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Industrial and Structural Transformation in Sub-Saharan Africa

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Summary of study commissioned by AFD (1)

Reforms, Growth and poverty

- End of lost generation (70-95); reforms picked up and macroeconomic distortions fell ([here](#))
- ... growth picked up; poverty down sharply ([here](#))
- ... but the poverty gap with other regions persists ([here](#))
- The elasticity of poverty reduction to growth is varied across regions and lower in SSA ([here](#))
- Are we witnessing another resource-driven boom-bust cycle? ([here](#))

Summary of study commissioned by AFD(2)

Trade and industrialization patterns

- SSA export basket diversified «as expected» ([here](#))
- Export surges have ratchet effect and associated with real exchange rate depreciation ([here](#))
- Industrialization is poverty reducing mostly in initially high-poverty countries ([here](#))
- Premature de-industrialization confirmed ([here](#))
- ...as in Ethiopia and Mauritius ([here](#))
- Labor has not shifted to high productivity growth sectors ([here](#))

Summary of study commissioned by AFD(3)

De-industrialization but possible convergence by services activities

- As latecomers, SSA have lower levels of mfg. VA and employment at mfg. peak ([here](#))
- High labor costs \Rightarrow low mfg. Employment ? ([here](#))
- Lack of conditional convergence ([here](#))
- Convergence in services, a possible structural transformation paradigm for SSA? ([here](#))
- TFA: improve customs & reduce trade costs([here](#))

Summary & Recommendations

- Reforms, favorable external environment \Rightarrow growth \uparrow and poverty \downarrow (although the elasticity of poverty reduction to growth is low in SSA)
- Manufacturing has contributed to poverty reduction especially for those with initially high poverty
- Resources have not shifted towards high productivity growth sectors
- SSA has not taken up labor intensive activities (Labor costs too high because of lack of appropriate skills?)
- Can the service sector (now increasingly tradable) help convergence?
- Trade costs are high. Take up opportunity offered by TFA to reduce customs-related trade costs

Thank you

Industrial and Structural Transformation in Sub- Saharan Africa

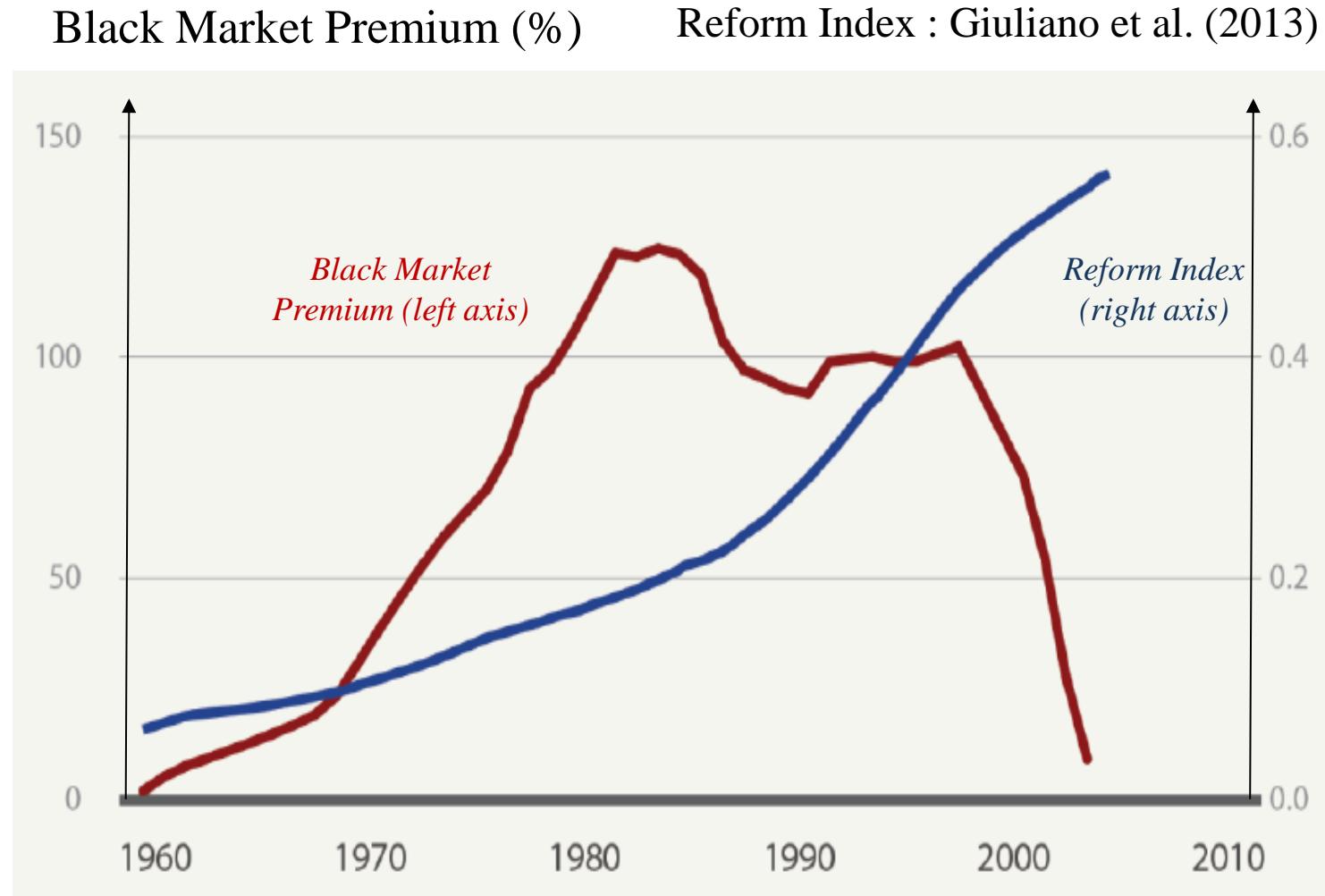
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Nairobi,
December 16 2015

The Future of Financing for Development Opportunities: Challenges and
Danish Priorities for Financing Development in the Next Decades

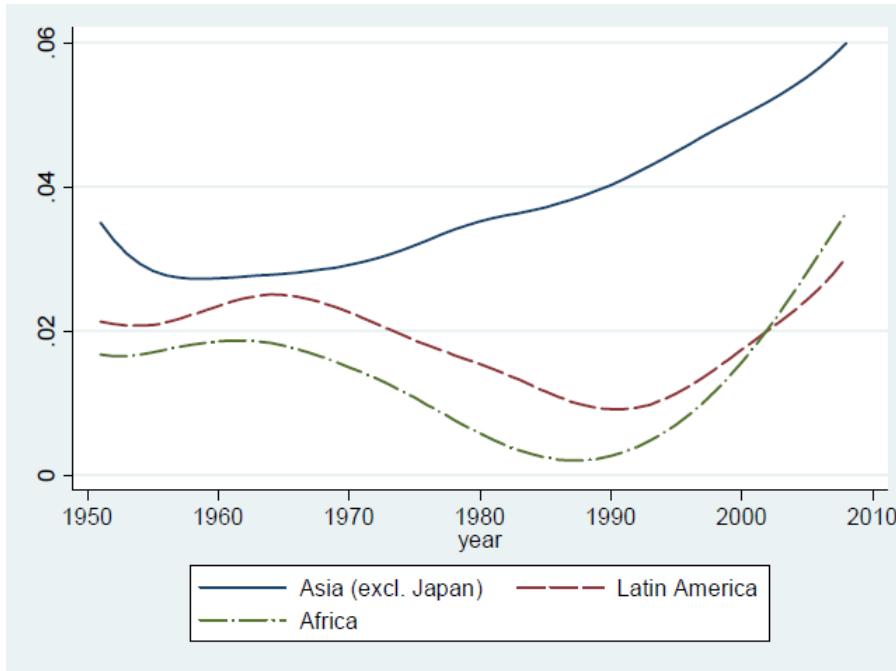
Extra Material

Macroeconomic Distortions and Reforms in SSA 1960-2010



Source: Cadot et al. (2015). Figure 4 from UNECA (2014) based on Giuliano, Mishra and Spilimbergo (2013)

