A civil quality controller at Medupi Power Station in Limpopo, South Africa. Panos/Robin Hammond

Industrialization: A new burst of energy

Reliance on commodities has to stop, says report

By **Kingsley Ighobor**

10,000

The number of megawatts of electricity Nigeria needs but generates only 4,500

Carlos Lopes, the executive secretary of the United Nations Economic Commission for Africa (ECA), often talks about Toblerone, the famous chocolate bar manufactured in Switzerland by Kraft Foods, an $18 billion company. Cocoa for Toblerone bars is imported, probably from Africa, where 70% of the world's cocoa is harvested. Mr. Lopes once pointed this out to Côte d'Ivoire's president, Alassane Ouattara, and lamented the fact that only about 10% of the money from chocolates goes to cocoa producers, while the rest remains in the rich chocolate-producing countries.

Côte d'Ivoire and Ghana produce 53% of the world's cocoa. But oddly, chocolates on supermarket shelves in the leading cocoa-producing countries come from countries that don't produce cocoa.

Time is now

It's the same story with coffee, cotton, groundnuts, crude oil and so on. "Up to 90% of income from coffee goes to rich consuming countries," states the *2013 Economic Report on Africa* published by the ECA and the African Union Commission (AUC). Ethiopian coffee farmers may toil day and night, but they reap comparatively very little. With 12% of the world's oil reserves, 40% of its gold, about 90% of its chromium and platinum, 60% of its arable land and more, Africa should do better at tackling poverty, says the report. Instead, it concentrates on exporting raw materials and importing consumer goods, hindering the ripple effect that value addition to commodities should have in the economy.

This has to stop, Mr. Lopes argued with combative fervour at a conference of Africa's ministers of finance, economic planning and development in Abidjan, Côte d'Ivoire, last March. He would like to see chocolate-manufacturing and coffee-producing industries in villages in Côte d'Ivoire and Ethiopia. Nigeria, the world's sixth-largest producer of crude oil, should refine enough for local consumption rather than spending $8 billion a year subsidizing fuel imports.

Advocates of commodity-driven industrialization have a compelling case. It will rev local manufacturing engines and create millions of jobs in Africa.

More jobs will reduce poverty and expand the middle class, which will in turn demand more goods and services.

According to the report, adding value to agricultural produce will unleash new opportunities for farmers, who, assured that excess produce will fetch income, could then actively participate in the marketplace. Companies will sprout with new technology, while local industry players, armed with modern skills, could insert themselves into the global trade and exert influence. Value addition could also boost intra-African trade, which is currently low at 12%.

Industrialization drumbeat

The industrialization drumbeat is sounding louder each passing day. "Industrialization cannot be considered a luxury but a necessity for the continent's development," says Nkosazana Dlamini-Zuma, head of the AUC. More urbanization, a rising middle class, an improved macroeconomic environment, a rising gross domestic product—all are low-hanging fruits that can nourish industrialization.

Indeed, the stars are aligned in Africa's favour. But some fear that impressive economic growth may mask the reality of poverty and breed complacency. Although Africa's economic growth is currently at 4.8% and could be nearly 6% by 2014, according to the ECA, economists also talk about a "jobless growth." Such growth does not stimulate labour-intensive manufacturing to dent unemployment. Africa's global share of manufacturing is just 11%, compared to 31% for east Asia, for instance. Its production of manufactured goods should increase from the current level of 11% to at least 20% of GDP to make any meaningful impact, Mr. Lopes told *Africa Renewal* in an interview.

"Today on average manufacturing in Africa's low-income countries is smaller as a percentage of GDP than it was in 1985," reinforces John Page, in a paper for the Brookings Institution, a Washington think tank. Mr. Page adds that the continent's economic growth and resilience during the 2008–2009 global financial crisis were largely due to "new mineral discoveries, rising commodity prices and the recovery of domestic demand." This growth trajectory is not sustainable because commodities are mostly exhaustible, and Africa has little control over disruptions in world demand and prices.

Mr. Page notes that sustainable growth will depend on structural changes—as in Chile, which has expanded its agro-industry, and India, which has expanded its exports of services. Mr. Lopes agrees and calls for "structural transformation," which is "a shift from agriculture into industrial and service sectors." Commodity-based industrialization, he says, is the bridge from economic growth to jobs creation and social development.

