

GOVERNANCE REGIONAL INTEGRATION ECONOMICS AGRICULTURE TRADE

GREAT

insights

Value Chains and Industrialisation

Exclusives from:

Li Yong
Director-General, UNIDO

UNDP, OECD, AfDB

Maarten Smeets
World Trade Organisation



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Colophon

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Editor:

Sanoussi Bilal
sb@ecdpm.org

Guest editor:

Isabelle Ramdoo
ir@ecdpm.org

Co-editors:

Pamela O'Hanlon
poh@ecdpm.org

Design, Production and Layout:

Claudia Backes, ECDPM
Yasmine Medjadji, YM Design

Coverphoto: istock.com

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HEAD OFFICE

Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE

Rue Archimède 5
1000 Brussels
Belgium
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

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Editorial

Global value chains have become a key feature of the globalisation process, thus attracting increasing attention and scrutiny. The nature of trade has been changing as a result of technology and interconnected production patterns, with intermediary goods and services now accounting for the majority of world trade. As a result, countries are seen to increasingly trade in tasks rather than in goods, and increasingly in “knowledge-intensive” goods and services, as just reported by the McKinsey Global Institute.



For developing countries, the challenge is to harness the potential benefits from better integrating international value chains for their development endeavours. Due to their current production structures and multiple capacity constraints, African countries run the risk of being marginalised and of remaining trapped at the low end of the value chain. Yet, while there is a growing consensus on the relevance of value chains for development, views differ on the strategies to adopt to pursue such development.

Some emphasise the need to provide a conducive business environment and open economy, so as to allow countries to build on their natural comparative advantages. Accordingly, government interventions should focus on providing the appropriate regulatory, institutional and infrastructure frameworks to connect domestic and international market forces that will ultimately determine the geographical constellations of global value chains. Trade facilitation, as endorsed last December in the Bali package at the World Trade Organization, has an important role to play in this regard.

Others stress the need to adopt more proactive policies to allow countries to break into and sustainably supply regional and global value chains, with higher value added products and exports. The issue is not simply to attract foreign direct investment from multinational companies, but to promote linkages that help move away from exporting mainly raw commodities and stimulate exports diversification towards more processed goods. The challenge is thus to enhance the domestic production capacity, to create higher value, more and better quality jobs and increase linkages between national, regional and global economies. This requires avoiding short-lived footloose industries to the benefit of a structural transformation of the economy on equitable and sustainable national and regional growth strategies. It also entails pursuing a pragmatic approach to industrialisation, to foster the upgrading in global and regional value chains.

This issue of *GREAT Insights* brings together a number of key insights on the dynamics of moving towards better integration into regional and global value chains, focusing on a range of opportunities, challenges and policy recommendations. While these remain country and context specific, the balance in unleashing market forces and harnessing them to sustainable and inclusive development objectives stands as a critical concern for all stakeholders. We hope the range of articles in this *GREAT Insights* will further contribute to inform and stimulate your reflection. As always, we welcome comments and suggestions.

San Bilal (Editor), *Head of Economic Transformation Programme, ECDPM.*



The return of industrial policy in Africa

Industrial Policy is rapidly advancing in the African continent. Development partners should support African governments to effectively promote the transformation of their economies with strategic tailor-made industrial policies that deliver inclusive and sustainable industrial development.

Industrial policy has experienced a revival and has reappeared as a central component of development strategies in Africa and beyond. For several decades, productive sector interventions were undervalued and proactive government involvement in the structural and industrial development of economies was largely discouraged. In the case of Africa, governments were even asked to withdraw considerably from the industrialisation process so as to enable market forces to shape development trajectories. Due to the widespread failures of this development strategy, industrial policy is back on the agenda today. In fact, governments in both industrialised and deve-

loping countries now see the strategic necessity of industrial policy to sustain growth through structural change.

African countries are at the forefront of this move, trying to give a nudge to the structural transformation of their economies regardless of their income level. On the one hand, low-income countries in the continent are striving to speed-up the shift from resource-based activities in agriculture and mining to more productive light manufacturing (of food, textiles, etc.). On the other hand, the middle income-countries in Northern and Southern Africa are placing their bets on industrial policy to upgrade their manufactu-

ring sector and to compete globally in more technology-intensive, high-value added activities. Meanwhile, Regional Economic Communities (e.g. EAC, SADC, ECOWAS) are introducing industrial policies as an essential pillar of their economic integration strategies.

Clearly, the race for industrial success has begun in Africa. At the same time, the scope of strategic industrial policy is broadening beyond a narrow economic focus to also take into consideration social and environmental dimensions of industrialisation. The creation of quality jobs for the increasingly skilled youth requires significant

efforts. Industry is also expected to provide opportunities not only in the traditional economic hubs but across regions, ethnicities, genders and age groups. Last but not least, it has to be considered how an adaptation of productive activities can enhance competitiveness whilst respecting global and national ecological limits. The key question for Africa today is therefore, how to best develop industrial strategies and policies which can promote a process of inclusive and sustainable industrial development.

This is exactly the role of the United Nations Industrial Development Organization (UNIDO). It regularly holds the Conference of African Ministers of Industry (CAMI) which brings together policy makers and industrial experts to deliberate on industrial policies. In this context and at the request of the African Union, UNIDO has formulated, together with African Governments and the private sector, the “Action Plan for the Accelerated Industrial Development of Africa (AIDA)”, a strategy which aims at mobilising both

On the level of individual countries, UNIDO is deeply engaged with a growing number of countries across the continent. In lower income countries, its Strategic Industrial Intelligence and Governance programme has proven to be a well-suited service for strengthening the institutional capacities required for an evidence-based industrial strategy formulation process. Currently, the programme is being rolled-out in Cape Verde, Côte d’Ivoire, The Gambia and Tanzania.

“The new industrial policy revolution necessitates that countries respond to the specific and dynamic needs expressed by their manufacturing sectors with appropriately designed and targeted policies.”

Hence, development partners should leave behind the debate of whether or not industrial policy is necessary in Africa and start providing pragmatic solutions that make them as effective and efficient as possible. This support should start from the recognition that effective industrial policy requires highly competent technocrats alongside serious political and financial support. An important step in this direction was reached at the recent Africa-EU Summit on 2-3 April in Brussels where the two continents recognised industrialisation as a central priority for Africa’s development.

The new industrial policy revolution necessitates that countries respond to the specific and dynamic needs expressed by their manufacturing sectors with appropriately designed and targeted policies. In order to reach such policy coherence, African governments require strong industrial policy management capabilities in their endeavour to eliminate poverty.

financial and non-financial resources and enhancing Africa’s industrial performance. The AIDA is a central pillar of the new Africa’s strategy for 2063 and of the Africa-EU roadmap for 2014-2017.

UNIDO actively supports the development and execution of tailor-made regional industrial policies and strategies in all regions of Africa (EAC, CEMAC, SADC, ECOWAS and SACU). Some have already led to effective downstream activities. For instance, at the request of UEMOA and ECOWAS and the 16 countries of West Africa, UNIDO has established, with the support of the European Union, a fully operational accreditation system. It has also supported the industrial modernisation and upgrading of the private sector through large scale interventions in UEMOA countries on a model developed with the Agence Française de Développement in Senegal. Other regions are now following the same approach.

In middle-income countries, UNIDO is building the capacity for other critical aspects in the industrial policy cycle. For instance, in South Africa, cooperation with the Department of Trade and Industry aims at a tailor-made Monitoring and Evaluation System that will provide strategic insights into the impact of major policy interventions, beginning with the massive Manufacturing Competitiveness Enhancement Programme (worth ZAR 5.8 billion).

In addition, some of UNIDO’s global initiatives on industrial policy also place a significant focus on the African context. A partnership with the German Government aims at enhancing the quality of industrial policies through the development and deployment of more effective industrial policy support services. UNIDO and Germany are strengthening the national industrial strategy formulation capabilities, facilitating an evidence-based policy dialogue between key public and private stakeholders, and advising governments on more effective approaches to policy design and implementation. In particular, a new industrial strategy design toolkit and capacity development package will address the specific practical challenges developing countries face when crafting industrial policies. The new service will be piloted in Africa in late 2014 on a regional level and subsequently rolled out jointly by UNIDO, Germany and other development partners on a country level.

In line with the joint UNIDO/UNCTAD Economic Development in Africa Report 2011, UNIDO continues to advocate for industrial policies which are practical, well-designed, context specific and based on extensive discussion with and feedback from businesses and entrepreneurs. It sees its role in

supporting African endeavors to design and implement industrial strategies and policies through capacity development, strategic advice and facilitation services. To support this, a new Africa Investors Report elaborated by UNIDO in partnership with the European Union and the Africa, Caribbean and Pacific Group of States will be released in the next few weeks. This report based on investment surveys on the ground provides evidence on the status of 7,000 enterprises in 20 African countries.