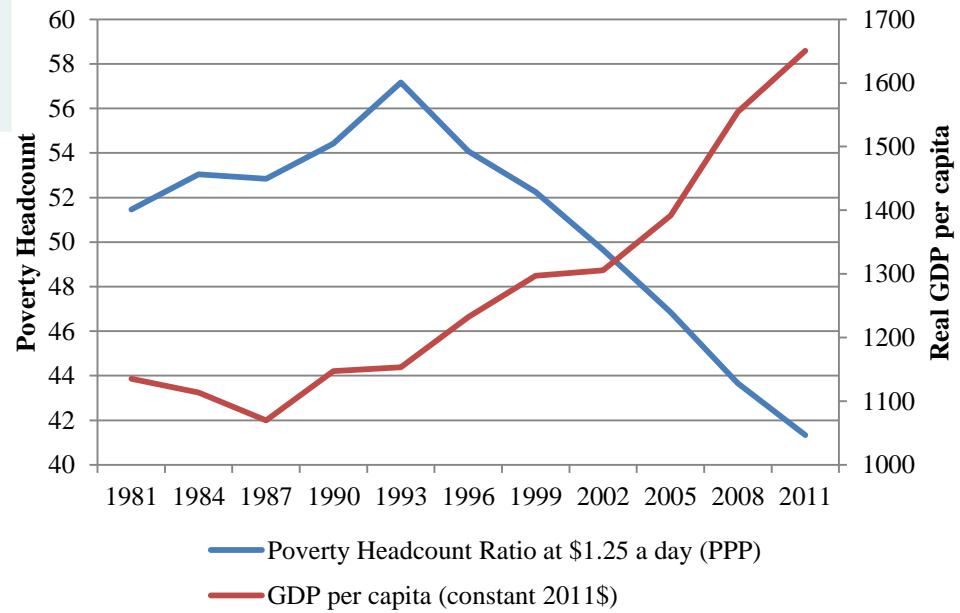
GDP Growth and Poverty



Source: Cadot et al. (2015). Figure 2(a) from Rodrik (2011).

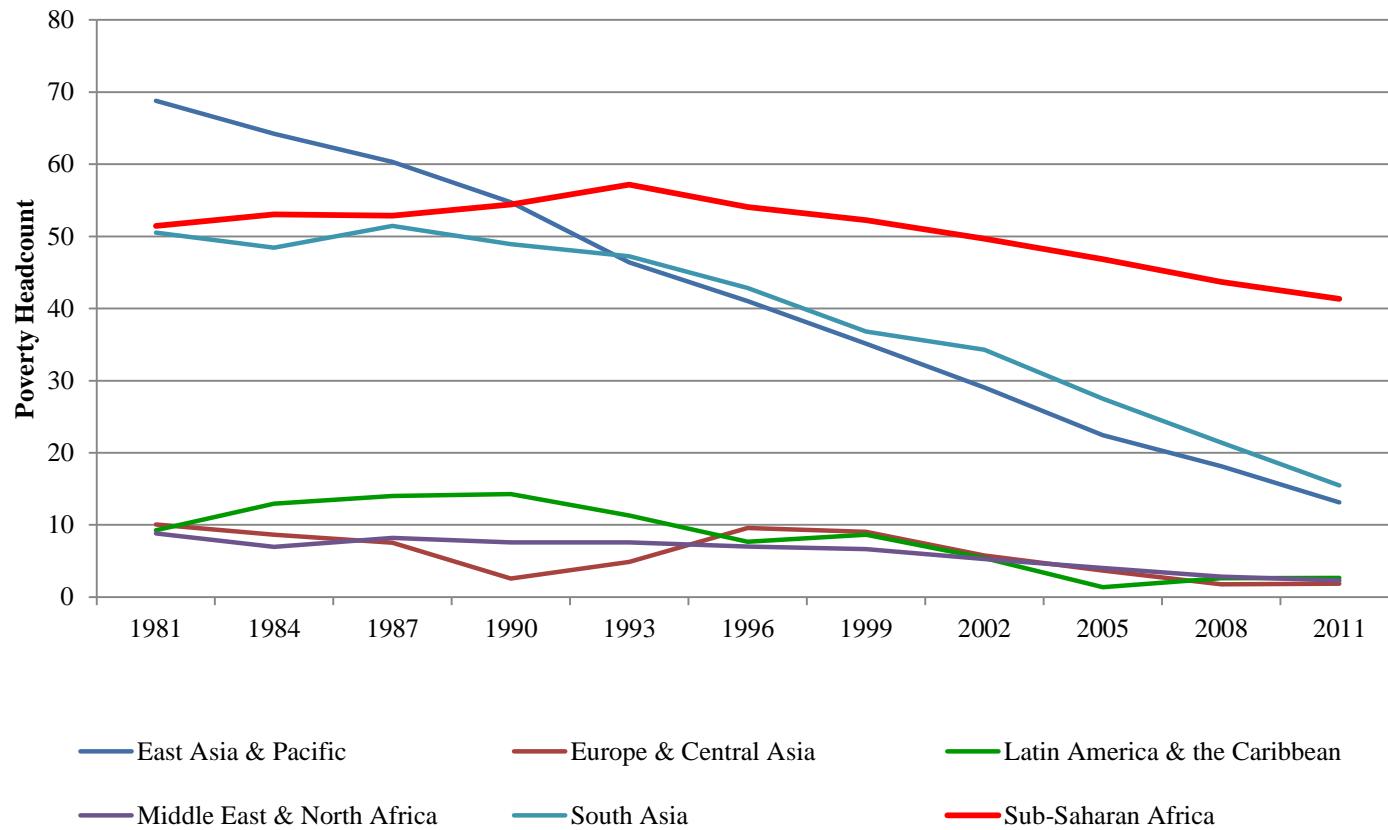
GDP per capita and
poverty headcount ratio
in SSA

GDP per capita growth by
region (1950-2010)



Source: Cadot et al. (2015). Figure 2(b) from PovcalNet and WDI. (back)

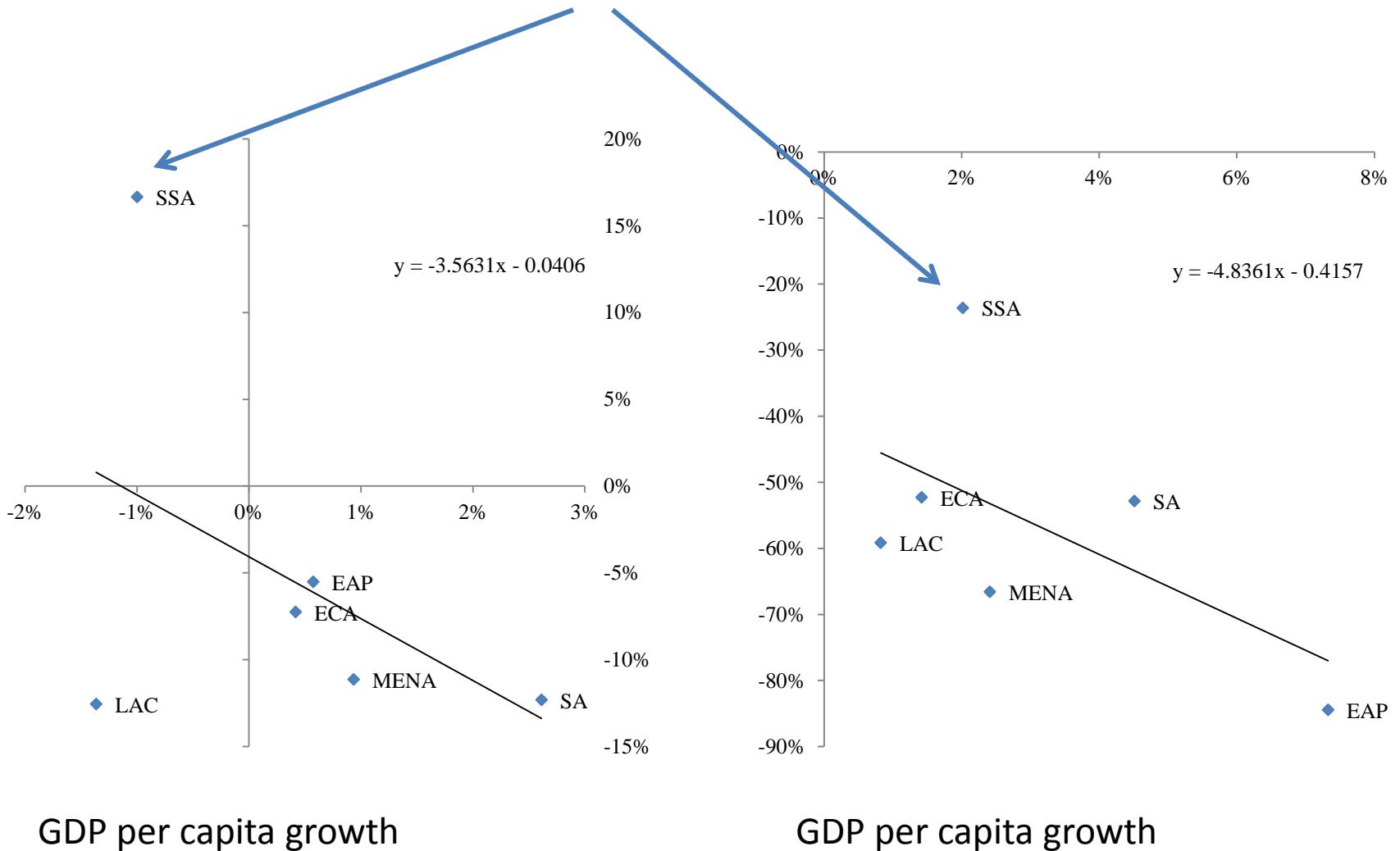
Poverty Headcount Ratio by Region, 1981-2011



