



MEFMI
Macroeconomic and Financial Management
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KEYNOTE ADDRESS

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**Topic: STRUCTURAL TRANSFORMATION AND ECONOMIC
GROWTH OF SUB-SAHARAN AFRICA - Is the East Asian Structural
Transformation and Growth Model Applicable to the SSA Region?**

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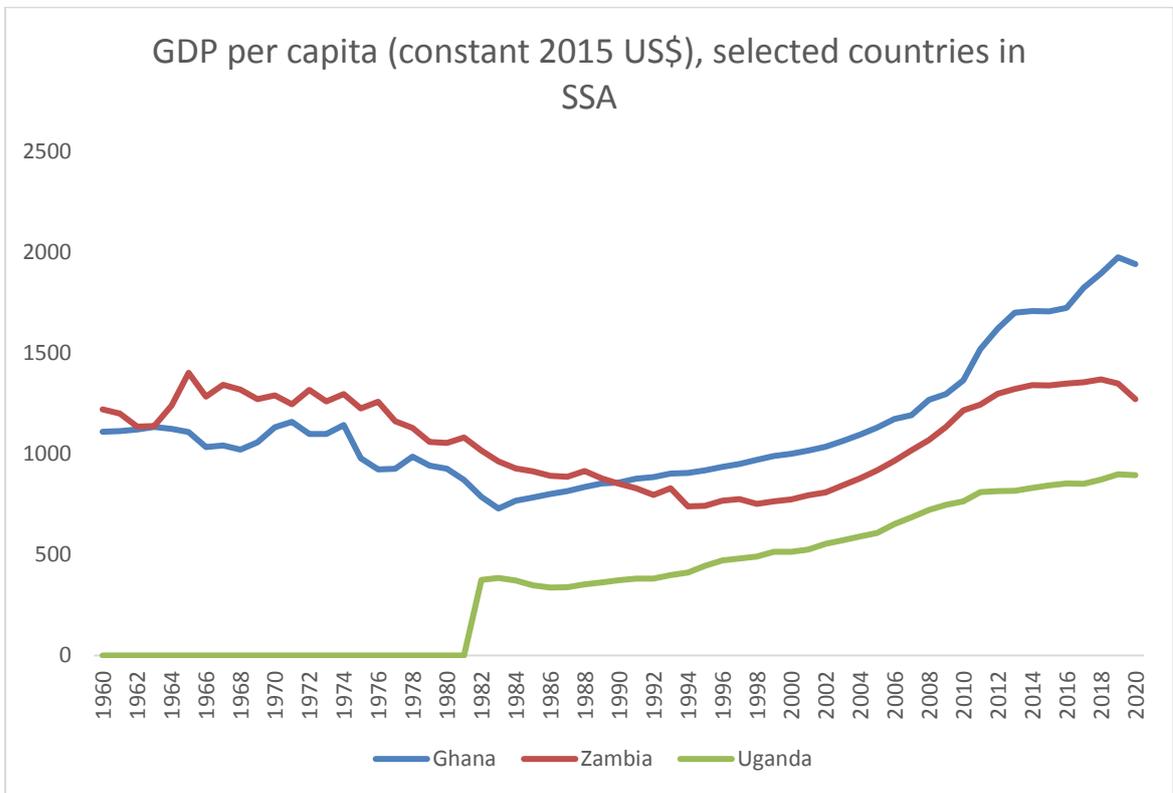
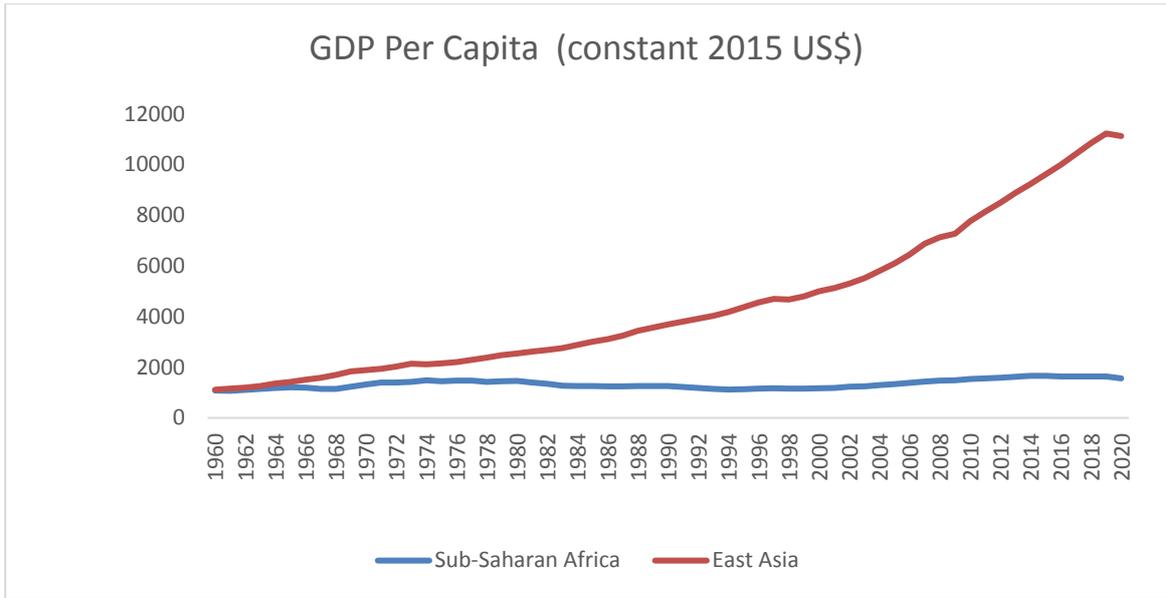
- **Organisers of this Conference,**
- **Distinguished Panellists,**
- **Ladies and Gentlemen**