In order to harness the full potential of industry to contribute to the global achievement of sustainable development and lasting prosperity for all, UNIDO is promoting the concept of *inclusive and sustainable industrial development*. To provide practical industrial policy solutions for this ambitious agenda in Africa and beyond, the Organization's latest Industrial Development Report (IDR) 2013 looked specifically at ways to sustain employment growth in the manufacturing sector. In addition, UNIDO's Green Industry initiative, a transformative multi-stakeholder partnership, addresses the issue of environmental sustainability and proposes a number of policies to promote green industry effectively. This includes measures for *the greening of industries* to ensure that all industries continuously improve their environmental performance as well as the *creation of green industries* that provide environmental goods and services.

Beyond the direct provision of these upstream industrial policy services to support the strategy and policy setting process, UNIDO continues to implement downstream technical cooperation projects for industrial development in almost all African countries in line with the strategic priorities and industrial policy frameworks of governments. It has been focusing on agribusiness and agro-industrial development, skills and entrepreneurship development, job creation, and industrial upgrading, and has been active in Africa in the area of trade capacity building, including support for the creation and upgrading of quality assurance infrastructure, the development of national quality policies, and

“... the real champions of the industrial policy revolution in Africa will be the public and private stakeholders that contribute to an evidence-based, participatory and effective industrial policy process.”

fostering the compliance capacity for international market access. In the field of energy and the environment, UNIDO initiatives in Africa include a broad spectrum of activities, ranging from the Sustainable Energy for All (SE4ALL) initiative to the phase-out of chemicals that damage the ozone layer in line with the Montreal Protocol, as well as major climate action interventions at industry level in the framework of the Global Environment Facility.

The combination of both upstream and downstream industrial policy services puts UNIDO in a unique position to contribute to the effective deployment of strategic industrial policies in Africa in the future. To advance this agenda, two Fora a year will be organised in UNIDO Headquarters in Vienna in June and October that will bring together developing countries and development partners into practical partnerships for the implementation of industrial development policies and programmes at country level.

In line with the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, UNIDO's work is driven by the belief that development partners should support the industrial policy process in developing countries with institutional capacity building for public policy rather than by aiming at

specific policy content or outcomes. Hence, the real champions of the industrial policy revolution in Africa will be the public and private stakeholders that contribute to an evidence-based, participatory and effective industrial policy process that will deliver significant impacts for an inclusive and sustainable industrial development trajectory in Africa.



Li Yong is the Director General of the United Nations Industrial Development Organization (UNIDO).



Are global value chains good news for Africa's industrialisation?

International trade is changing. Modern communication technologies and falling transport costs have led to the emergence of global value chains (GVCs). These are production networks in which components are traded several times, spanning many countries, often the entire globe. They are driven by firms that seek to optimise their sourcing strategies through geographic re-organisation and the separation of production stages.

Today 80% of global trade is linked to multinational corporations¹, 60% of global trade in goods takes place in the form of intermediate products² and on average foreign value added makes up 25% of the total value added included in a country's exports.³

What does this new pattern hold for Africa's industrialisation agenda? In their forthcoming, joint *African Economic Outlook 2014*, the African Development Bank (AfDB), the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) provide new evidence.⁴

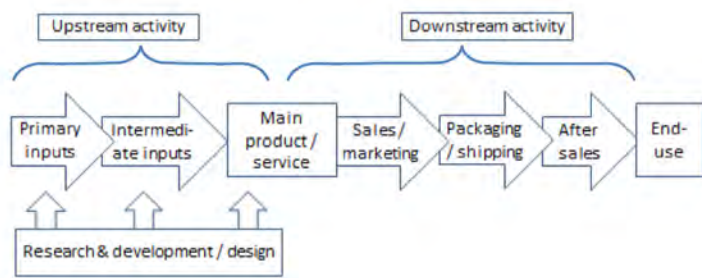
GVCs: what's in it for Africa's industrialisation?

A *value chain* identifies the various steps that firms take to bring a product or a service from its conception to its end use by final consumers (Figure 1). At each step – design, production, marketing and distribution - value is added in some form or another.

Driven by offshoring and mounting interconnectedness, those activities have become increasingly fragmented across the globe and between firms. The various tasks along the production chain can be carried out in distant locations, depending on their respective comparative advantages. These are referred to as *global value chains* or *international production networks*.⁵

Each stage carries, to varying degrees, opportunities for new local activities, jobs and corporate profits, as well as the associated technology diffusion and opportunities to generate public revenues. Successful integration into a value chain allows a country to seize a bigger share of those benefits and potentially accelerate its industrialisation.

Figure 1 - Stages in a generic value chain: From conception to production to final sales



Global value chains offer new opportunities for structural transformation in Africa: instead of industrialising bottom up and building up all the sectors required to compete in global markets, developing countries can integrate into global value chains at a specific stage by catering specific skills or products. This opens up new and quicker routes for development.

Measuring Africa's integration in global value chains

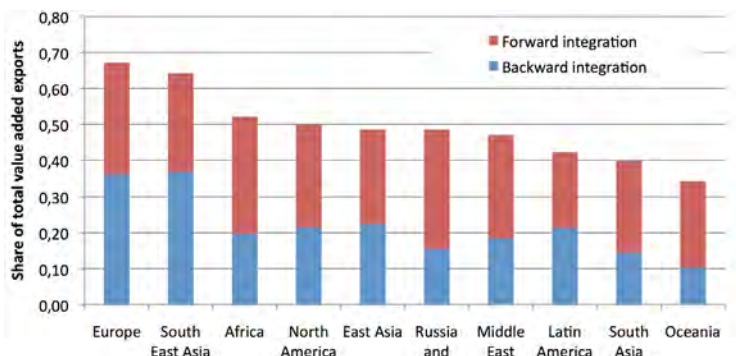
To avoid double counting and provide an accurate picture of a country's global position, its trade with the rest of the world needs to be measured in value added rather in gross terms. The OECD/WTO Trade in value added (TiVA) and the UNCTAD-Eora projects measure trade in value added and participation in global value chains. They distinguish between:

- *Backward integration*, measured by the share of foreign value added embedded in a country's exports. It looks back from the perspective of a country's exports across foreign inputs into local production. For example: country A imports engines and frames from country B; local workers assemble them into motor vehicles, thereby adding value; then the final product, cars in this case, are exported to country C. The value of the engines and frames imported from country B relative to the total value of country A's exports of cars is a measure of backward integration.
- *Forward integration*, measured by the share of a country's exported value added that is further exported by the importing country. It looks forward from the country's perspective at the flow of its exports around the world; specifically those other countries use to produce their own exports. For example: metals are extracted by country A from its soil – which is a form of value addition – and sold to country B, which uses them as components of mobile phones it assembles and exports to country C. The value of country A's

exports of such metals relative to the total value of country A's exports is a measure of forward integration. Like in the case of backward integration, it assesses the degree of integration of country A in the value chain, but this time its contribution takes place earlier in the chain.

GVC integration is the extent to which a given country contributes to the global processing of goods and services and can be measured by cumulating the degrees of backward and forward integration. The AEO 2014⁶ expanded the work of OECD/WTO and UNCTAD for African economies. The results are presented in Figure 2: relative to the size of its own exports, Africa's participation in global value chains is fairly high, especially compared to many other regions. However, a lot of Africa's GVC integration is of the forward kind, i.e. Africa is a source of raw materials for many global value chains. In terms of backward integration, i.e. the use of foreign intermediate products in its exports, Africa shows a similar profile to other regions.

Figure 2 - Integration of world regions into global value chains, 2011



Source: AfDB, OECD and UNDP (forthcoming), *African Economic Outlook 2014*; based on UNCTAD-EORA GVC database (2014).

Upgrading through GVCs: Africa's productivity has benefitted, but wider linkages remain a challenge

Although GVCs offer new pathways to development they are no panacea. Turning the opportunities offered by GVC integration into longer term developmental benefits requires both economic and social *upgrading*.

- *Economic upgrading* refers to productivity gains, structural transformation and growing domestic value added embedded in a country's exports. Its drivers are knowledge transfers, product differentiation and the addition of adjacent stages of the value chain. For example: *Blue Skies*, a firm in Ghana, adds domestic value by cutting fresh fruit locally and shipping it to European supermarkets by air, instead of exporting simple fruits and leaving all processing and trading up to external firms.
- *Social upgrading* refers to the expansion of employment and improvement in employment conditions.