Note: Poverty headcount ratio at 1.25\$ per day (2005 PPP)

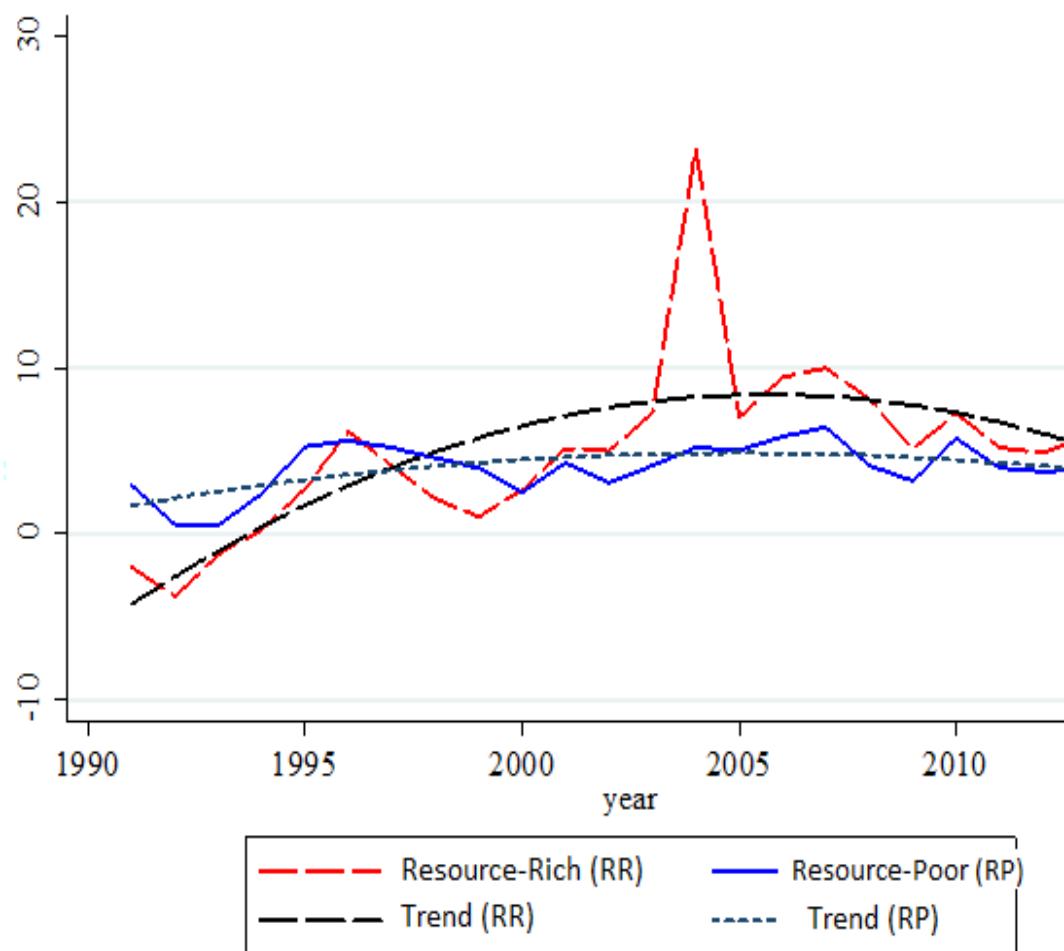
Source: Cadot et al. (2015) Figure 5 from PovcalNet.

Poverty Reduction (ΔHC) vs. GDP per capita Growth



Note: Poverty line at 1.25\$ per day (PPP). 101 countries (43 SSA). HC= head count
Source: Cadot et al. (2015). Figure 6 from PovcalNet.

Resource Abundance and Growth



South is Africa excluded.

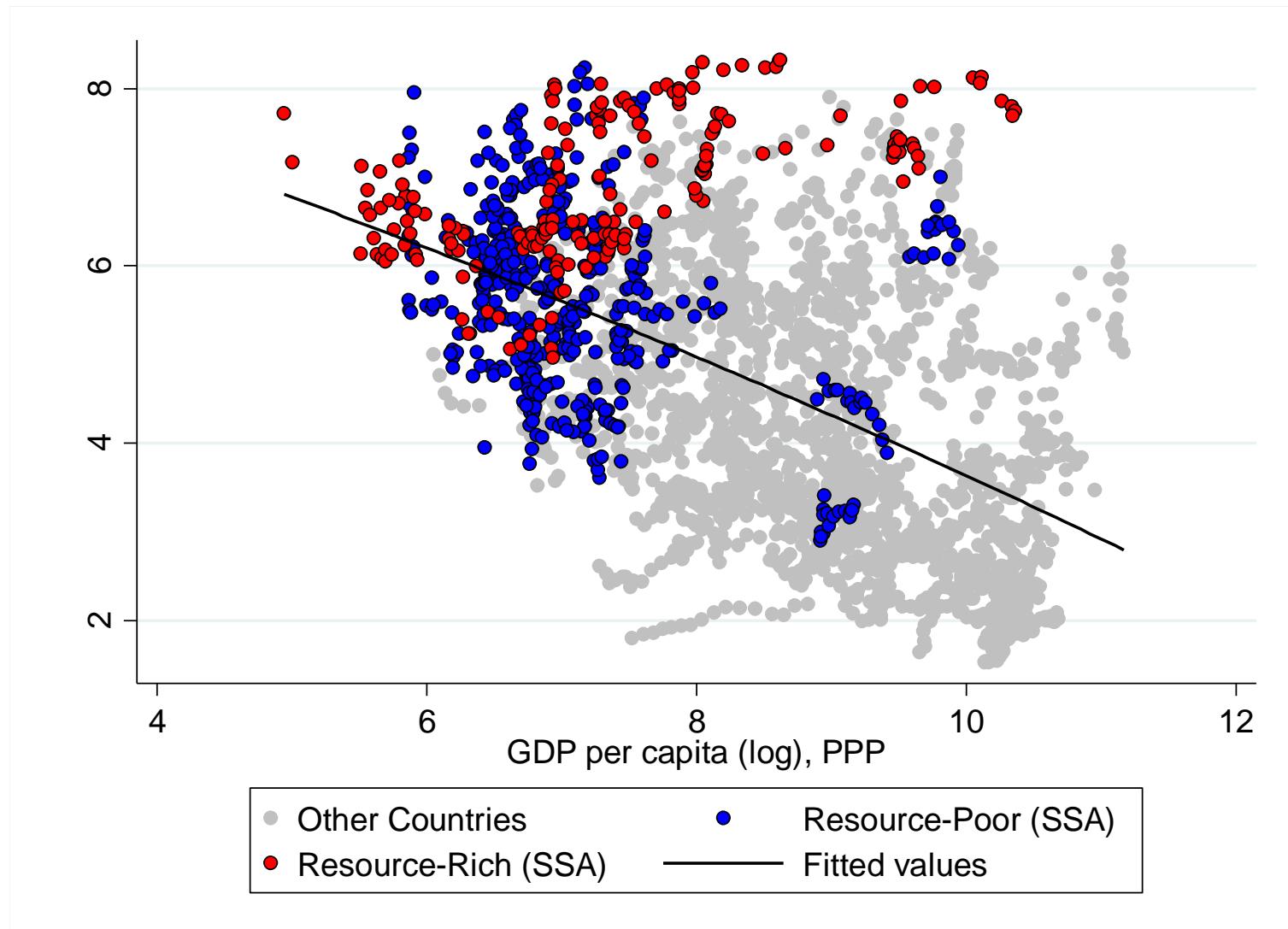
⇒ RP have had a relatively stable growth ≈ 5% p.a.