1. It is a great pleasure for me to address you during this January 2022 Oxford University Conference on Structural Transformation and Economic Growth (STEG). To the organisers, my heart-felt gratitude for the platform you have offered me to address distinguished participants on the theme of this conference and hope that my contribution will be useful in stimulating discussions to achieve policy sustainability and improve on the modest gains made so far in this area.
2. I will focus on **“Structural Transformation and Economic Growth in sub-Saharan Africa (SSA) - Applicability of the East Asian Structural Transformation and Economic Growth Model to SSA”**. The key questions are – Firstly, can the East Asian Model be applied to SSA? Secondly, can SSA attain sustainable growth and create jobs without a strong manufacturing base, transitioning from agriculture directly to services? In this regard, I will provide views on the applicability of the East Asian Structural Transformation and Economic Growth Model to SSA economies. I will then make policy recommendations guided by key lessons from the East Asia growth experience on what SSA economies could possibly do.
3. It is not difficult to understand why the SSA countries would look to East Asia for lessons or alternative models of economic growth and development. The East Asian countries were quite comparable to several SSA countries in the 1950s and one could even add that the prospects looked brighter for the African countries compared to East Asian countries during that time. In terms of development

approach, both regions began with an early drive for import substitution industrialization (ISI) but diverged substantially in terms of industrial policy and performance.

4. Since the era of structural adjustment began in Africa, roughly in about 1990, (although the dates at which different countries began implementing structural adjustment policies varied) according to a World Bank (2020), per capita real GDP growth in SSA has averaged just 0.6 percent per annum (the growth performance improved slightly after 2000, but only to 1.3 percent per annum), registering USD 1,564 average real GDP per capita in 2020 from an average level of USD 1000 in 1960. For instance, Ghana, Zambia and Uganda recorded average growth in real GDP per capita of 3, 1 and 3 percent per annum, respectively from 1990 to 2020. In contrast, the developing economies of East Asia and the Pacific, starting at about the same level of average real per capita income in 1960, averaged 6.8 percent annual real per capita income growth during 1990-2020¹, realising average real GDP per capita of USD 11,129 in 2020, seven times that of SSA, with Singapore, China and Japan reaching the high of USD58,056, USD10,430 and USD34,366 in 2020, respectively. Of course, Africa's poor average performance masks a high degree of heterogeneity across the continent and there are other factors besides the economic models pursued, which have held back growth in SSA.

