, 2013; ILO, 2013).

#### **E. Inclusiveness vital to sustainable development in Africa**

16. The concept of inclusiveness may best be interpreted by applying Amartya Sen’s definition of development as a process of expanding the real freedoms that people enjoy (ECA, 2011). Five instrumental freedoms with immediate policy relevance were identified by Sen, namely: *political freedoms*, embracing “the political entitlements associated with democracies in the broadest sense”; *economic facilities*, in the sense of the “opportunities that individuals respectively enjoy to utilize economic resources for the purpose of consumption, or production, or exchange”; *social opportunities* in the sense of “the arrangements that society makes for education, health care and so on”; *transparency guarantees* in the sense of “the freedom to deal with one another under guarantees of disclosure and lucidity”; and, *protective security* in the sense of the provision of a “social safety net for preventing the vulnerable sections of society from being reduced to abject misery, and in some cases even starvation and death” (Sen, 1999, p. 38).

17. Inclusiveness takes into account the importance of both outcomes and process: the former focuses on the extent to which the poor and other social strata benefit from growth, while the latter refers to the extent to which people participate in the growth process. Inclusive growth thus involves benefiting from the fruits of growth, together with participating in the process that generates growth. By contrast, exclusion or lack of inclusiveness implies that the wealth generated in countries does not benefit a large segment of the society and that growth is accompanied by widening inequalities (Rauniyar et al, 2010).

18. Inclusiveness or development as freedom does not mean focusing on the poor only, nor does it mean focusing on income disparities only. It encompasses several forms of exclusion

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<sup>3</sup> The working poor are working people whose incomes fall below a given poverty line.

or inequalities, generally based on economic, social, geographical and political factors. They can be vertical, involving for instance differences in living standards, or horizontal, resting on differences in gender, religion or ethnicity, etc. (Balakrishnan et al., 2013). These various forms of inequality manifest themselves in many areas in Africa. People may have unequal access to or control over a number of rights, resources, services, and opportunities, including credit, land, energy, water and sanitation, nutrition, health, employment, housing, education, information, social security, information and communications technology, roads and markets. Political exclusion is manifested by differences in representation in institutions, democratic voice and decision-making. None of these forms of exclusion are neutral for the development process.

19 Inclusiveness is vital to sustained and sustainable growth. This is supported by the experience in several economies in Asia known as the “tiger” economies and, before them, the Nordic countries, where relatively even distribution of income and wealth is associated with sustained and strong economic performance. A development process characterized by exclusion or widening inequalities, on the other hand, is conducive to social unrest and conflict. Left unattended, high unemployment rates, in particular among young people, can pose a threat to peace and security. One explanation for this is that youth unemployment and other forms of exclusion undercut economic and social development and create disillusionment, disenfranchisement and social and political unrest. Inclusiveness is therefore important both as an objective in itself and as a factor buttressing the political legitimacy of economic and development policies.

20. In many developing countries, lack of inclusiveness also skews development dynamics, economic opportunities and job creation in favour of a few urban centres and sectors, leaving the economy with a narrow base and a high vulnerability to external shocks. Indeed, recent studies and the experience of certain countries demonstrate that, in addition to its economic effects, lack of inclusiveness has serious political and social costs.

21. Lack of inclusiveness, whether based on income, gender, spatial, ethnic, political or other social factors, constitutes a downside risk to development, depriving a nation from benefiting from the full potential of all its people and leaving important energies untapped. Inequality in learning and nutrition during childhood, for instance, has lifelong effects and lack of social inclusiveness therefore increases health-care costs.

22. Inclusiveness should be a priority for Africa for a number of reasons. First, because Africa’s recent impressive growth has not been sufficiently broad-based across sectors, striving for inclusiveness also means ensuring that more sectors are involved in the economic activity and that economic growth is sustained and sustainable over time and for future generations.

23. Second, for the continent to draw demographic dividends from its youth bulge, the continent must assure the inclusion of young people in the development process. Improving the access of young people to social services will contribute to the enhancement of their skills and improve the productivity needed for the industrial process. In parallel, providing young people with jobs will increase their incomes and strengthen domestic demand for goods and services, including those produced domestically.

