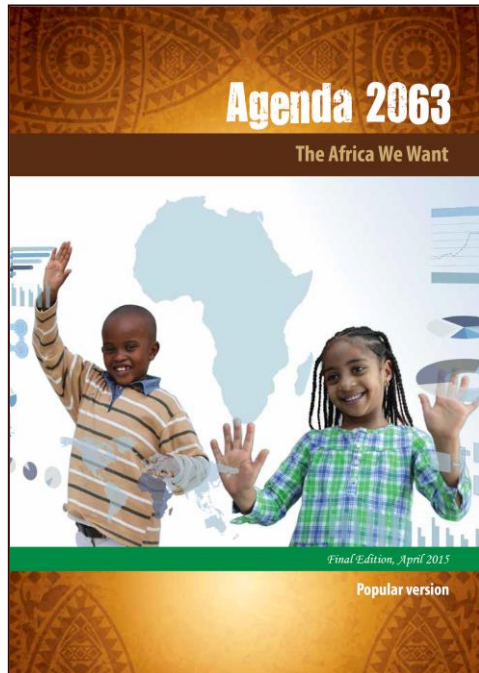


Enhancing Industrial Capability in the Era of AfCFTA



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This presentation incorporates insights gained through the ongoing research project of the JICA Ogata RI “Japanese Experiences of Industrial Development and Development Cooperation: Analysis of Translative Adaptation Processes.”

AfCFTA: Seizing Opportunities

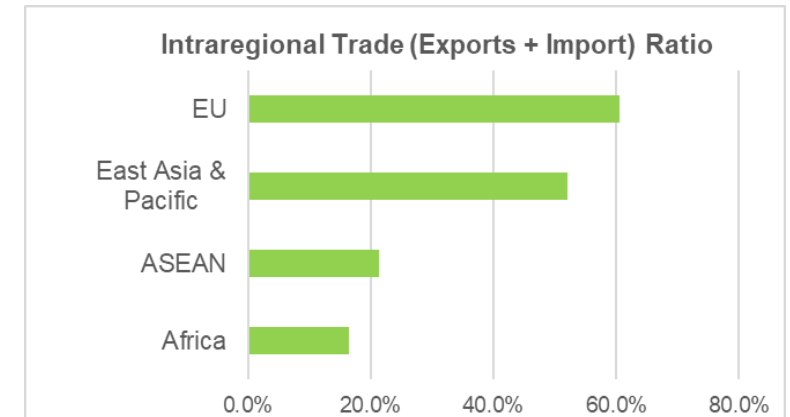
- ▶ AfCFTA as a potential economic and globalization game changer for Africa (Fofack 2020)—creating a single market of 1.3bn people.
- ▶ To realize its maximum benefits for socio-economic well-being of all Africans, comprehensive approach is needed.
- ▶ Esp., **industrial development** must be integral part of the ongoing efforts to boost **connectivity** (e.g., tariff reduction, trade facilitation, infrastructure...).
- ▶ East Asian experiences show the vital importance of industrial development as **growth “ingredients”** to enhance AfCFTA’s institutional integration.



Source: ACET African Transformation Report (ATR) 2021, Infographic 3

Regional Economic Integration: East Asian Experience

- ▶ In East Asia, market-based (*de facto*) integration took place, ahead of formal (*de jure*) institutional integration.
- ▶ The development of dynamic production networks has been a driving force of economic integration in East Asia (incl. ASEAN).
- ▶ Foreign multilaterals (incl. Japanese FDI & ODA) provided technology transfer, contributing to productivity & efficiency enhancement of local private sector.
- ▶ Recently, services are increasingly linked with manufacturing (ADBI 2019), reinforcing regional & global value chains.
- ▶ These suggest the importance for Africa to enhance industrial development, to complement the AfCFTA's institutional framework.
 - ▶ Without **growth “ingredients,”** countries may face a risk of import flooding domestic markets.