¹ Data from World Development Indicators.



5. Nonetheless, it is difficult to avoid the conclusion that Asian countries have pursued much more successful development strategies than those in SSA, and particularly Korea, Taiwan,

Singapore, China and now Vietnam all of which achieved very high rates of growth sustained over several decades. Underlying the growth performance, the manufacturing sector has been central to absorbing a significant proportion of the labour force and placing them into productive decent jobs. In addition, there is strong interaction among the member countries via trade and investment. In this regard, what is the development model which these economies successfully pursued, and how does it differ from the economic strategies pursued in SSA?

6. In terms of breakdown and sequence, the speech will cover five (5) aspects of the topic: A). Introduction; B). Extent and nature of structural transformation in SSA; C). Extent and nature of structural transformation in East Asia; D). Key lessons and policy recommendations for the SSA region; and E). Conclusion. Because of data limitations, I will not be able to cover each country in the East Asian and SSA regions. Instead, I will focus on the regions, and pick notable examples where appropriate.
7. This conference is taking place at a time when the world is still facing adverse effects of the COVID-19 pandemic and it is hard for me to ignore its impact on the economies and the lives it has claimed. Since the advent of this pandemic, economic growth has significantly slowed down, international trade disrupted, domestic revenues and foreign exchange receipts reduced significantly, while public expenditure requirements are escalating as governments seek to reduce the spread of the pandemic, protect and cushion societies, and attempt to minimize the adverse impact of the pandemic on the economies. In relation to the topic of discussion today, it is worth noting that structural transformation is going to be derailed by COVID-19, thus putting more pressure on the SSA countries, most of whom have not been registering good progress.

A. STRUCTURAL TRANSFORMATION AND GROWTH IN SSA

8. To a large extent, historical, economic, social and political experiences of SSA are determinants of its current and future economic development. According to Page (2012), externally imposed Structural Adjustment Programmes (SAPs) and reform initiatives of the 1980s and 1990s failed to promote productivity, labour employment and poverty reduction in SSA. The pursuit of SAPs focused a lot on re-establishing macroeconomic stability and liberalisation of markets especially for trade, foreign exchange and finance. There has been limited attempt to use the real exchange rate as a policy tool to promote international competitiveness and trade. Equally, countries have made limited use of government support for industry or any systematic effort to change the structure of production. These sentiments have been expressed by many other authors such as Stiglitz et al. (2001), Ha-Joon Chang (2018) and Justin Lin (2011) to name a few.

9. The above statements mask differences in policies and outcomes across Africa and indeed, there are other factors beyond the economic models pursued such as the lack of industry-oriented capacity building initiatives, including the transfer of know-how as part of the SAPs. For example, in Ethiopia, under the government led by the late Meles Zenawi, there was a systematic effort to promote investment in labour intensive manufacturing for export by offering incentives to mainly foreign investors. Similarly, Uganda has started promoting industrialisation using a similar model, see, Ggoobi et al. (2020). To support the move, Uganda's industrial policy is back on the Government of Uganda's development agenda. The government has combined providing subsidies directed at individual firms with an investment in key infrastructure including electricity, roads and optic fibre backbone for internet and setting up

industrial parks in support to economic activities in general and industrialisation, in particular. There are signs of a positive response to these policies with a marked growth in manufacturing companies, despite challenges to do with planning and the manner in which industrialisation should be done.

10. Notwithstanding efforts being made, for most countries in SSA, the manufacturing sector has not supported structural transformation of the economies². Evidence shows that as of 2020, 23 SSA countries are classified by the World Bank (2020) under low-income countries³, and 50 percent of them are further classified as fragile and conflict affected. 16 are classified under lower-middle-income economies⁴, 6⁵ under upper-middle-income economies, and only one (1) under high income economies (Seychelles).
11. Under all the groups, there are SSA countries which are resource rich. These include Nigeria, South Africa, Angola, Equatorial Guinea, Gabon, Sudan, Tanzania, Zambia, Botswana, and the Democratic Republic of Congo (DRC). The resource rich countries have pursued varied growth strategies where commodity booms have propelled growth while slumps have had adverse effects on the economies. Notably, natural resource focus has delayed economic diversification in some countries to the extent that lack of diversification in SSA has been largely driven by countries with abundant natural resources (e.g. Botswana and Nigeria).