24. Third, the cost of non-inclusiveness may be high for the continent. It is estimated, for instance, that, in some African countries, the low labour productivity due to stunting can

reduce GDP growth by as much as 4 per cent (ECA et al., 2013). Similarly, it is estimated that, in Africa, a 1 per cent increase in inequality increases poverty by 2.16 per cent. These figures suggest that inequality and lack of inclusion may hamper growth prospects by undermining the productive capacities of a country, creating opportunities for conflict. These arguments presenting the benefits of inclusiveness for Africa's development are of great importance, but of yet greater importance is the argument that inclusive growth is a requirement of social justice and simple fairness. This argument rests on the view that the benefits of growth should not persistently and disproportionately accrue to one or a few groups only. For this very reason, it is crucial that growth be inclusive in Africa – that it provide broadly shared opportunities to accumulate productive assets like education and health, that it allow people to use these assets in growth-enhancing activities and to benefit from such activities, and that it provide for those that do not have the ability or means of benefiting directly from growth.

#### **F. Questions for discussion**

(a) Why should industrialization and inclusive economic transformation be a central pillar of Africa's development policy? And what are the risks of exclusion?

(b) What are the key lessons to draw from experiences in Africa and elsewhere to foster industrialization for inclusive and transformative development?

(c) How can inclusive development be ensured as a central focus of Africa's industrialization and transformation agenda?

(d) What type of development policy frameworks should African countries put in place to promote industrialization for inclusive and transformative development?

(e) What policies should be put in place to address the various forms of inequality in the process of industrialization?

### **III. Nexus between industrialization, structural transformation and inclusiveness**

#### **A. Promoting structural transformation and inclusiveness**

25. Industrialization is recognized as the means by which developed and developing countries alike have achieved economic transformation, and this is the clearest route for Africa to follow in pursuit of employment-generating growth and development. The promotion of industries – either by adding value to agricultural goods and commodities based on current comparative advantages or building competitive advantages in new industries – has been a hallmark of recent industrialization processes. Growth of the industrial sector brings with it more high-income jobs, upstream and downstream linkages to domestic firms and ripple effects throughout the economy for both formal and informal workers. Structural transformation is therefore associated with the reallocation of resources from low-productivity activities to those of higher productivity, typically from agriculture to industry



and modern services, leading to higher economy-wide productivity and progressively raising income.<sup>4</sup>

26. In this context, ECA and AUC argue that the focus of policy discussion should no longer be on questioning the need for industrialization but on how to design industrial policy organizations capable of supporting industrial and structural transformation (ECA and AUC, 2014). A key to this undertaking is the abandonment of blueprint approaches to industrial policy (where industrial policy is simply a set of non-contextual, predefined interventions) and a shift towards building a set of institutions that generate processes capable of meeting industry's ever-changing exigencies.

27. In African – and, for that matter, Asian – countries, successful frameworks for industrial policy are organic and dynamic—and should avoid blueprints. Industrial policy should support the ever changing needs of industry not simply as a set of organizations with static functions, but in a dynamic manner, developing strategies to meet goals. The effectiveness of strategies should be regularly monitored and the strategies should be adjusted when they no longer serve their purpose. Goals should be periodically evaluated and measured by governments against changes in industry. Where they are found to be inadequate, they need to be altered.

28. According to ECA and AUC, embedded autonomy (or autonomous embeddedness), as defined by Peter Evans, lies at the heart of a successful industrial policy (Evans, 1995). Bureaucrats accustomed to thinking this way understand industry and have built relations with key stakeholders, improving their ability to collect and process information. In the eyes of business, this embeddedness enables businesses to be part of the policy loop and creates credibility in the certainty of government policy, thereby increasing the willingness of businesses to assume risk. Bureaucrats should not be taken hostage by the private sector but be able to act independently so as to pursue a country's development objectives.

29. Similarly, industrial policy organizations need constantly to reorganize and restructure themselves to deal with perceived changes in the requirements of industry. New organizations need to be created when there is a disjuncture in the industrial policy framework that cannot be handled by the assigned bodies, and others should simply be shut down if they are no longer needed. The activities of industrial policy organizations are best coordinated through a centralized structure comprising representatives of overseeing ministries, the organizations themselves and the private sector – information flows are vital in avoiding coordination failures where these organizations are in conflict with one another or working at cross-purposes. From the start – or the top of the hierarchy – policy documents should not create competing goals for different ministries.