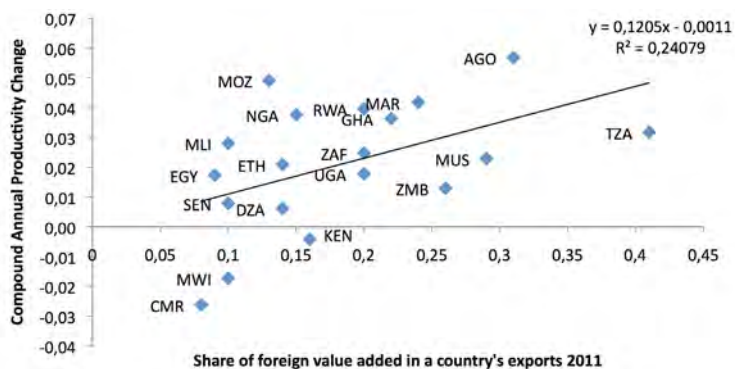
“Successful integration into a value chain allows a country to potentially accelerate its industrialisation.”

“The challenge for policy makers is to maximise economy-wide opportunities while at the same time create the optimal environment for the value chains with the biggest potential.”

Most African countries have been able to combine GVC participation with economic upgrading. Figure 3 shows that African countries with a higher share of foreign value added in exports (backward integration) on average experienced higher productivity growth and positive structural change: greater specialisation on specific segments of value chains seems to pay off. By contrast, however, *forward* integration shows negative links with measures of structural change and diversification, reflecting the negative impact of dependency on natural resources.⁷

As for social upgrading, employment gains seem to follow the economic gains, but the relationship is not straightforward, and is difficult to measure. Ethiopia managed to attract a significant number of producers in the global apparel value chain linked to big brands such as H&M creating 60,000 jobs. Conversely, however, macroeconomic data in South Africa and Egypt suggests that although both countries are more integrated into global value chains and export more today than a decade ago, they do so with the same or even a smaller number of workers employed.

Figure 3 - Productivity Growth and Backward GVC Participation are correlated in Africa



Source: AfDB, OEC and UNDP (forthcoming), *African Economic Outlook 2014*; based on UNCTAD-EORA GVC database (2014) and productivity data from McMillan and Rodrik (2011) and AEO 2013

Reaping economy-wide gains from a few firms integrating into global value chains thus remains a challenge. Often activities linked to GVCs are isolated from the rest of the economy and few linkages develop. Tunisia, for example, has thriving export sectors in textiles and apparel and electrical machinery that are well connected to European production networks and markets. However, due to strict regulations separating the offshore and onshore sectors,

most of these activities operate in isolation from the broader local economy, limiting the potential for further upgrading and employment creation. Cabo Verde has been able to boost its integration into global tourism value chains, increasing this sector's share of in GDP to 20%. However, linkages are yet to develop from the resort style hotels and the local economy.

Besides, integrating into global value chains may bring about risks, such as making jobs and livelihoods vulnerable to shocks happening far away. Proper consideration must therefore be given to social protection and other means of managing these risks.

The pathways to upgrading are specific to each value chain and depend on the balance of power

The balance of power between lead firms and suppliers determines the scope for economic and social upgrading. Understanding those power structures is a prerequisite for identifying opportunities and devising adequate upgrading policies at sector- or even product-level:

- The more concentrated, *producer-driven chains* - cocoa or coffee in agriculture, automobiles and microchips in manufacturing, or extractive industries - offer fewer opportunities for upgrading into higher value-adding stages of the chain, as most processing steps are tightly controlled. Opportunities tend to lie in acquiring upstream capabilities - such as research, supplier services and component manufacturing - or in expanding into higher quality varieties of the base product such as organic or fair trade types of cocoa and coffee. South Africa for example became a global supplier of components in the global automotive chain after it had attracted investments by lead firms into local production.
- *Buyer-driven chains*, such as apparel and horticulture, allow for closer links between producers and consumers, by cutting out middlemen and providing unique value-added required by consumers. A good example is the growing share of direct supplies of flowers from Kenya to retailers, bypassing the traditional auction houses. However, quality standards play a crucial role in buyer-driven chains and can be a steep barrier to entry, especially for smaller producers such as farmers or SMEs in services and manufacturing.

Africa's opportunities lie in regional value chains and openness; quality, cost and skills remain challenges

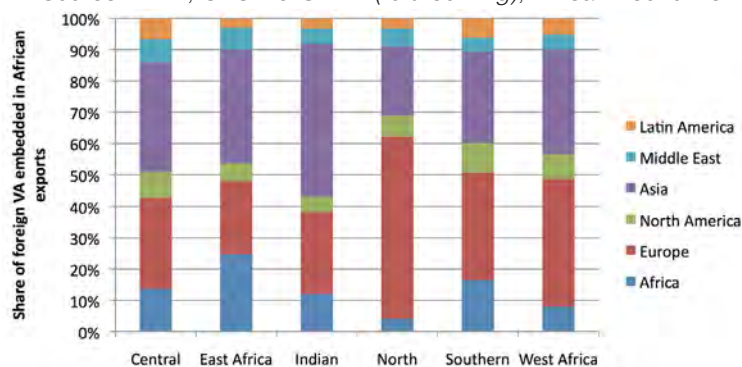
The lack of ability to meet such quality standards, as well as high costs of transport and energy, and poorly trained workforce are among the top reasons cited by international firms for not investing more in GVC relationships with African suppliers. The lack of a strong service sector is another hindrance: while on average 30% of the value of manufactured products exported globally is added in the form of services, such as design, development, marketing, warranties and after-sales care, Africa's share of global service exports has been decreasing. The inadequate provision of public and private business services and extension services particularly penalises smaller firms, which need them to focus on innovation and value addition in their core field. The accelerating spread of global value chains amplifies these challenges, as they put African countries at a disadvantage in the competition for GVC investments, especially in manufacturing.

African countries' advantages lie in their natural resource endowments, low labour costs and growing consumer markets. Experts interviewed for the forthcoming *African Economic Outlook 2014* also see African markets as relatively open. Openness to trade, especially to imports of intermediate products is particularly important for countries to remain competitive in international supply chains.

Although a small share of African exports is currently destined to regional markets, the ongoing retail revolution and growing consumer potential present important opportunities for stronger regional value chains. In addition to higher proximity and first mover advantages, regional markets often require lower standards and thus present lower barriers to entry. Fast growing African markets will remain a primary driver of growth in the years to come; governments should strive to make it easier for African entrepreneurs to tap them. They need better roads, more reliable energy supply, but also greater freedom of moving across countries. Currently Southern and East Africa are the African regions whose exports incorporate the highest share of imports from other African countries. In other words, they are ahead in terms of their level of regional value chain integration (Figure 4).

Figure 4 – Sources of foreign value added in African exports

Source: AfDB, OECD & UNDP (forthcoming), *African Economic*



Outlook 2014; based on UNCTAD-EORA GVC database (2014).

Industrialising with global value chains requires tailor-made policies that boost Africa's capacity to integrate and upgrade

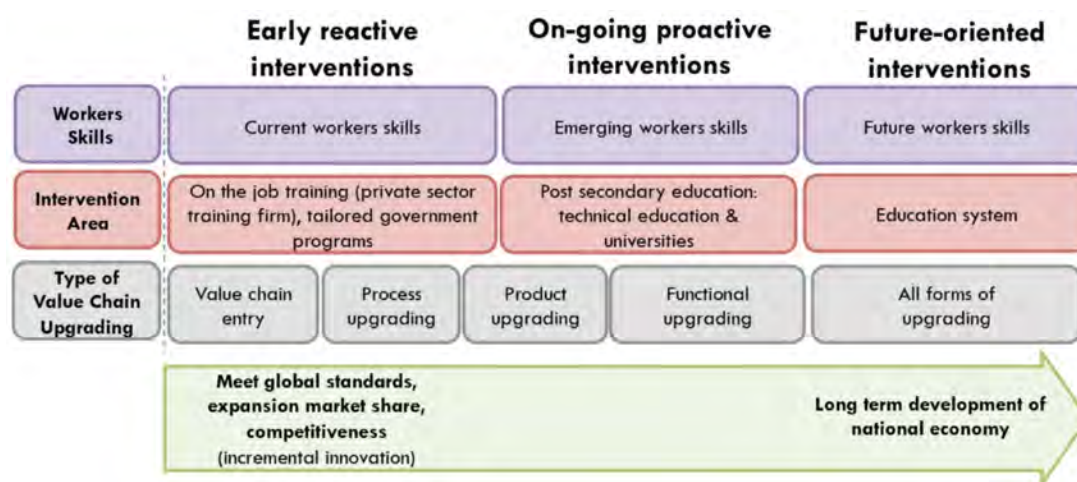
The challenges and opportunities that GVCs present for structural transformation differ widely by sector and, within sectors, by product. The challenge for policy makers is to maximise economy-wide opportunities while at the same time create the optimal environment for the value chains with the biggest potential. This means that governments will be confronted with trade-off in several areas.

