Industrialization in Africa: Past experiences and Lessons from 3 selected countries

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Background

- ***What is industrialization :***Todora (1997), views it as the process of building up a country's capacity to process raw materials and to manufacture goods for consumption or further production
- A shift from agricultural to a manufacturing base
- ***Why is it important****:* It increases people's income, helps meeting increasing demand , it is key to High Volumes of Exports, provides employment, helps to Modernize Agriculture, provide economic stability and ncreases Government revenue.

*S*trategic factors for industrialization

- *External and Internal Security*.
- *Increased Agricultural Productivity*
- *An Efficient System of Transport and Communications*
- *An Educated Labor Force*
- *Proper technology*
- *Finance of Industry and an Effective Banking System*
- A *good policy mix and enabling environment*

Objective of carrying out the review

- current industrialization agenda is not a new, but a renewed effort
- there has been past attempts that to a large extent, failed
- The purpose of the review is therefore to try to learn from past mistakes, while reinforcing the success stories in the current industrialization agenda

- The presentation is at large based on secondary information
- It looks at the evolutions and objectives of industrialization strategies in the chosen 3 countries(Tanzania, Kenya and Ghana)
- Their failure sand successes
- Captured lessons for the current industrialization agenda and debate in Tanzania

Pre independent period

Tanzania’s pre-independence production structure was dominated by raw materials for export purposes. (Uledi 2014.)

At independence there were 220 firms (iron smith, pottery, weaving, woodworking) (Rweyemamu 1973)

In Kenya before 1945 there was simple primary production without any substantive policies towards industrial development , until 1945 where there existed a few manufacturing industries in agro based, but all foreign owned (Leys, 1975; Swainson,1978).

As for Ghana the country has long been regarded as one of Sub-Saharan Africa’s star performers (Coulombe and Wodon 2007). It was also one of the earlier African economic reformers, with a series of reforms beginning in 1983

104 firms were established before 1950 and by 1959, 234 firms were operating most of them being wood and cork industries, exporting mainly logs of timber. (Ewusi 1981)

Post independence : **Tanzania**

Immediately After independence (1964-1966) industrial development in terms of IS operated in a mixed economy till the Arusha declaration in 1967 that shifted it to a state lead Import substution (IS)

1969-1974 plan under self reliance aimed at processing agricultural products and import substution for basic industries

By 1970 Tanzania had attained self-reliant at a great extent , over 2,000 industrial firms had been established compared to 220 at independence (Uledi2014)

But between 1973 -1974 country experienced a deteriorating BOP which affected industrial production (Skarstein & Wangwe 1986)

There was also a shortage of foreign currency following insufficient foreign earnings from trade (Lipumba and Kasekende 1991)

This prompted to chart out a long-term industrial strategy. A 20 years strategy named **Basic industrial Strategy (BIS) 1975-1995**

The major objective of BIS was to enhance sectoral linkages in order to achieve a greater degree of economic self-sufficiency

It emphasized the use local resources, development of industries supplying important producer goods such as steel, cements, leather and chemical and also consumer good

But Productivity in many of the industrial parastatals started to drop around the mid-1970s mainly because of chronic underutilization of their capacity

Low levels of capacity utilization in the sector were frequently accompanied by the shortage of foreign exchange to finance the imports of intermediate inputs (Wangwe 1983).

Environment was quite protective, that did not help the industrial sector build the capability to compete

Little emphasis on technology learning(Wangwe 1993)

And towards 1980s due to world economic crisis, the industrialization got stagnant, Ultimately, the Tanzania Government was compelled to reduce drastically foreign Exchange allocations to the manufacturing industries (Skarstein, 1986)

SAPs advised by the IMF & WB ware then adopted to come to the rescue only to later own prove a failure

Post independence: Kenya

To attract investments Government decided to enact the Foreign Investment Protection Act (FIPA) in 1964, which guaranteed foreign investors the right to transfer profits, dividends and capital out of the country

Under I-S, the economy was characterized by rapid economic growth manufacturing value added grew by over 10% in the period 1964 - 1971. (Gachino, 1998),

- Commercial Development Corporation (ICDC) was tasked to promote the participation of indigenous Kenyans in industrial and commercial activities (Hecox 1988).
- ICDC and the Development Finance Company of Kenya were tasked to offer concessionary credit to all investors with a particular preference for indigenous investors
- But the IS policy failed to create much-needed employment because of its capital-intensive nature. Its high import content also caused major balance of payment problems
- For this reason SAP were adopted

Though SAPs led to liberalization for both output and input market and opened the economy to international competition (Chirwa 2000)which is essential for increasing quality and productivity

However,

the industrial sector continued to be inward-oriented, excessively import-dependent, capital-intensive and incapable of absorbing increasing labor force largely due to poor timing and inadequate government commitment (GoK 1994; Swamy 1994).