² McMillan et al. (2017) define structural change or transformation as moving labour and other resources from lower to higher productivity sectors. This includes increasing the efficiency of existing firms via adoption of new technologies and management practices that can increase the efficiency of production or reallocate resources away from the least productive to more productive firms.

³ Burkina Faso, Burundi, Central African Republic, Democratic Republic of Congo (DRC), Chad, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, South Sudan, Sudan, Togo, and Uganda.

⁴ Angola, Benin, Cabo Verde, Cameroon, DRC, Cote d'Ivoire, Eswatini, Ghana, Kenya, Lesotho, Mauritania, Nigeria, Senegal, Tanzania, Zambia, and Zimbabwe.

⁵ Botswana, Equatorial Guinea, Mauritius, Gabon, Namibia and South Africa.

12. During earlier decades until 1980, economic development in SSA has been sporadic and only moderate, with an annual average GDP growth rate of less than 2 percent per annum, which was well below the world average of 4 percent (IMF 2010). Slow growth rates in SSA were especially evident in the manufacturing and services sectors, while agriculture was largely of a subsistence nature and did not benefit from technological transformation. This to a great extent accounts for the poor economic performance of a majority of countries. In addition, the region was characterised by periods of sustained political instability, highly infectious diseases, strict trade barriers and market regulations, weak infrastructure development, prolonged conflicts, and macroeconomic distortions.
13. Between 1980 and 2020, some of the SSA countries (i.e. Uganda, Tanzania, Botswana, Nigeria, Ghana, Mauritius and Kenya) started designing and implementing economic policies to accelerate growth of sectors with high value added per worker, as strategies for structural change.
14. With considerable divergence in growth experiences, the SSA region started registering annual average growth rates of 4 percent. Several authors, among them Page (2012), Lee (2013) and Jankowska (et al. 2012) referred to this period as a booming spell for SSA, characterised by declining poverty rates, emerging middle class, democratisation, urbanisation, thriving construction industry, a strongly expanding services sector, and ever-increasing exports of raw materials partly because of a strong increase in international commodity prices.

B. EXTENT AND NATURE OF STRUCTURAL TRANSFORMATION IN SSA

15. SSA has followed a singular pattern of structural change where resource allocation favoured one sector at the expense of the other. While focus has shifted to services and manufacturing, agriculture has been the main stay of most economies. The important role of the agricultural sector in contributing to food security and the economy generally, is reflected in its prioritisation in the development agenda. The Comprehensive African Agricultural Development Programme (CAADP) is an integral part of the New Partnership for Africa's Development (NEPAD) and the sector's prominence in the region is evident in its contribution to total GDP, which is generally high in the global context.
16. Despite the recognition of the critical role of agriculture in many SSA countries, the sector has not always been preferred in public expenditure and programs. The sector suffers from several challenges that constrain its performance across the different SSA countries. These include soil fertility decline, climate change and variability, limited availability of key enablers such as water and power, limited access to key agricultural extension services, unfavourable government policies, accessibility (distance, availability of and state of road, rail and air networks) to markets, land tenure patterns and practices, endemic pests and diseases, conflict and insecurity, availability of agricultural inputs, and too much dependence on rain fed agriculture.
17. Consequently, the share of agriculture value added to GDP in SSA started declining significantly from 29 percent of GDP in 1980 to 20 percent in 2020 as per the data published by World Bank, 2020. At an individual country level, the share of agriculture value added to GDP in Ethiopia, Uganda and Ghana declined from over 50% in 1980s, to 35, 24 and 18 percent in 2020, respectively. Despite its relatively declining share of total GDP, primary commodity agriculture remains an important sector as a source of food,

intermediate products, employment and as a major earner of foreign exchange. Agriculture employed more than half of the total labour force (IMF, 2012) and within the rural population, provides a livelihood for multitudes of small-scale producers. Small-holder farms constitute approximately 80 percent of all farms in SSA and employs about 175 million people directly (Alliance for a Green Revolution in Africa, 2014).