In the area of trade policy, for instance, trade barriers and local content regulations must be balanced against attractiveness to GVC investors, who want to link African production to a global flow of intermediate goods and services. One essential ingredient of South Africa's successful motor industry development plan was the scrapping of onerous import tariffs and local content requirements for investors. Instead, policy makers made a bet on longer term gains through local learning and development of component manufacturing. However, this implies having in place the capacity to benefit from learning and technology upgrading – in other instances, local content requirements may be productive.

Fiscal policy is another case in point: African governments often lose large sums in unnecessary incentives for international investors that would come anyway, attracted by natural resources or a fledgling consumer market and. Conversely, investing in workforce development and infrastructure is more important for longer term attractiveness to GVC-driven investors and could benefit from the financial resources lost in tax incentives. Moreover, such investments determine a country's capacity for upgrading. Where such capacity is not created, countries risk competing with each other for GVC investments with low social and environmental standards and with the generosity of their tax incentives. Such low road strategies tend to deliver limited gains for a few, while the price is paid by many.

Finally, entrepreneurship and public-private collaboration is crucial for using GVCs for development. Entrepreneurs play a critical role in identifying value chain opportunities with high potential, and accepting the risks involved in trying to seize them. Using GVCs for development requires public institutions to help build and support the country's entrepreneurial base. This includes entrepreneurial training and access to finance, as well as partnering with local firms when formulating global value chain strategies. Domestic business associations are essential for this process. Their role is to identify the needs of firms in a given value chain and communicate them effectively to government. They also work as partners in capacity building and training for firms and can be interlocutors for international investors. The Ethiopian textile and garment manufacturers association, for example has become a critical partner for government and for international lead firms such as H&M. The association has helped shape the government's set of policies supporting the sector and

Figure 5 - Typology of Skills Development Policies for Global Value Chain Upgrading



Source: Fernandez-Stark, Bamber and Gereffi, 2012.

been a partner to H&M in building capacity for meeting quality standards among local firms. The Kenyan Flower Council plays a similar role in Kenya's horticultural sector. Actively supporting the creation of such associations must be among the first steps towards using global value chains for development.

In summary, the heralding of global value chains as the new paradigm of global trade does open new opportunities for African firms, but it requires a shift in the way economic policies are designed and implemented: rather than national or sectoral strategies, successful integration and upgrading in value chains call for openness and product-specific, sometimes firm-specific strategies.

Notes

1. UNCTAD, 2013.
2. UN Comtrade.
3. OECD TiVA.
4. African Economic Outlook series available at www.africaneconomicoutlook.org/en/
5. Gereffi and Fernandez-Stark, 2011; OECD, 2013.
6. <http://www.eia.gov/forecasts/AEO/>
7. See AfDB et al. (forthcoming).



Jan Rieländer (left) is Economist at the Europe, Middle East and Africa Desk at the OECD Development Centre.

Pedro Conceição (centre) is Chief Economist and Head of Strategic Advisory Unit of the United Nations Development Programme.

Abebe Shimeles (not pictured) is Manager of Development Research Division, African Development Bank.

Henri-Bernard Solignac-Lecomte (right) is Head of Unit, Europe, Middle East & Africa, OECD Development Centre.

Global value chains in perspective



The issue of global value chains (GVCs) is very topical today in light of international trade patterns that are constantly changing, shifting comparative advantages, new forms of specialisation that are emerging, changing technologies, and varying consumer preferences and demands. The debate is mainly centred on the question of how to connect to the global value chain so as to reap the benefits of higher levels of specialisation, revenue growth, technology transfer, foreign direct investment and employment?

Changing patterns in international trade

Trade is very much driven by economic growth and trade patterns are shifting constantly. It is often observed that the rapid evolutions in international trade patterns are closely related to the notion of 'globalisation', with its implications for competitive conditions in world markets. The main feature of globalisation is that the world economy is characterised by increasingly strong interdependence, through production and trade linkages, higher degrees of specialisation and production centres being spread out on a world wide scale. Governments and business can no longer act in isolation and take independent decisions as they by definition have repercussions in other economies. Geography and physical

distance matter less and less, with the efficient IT communication tools of today and the lowering of transport costs.

As a comparative advantage is dynamic and not static, production will always move to those centres where it can be done in the most efficient ways. The rapid evolution in information technology and communication has largely facilitated the instant exchange of information between production centres, which reduces the need to centralise production in one geographical location. Production processes are increasingly broken up and undertaken around the world before the final product is assembled. The examples are multiple, as it applies to most consumer goods and implies that the notion of 'made in' is

increasingly losing its relevance as it tells you only part of the story.

Global Value Chains

The World Trade Organization (WTO) has addressed the issue of GVCs in studies undertaken jointly with the Organisation for Economic Cooperation and Development (OECD), which are aimed at developing new ways of calculating wealth creation through value added chains. As former WTO's Director General, Pascal Lamy stated¹, global value or supply chains are not new. For decades companies have been importing parts and components for the finished goods they manufacture. Technology has reduced the cost of distance spurring multi localisation. What is new, however, is how pervasive they have become and



“ The main feature of globalisation is that the world economy is characterised by increasingly strong interdependence, through production and trade linkages, higher degrees of specialisation and production centres being spread out on a world wide scale.”

the degree of complexity they have attained. What is also new is the public debate about what these intricate systems mean for the world economy, for individual economies and for development. This debate takes place against a backdrop of constantly shifting circumstances and evolving technology which, as Lamy indicated, raise challenges for policymakers who must ensure that any conclusions drawn or actions contemplated are in line with the realities on the ground. This means viewing trade from a different perspective. According to the studies, measuring trade in gross value terms no longer makes sense in a world where trade in intermediate goods - a reasonable proxy for global value chain activity - constitutes more than half of world merchandise trade. Trade flows must be measured today in terms of the value added by each production link along a supply chain to the final value of goods and services.

The two Secretariats consider the value-added statistics as very important because they tell the true story of the interdependence that has been forged over the years among countries through trade. Countries are increasingly fused together by joint

production arrangements manifested in global value chains. Governments are interested in securing a profitable place on global supply chains and deriving as much as possible of total value-added. Involvement in global value chains allows incremental specialisation through the production and trading of tasks and components rather than entire products. This is the contribution that participation in global value chains brings to a nation's growth, economic diversification and development. If countries are to participate effectively in global value chains and in the progressive upgrading of this participation, governments must provide an appropriate policy environment.

Connecting to markets

A recent book prepared by the WTO under the WTO Chairs Programme², 'Connecting to Global Markets'³, which was launched by the WTO's Director General, Roberto Azevêdo, addresses some of these very same issues from an academic perspective. The book contains a collection of readings of the 14 Chairs and addresses the question of how developing countries can more fully integrate into the Multilateral Trading System, and more specifically

by better connecting to GVCs. It presents findings from different country and regional perspectives.

As Azevêdo pointed out in his opening remarks, the book illustrates the challenges countries are facing in view of the new ways of organising production and how to connect to the trading system, which will lead to a quicker and easier path to growth and economic development. The authors of the book identify a wide variety of challenges identified, such as:

- the diversification of exports,
- upgrading in global value chains,
- the ability of small and medium enterprises (SMEs) to take part in those value chains,
- non-tariff measures.

The studies in the book reveal that there is an increased awareness of the economic opportunities provided through international trade, it underscores the primacy of the multilateral trading system, provides powerful arguments in support of trade policy instruments as an engine for inclusive growth and economic development, confirms that connecting to markets and overcoming supply-side constraints are of critical importance to integrate

into the Multilateral Trading System (MTS), the need to move up on the GVCs, that there is not a one-size-fits all approach, that there is a need for a coherent policy mix to address supply side constraints, with complementary policies, that domestic coordination of policies is of critical importance, and that more policy-relevant research is required. This sets the agenda in a way for the second phase of the WTO Chairs programme⁴, with more research to be undertaken on such issues as GVCs and how developing countries can better connect to those and integrate into the MTS.