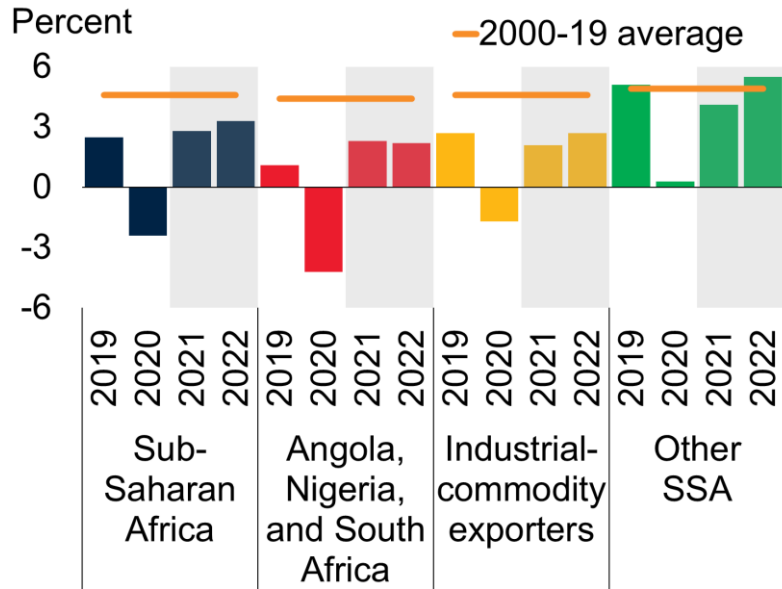
Source: IMF Direction of Trade Statistics (except for East Asia & Pacific, based on World Bank WITS)

Note: 2020 data, except for East Asia & Pacific which is 2019.

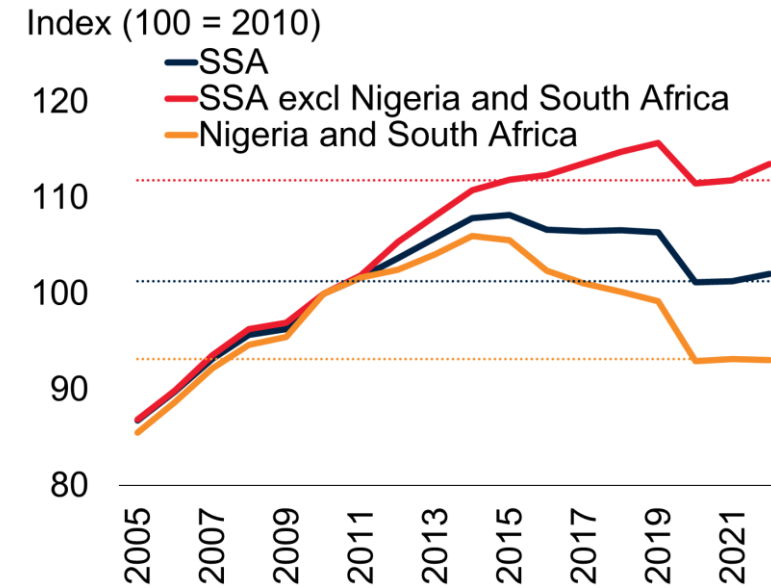
Post-Pandemic Challenges of Industrial Development in Africa

- ▶ There has been a growth deceleration trend since the global financial crisis (2007/08), and the collapse of commodity prices (2014/15) in Africa.
- ▶ Covid-19 crisis gave further negative impacts (-1.7% GDP growth in 2020), although there is a sign of recovery (3.7% growth projected in 2021) (SSA/IMF WEO, Oct. 2021).
- ▶ In navigating the post-pandemic recovery, it is important to address both **Covid-19 induced shocks (short-term)** and **country-specific structural (long-term) problems**.
- ▶ Overcoming the Covid-19 crisis does not guarantee sustained economic recovery, if long-term, country-specific structural problems are unattended.
Such problems could include:
 - Premature de-industrialization
 - Productivity stagnation; limited shift from low to higher productivity sector
 - Weak resilience to shocks, particularly resource-intensive economies
 - Need for productive job creation for youth