Post independence: : **Ghana**

Since independence, Ghana has undergone 3 stages

- the inward over-protected ISI strategy of 1960-83
- the outward liberalized strategy of 1984-2000
- the private sector-led accelerated industrial development strategy of 2001 onward

In the early 1960s Ghana had one of the richest economies in Sub-Saharan Africa (SSA).

- Nkuruma before his overthrow, had paid special attention to education and R&D as drivers to industrialization (Gyamerah 2002) . Example of this was seen through Ghana Education Trust (GET)
- A small proportion of the population was involved in the higher-productivity formal sector, with the majority in low-productivity agricultural or informal nonagricultural activities (Andrae 1981).

Challenges

- During the first phase of IS Many of these enterprises survived only through protection.
- The overvalued currency was a problem
- There was shortages of hard-currency for raw materials and spare parts
- By the end of 1966, it is estimated that manufacturing output was only one--fifth of the capacity of installed plant,." (Botchwey 2010)
- A poor management in the state sector led to stagnation from 1970 to 1977 and then to a decline from 1977 to 1982.

Current efforts towards industrialization

Tanzania

- Sustainable Industrial Development Policy (SIDP2020) which is in 3 phases
- Integrated Industrial Development Strategy (IIDS) which targets the manufacturing sector to grow by 15 % per annum on average(URT 2011) where by the current MVA is approximately 6%

- Development Vision 2025 in 1999 with an emphasis on the role of the industrial sector for development so as to ultimately make the nation semi-industrialized by 2025.
- Export Processing Zones (EPZs) Act was passed in April 2002. Tanzania main trade partners being China, South Africa, India, the United Arab Emirates and Japan.

Kenya

Since 2000 movements to industrialize have been outplayed on

- Poverty Reduction Strategy Paper,
- Economic Recovery for Wealth Creation,
- Kenya Vision 2030 which aims to foster industrialization and a robust, diversified and globally competitive manufacturing sector by 2030
- Currently the MVA is averaging to 11%

Ghana

The current industrial policy seeks to provide a broader range of fair-priced, better quality products for domestic and international markets; with key development objectives as **to expand productive employment**, **technological capacity** in the manufacturing sector.

It also promote agro-based industrial development

as well as promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities

The current manufacturing value added is around 5% from 7 in 2010

But,

inadequate allocation of funds to science and technology, research and development (R&D), improving technical competence and capacity to assist the local industries and the lack of collaborative research are still among the challenges that are facing the industrialization efforts

Main observation and Captured lessons

- Ghana was among the first countries to attain independence and start industrialization movements ahead of Tanzania and Kenya
- Kenya on the other hand enjoyed manufacturing experience developed during colonial days as well as infrastructure such as railway line, roads and port facilities compared to Tanzania whose colonial rulers did not base on manufacturing in the country
- At the current period Kenya is doing well in MVA(11%) compared to Tanzania(6%) and Ghana(5%)

Lesson

Policy related

- policies should not be beyond government capacity and Do away with long lists of proposed actions that fails to give clear priorities as to what could be achieved realistically
- All policies should be integrated in the national framework
- Time to time monitoring and evaluations of the strategies to suit the changing environment

Enabling environment

- Internal and external security for investors, they should feel confident to make savings and investment decisions, like the case of Foreign Investment Protection Act in 1964 in Kenya.
- Trade agreement should closely be examined before signed (trading partners) .

Human capital

- Industrialization requires *better quality* people. The one who are better educated and can embrace change an be innovative. The government should be able to account for that.(example ICDC of Kenya)

Improved agricultural;

- The transformation of a traditional agricultural society/economy into an industrial economy must be "paid for" by agriculture. All the 3 countries use of available raw materials but failed to emphasize on its growth.

- Uncalculated massive investment in building industries can be harmful, this leads to Excess capacity leading to under utilization and eventually a failure as it happened back in the years. Market signals should count when embarking on investments
- Reduction on dependence on oversee financial help and set our own national financial sources
- Political stability and shared vision

Conclusion and recommendation

- There is a great need to really asses all the measures that have been taken before towards industrialization and yet failed. What was done wrongly and what was missed
- Fundamental questions need to be answered before taking any father step.
  - Do we have needed human capacity?
  - Is there a market for what we want to produce?
  - Do all Tanzanians share vision of where we want to go?
  - Are Tanzanians even understand what it means by being a semi industrialized country?
  - Do they badly want to reach there?

These kinds of questions and many like these are fundamental to the realization of our goal.

Without proper answers and analysis of where and why we went wrong and integrating that to the current industrialization agenda , it is most likely that we will loose focus on what to embark on for a successful semi industrialized Tanzania

Sometimes things are not what they appear to be

Thank you