During the panel discussions on the book, which included representatives from the beneficiary and donor community, an international organisation and an academic, these conclusions were widely underscored. The panel welcomed the connection that is established between academic work and the policy recommendation emanating from them. In that sense the book clearly fills a gap by presenting different case stories. One panellist indicated that 67% of the total global value created under GVCs accrues to OECD countries while the share of newly industrialised countries (NICs) and BRICs countries is 25%. Hence, the remaining 8% of the total value added is shared among other developing countries. The argument was made that for that very same reason it is crucial to enhance the capacity of developing countries to develop sound policy frameworks on goods and services in order to set a fertile environment for foreign direct investments that will create linkages with SMEs, which are a conduit to access global markets. Also, developing countries need to apply different approaches

to enter into new value chains and export diversification. Governments can only exert an indirect influence on multinational enterprises (MNEs) which govern GVCs by incentivising the inclusion of developing country producers in supply chains or trying to assist in upgrading the position of domestic firms and workers within the global value chain.

The clearest message of the book is the importance of the connection that is established between academic work, the value of the analytical thinking and the policy recommendation emanating from them. In that sense the book clearly fills a gap by presenting different case stories. This interconnection is highly relevant in addressing key issues in the post-Bali work programme.⁵

The Bali outcome and the way forward

As stated by DG Azevêdo, the Bali package represents an important boost to trade and development around the world. The package contains many key elements highly relevant to developing countries. It is therefore of critical importance to implement the decisions and agreements reached in Bali on the one hand and on the other to advance on the preparation of a clearly defined work program on the remaining Doha Development Agenda issues by the end of 2014. The system can only function with a full participation of developing countries and their voice being heard in the negotiations. This in turn will also facilitate their growth and economic development which requires a good understanding of the system and the capacity of countries to analyse the issues at stake.

Here again the Chairs can make a critical contribution in the thinking of the post-Bali work program and more specifically in relation to the policymaking in developing countries.

Notes

1. Speech delivered by Pascal Lamy at the WTO-MOFCOM-OECD-UNCTAD seminar on Global Value Chains in Beijing, 19 September 2012: 'Global Value Chains are binding us together'.
2. The aim of the WTO Chairs Programme is to build academic capacity in developing countries in order to improve policymaking on trade – and in particular on WTO issues. For the last four years it has supported three main pillars, including curriculum development, research and outreach activities by universities and research institutions.
3. Connecting to Global Markets: Challenges and Opportunities: case stories presented by WTO Chair-holders, Marion Jansen, Mustapha Sadni Jallab, Maarten Smeets (editors), WTO, Geneva, February 2014.
4. The WCP is renewed for another four years, i.e. 2014-2017 and with the financial support provided by the Netherlands.
5. At the Bali Ministerial Meeting in December 2013, the first multilateral trade agreement was reached since the creation of the WTO in 1995.

Maarten Smeets is Head of the TA Coordination, Partnerships and Internship Programmes Section at the Institute for Training and Technical Cooperation (ITTC), World Trade Organization, Geneva. Mr Smeets is also a senior visiting fellow at Institute Clingendael, Den Haag.

The views expressed in this article are those of the author only and cannot be ascribed to the WTO.

Paved with good intentions: global value chains and industrialisation in Africa



Despite the divergent views on what it means and what it should and should not imply, “Global Value Chains” is a concept that strongly emerged in recent years especially at the World Trade Organization.

The nexus between global value chains and industrialisation means a lot, especially for emerging economies and least developed countries (LDCs) in Africa, whose economies are export-oriented. Industrialisation has a large role to play in Africa’s development, given the fact that it is an indispensable tool in development ethos and practice. It also helps an economy to develop its local value chains, which promote it to join both regional value chains and global value chains at a competitive edge. The now developed countries advanced due to industrialisation, and thus for Africa to develop, it has to develop its industrial base. To do this, Africa has to radically transform its agricultural sector as no country has ever made the transition to industrialisation successfully without first developing its agrarian sector.¹

In order to significantly transform the economies of Africa from the current low-income level to middle-income status, value must be added to Africa’s large reservoir of natural and agricultural resources through processing and manufacturing activities - implicit in the transition process from predominantly agrarian to industrial economies.

The paradox of global value chains and industrialisation: lessons from Africa

In a bid to foster structural transformation of their economies, African governments, and more especially sub-Saharan Africa, have embarked on private sector-led development strategies, with prior focus on attracting foreign direct investments (FDIs). In a bid to attract FDIs, African governments have been granting favourable conditions to foreign investors whom they believe will create jobs and boost export earnings, with little efforts used to promote domestic investment. In East Africa, competition for FDIs has led to the granting of numerous tax exemptions and concessions to investors. This has however resulted in revenue losses. The estimate of the cost of tax incentives and exemption for the five countries in the East African Community (EAC) is about US\$2.8 billion a year, a sum that is higher than the annual tax revenue of Uganda, which is about US\$2 billion.² Amidst these numerous revenue losses, which have not been regained, FDIs have subsequently failed to deliver on their promises, i.e. promoting technology and skills transfer, employment creation, and local sourcing among others.

“Industrialisation has a large role to play in Africa’s development, given the fact that it is an indispensable tool in development ethos and practice.”

Their efforts notwithstanding, most African countries have had to contend with the challenge of industrial development. Most of Africa’s economies are still driven by commodity production and the exportation of agricultural and mining products. Africa remains the least industrialised continent in the world. Indeed, the growth of manufacturing value added during the structural adjustment programmes (SAPs) period was disappointing, with several countries actually suffering de-industrialisation. From 1980 to 2009, the share of manufacturing value added to GDP marginally fell from 16.6% to 12.7% in the rest of Africa, excluding North Africa.³ Thus, over half a century after independence, while other regions have increased their share of manufactured exports, the continent still depends on the export of raw materials to the industrialised world. These raw materials are processed and sold back to Africa at much higher prices, thus preventing Africa from moving up the higher end of the global value chain.

In conclusion, there is a need for Africa to ensure that all investments are directed towards developing its domestic value chains so as to enable it to compete favourably in global value chains. To achieve this, the need for African countries to develop standards that meet international standards remains crucial if they need to connect to global value chains at a level that is of economic significance to them. The building of capacity to improve, certify and assure the quality and standards of industrial products is important for taking advantage of access to the global market and sustaining the process of industrialisation. The inability of some African countries to meet technical standards set by the developed countries has been a barrier to taking advantage of the benefits of market access for processed and manufactured goods. Thus, if domestic value chains are developed, then African products can easily join the global value chain at a higher end of the chain. Also, debates on enhancing global value chains should be aimed at strengthening the ability of Africa’s local value chains to be coherent with

global value chains. Minus this, global value chains and industrialisation will only remain a legendary devil’s road paved with good intentions.

Notes

1. Cheru, F. and R. Modi. 2013. *Agricultural Development and food security in Africa*, Zed books.
2. Uganda Revenue Authority 2012 statistics.
3. AU Commission, UN Economic and Social Council Economic Commission for Africa. *Industrialization for an Emerging Africa*. Briefing paper. 7th March 2013, pg.3.

Africa Kiiza is Program Officer for Influencing Multilateral and Bilateral Trade Negotiations at SEATINI-Uganda.

“Raw materials are processed and sold back to Africa at much higher prices, thus preventing Africa from moving up the higher end of the global value chain.”

Understanding who benefits from gold mining

The international development community has paid increasing attention in recent years to the potential for the mining industry to act as an engine for growth and poverty reduction. There is decreasing support for the view that a 'resource curse' is inevitable – albeit few would deny that resource dependency can create both macro-economic and governance challenges. At the "Investing in Mining Indaba" in Cape Town earlier this year, Sir Paul Collier, formerly Chief Economist at the World Bank, spoke about the mining industry "taking over" from development agencies. This prompts a new perspective, as to whether the pendulum has swung too far? Mining companies can have significant impact and capacity but they do not have the mandate or skills to be development 'agencies'.

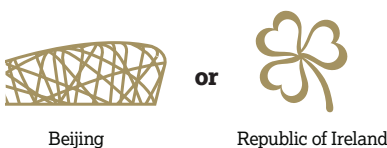
Mining can only optimise its contribution to development in the context of co-operative relationships with a range of actors including, crucially, host governments and communities and with a common commitment to creating shared value. That commitment needs to be underpinned by trust. Investors will not commit their capital to destinations they see as unreliable; governments and public opinion will be restive if they believe that mining companies are exploitative or getting an unfair share of benefits. Unfortunately, trust is currently low on both sides; often based on unrealistic expectations and a lack of understanding of the economics of the industry.

Reality and expectations: how far apart?