⇒ Running out of steam is attributable to RR group

Note: Resource-rich = Resource rents > 15% of GDP

Source: Cadot et al. (2015). Figure 7(b) from WDI.

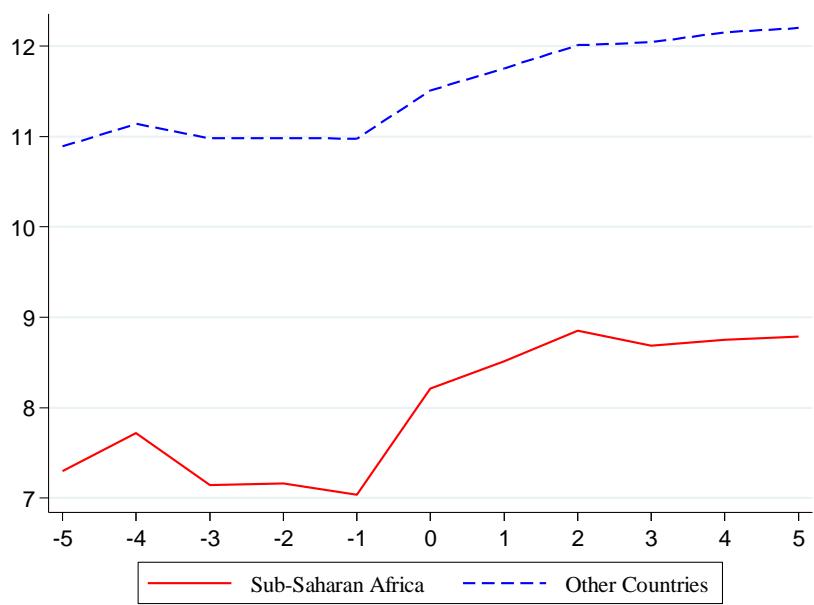
Export Concentration in SSSA is driven by RR Countries



Source: Cadot et al. (2015). Figure 9 from IMF, Diversification Toolkit.

Export Surges in SSA

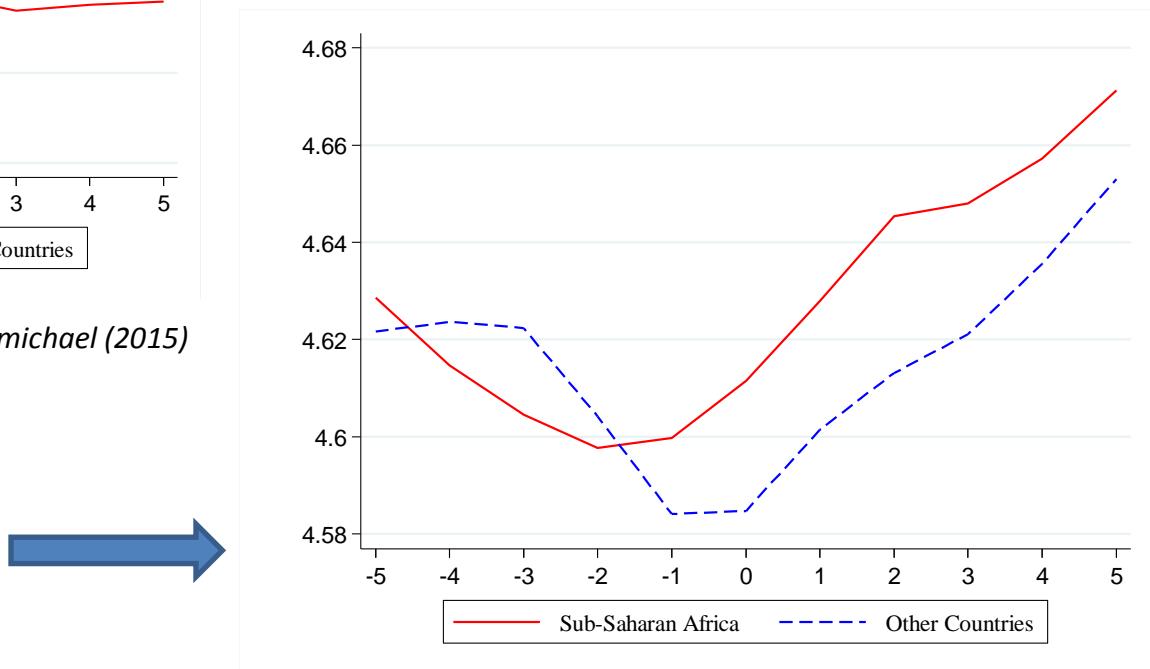
(event analysis results)



Source: Cadot et al.(2015). Figure 11 from Woldemichael (2015)

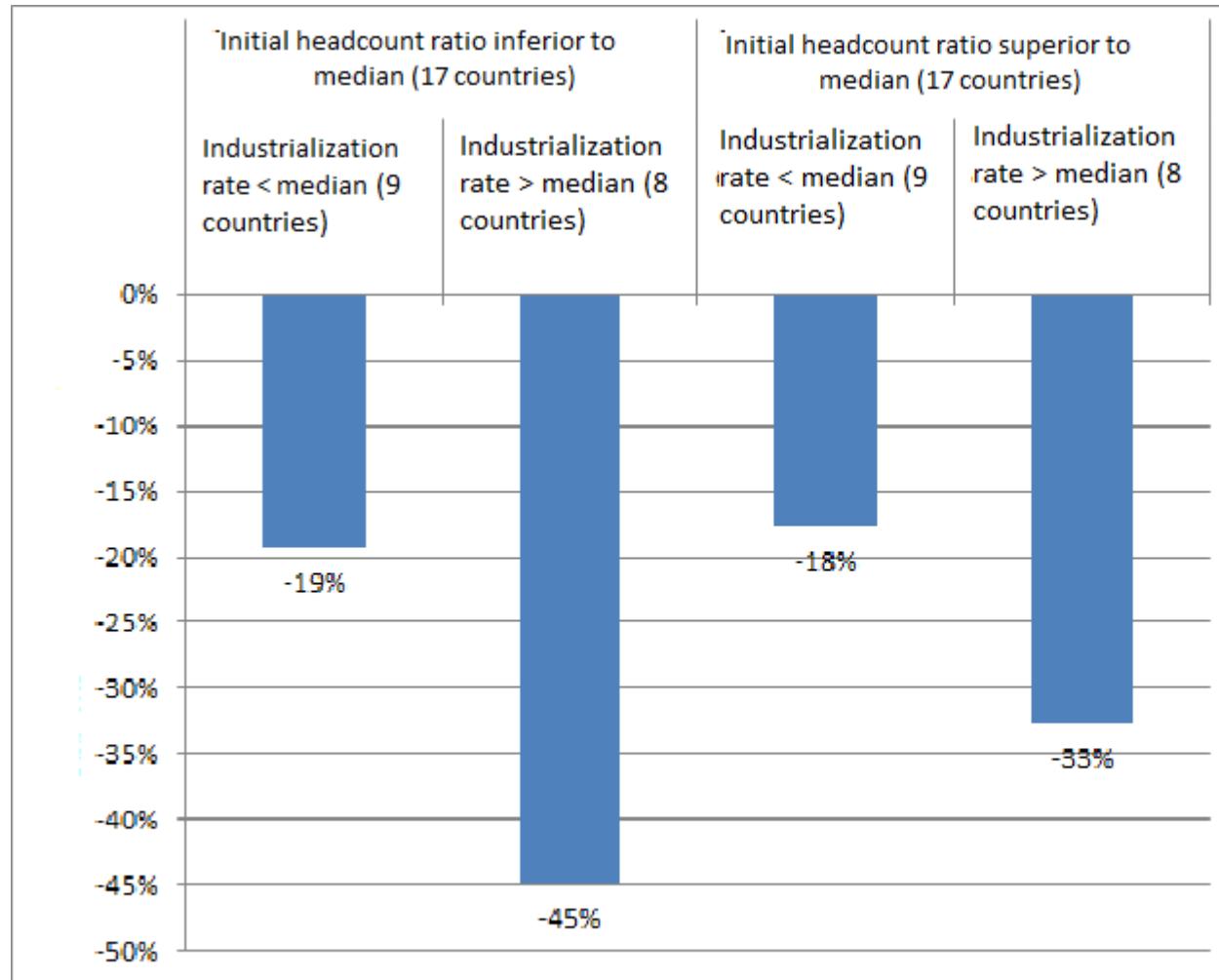
... and seem to be associated with a temporary REER depreciation

Export surges have a ratchet effect on the level of exports...