GDP growth

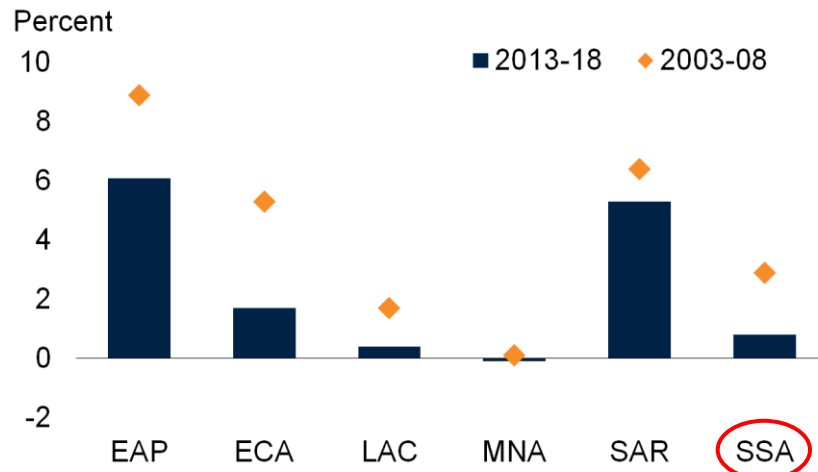


Evolution of per capita GDP

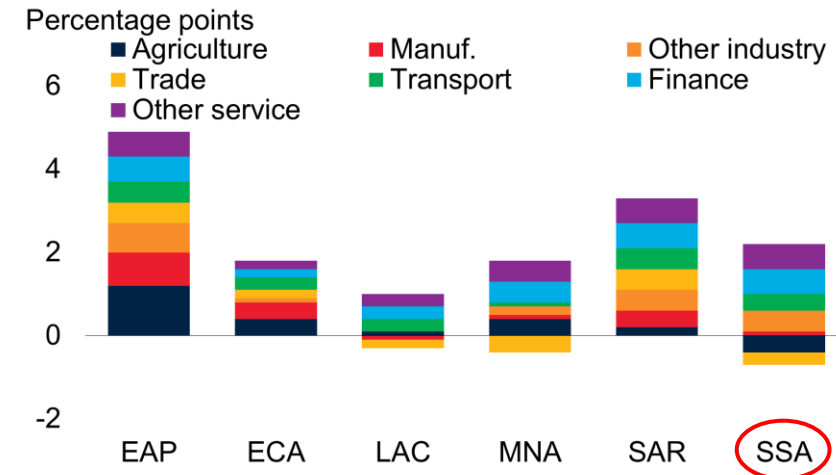


Source: World Bank Global Economic Prospects, 2021

Productivity growth



Sectoral contribution to aggregate productivity growth, 2013-17



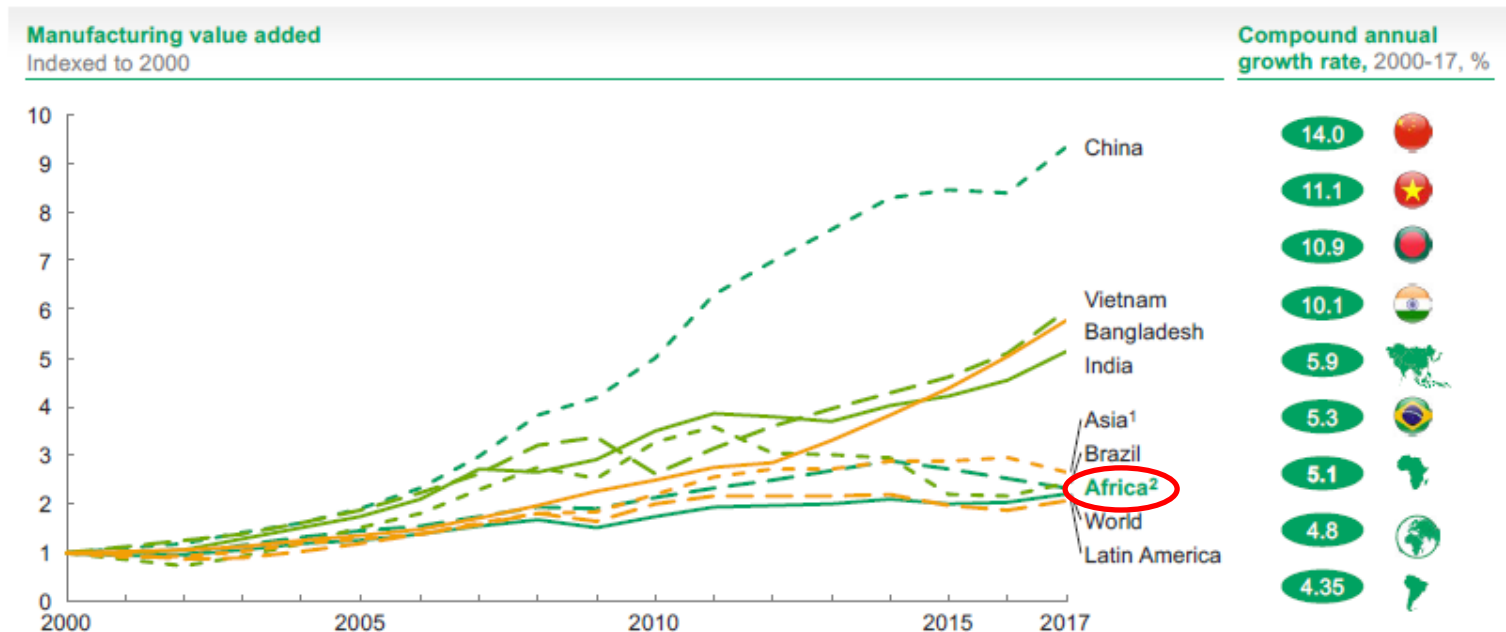
Source: World Bank Global Productivity Report, 2021 (edited by Alister Dieppe)

Sectoral value added (percentage of GDP)

	Agriculture, forestry, & fishing value added (% of GDP)		Manufacturing, value added (% of GDP)		Industry (incl. construction), value added (% of GDP)		Services, value added (% of GDP)	
	2000	2019	2000	2019	2000	2019	2000	2019
Sub-Saharan Africa	17.5	14.0	12.6	11.0	30.7	27.1	46.3	48.8
East Asia & Pacific (excl. high income)	14.8	7.8	5.3	25.4	44.1	38.0	40.0	53.1

Source: Elaborated by the author, based on World Development Indicators (World Bank)

Africa's manufacturing value-added growth has lagged behind that of emerging Asian champions