Two main factors account for these disappointed expectations. Firstly, many mines are relatively new and may only just be emerging from paying back on their investment undertaken over the previous 12 to 15 years. Thus, in many mining countries tax revenues, as disclosed in Extractive Industries Transparency Initiative (EITI) reports¹, have typically shown a significant uptick for 2010 onwards. Secondly, whilst eyes have been focussed on historically high commodity prices, the intense upward pressure on mining industry costs has gone largely unnoticed amongst external stakeholders. Mining revenues have looked solid but the cost of labour, mining services and energy, in particular, together with

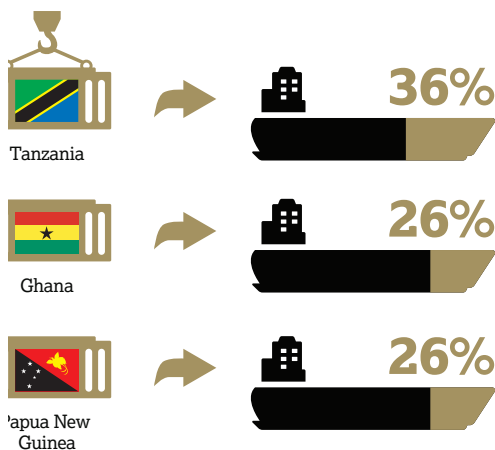
Gold's total direct economic contribution to annual global GDP = \$210 billion

\$210 billion is equivalent to the GDP of:



Gold mining has a positive effect on developing countries

Percentage of total exports in 2012:



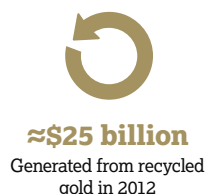
Gold supply: Economic contribution of gold production in 2012 in the 15 largest producing countries estimated to be > \$78 billion



Gold Mining – Direct Gross Value Added (GVA)	
1	China \$13 billion
2	United States \$9 billion
3	Russia \$9 billion
4	Australia \$9 billion
5	Peru \$8 billion
6	South Africa \$6 billion
7	Canada \$4 billion
8	Mexico \$4 billion
9	Indonesia \$3 billion
10	Ghana \$3 billion
11	Uzbekistan \$3 billion
12	Brazil \$2 billion
13	Papua New Guinea \$2 billion
14	Argentina \$2 billion
15	Tanzania \$2 billion

Gross Value Added from...

Recycled gold



Demand for gold in 2012 > \$110 billion



increased upfront costs for mine development, have taken a severe toll on margins.

In parallel, many investors have shown their dissatisfaction with the mining sector, alarmed by increased perceptions of political risk and uncertainty about tax regimes. Mining is a long-term business, where returns to investors, as to other stakeholders, need to be viewed in the context of both the mine cycle, including exploration, mine development, operation and closure, and the overall commodity cycle. Yet the equity performance of the mining sector shows investor discontent around returns from what is a risky, capital-intensive business. Thus, shareholder pressure has led to cost reductions and pressure for companies to focus on core assets, leading to cuts in exploration and capital expenditure on new mining projects.

Simply put, if the economics of a mining operation do not work, its development potential will be unfulfilled. Against this background, the World Gold Council has been working to better inform the debate around the economics of gold mining. In 2013, we released a Guidance Note on All-In Costs², putting forward new non-GAAP metrics that provide further transparency and consistency into the costs of gold mining. We also undertook a ground-breaking piece of research to examine how the value generated by gold mining is typically distributed. We asked our member companies – the world's leading gold miners – to share their expenditure data and aggregated it by country and at a global level. The resulting report 'Responsible Gold Mining and Value Distribution'³ covers 96 operating mines together with a number of projects under development or in their decommissioning phase, in 28 countries. These operations collectively directly employed over 220,000 people in 2012.

What does evidence tell us?

The survey analysed US\$55 billion of expenditure. Of this, US\$35 billion was accounted for by payments to businesses, governments received

“ If the economics of a mining operation do not work, its development potential will be unfulfilled. ”

almost US\$8.5 billion in taxes and royalties and US\$8.3 billion was paid to the workforce. Payments to providers of capital accounted for US\$3.4 billion, less than half the amount paid out to either governments or employees. In total, around 80% of expenditures remained in the host country. In many of the countries covered, expenditure was greater than the value of gold sold, reflecting in part the high costs and cyclical nature of the industry.

Gold mining can make a very significant contribution to national and regional economies. This is particularly true for a number of developing countries where gold mining makes up a major aspect of the economy. For example, the report shows that the companies surveyed in this report contributed approximately 10% of total government revenues in Suriname, Guinea and the Kyrgyz Republic and the value of gold sales was equivalent to at least 25% of total exports in Ghana, Tanzania and Burkina Faso.

However, the value of the mining economy is greater than simply the expenditure of mining companies. Payments to suppliers and employees create a multiplier effect, leading to greater tax payments to the government and catalysing broader economic activity and the potential for economic diversification. The report provides the basis for a more holistic view of mining's contribution.

Supply chain development should be supported by enabling regulations which recognise the need for competitiveness rather than creating rent seeking opportunities or enabling price fixing by a cartel of local suppliers. Successful local content strategies are one way in which the industry can break out of being an enclave and in which the benefits of mining can find their way to the population at large.

A study published by the World Gold Council in 2012, 'The economic contribution of large-scale gold mining in Peru'⁴, showed the benefits of a pro-active approach by mining companies to developing local suppliers. Not only did the companies surveyed procure 88% of their goods and services within Peru; but a growing proportion of these suppliers are becoming exporters. In Ghana, the African Development Bank has noted the emergence of a range of component manufacturers, construction companies and high value advisory and professional services to support the growth of mining across West Africa.

In addition, the multipliers from today's higher-skilled mining jobs can be considerable. In South Africa, mining is estimated to support 1.4 million direct, indirect and induced jobs; each of these jobs is believed to support around nine dependents. In Ghana one direct mining position is estimated to support 28 other livelihoods and in Peru 19.

Mining can also play an important developmental role in three other ways:

- First, in developing infrastructure where governments and companies are increasingly looking to create synergies. Gold mining, unlike bulk commodities, does not need dedicated railways or ports; but new gold mines often need electricity, water or airports which can be planned with other users in mind.
- Secondly, mining investment can help to stimulate governance reforms and capacity building initiatives. There is evidence, for example, that the work of the EITI is both improving the transparency and rigour of public sector accounting in some implementing countries. Moreover, mines take a close interest in the capabilities of

local government, since without a capable partner to deliver public services it is very difficult to produce benign and sustainable local development outcomes.

- Thirdly, although social investment expenditure may be dwarfed by core business revenues; when such investments are well targeted, they can make a big impact on health and education provision in mining regions.

The Value Distribution study is the first of its type to look at how a whole industry's benefits are shared across society. We make no claim that the methodology and definitions are perfect. But the figures paint a picture and should stimulate a better informed discussion around what a sustainable distribution of benefits is across the commodity cycle.

Beyond profit sharing: a collaborative approach

Responsible gold mining can contribute substantially to social and

economic development but we need to be realistic about the contribution it can make. Collaborative efforts with governments, communities, and development agencies are needed to ensure sustained improvements in standards of living, to reduce poverty, and to provide access to better services and opportunities.

These collaborative efforts will differ by country and community, but they should be guided by fundamental principles, including treating all individuals with respect; communicating in a transparent manner; and working to create sustained value for all stakeholders. Maximising the development potential of mining requires continued attention and discussion. The gold mining industry is keen to play its role, alongside governments, development agencies and local communities. We hope that by providing insights into the economic impact of gold mining and clarifying the realities of the mining life-cycle, this report will be an important step in advancing this dialogue.

Notes

1. <http://eiti.org/countries/reports>
2. http://www.gold.org/sites/default/files/documents/wgc_guidance_on_non-gaap_metrics.pdf
3. https://www.gold.org/download/private/Responsible_gold_mining_and_value.pdf
4. http://www.gold.org/download/private/wgc_econ_contribn_of_lge_scale_gold_mining_in_peru.pdf



Terry Heymann is Managing Director for Gold for Development at the World Gold Council.

Talking Points

Current discussions on ECDPM's blog on the challenges of the EU's international cooperation
www.ecdpm-talkingpoints.org

Migration and Mobility in the Africa-EU Partnership: a breakthrough of more of the same?

Talking Points, Anna Knoll and Essete Abebe Bekele, 18 April 2014

For the migration and mobility partnership between Africa and the EU to lead to real results, cooperation needs to include genuine plans for mobility and overcome a focus on the 'root' cause (...)

Development assistance in a multipolar world,

Talking Points, Erik Solheim, 17 April 2014

In a rapidly changing world with new geopolitical and economic balances of power, development assistance has to adapt. The most important thing is that we are clear about the role development cooperation (...)

Are Africa and Europe Turning a New Page in their Relationship?

Talking Points, Faten Aggad-Clerx and James Mackie, 11 April 2014

Seeking to understand the potential impact of a Summit immediately after the event is a perilous task, yet looking at the outcomes of last week's 4th Africa-EU Summit it is possible to (...)