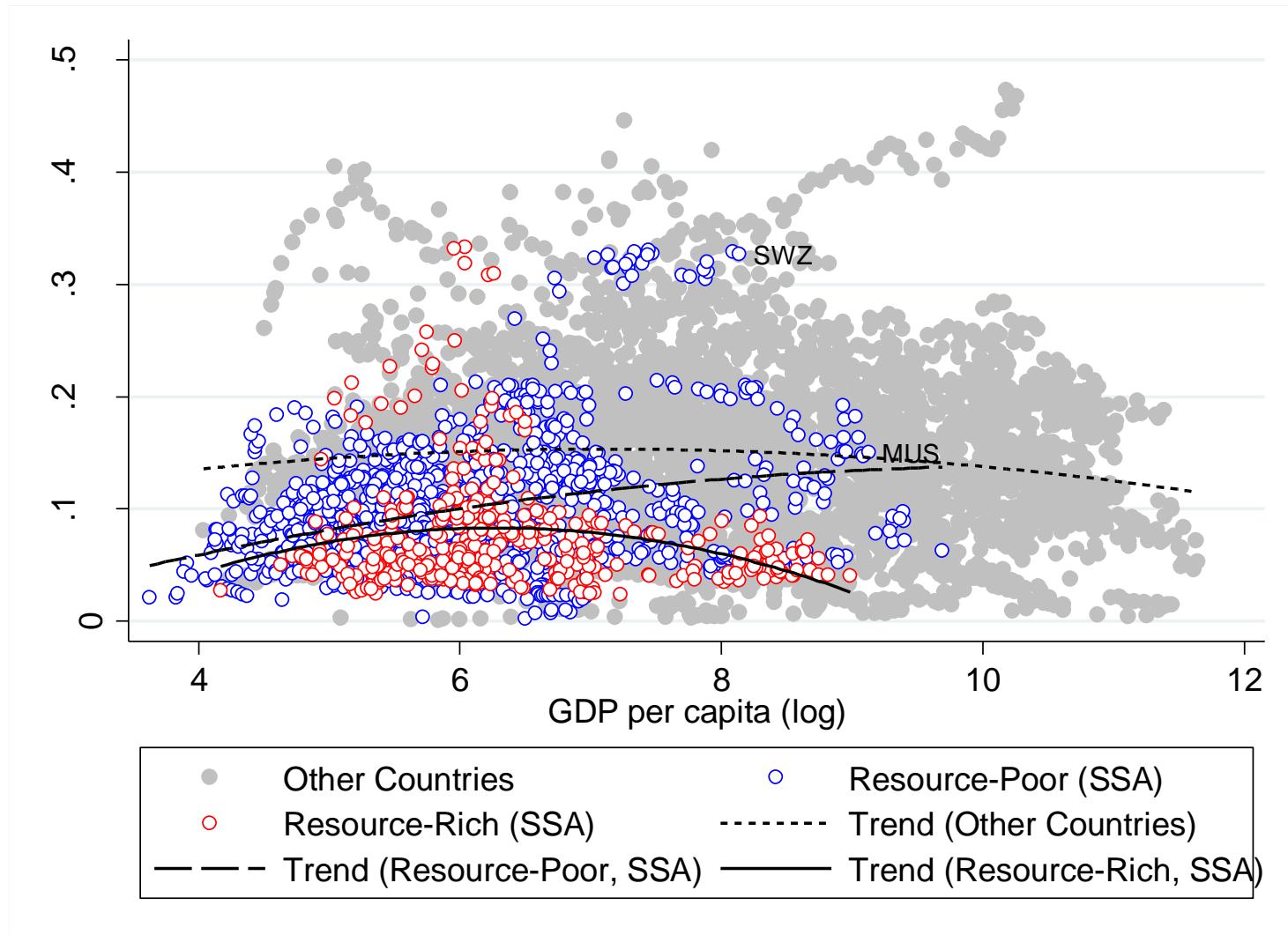
Source: Cadot et al. (2015). Figure 13 from Woldemichael (2015)

In SSA, industrialization is poverty-reducing mostly in countries with high initial poverty rates



Source: Cadot et al. (2015). Figure 15 from PovcalNet and WDI.

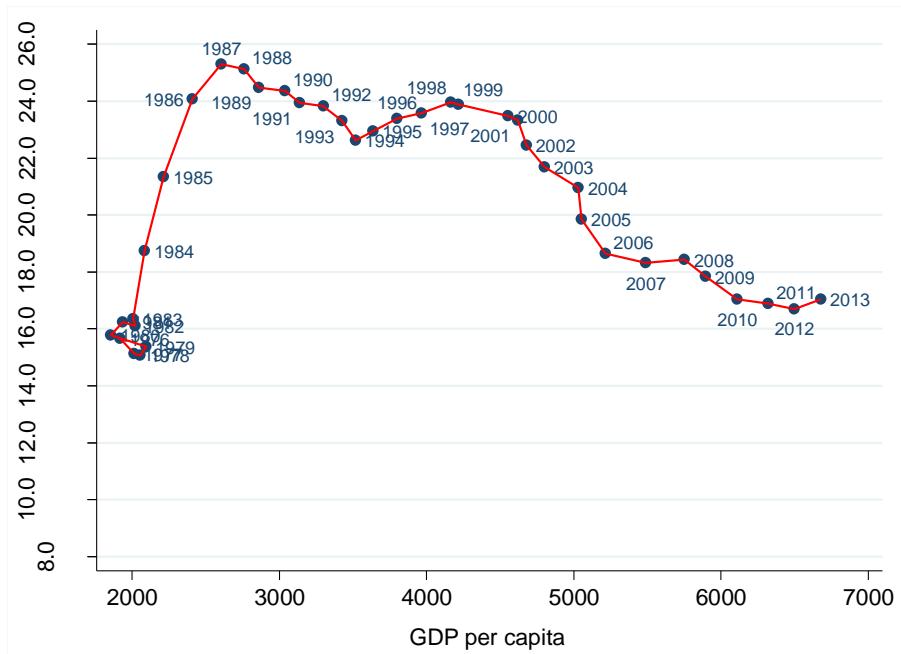
Premature de-Industrialization in SSA



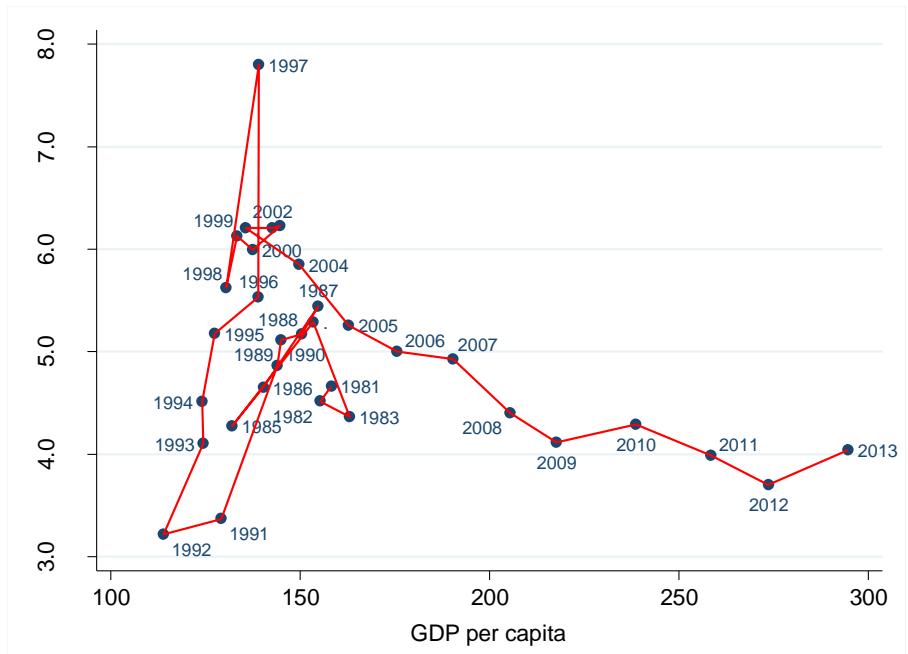
Source: Cadot et al. (2015). Figure 16 from WDI.