18. While there has been a significant decline in the agricultural sector value added as a percentage of GDP, the value added by the services sector as a percentage of GDP gained momentum from 44 percent of GDP in 1980 to 48 percent in 2020. South Africa, Ethiopia, Uganda and Ghana were among the countries which contributed to this surge, but data from World Bank (2020) and IMF (2020) also reveals a high degree of heterogeneity among the countries. The key lesson from this is that economies have been transiting from natural resource-based activities such as those in the agricultural sector, towards other sectors, especially the services sector by passing manufacturing.
19. For SSA countries, the ease of entry into the services sector is relatively higher than that into the manufacturing sector, resulting in more labour moving from agriculture to the services sector compared to manufacturing. Much of the services sector is also informal, with less requirements than manufacturing. There has been a sectoral shift in labour force employment, but that has mainly consisted of labour moving from peasant agriculture into informal, non-traded micro-enterprises in urban areas, such as petty trading and motorcycle transport. Labour productivity in informal nontraded micro-enterprises is low and lacking in dynamism. These sectors cannot be the drivers of growth in a high growth economy. Douglas Gollin, Remi Jedwab and Dietrich Vollrath (2016) have described and analysed the phenomenon of “urbanisation without industrialisation” in Africa.

20. Be it in terms of employment or value-added GDP, manufacturing has never really flourished in much of SSA. The average number of people employed in the manufacturing industry has been rather flat at slightly over 10 percent of total labour employment and shows no sign of improvement between 1991 and 2019. The modern industries which operate in SSA, such as minerals and fuel, telecommunications, and finance, employ a very small fraction of the labour force.
21. The trend in most of the countries is towards de-industrialization, which has not been reversed by recent growth episodes. The main contributing factors include business environment uncertainties, tight competition from imports, high labour costs, energy deficiencies, inadequate transport infrastructure and poorly functioning credit markets. Despite recent improvements in the business climate, few countries in SSA offer attractive conditions for manufacturing investment compared to alternative locations such as those in East Asia.
22. In May 2000, the African Growth and Opportunity Act (AGOA) was launched. The Act provided eligible SSA countries with duty-free access to the U.S. market for over 1,800 products, in addition to the more than 5,000 products that are eligible for duty-free access under the Generalized System of Preferences program. Many researchers postulated that the AGOA would provide the much-needed support to the manufacturing sector in SSA and focus the region to export-led economic growth policies.
23. Backed by the introduction of AGOA, from 2000 to 2020, the average share of manufacturing as a percentage of GDP for SSA was at 11 percent per annum, 1 percentage point increase from historical trends. The increase in manufacturing as a share of GDP was most noticeable in a few SSA countries such as Uganda and Lesotho, but it dropped for most countries (i.e., Nigeria, Ghana, Zambia and

Kenya) on average. In practice, the expectation that AGOA would spur manufacturing growth has not been met. However, in response to the AGOA initiative, most countries in the SSA region, among them Lesotho, Eswatini, Zambia, Zimbabwe, Ghana and Cameroon embarked on strategies to ensure that mediating factors are in place. These include government policies related to promotion of foreign direct investment (FDI) and trade, labour markets, systems of learning and innovation, finance, taxation, as well as other infrastructure support to ensure that the domestic firms competed.

24. Notwithstanding increased movement into the services sector, the aspect of productivity of the services sector is still under scrutiny as this sector is considered generally “unproductive” with limited backward and forward linkages, as compared to manufacturing. Countries that have achieved growth and development without factories or through services are too scarce and peculiar to serve as role models. However, given technical progress in services and lack of credible alternatives in manufacturing in SSA, the question of which way to go remains open.

25. The long-term impact of structural adjustment policies in SSA is mixed. The better performing economies, mainly those which have implemented economic policies consistently and avoided civil strife, have improved their economic performance. Macroeconomic stability has greatly improved in the era of structural adjustment, long term real per capita growth rates have been positive, and the living standards of the population have gradually risen alongside other aspects of human welfare, such as health. What structural adjustment policies have failed to achieve in SSA is any sort of meaningful structural transformation of economic structures. Unlike in the fast-growing economies of Asia, labour in SSA has not shifted

out of low productivity, informal employment into high productivity formal sector modern industries.