Good news from Durban: CAADP getting more results-oriented!

Talking Points, Francesco Rampa, 11 April 2014

Just before travelling to Durban for the annual Partnership Platform of the Comprehensive Africa Agriculture Development Programme (CAADP), I was asking whether such meeting could become a key milestone for the African (...)



Transforming Africa through agricultural sophistication

BUNGOMA, KENYA: Images at KACE market information point where local farmers can use information and cell phones to stay informed on market prices throughout the region.

Africa's recent strong growth masks a persistent struggle to achieve successful economic transformation. Successful transformation requires renewed industrialisation strategies targeting agribusiness and the informal services sector, which now dominate most economies, in addition to manufacturing.

Africa has experienced a remarkable growth recovery in the last few decades. Sustaining this recovery requires successful structural transformation, in which the economy diversifies into higher valued goods in manufacturing and services, while continuing to raise agricultural productivity even as agriculture's share in the economy declines. African countries confront many challenges, including an oversized, low-productivity informal services sector and a relatively neglected agricultural sector. Going forward, governments must combine strategies to enable entrepreneurship in non-agriculture and agribusiness sectors with efforts to increase technological innovation and raise productivity in the agricultural sector.

Agriculture and structural transformation in theory

The growth and economic development literature has observed consistently that, as countries develop, production shifts away from primary goods into more

sophisticated manufactured goods and services, while the bulk of economic activity moves from agriculture to industry and other urban based activities.

Early theorists viewed agriculture as playing a passive role in the process of structural transformation, simply supplying labour and resources to more dynamic sectors. Later authors acknowledged the importance of expanding food supplies to meet growing needs, and realised that rising agricultural incomes could accelerate industrial development through increases in demand for consumer goods.¹ Gradually there was a rising awareness that through these consumption linkages, as well as agricultural production linkages, growth in agriculture stimulated economy-wide growth. Thus it is recognised that successful structural transformation entails not only moving labour out of agriculture to higher productivity sectors, but also increasing agricultural productivity: the transformation of agriculture into a modern, productive sector is a key element of overall structural transformation.²

Trends in agricultural productivity

African agriculture has experienced impressive growth over the last 15 years, after decades of low and stagnating production. The average annual agricultural growth rate from 1964 to 1983 was 1.8%, below the population growth rate. Per capita production began to increase again in the mid-1980s, as output growth accelerated to an annual average rate of 3.2% from 1984 to 2003.³ Agricultural growth continued during the 2000s, with an annual average growth rate in agricultural GDP of 3.5% from 2003 to 2010.⁴

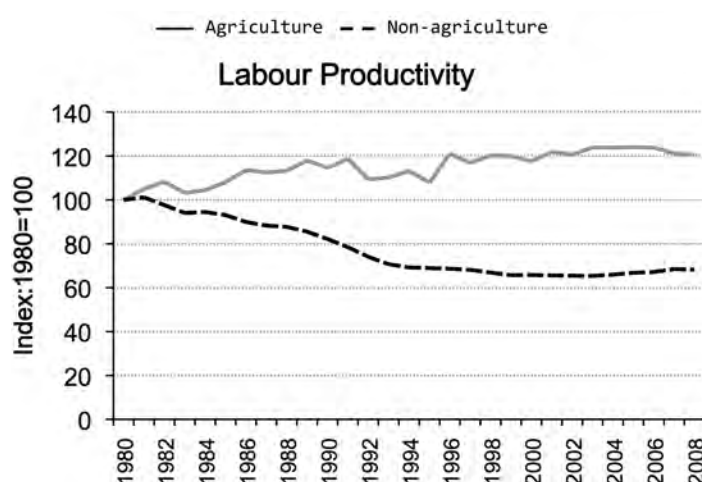
Analysts disagree on whether the bulk of the output growth should be attributed to increases in land and input use⁵ or to potentially more sustainable improvements in Total Factor Productivity (TFP), the ability to produce more with the same inputs.⁶ However, even authors who argue that TFP has improved note that the current productivity recovery has merely reversed earlier productivity declines.⁷ Ongoing productivity improvements depend on continued technological innovations, which in turn depend on strong support for agricultural research and development (R&D).

Trends and patterns in structural transformation in Africa

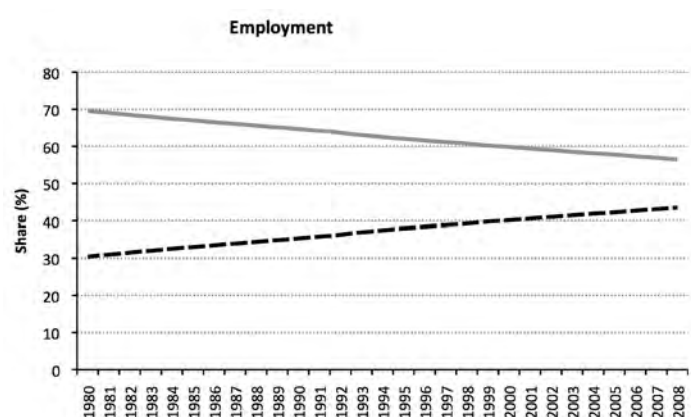
Successful structural change implies both moving labour from a relatively less productive agricultural sector to more productive non-agricultural sectors, and increasing labour productivity in the agricultural sector, even as its employment and GDP shares decline. However, in Africa, this process has been slow and has not always followed the patterns of successfully transformed economies elsewhere. Labour productivity in agriculture has been rather stagnant, particularly since the early 2000s. Outside of agriculture, labour productivity declined significantly since 1980, finally starting to recover in the 2000s (Figure 1). However, the employment share of agriculture continued to decline and that of the non-agricultural sector increased (Figure 1). This meant that throughout most of this period, structural transformation in Africa was productivity-reducing, as labour exited an underperforming agricultural sector, with rising productivity, for a non-agricultural sector with declining productivity. Africa's productivity-reducing structural change has resulted in an oversized services sector and a stunted agricultural sector: relative to their levels of income, African countries have by far the largest services sector and the smallest agricultural sector of all developing regions.

This is clear from the decomposing of productivity growth over the period into the contribution of individual sectors and of structural transformation. A given sector's contribution to productivity growth is calculated by multiplying its employment share at the beginning of the period with the change in productivity for the sector over the period. The portion of GDP growth not accounted for by the contribution of individual sectors corresponds to the contribution from structural change or transformation: i.e., the productivity change resulting from moving labour between sectors with different productivity levels.

Figure 1. Trends in labour productivity and employment shares among African countries, 1980-2008



Source: Badiane (2011)



Source: Badiane (2011)

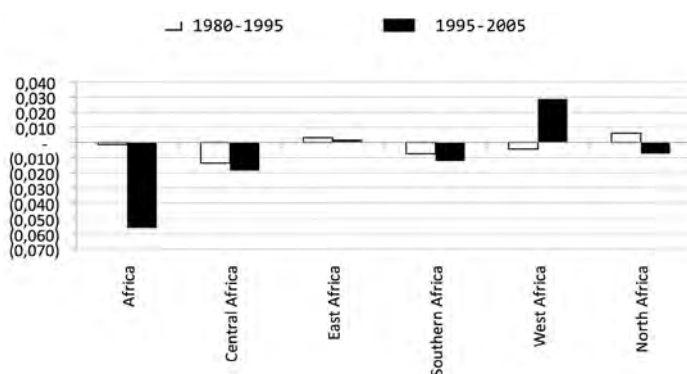
The results of this exercise show that structural change has had a negative effect on productivity growth in Africa as a whole and in most regions, as illustrated in Figure 2.

“As countries develop, production shifts away from primary goods into more sophisticated manufactured goods and services, while the bulk of economic activity moves from agriculture to industry and other urban based activities.”

“ Throughout most of this period, structural transformation in Africa was productivity-reducing, as labour exited an underperforming agricultural sector, with rising productivity, for a non-agricultural sector with declining productivity.”