Mauritius and Ethiopia trajectories confirm premature de-industrialization

Mauritius

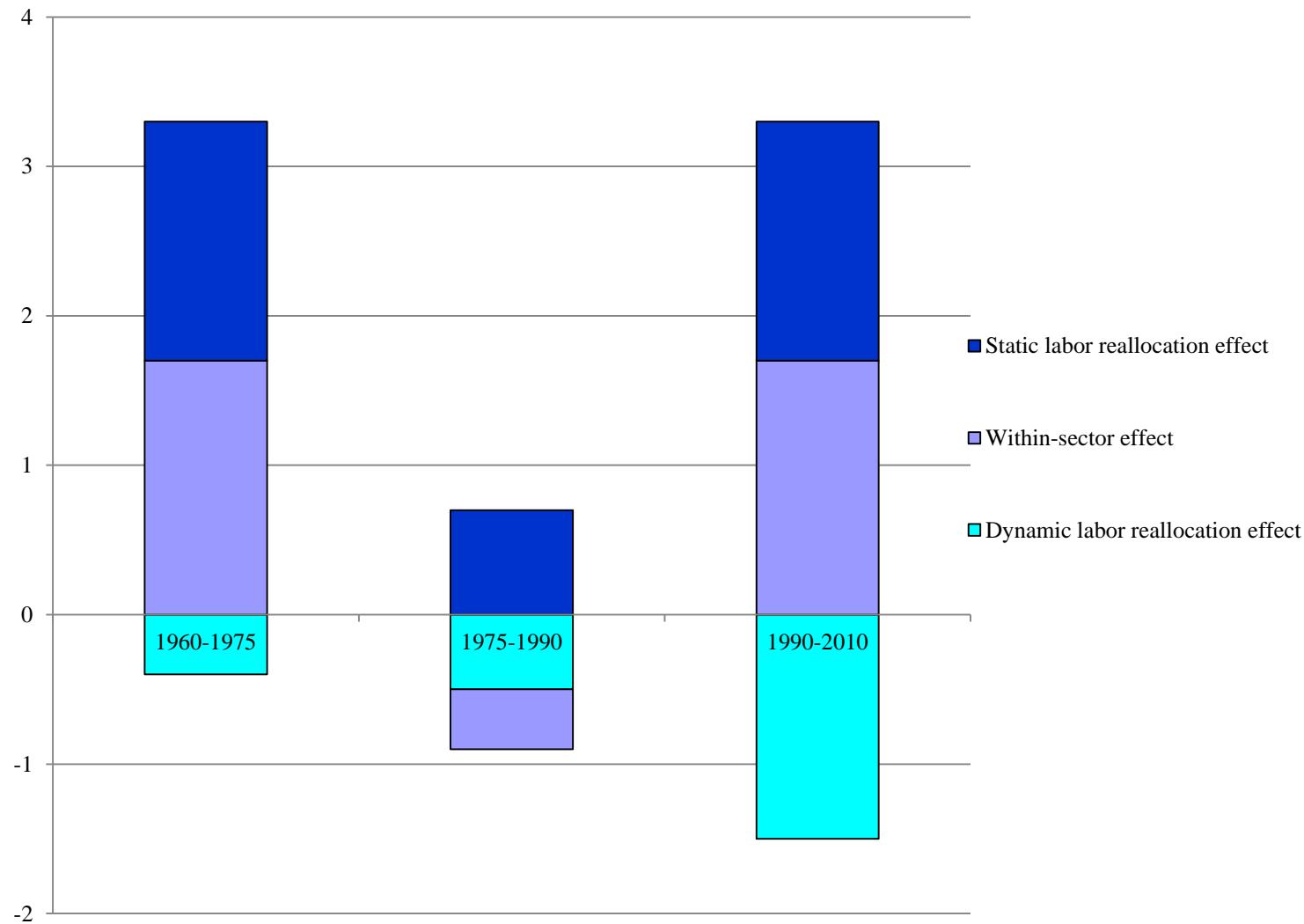


Ethiopia



Source: Cadot et al. (2015). Figure 18 from WDI.

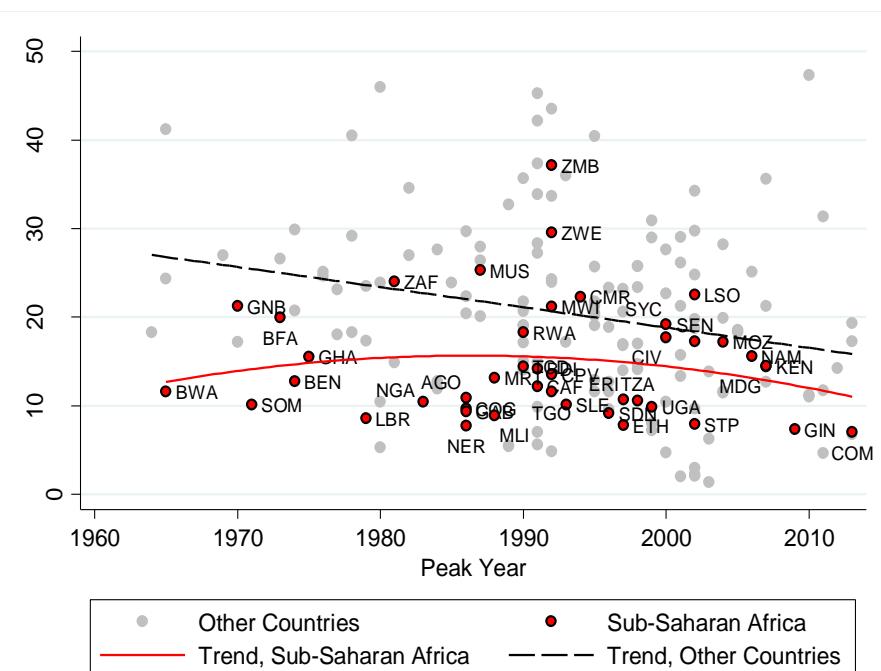
Decomposition of productivity growth in SSA 1960-2010



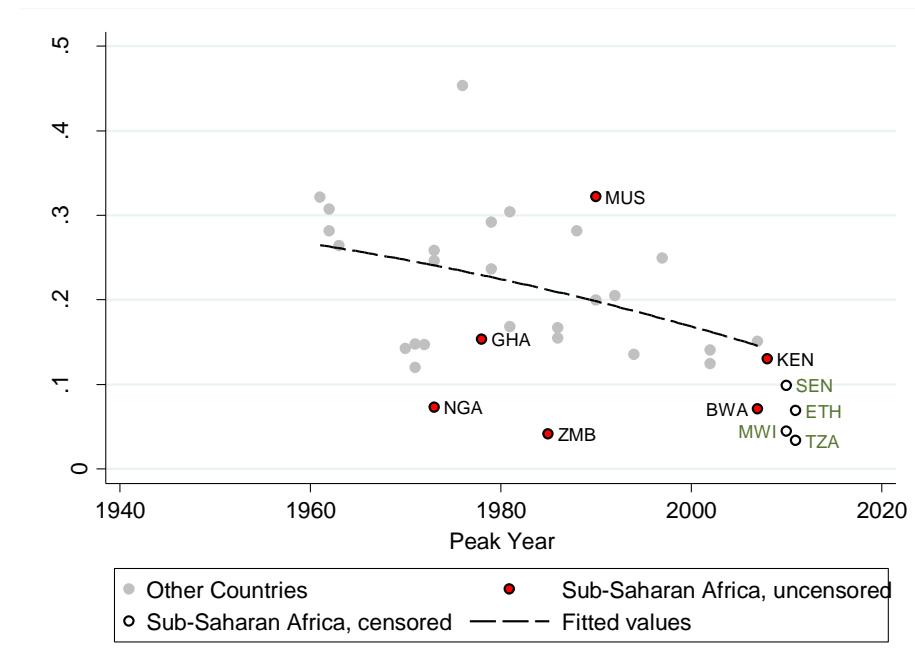
Source: Cadot et al. (2015). Figure 22 adapted from Timmer et al (2014).