30. Finally, ECA and AUC insist that industrial policy is not the remit of just one government department but requires coordination and cooperation across a range of government departments and that policies are likely to be ineffective in the absence of complementary policies and institutions that support their objectives by tackling the multitude of challenges that businesses face in an integrated policy framework (ECA and AUC, 2014).

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<sup>4</sup> Structural transformation also necessarily involves a demographic transition from high birth and death rates (common in underdeveloped and rural areas) to low birth and death rates (associated with better health standards in developed and urban areas) and a rise in urbanization.

31. To the extent that the lack of structural transformation has brought about consensus on the need for Africa to industrialize, concerns about the limited inclusiveness of the continent's growth experience have rekindled interest in structural economic transformation as a strategy for inclusive, sustained and sustainable development.

32. Structural economic transformation can promote inclusive development by creating decent job opportunities and expanding the fiscal space for social investments. The capacity of governments to meet social service expenditures will be enhanced, because fiscal revenues are likely to increase as a result of exports of higher value commodities, larger tax revenues accruing from the rising profits of companies and the incomes earned by a more productive and innovative labour force.

33. Nevertheless, the experiences of countries that have successfully transformed their economies suggest that inclusiveness or a narrowing of inequality is not an inevitable outcome of the transformation process. Indeed, evidence gathered from most developed countries shows that inequalities tend to rise at the early stages of industrialization, followed by a gradual reduction as individuals and households adjust and adapt to new opportunities and as redistribution programmes are put in place (Kuznets, 1955).<sup>5</sup>

#### **B. Industrialization and inclusion: lessons from emerging and developing economies**

34. Africa can also draw lessons from the experience of emerging and developing economies such as Brazil and India. Brazil has the second largest industrial sector in the Americas, accounting for 28.5 per cent of its GDP, and diverse industries ranging from automobiles, steel and petrochemicals to computers, aircraft and consumer durables. The country's experience highlights the role that deliberate policy and targeted interventions to address poverty can play in expanding the middle class and promoting inclusive economic growth (ECA, 2013). Following decades of military dictatorship in the 1960s and 1970s, and a spiral of hyperinflation in the 1980s, Brazil's economic transformation was underpinned by innovative approaches that included: prudent macroeconomic policies aimed at taming hyperinflation; economic diversification underpinned by a competitive manufacturing sector; investment in education; targeted subsidies to the poor; and the development of a strong internal market through the nurturing of a vibrant middle class, which now accounts for 50 per cent of the population (i.e., 95 million people), compared with 30 per cent at the beginning of the 1990s. This strong internal market is among the factors behind Brazil's resilience in the aftermath of the 2008 global financial crisis.

35. With approximately \$200 billion in reserves after years of trade deficits, Brazil now has the fiscal space to respond to the needs of those adversely affected by the crisis. The proportion of the population below the national poverty line declined by approximately 10 per cent over the four-year period from 2005 to 2009 (CIA, 2013). Inequality has also eased on account of targeted expenditures on the poor (Bank of New York Mellon Corporation, 2009; IMF, 2012). Unemployment fell from 10.5 to 5.2 per cent between 2002 and 2011 and the volume of credit (as a percentage of GDP) rose from 21.3 to 45.3 per cent over the same period. It is instructive to note that Brazil's manufacturing success has benefited directly and indirectly from government support that encouraged diversified investment and spurred industrial technology innovation, raising the efficiency and competitiveness of Brazilian industry.

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<sup>5</sup> This argument has become accepted in development economics as the "Kuznets hypothesis".

36. India's transformation success has been driven by agricultural development and anchored by strong democratic institutions. It is the world's largest democracy and once one of its poorest. The adoption of modern technologies in agriculture (known as the "green revolution") helped the country eliminate famine and, in recent years, lift its low growth rate, which previously never exceeded 2 per cent, to rates of up to 10 per cent. Some of the world's leading global companies are Indian-owned. Growth and innovative safety nets have lifted millions out of poverty.