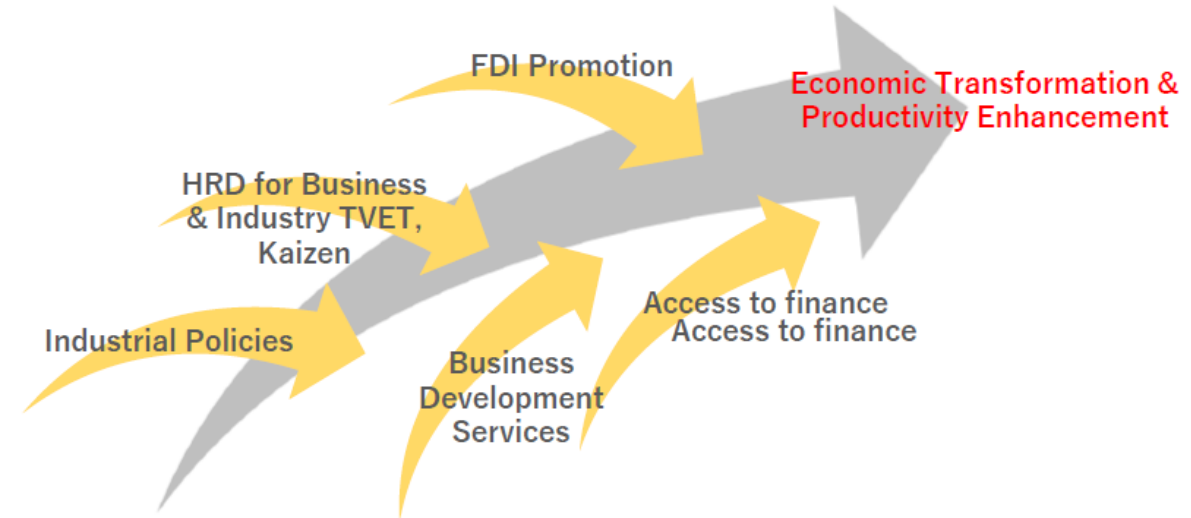
¹ Bangladesh, China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.
² Cameroon, Egypt, Kenya, Morocco, Nigeria, Senegal, South Africa, Tunisia, and Zimbabwe

Role of Industrial Policy: Why Now?

- ▶ Critical role of industrial policy in promoting structural transformation of catching-up economies through learning processes (Stiglitz & Greenwald 2014).
 - Horizontal (functional) policies & vertical (selective) policies.
- ▶ Renewed attention to industrial policy in today's context:
 - **Broadening the scope and rationale:** sustainability, inclusiveness & resilience in the SDG era (Aiginger & Rodrik 2020, Otsubo & Otchia 2020)
 - **Growing complexity:** digitalization, servicification of manufacturing, GVC reshaping
 - **Changing the nature of debates:** from ideological & theoretical aspects (whether) to practice (how) (Rodrik 2008, Ohno 2013, Lutkenhorst 2019)
- ▶ There is urge to enhance **policy capability** for industrial development (Cimoli et. al 2019).
 - **Policy learning** is important, esp. for developing countries (for dynamic capacity development).

Policy Learning for Industrial Development

- ▶ Japan has been actively engaged in industrial development cooperation including industrial policy support.
 - Pragmatism with real sector concern
 - Improvement of business environment and BEYOND



- ▶ Menu of Japanese industrial development cooperation includes:
 - Industrial policy support/policy dialogue: intellectual cooperation, joint formulation of a vision and policies
 - Concrete support: quality & productivity improvement (Kaizen), industrial HRD, BDS for SME support, etc.
 - Public-private partnerships