SSA countries are latecomers in industrialization. They exhibit lower levels of manufacturing VA and employment at peak share in GDP

Manufacturing VA (% GDP)



Employment in manufacturing

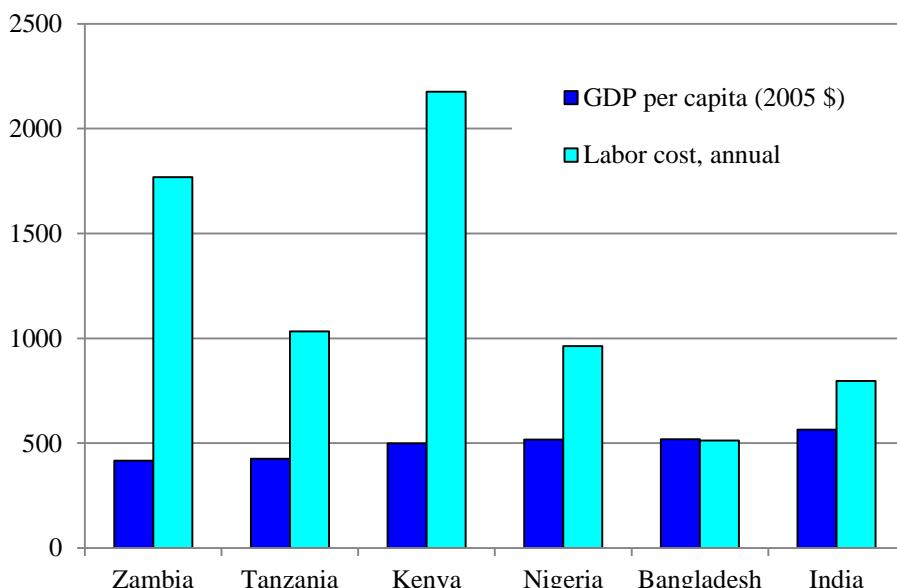


Source: Cadot et al. (2015). Figure 23(a) from WDI

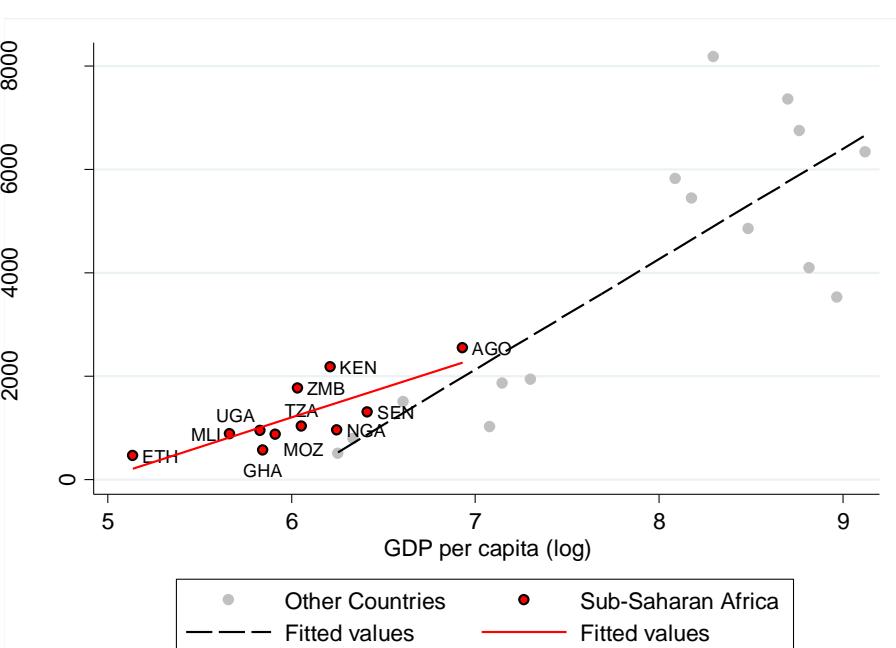
Source: Cadot et al. (2015). Figure 23(b) from Groningen Growth and Development Center 20
(back)

High labor costs in Sub-Saharan Africa seem to explain the lack of employment creation in manufacturing

Country comparisons : high mfg. labor costs in selected SSA countries ...



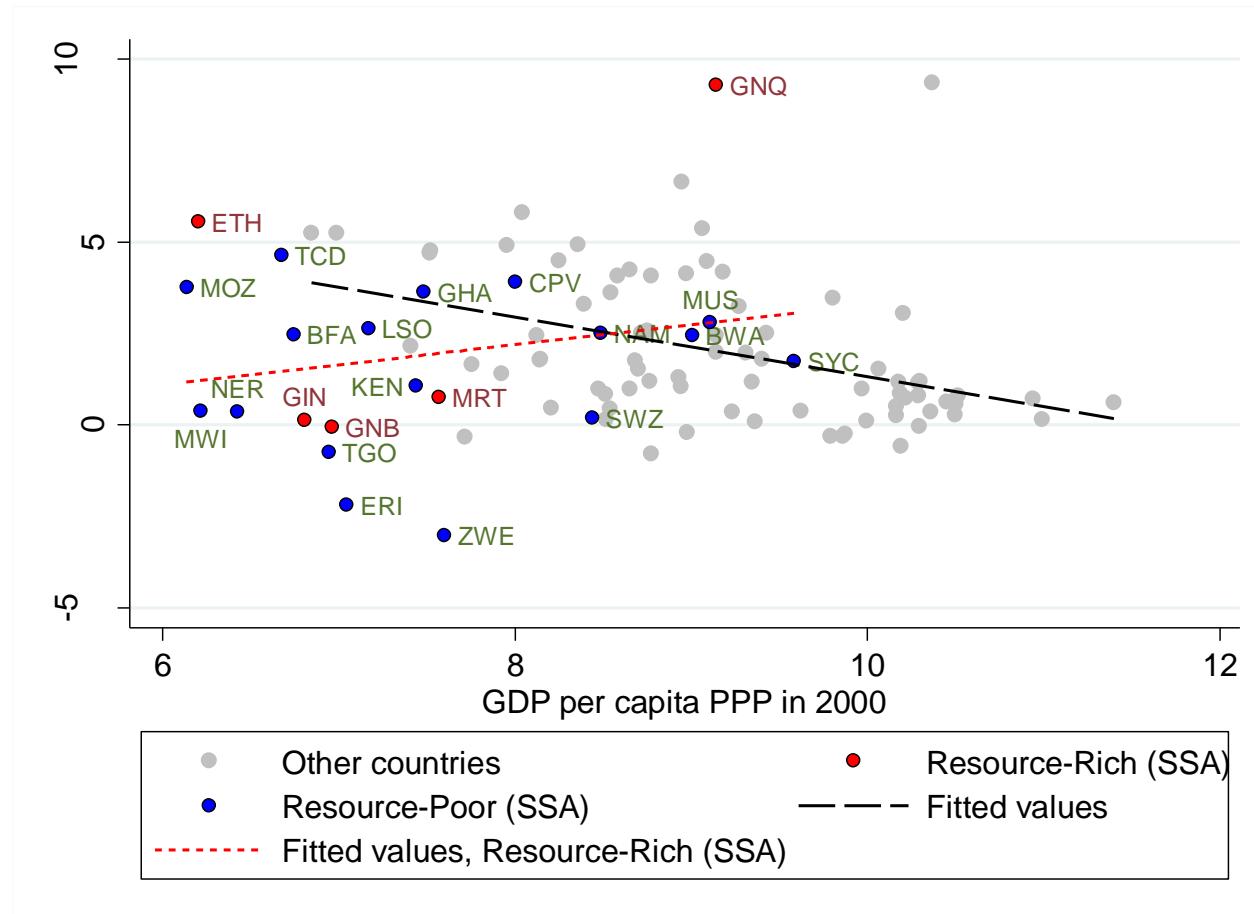
... a pattern confirmed by regression analysis