37. Development in India is significant in that rampant poverty, the caste system, and ethnic and religious strife have not prevented the emergence of a middle class. This is partly due to improved access to good education and health-care and partly to incentives for innovation.

38. It is also true that a few countries in Africa have demonstrated that the Kuznets hypothesis is not necessarily the norm. For example, among the six fastest growing economies (Angola, Chad, Ethiopia, Mozambique, Nigeria and Rwanda), Ethiopia and Mozambique have made impressive strides in reducing inequality.

39. Mauritius has provided an example of how industrial policy can be inclusive. The country's industrialization and structural transformation depended on the system of export processing zones. Since the early 1970s, the country's industrial policy has included measures to promote inclusion, in particular of female workers, who were mostly employed in these zones, thereby opening new opportunities for growth and employment at a time when male employees dominated established industries. As Dani Rodrik observes, this form of labour market segmentation "was particularly crucial, as it prevented the expansion of the EPZ from driving wages up in the rest of the economy, thereby disadvantaging import-substituting industries. New profit opportunities were created at the margin, while leaving old opportunities undisturbed. There were no identifiable losers" (Rodrik, 2000, p. 20).

### **C. Risk of regional and rural urban inequalities**

40. Industrialization strategies must guard against the danger of creating regional and rural urban inequalities. Some scholars (Williamson, 1965) argue that structural transformation is initially associated with a geographical concentration of economic activity, thus resulting in disparities in regional income distribution. For instance, in Indonesia substantial public investments and infrastructure have been channelled into the development of the manufacturing industry in Java and widened disparities with other parts of the country (Van der Eng, 2009).

41. Industrialization in China has also been associated with regional disparities, with the eastern zone enjoying higher per capita output, higher levels of employment and productivity and higher exports at the expense of the central and western zones (Yao S., 1997).<sup>6</sup> This trend is an apparent result of fiscal decentralization and trade and industrial policies that favour coastal areas closer to international trade routes. The spatial pattern of income distribution not

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<sup>6</sup> The eastern zone includes the provinces and cities along the eastern coast: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan and Guangxi. The central zone covers the provinces and autonomous regions of Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan. The western zone includes Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

only has economic and social repercussions, but also political implications for future development.

#### **D. Need to avoid gender-blind industrialization policies**

42. There are competing views on how development and structural transformation in particular affect women. Some scholars argue that there is a gender Kuznets curve for women. According to such views, in the initial stage of economic development, labour-force participation enhances female domestic bargaining power and affords women greater social and economic visibility (Easton et al., 2013). Enduring patriarchal institutions attempt to limit this advancement, however. Only through such active policies as affirmative action can gender disparities be eroded. Hence such scholars posit an initial reduction in gender wage disparities as women gain employment opportunities through industrialization, followed by a pushback from patriarchal institutions, and finally active policies that restore the initial momentum.<sup>7</sup>

#### **E. Questions for discussion**

(a) Does transformation require efforts across multiple fronts, in multiple sectors to address multiple constraints simultaneously? Or, alternatively, can select interventions be made in key areas to get the process under way?

(b) What are the appropriate incentives and effective structures in the development policy frameworks that can influence the commitment by non-State actors to a transformative development agenda?

(c) Can the industrialization, transformation and inclusive growth process that has gained traction in East Asia and elsewhere be replicated in Africa? What is different now, and what are the lessons learned?

(d) How can African governments capitalize on their natural resources to promote inclusive and sustainable development?

### **III. Towards a coherent policy framework for industrialization for inclusive and transformative development in Africa**

#### **A. Active government policies**

43. Experiences from developed, emerging and developing countries suggest that active government policies and interventions are required to ensure that transformation promotes inclusiveness. In addition to the examples of Brazil and India, the experiences of other emerging economies, in particular those in East Asia, are instructive in this respect. They highlight that industrialization and structural transformation can spur inclusive per capita income growth when pursued with appropriate and deliberate policies supported by effective institutions. In addition to effective industrial strategies that linked industrial policies to initial economic and social conditions at an early stage of development, the policies espoused

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<sup>7</sup> According to the traditional view, gender inequalities initially widen then narrow with transformation because the industrialization process requires higher and specialized skills which many women do not necessarily have because of gender inequalities in education, in particular in science and technology. This view is supported by the experiences of the Republic of Korea and Taiwan Province of China (Seguino, 2005).

by these countries to promote inclusive and transformative industrialization included investment, trade human development policies, broad-based educational strategies, and social services and protection policies.