Example: Industrial Policy Dialogue

IP support/Policy dialogue

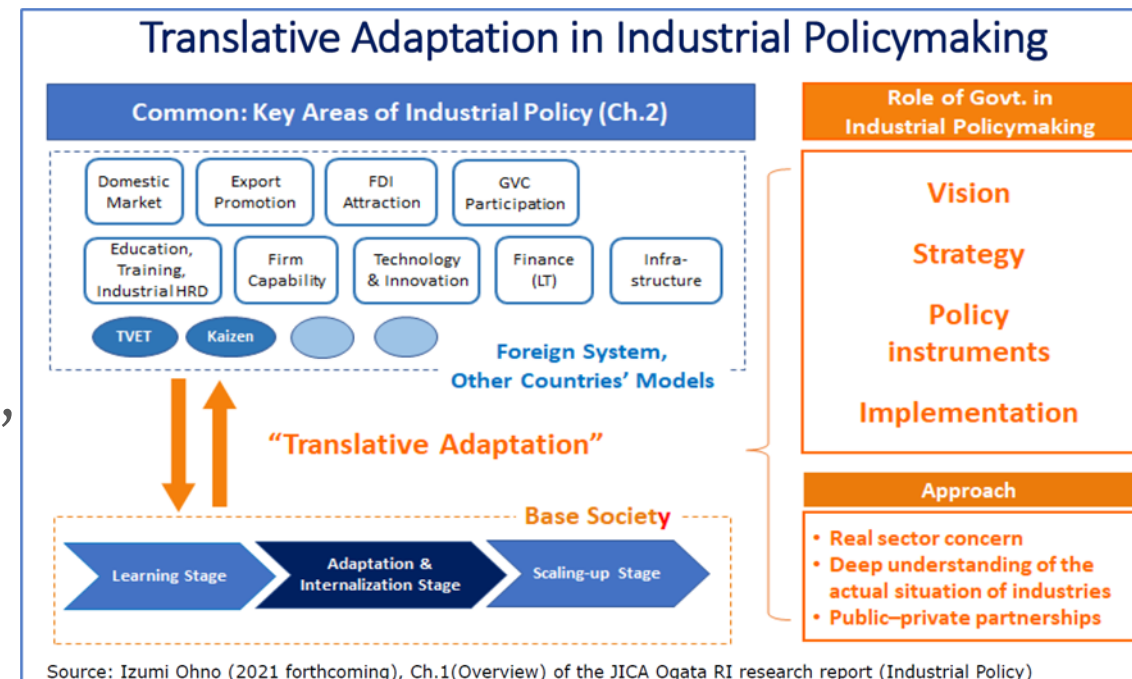
- ▶ Candid, concrete and pragmatic discussion between developing country government and experts & officials from advanced economies, followed by concrete industrial projects to implement what was suggested.
- ▶ Japan started IP support in the 1980s (with Argentina). It is now one of Japan's standard tools for knowledge cooperation.

Policy learning

- ▶ International best policy practices (and failures) must be collected and compared systematically.
- ▶ Using them as references and building blocks, government must acquire general capability to create a policy most suitable for a particular country, time and sector.

Selected Examples

- **Argentina** - Okita Report 1985-87; follow-up 1994-96
- **Vietnam** - Ishikawa Project, 1995-2001
- **Thailand** - *Mizutani Report* for upgrading SMEs and supporting industries, 1999
- **Ethiopia** - GRIPS-JICA, 2009-present, for kaizen & policy methods



Example: JICA's KAIZEN Support (as of June, 2021)