Source: Cadot et al. (2015). Figure 25 from Gelb et al. (2013)

Source: Cadot et al. (2015). Figure 26 adapted from Gelb et al. (2013)

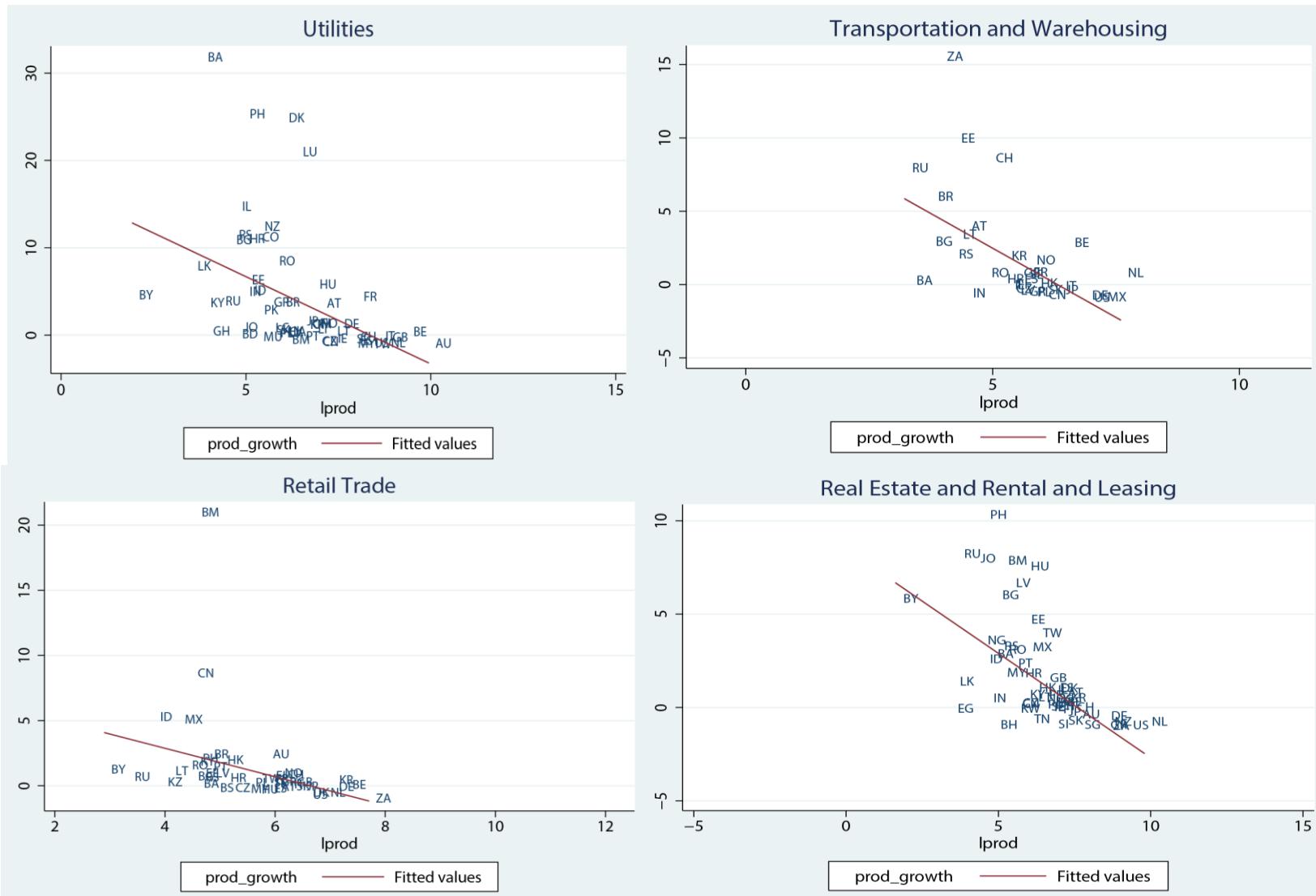
Lack of Conditional Convergence in SSA (positive slope)



Note: Slope of the line is the marginal effect of the initial level of GDP per capita (2000) on subsequent growth (2000-2012) after controlling for human capital

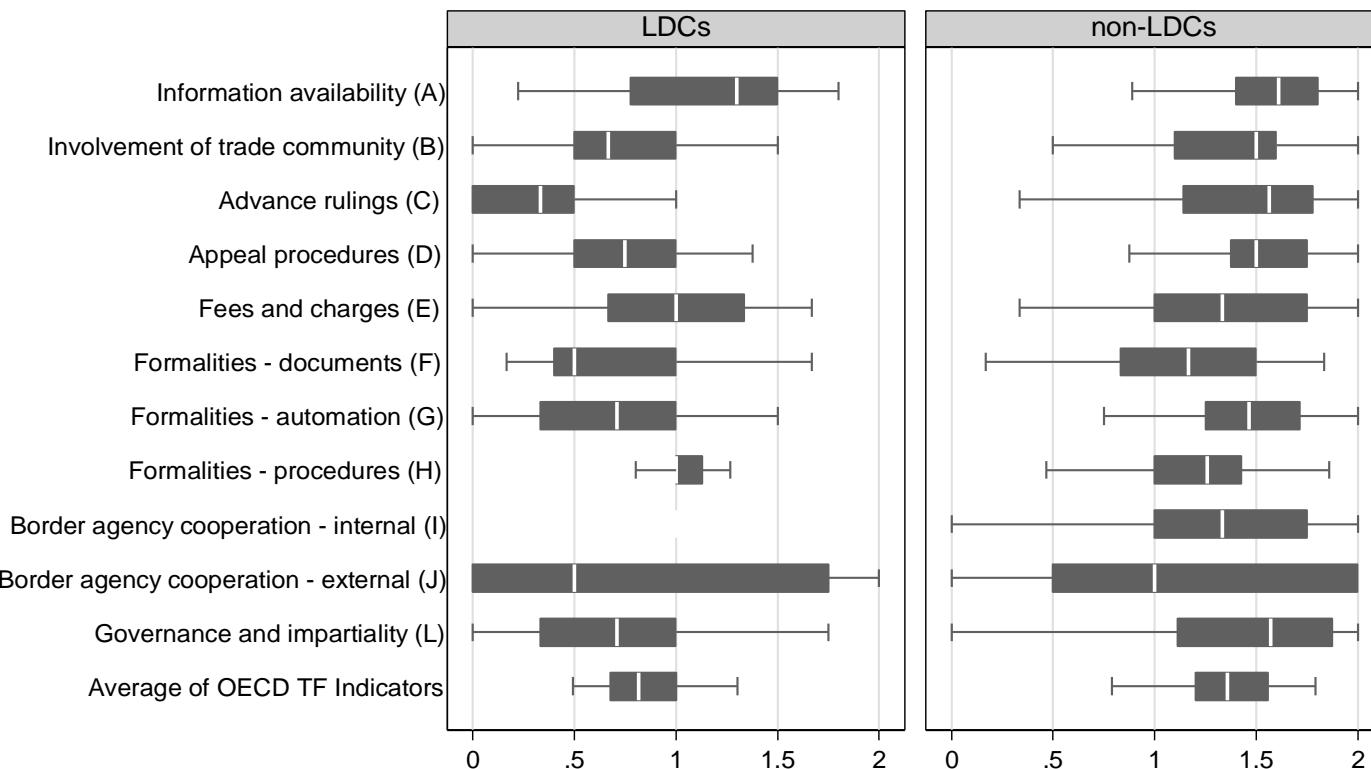
Source: Cadot et al. (2015). Figure 28(b) from WDI.

Convergence in services, a possible structural transformation paradigm for Sub-Saharan Africa?



Source: Cadot et al. (2015) Figure 31

OECD Trade Facilitation Indicators for Customs (range : 0-2)



	Landlocked	non-Landlocked	LDCs	Non-LDCs
Median time in import customs (in days)	5	2	5	2
Median time in export customs (in days)	3	2	3	2

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