26. It is not altogether surprising that structural adjustment programs in SSA failed to bring about structural transformation. Structural adjustment policies prioritise liberalised markets, so that market price signals determine resource allocation. Market signals provide incentives for incremental changes, but they can prevent more fundamental changes needed for structural transformation. They generally do not give strong signals to the private sector to invest in new industries or undertake quantitative leaps in technology. The emphasis on market-oriented policies in structural adjustment programs reflects the dominant intellectual paradigm in western economics, that of Neoclassical economics, but this paradigm neglects production because its primary focus is on trade and allocative efficiency. In effect, it treats all producers as identical, making no distinction between informal micro-enterprises and large-scale modern industry, whereas this distinction is critical for structural transformation and has been integral to the Asian model of development.
27. In the early stages of structural adjustment, market-oriented policies often brought about substantial gains, mainly by removing policy induced bottlenecks to production, such as shortages of foreign exchange, imports and credit, but once these gains were realised, essentially restoring output to its production possibility frontier, market-oriented policies have not been able to lift Africa economies to the next level of development. To some authors such as Arbache and Page (2010) and Page (2012), “Africa’s time has not yet come”.

C. EXTENT AND NATURE OF STRUCTURAL TRANSFORMATION IN EAST ASIA

28. In sharp contrast to SSA, countries in East Asia have grown much faster than those in other regions with some nearing the Organisation for Economic Co-operation and Development (OECD) members regarding industrialisation.
29. The overall development strategy and industrial policy in East Asia resulted in high growth rates. With eight (8) countries in the region (China, Hong Kong, Japan, Macau, Mongolia, North Korea, South Korea and Taiwan), registering rapid economic growth (double-digit growth rates) in the 1990s and sustained the momentum over the years.
30. Countries largely followed export-oriented development strategies with high government intervention and guided industrialisation. China, Malaysia, Thailand, and Indonesia embarked on promoting manufacturing exports and substantial public expenditures on infrastructure development to lay down infrastructure for the private sector to operate, accompanied by close monitoring of the market system.
31. Big business corporates emerged as the engine of growth dominating the South Korean economy, while for Taiwan, small and medium-sized enterprises (SMEs) played a central role in economic growth and development.
32. East Asian countries have maintained rapid and relatively sustained economic growth with a sharp increase in the manufacturing sector's share of total output and labour employment. Growing diversification of industrial production that permits each country to broaden its range of manufactured goods has facilitated the process.

Over the years, the respective countries have identified sources of diversity and exploited them successfully. Notably, there has been an increase in exports with emphasis on manufactured goods.

33. In terms of structural transformation, the distinct regional characteristics of East Asia include the following, among others.

- a) The region went through basic economic structural changes with complementary, rather than competing economic structures.
- b) All the countries initially focused on technologically simple labour-intensive goods (e.g. clothing, sports goods, toys and processed foods). This stage facilitated technology transfer. However, the speed of graduation from these types of industries varied across the respective countries.
- c) Moves into a range of more capital-intensive, technologically sophisticated items were always initiated by the four (4) first-tier newly industrialising economies (NIEs), thereby vacating export markets that were then filled by the second-tier group (Weiss, 2005).
- d) The region made optimum use of comparative advantage with specialisation by the respective economies. Dynamism of technological upgrading followed that of the leading economies, which characterised the industrial development process.
- e) Growth with Equity (GWE) associated with Northeast Asia Japan, Republic of Korea and Taiwan Province of China managed to maintain relatively low Gini indices during the

period of rapid growth. The share of industrial value added in the economy increased as per capita income levels rose.

- f) Agriculture in most East Asian countries accounts for less than 15% of their respective GDP. In the case of Japan, the Republic of Korea and Singapore, this level fell drastically, below 5 percent since 2009.