44. According to G. S. Fields, the ability to absorb unskilled labour at the early stages of development was behind East Asia's ability to achieve full employment, rising real wages, and favourable income distributional effects (Fields, 1985). Indeed, these countries experienced rapid industrialization and per capita income growth against a backdrop of fairly equal income distribution underpinned by rising employment (Sung Moon Pae, 1992). A defining element of the success of East Asian economies in achieving full employment, rising real wages, and favourable income distribution effects was their focus, in the early stages, on export industries which were intensive in the use of unskilled labour and in which they had a comparative advantage.

45. The Republic of Korea, Singapore, Hong Kong, China, and Taiwan Province of China, for instance, experienced rapid labour-intensive export-led growth which contributed to significant declines in unemployment. In Singapore, the unemployment rate fell sharply from 10 per cent in the 1960s to 3 per cent in the 1980s. The unemployment rate in the Republic of Korea fell from 8.2 per cent in 1964 to 4.1 per cent in 1981. Hong Kong's unemployment rose to 9.1 per cent in 1975 but declined to 4.3 per cent in 1980 (Fields, 1985).

46. These trends were associated with a relative decline in the sectoral share of agriculture and a rising share of manufacturing in the Republic of Korea, Singapore and Taiwan Province of China. In Hong Kong, China, transformation was underpinned by the rising share of financial services as a proportion of GDP. In addition, the composition of manufacturing employment has increased as workers have moved from agriculture to manufacturing, attracted by higher real wages that increased fourfold. Starting from relatively low bases, the Republic of Korea increased its manufacturing share of employment from 21.6 to 32.8 per cent between 1960 and 1980 and Singapore from 17.4 to 29.2 per cent between 1957 and 1979. Employment shifts in Hong Kong and China, were most pronounced in financial services (Fields, 1985). Increased manufacturing employment was generally associated with narrowing inequality.

47. Finally, in many emerging and developing economies, social protection policies, including conditional cash transfers, not only contributed to reduced poverty and inequality rates but also improved human capital by supporting health care and education for children from poor families (World Bank, 2002). Conditional cash transfers have been credited for the 21 per cent reduction in the Gini coefficients of Brazil and Mexico between the mid-1990s and mid-2000s (Soares et al., 2007). A key feature that makes conditional cash transfers conducive to industrialization is the balance that they strike between social assistance and quality human capital development.

48. Notwithstanding the relatively high inequality in South Africa, the country's progressively targeted social grants programme is helping to reduce levels of poverty and inequality. Grants are made up of child support (71 per cent), old age benefits (18 per cent) and disability payments (7 per cent). In all, 76 per cent of government spending on social spending goes to the poorest 40 per cent. It is estimated that, in the absence of such transfers, real household incomes for those in the second and third deciles would have declined by 12 per cent and 7 per cent, respectively (Bhorat et al., 2014).

## **B. Need for developmental States**

49. Africa needs developmental States to provide vision, leadership and a focus on inclusive and transformative development. Developmental States are defined as those which place economic development at the top of their government policy priorities, and which are able to design effective instruments to promote their development goals (ECA, 2011 and ECA, 2013).

50. Considerable work has been undertaken on the model of the developmental State in East Asia and its implications, including the lessons learned for Africa and other developing regions. There appears to be consensus on the various components of the developmental State model, including development leadership and vision, development institutions and development resources (human, natural and financial). What is particularly interesting about the model, however, is the fact that variation across countries in their development performance is not simply a function of the different levels of their resource endowment or of the operation of these resources through the market.