Devil in the details

As Mr. Lopes and others made the industrialization case at the Abidjan conference, the audience, which included many African policy-makers, nodded enthusiastically. However, as to how that goal is to be achieved, the devil appears to be in the details. Even the ECA report acknowledges that not all countries have commodities to export, while others are landlocked and face high transport costs. And most African markets are small and fragmented, which cancels out any competitive advantage smaller countries may have.

To create bigger markets, African countries should integrate their economies. Just imagine the following, said Mr. Lopes: "Togo [six million people] wants to survive on its toothpaste produced in Togo, and Benin [nine million people] also wants to produce its own." The right recipe for regional integration is that countries concentrate on commodities in which they have a competitive advantage. For example, Benin and Egypt could concentrate on cotton, Togo on cocoa, Zambia on sugar—each country operating in bigger regional markets.

Problems with regional integration, such as weak political commitment and a lack of policy harmonization, are familiar. Yet the 2013 ECA/AU report is optimistic about the outcome of commodity-based industrialization, which it insists "must be grounded in the reality of each country."

Investing in infrastructure

Poor and obsolete infrastructure hinders industrialization efforts. On last year's Africa Industrialization Day, 20 November, UN Secretary-General Ban Ki-moon noted that "to facilitate trade in goods and services, it is essential to reduce distribution costs," which is only possible through investments in roads, railways and energy infrastructure.

With nearly 600 million people without electricity, Africa is the world's most energy-poor region, said Kandeh Yumkella, the former director-general of the UN Industrial Development Organization, at a lecture at the London Business School last November. The continent loses "2% to 3% of its GDP because of the lack of reliable energy."

He noted that Nigeria needs 10,000 megawatts of electricity but generates only 4,500. Yet the country has been flaring gas for 40 years. "We estimate that the gas flared in Africa can supply half of the continent's electricity needs, but we burn it with no value addition."

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Sub-Saharan Africa by the numbers in 2011

886.4mn
Total population

$1.3tn
GDP (current US$)

4.5%
Annual GDP growth

$182bn
South Africa's estimated GDP, also sub-Saharan Africa's largest real GDP

$230mn
Guinea-Bissau's GDP, Africa's smallest

In 2011, sub-Saharan Africa GDP growth was 2%. Ethiopia had the largest growth at 9%. Eleven of the 48 sub-Saharan Africa countries had a growth of over 5% for the same period.

Source: World Bank

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In general, concurs the ECA, entrepreneurs in Africa "face high transaction costs, protracted and cumbersome administrative procedures and bureaucratic bottlenecks, and poor physical and financial infrastructure."

Many African governments are investing heavily in infrastructure—railways in South Africa, energy in Ethiopia and Nigeria, road construction in Rwanda and so on. But workers are ringing the alarm bells, worried that industrialization's promise also has its perils. Imani Countess, the African regional programme director at the Solidarity Center, an international labour rights organization, said that industrialization in South Africa—Africa's most industrialized nation—is lowering wages and causing poorer working conditions. Manufacturing companies put pressure on the government to allow individual companies to determine their own labour standards, rather than having to adhere to the national standards.

There was frequent labour unrest in Liberia's Firestone rubber plantation until the company accepted some of the workers' demands for salary increases and a ban on child labour. Workers who constantly agitate against a company's practices can disrupt its operations. Anthony Caroll, a researcher at the Center for Strategic and International Studies, a Washington think tank, wants companies in Africa to be able to hire and fire staff if necessary. On the other hand, Michael Clark, adviser with the UN Conference on Trade and Development (UNCTAD), said at a conference in New York last year that liberalization policies of the past that softened governments' grip on national economies have hurt Africa as massive profits were repatriated by foreign investors. What Africa needs now is "strategic policies targeted at specific sectors." Mr. Lopes calls that "sophisticated protectionism," which allows the government to strategically intervene in the market in a way that benefits national economies.

Many African governments are investing heavily in infrastructure. *World Bank/Arne Hoel*

Any attempt to reset the liberalization button through policies that appear to go against the free market principle is bound to be controversial. Mr. Lopes argues that "sophisticated protectionism" policies do not conflict with the World Trade Organization regulations, as some economists claim. "Everybody agrees now that there is a role for the state and there is a role for the market," he says. However, *The Economist*, a London-based magazine, ascribed China's recent huge economic leap to its allowing private enterprise to thrive with little interference, and suggested that India's current economic slowdown and Africa's high poverty rate may be the results of "monopolies and restrictive practices."

While the debate continues on the best ways to achieve industrialization, Mr. Yumkella foresees disaster should Africa continue to rely only on commodity exports. The good news is that Africa can aggressively pursue industrialization; he adds quickly, "We can do it."