D. KEY LESSONS AND POLICY RECOMMENDATIONS FOR THE SSA REGION

- 34. If SSA is to achieve structural transformation, a change in economic strategy appears necessary; simply continuing with the same policies implemented over the last three (3) decades is unlikely to bring about better results in the future. Could SSA achieve structural transformation by adopting all, or part, of the Asian model? It seems unrealistic for SSA to be able to reproduce the success of the Asian tigers in developing labour intensive export-oriented manufacturing industries as the engine of economic growth.
- 35. Labour costs in African manufacturing are much higher than in Asian economies with comparable per capita income levels (which implies similar levels of productivity), as documented by Alan Gelb and his co-authors (1991). That would suggest that, in general, labour-intensive manufacturing in SSA is unlikely to be competitive on export markets. Furthermore, even if labour costs in SSA were more globally competitive, advances in the use of robotics to displace labour in manufacturing may close off any window of opportunity for newly emerging industrial economies to thrive in export markets in a manner like that achieved in the past by Asian economies.

36. Nevertheless, there is a critical element of the Asian model which merits the attention of policymakers in SSA; the emphasis accorded to production structures and promoting change in these structures. To realise structural transformation, there needs to be much greater priority given by economic strategies to supporting the development of domestic production capacities, especially in sectors which have the potential to generate sustained increases in labour productivity and achieve sustained growth in output.
37. An obvious starting point is the modernisation and commercialisation of peasant agriculture, which will require comprehensive packages of support from governments to small farmers, including subsidised inputs, fertilisers, seeds and credit, public research and extension services, minimum farm gate price supports and protection from imports where necessary (e.g. in rice production and textiles). Such policies have had some success in other parts of the developing world, including Asian countries, in promoting the “green revolution” in agriculture. Agricultural modernisation, which generates large increases in marketed farm outputs, is a precondition for the development of agro-industries on a large scale, which could offer African countries an important source of comparative advantage on world markets and thereby provide an engine of growth.
38. Economic policymakers should also consider providing support to promote domestic import substituting industries which at least have the potential to be competitive at the regional level through, for example, moderate tariff protection, preferential public procurement, investment tax credits, etc. However, such support should be provided at the regional level, through the Regional Economic Communities (RECs), because individual national economies are mostly too small to enable import substituting firms to reach optimal economies of scale or to allow meaningful

competition in the domestic market. Support should also be provided at the level of the industry, rather than to individual firms, so that all firms operating in a specific market within a REC face a level playing field.

39. SSA should also explore ways to intensify intra-SSA trade and maximise opportunities offered by the African Continental Free Trade Area (ACFTA) while remaining open to the rest of the world. There are also five (5) major regional trade agreement initiatives which show potential and willingness to unite within SSA. These include the West African Economic and Monetary Union (WAEMU), Central African Economic and Monetary Community (CEMAC), South African Customs Union (SACU), Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

40. There is a delicate balance to be maintained between providing support to targeted industries and ensuring that all the firms within these industries remain subject to competitive pressures. While earlier views are that only the manufacturing sector can drive convergence, given that services exhibit low productivity, weak growth, and a lack of convergence (see, Rodrik 2013), contrary recent evidence suggests that productivity converges in several service industries and that SSA's performance in key sectors such as transport, energy, and telecommunications, gives grounds for optimism regarding the services sector in SSA. (i.e. Richard Newfarmer, John Page and Finn Tarp (2018)).

41. All the policies discussed above, whether for agriculture or industry, will need to be implemented systematically and consistently over the long term, because structural change is a long-term project. Critical to the implementation of these policies is the need to strengthen institutions and for SSA to address governance issues that may introduce distortions and constrain individual countries or regions in attaining the full benefits of the structural policies.

E. CONCLUSION

42. Given past and current trends in economic growth and structural transformation in SSA and East Asia, as well as the differences in strategy, a radical reappraisal of the merits of market-oriented policies in SSA is warranted. While it is not feasible to replicate the Asian model of development in its entirety in SSA, key components of that model, notably providing public support to domestic producers at the industry wide level on a sustained and consistent basis, and a careful balance between market and government deserve serious consideration. Given the current cross-country differences among the countries in terms of approach and status of development, it is unlikely that the SSA can, in the short-term, have most of the countries unifying or harmonising their approaches to development.

Ladies and gentlemen, I thank you for listening.