51. At this critical juncture, when Africa has been enjoying resumed growth for more than a decade, the fundamental question of how to sustain this growth involves far more than a mere study of the developmental processes in East Asia or other emerging regions, and necessitates in particular a focus on the governance of development in Africa, its modalities, dynamics and impact in terms of the resulting social and economic changes. It is therefore essential to consider what governance priorities are needed for structural transformation in Africa. This necessarily requires a change in thinking on the development-governance nexus and how this is manifested in social changes and their impact on the day-to-day lives of African citizens.

52. The multiple development challenges, lack of governance and economic austerity of African States, the absence of any comprehensive development policy and the separation of economic and social development in Africa all underpin the fundamental need for developmental States in the region. As the process of industrialization entails the production of goods and services with high added value, the sectors driving the migration from low to higher productivity activities are manufacturing, agriculture and services. There is therefore a critical role for the State to play in ensuring that it can remedy the failures of the market, particularly those associated with investments in new technologies, labour market and capital, all of which have the potential to undermine a country's industrialization process. The issue of development governance is also of particular importance because of Africa's current growth sources, which are largely commodity-based.

53. In this context, R. Joseph argues that sustained and transformative growth cannot be achieved without an improvement in how countries manage their collective affairs through appropriate institutions (Joseph, 2013, p. 308). A crucial component of such institutions is leadership: leadership with a transformative vision to define the agenda of a national project that meets the needs of the African people is therefore key to sustainable and inclusive growth. To this end, the leadership needs to be committed to Africa's industrialization and the creation of more opportunities for productivity and revenue generation in the formal sector, but also to be inclusive. Central to this inclusiveness is the need for the State to ensure that people have the opportunity to acquire assets and to find sustainable employment. Where the latter is concerned, land reforms will be critical. M. Khan identifies as a key policy need in African countries the ability "to identify particular areas of governance reforms and

capability improvements that are most likely to make a difference to the growth challenges faced” (Khan, 2012, p.1).

54. States do not operate in a vacuum. Alongside providing leadership to drive the transformation process, non-State actors such as the private sector and civil society play a central role in ensuring an inclusive approach to development and governance processes. The roles of these agents must be clearly defined, to ensure that they cooperate rather than compete with one another. Their operation will also serve as important guidance for the State, indicating the most appropriate manner for it to participate in the economic transformation process. For example, the State plays a pivotal role in how resources are allocated to improve human capital, combat poverty and inequality, finance innovation and technology, enhance governance and the capacities of the public sector and improve the business environment. The effectiveness of the developmental State hinges, however, on the interactions between the State and society and the political coalitions that shape the development path.

55. Thus, the success of transformative development strategies on the African continent will be directly contingent on the forms and levels of the State’s capacity for inclusive development, the incentives driving the commitment of social groups to inclusive development, the effectiveness of the State administration, the institutional, political and economic conditions that lead to the emergence of developmental States and the commitment to the process of both the State and society as a whole.

**C. Development planning as a framework for policy coherence, effective implementation and monitoring of mechanisms and outcomes**

56. There are three major tasks that the State has to implement as a means of achieving industrialization for inclusive and transformative development. These are planning the development process, formulating appropriate and inclusive development policies, and implementing the development plans and policies.

57. As noted by ECA and AUC, there are a number of reasons why the development process has to be carefully planned. The changes required are substantial and hence the decision-making involved cannot be left to free market forces. The interdependence of all elements of the inclusive development process can be dealt with more effectively in comprehensive development frameworks rather than narrow partial models. Most developing country economies are characterized by pervasive market failures. In addition, the information and coordination externalities involved in the development process can be most effectively taken into account in the context of planning (ECA and AUC, 2011).

58. The current planning framework in many African countries consists of a long-term development vision and a series of implementation plans which have gone beyond the narrow objective of poverty reduction to encompass such objectives as accelerated growth, employment creation, structural transformation and sustainable development. These long-term visions and plans are also characterized by stronger ownership by African agents and a more consultative and participatory process involving a broad spectrum of stakeholders, including civil society, the private sector, decentralized constituencies and development partners. This reflects the commitment of African countries to planning as a deliberate instrument for harnessing national resources towards attaining the sought-after goal of inclusive economic growth and development. There is a major push for the fundamental transformation of Africa’s economic structure from an exports-based model predominantly

dependent on mineral resources and agricultural products to an industrial one capable of processing these resources itself.