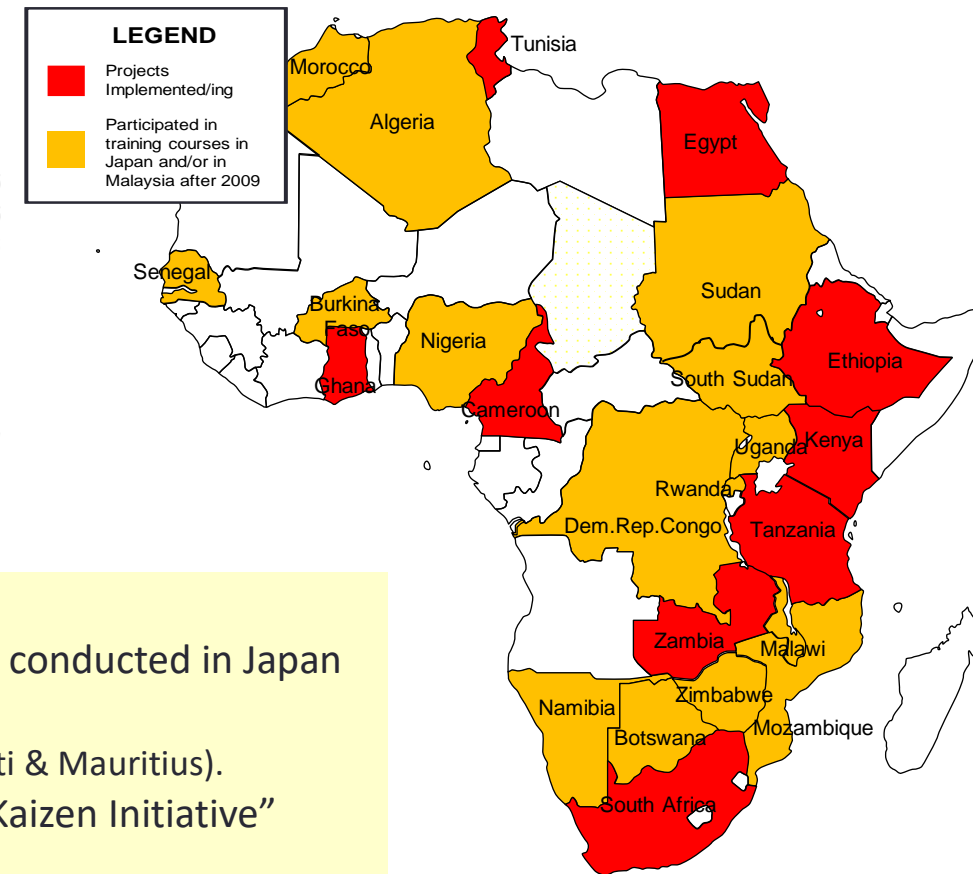
Country	1980s	1990s	2000s	2010s	2020s
Asia					
Singapore	83 → 90				
Thailand		94 → 01	06 → 11		
Cambodia				10 → 13	
Latin America					
Costa Rica		92 → 97	01 → 06	15 → 18	* → 24
Brazil		95 → 00			
Argentina			04 → 06	09 → 10	17 → 22
Paraguay			07 → 10		
Europe & Middle East					
Hungary		95 → 99			
West Balkan countries			08 → 11	13 → 16	17 → 20
Jordan			11 → 13		
Africa					
Tunisia			06 → 08	09 → 13	16 → 21
Egypt			07 → 11		
Ethiopia			09 → 11	14 → 15	20 → 21
Ghana				12 → 15	19 → 21
Kenya				12 → 14	15 → 19
Tanzania				13 → 16	17 → 22
Zambia				14 → 16	17 → 22
Cameroon				15 → 17	19 → 23
South Africa				15 → 17	20
AU Commission				15 → 17	
AUDA-NEPAD				17	27

* JICA supports Dominican Rep., El Salvador, Nicaragua, Guatemala, and Honduras in collaboration with Costa Rica.

Source: Jin & Ohno forthcoming

- JICA has been implementing Technical Cooperation Projects in 9 countries.
- Every year, more than 60 officials from Africa participate in KAIZEN-related training conducted in Japan and Malaysia.
- From 2009, JICA received officials from 26 countries for KAIZEN training (incl. Djibouti & Mauritius).
- Since 2017, AUDA-NEPAD and JICA have jointly and actively conducted the “Africa Kaizen Initiative” region-wide 10-year program.

Source: Information provided by Japan International Cooperation Agency (JICA)



Implications and Further Thoughts

- ▶ Relevance of the East Asian development model?
 - Yes. But, what should be learned is:
 - **Methodology** for industrial policy formulation & implementation and dynamic capacity development for local learning (NOT replicability of a particular development model);
 - Deep understanding of the actual situation of industries, public-private partnership;
 - **Translative adaptation:** learning, adopting, adapting & improving ...
- ▶ Any policy must be crafted and executed in the context of a particular age, society, and international environment.
 - Even in the past, Asian countries adopted diverse industrial strategies, tailored to the economic environment at the time and corresponding to its own comparative advantage (JICA & JBIC 2008).
- ▶ Role of development cooperation
 - Promoting knowledge sharing and learning of industrialization experiences;
 - Facilitating the process of translative adaptation and local learning of partner countries, with attention to the uniqueness of respective countries.