59. It is in this context that industrialization has been given a prominent role, as a means of developing highly productive sectors, promoting interlinkages between sectors, increasing value addition in commodity exports, feeding back into higher growth and achieving greater global competitiveness. The only way this will come to pass, however, is if the process of industrialization is inclusive from the very outset, so that, even if there is regime change, there will be less likelihood that the existing process is derailed. Addressing this challenge necessitates national planning strategies that coordinate development policy, particularly trade and investment policies, and help build institutions to promote technological upgrading, broad-based capacity-building, human capital development, infrastructure development, innovations and public-private partnerships to foster competitiveness.

60. A core requirement will be for African countries to fill the wide gaps between the formulation and implementation of developments plans. This stems from their weak institutional frameworks, which have failed to prevent flaws in the budgeting process and to align projects and programmes to national strategic plans or priorities. The achievement of the desired results has been hampered by a lack of continuity, consistency and commitment to agreed policies, programmes and projects.

61. It is essential that policymakers remain mindful of the basic prerequisites for successful planning that lead to industrialization and inclusive economic transformation. These are: the sound formulation of plans and sound implementation strategies, appropriate institutional frameworks, effective bureaucracy and relevant instruments, policy consistency and continuity, the adequate involvement of the people in the formulation and implementation of plans, the active involvement of the private sector in the planning process, the avoidance of corruption, and the adequate monitoring and evaluation of projects, programmes and policies.

62. In line with the drive for coherent long-term development planning frameworks to assist African countries in promoting inclusive development, the African common position on the post-2015 development agenda, adopted in January 2014, provides a framework for the inclusion of Africa's priorities, grouped into six pillars: first, structural economic transformation and inclusive growth; second, science, technology and innovation; third, people-centred development; fourth, environmental sustainability, natural resources management and disaster risk management; fifth, peace and security; and, sixth, finance and partnerships (AUC, 2014).

63. In addition, as advocated in the African common position, the continent's structural economic transformation must emphasize inclusive and equitable growth; sustainable agriculture, food self-sufficiency and nutrition; economic diversification, industrialization and value addition; a modern and efficient services sector; and a reliable and robust infrastructure base (AUC et al., 2014). Similarly, the African Union Agenda 2063 framework document outlines an approach as to how the continent should effectively learn from the lessons of the past, build on the progress already achieved and take strategic advantage of all possible opportunities in the immediate and medium term, so as to enhance inclusive structural transformation on the continent over the next 50 years. In line with the solemn declaration on the occasion of the fiftieth anniversary of the founding of the Organization of



African Unity, Agenda 2063 places African people at the centre of its development aspirations, with the aim of reducing their poverty (AUC, 2013 and AUC et al., 2014).

64. Strategies for industrialization and inclusive structural transformation should benefit from APRM in promoting effective governance and pursuing inclusive economic and social development. The APRM framework has the potential to make an enormous contribution towards building a democratic developmental State, by making systematic the contribution of other actors, in particular the private sector and civil society. It aims to create a heightened awareness among Africans of governance and development challenges and can help build national consensus among citizens. This is to be achieved through national programmes of action, an outcome of the APRM review process. The national programmes of action have become the critical link to civil society that enables communities, and society as a whole, to shape visions and set goals that are shared and jointly formulated by public agencies and implemented by the State. The national programmes of action form the link between citizens' aspirations for public goods and services and the road map to the realization of those hopes.

**D. Questions for discussion:**

(a) How can African countries foster growth-enhancing institutions and governance structures that facilitate the effective design and implementation of coherent long-term development plans? What should be the role of non-State actors in this process?

(b) Why have so many past industrial plans been left either unimplemented, or failed to achieve their objectives? What can be done to ensure the effective implementation of new industrial policy frameworks and action plans?

(c) What redistributive mechanisms can African countries use to ensure that the benefits of industrialization and transformation are shared?

(d) What institutional frameworks should African countries devise in order to accelerate regional integration initiatives which not only support the continent's industrial agenda, but also ensure that industrialization promotes inclusiveness?

(e) How to ensure that African priorities are given more attention in the process of reaching a global consensus on trade, finance and development?

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