Badiane (2011) also shows that the agricultural sector has contributed positively to productivity trends for Africa and most sub-regions, whereas the contribution of the non-agricultural sector was overwhelmingly negative before turning positive in 1995-2005.⁸

Figure 2: The contribution of structural change to productivity growth among African countries



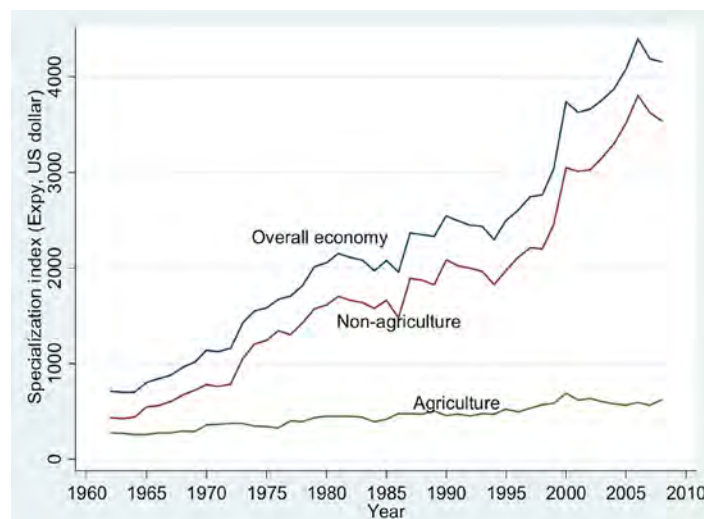
Source: Badiane (2011).

Trends in economic sophistication among African countries

One important element of structural change is the increasing capabilities of economies to specialise in higher valued goods. Hausmann et al. (2007) derived a measure of the sophistication of a country's export basket, called EXPY, which expresses to what extent a country is exporting goods that tend to be exported by high-GDP countries.⁹ EXPY reflects a country's ability to produce higher valued goods, as opposed to primary goods that are associated with lower levels of development.

In Figure 3, we plot African countries' EXPY for the overall economy and for the agricultural and nonagricultural sectors (excluding services). Although the overall economy and each sector has increased in product specialisation, the trend is clearly driven by non-agricultural exports. It is not surprising that the industrial sector is the source of most product specialisation, but it is nonetheless concerning that the agricultural sector has made so little contribution to economic sophistication. It will be hard for the sector to raise labour productivity and incomes if it continues to specialise in raw materials and fails to diversify into the higher valued products demanded by growing urban populations.

Figure 3. Specialisation of the African Economy, 1962–2008



Source: Badiane, Ulimwengu, and Badibanga (2012)¹⁰

Strategies for a growth-enhancing structural transformation

In order for an economy to shift from less sophisticated to higher valued goods, entrepreneurs must go through what Hausmann et al. (2007) and Rodrik (2004) call a self-discovery process of finding out which goods can be produced profitably.¹¹ Industrialisation policies in Africa must therefore facilitate this discovery process with strategies that address the information and coordination externalities that can deter entrepreneurship growth. These externalities, including those related to knowledge generation and diffusion, will have to be addressed through technology, infrastructure, regulatory and macroeconomic policies. Industrialisation policies should aim to expand the stock of technology capabilities and their applications to create new, higher valued goods.¹² African countries will have to (re)discover ways of stimulating industrial growth and learn from emerging Asian countries, where public action effectively tackling these complex externalities has been a central element of their economic development.¹³ The industrialisation strategies proposed by Lin¹⁴ based on China's experience need to be explored in more African countries. They include first identifying sectors of comparative advantage and then establishing industrial parks and economic zones to reduce transaction costs due to poor infrastructure and institutions while government plays a facilitating role.

The current structure of African economies is characterised by the dominance of an informal service sector, which in most countries now constitutes the largest reservoir of low productivity labour. Therefore, the strategic trade-off is no longer just between industry-led and agriculture-led growth; the possible contribution of a service-led strategy to the broader growth and development agenda now deserves equal consideration. The heavy concentration of pre-industrial activities (e.g. handicrafts) and low productivity labour in the large informal service sector offers additional options to the traditional model of industrialisation based on manufacturing, agribusiness, and agro-processing industries.

According to Sonobe and Otsuka¹⁵, growth and modernisation of the informal sector in Africa will need to address transaction costs related to information asymmetries, contract enforcement, innovative knowledge spillovers, and insufficient managerial capital. They propose a cluster based industrialisation (CBI) approach that has been successful in Asia. CBI strategies can help facilitate migration of informal enterprises in the services sector into the more productive, formal segment of the economy.

In the agricultural sector, increasing demand for urban processed food provides great potential for agribusiness growth and innovation. Demand for local food in Africa is projected to reach US\$150 billion by 2030; this represents potential income gains for smallholders of US\$30 billion.¹⁶ To achieve smallholder-friendly agribusiness development, technology and innovation policies must focus on both the on-farm and off-farm segments of the value chain. There is a growing need for significant investment in R&D infrastructure required to develop biotechnological and product innovation capabilities in order to compete in domestic and global agricultural markets. CBI strategies could be used to promote agribusiness value chain development, specifically targeting technology research, regulatory services, quality management and trading infrastructure, smallholder integration and vocational training. CBI strategies for agribusiness should focus on areas with high productivity and technology spillover potential, such as peri-urban processing industries, high agro-climatic potential areas, and regional transport corridors.

Africa's current growth recovery is encouraging, but the lack of significant productivity-enhancing structural transformation until now means that strategic action must be taken to sustain and build on recent growth. Strategies seeking to grow entrepreneurship and encourage expansion into higher valued goods should target not only the manufacturing sector, but also the informal service sector and the agricultural and agribusiness sectors. It is promising that African governments as well as the international community recognise the importance of continued attention to agriculture. It remains for all actors to ensure that agriculture receives the investments it needs to raise labour productivity and incomes, and that the role of the informal service sector in the broader growth and development agenda does not continue to be overlooked.

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Ousmane Badiane is Director for Africa and Julia Collins is Senior Research Assistant at the International Food Policy Research Institute, Washington, D.C.



Constructing markets through value chains - for whose benefit?

Aid agencies are using value chains to build basic market infrastructure in African agriculture, but in doing so, they tie the interests of small farmers to the demands of multinational wholesalers.

Since their earliest engagement with post-independence Africa, Western governments and financial institutions have encouraged a reliance on “market forces” to carry the day. But decades of failure have taught these actors a lesson: markets are not simply lying in state, ready to be unleashed. They are constructed, through an invisible infrastructure of laws, incentives, and networks.

Multinationals setting the pace in GVCs

In agriculture, donors and development agencies are working to develop this infrastructure through value chains, which they promote as a means for small farmers to market their goods. But value chains are not simply a means to collect an existing crop line; they are constructed to direct small farmers toward specific crops and methods of production which are desirable by large commercial interests. Two different value chain projects

being developed separately by the United States’ aid agency, USAID, and the Gates Foundation in Zambia, for instance, aim to supply a growing demand for meat in southern Africa by introducing small farmers to soybeans, then turning that soy into chicken feed for commercial wholesalers.¹ Agencies develop these value chains to fulfill commercial demand, but they are also inviting the companies they intend to support to guide their development. As they do, we should be asking ourselves, who is constructing the market, and for whose benefit?

In recent years, USAID has prioritised fostering partnerships with the private sector for agricultural development. Since 2010, the agency has been at the forefront of a global effort to transform Africa into an agricultural hub, both able to support itself and export the excess. From the beginning, private-sector partners have been central to this effort, attracting companies including

“Value chains are not simply a means to collect an existing crop line; they are constructed to direct small farmers toward specific crops and methods of production which are desirable by large commercial interests.”

PepsiCo and Wal-Mart to the cause², and inviting them to dictate their terms of doing business.

As USAID administrator Rajiv Shah said during a 2010 speech on Feed the Future, “If you’re from the private sector, tell us what countries and donors can do to reduce constraints on business operations.”³

Risks and benefits of joining value chains

Value chains are an example of this thinking in action, giving large-scale commercial interests the means to influence the shape of the market according to their requirements. In the case of chicken, wholesalers can use the value chain to tell farmers what they need. In turn, they receive a steady supply of high-protein, soy-based feed. Farmers working within a value chain are guaranteed a market for a high-value crop. Since most grow corn primarily, rotating soy into their crop line also helps to restore soil quality.

Yet while the benefits may be substantial for a small farmer, the risks are also high. Positioned at the bottom of the value chain, farmers are subjected to any breakdown in linkages between themselves and the commercial purchaser at the top. While the largest chicken wholesalers are multinational and have the ability to withdraw from a country if the commercial chicken market fails, small farmers do not have the same benefit.

This method of developing markets by prioritising large-scale commercial interests has precedence in Africa. Take, for instance, the Kenyan milk industry— an early example of one value chain project. In 2003, according to report by the UN’s Food and Agriculture Organization, Kenyan dairy provided income for more than 625,000 people.⁴ The industry was so productive that USAID and the Gates Foundation proposed transforming Kenya into a regional export. With their assistance, large-scale milk producers, including Nestle⁵ and Land O’Lakes⁶, entered the country beginning in 2007 and introduced commercial production methods.⁷ Some farmers began working with them but within three years Kenya experienced a milk glut and producers began dumping milk in the streets.⁸

In the interest of who?

While it is tempting to think that multinational seed producers, local chicken and milk wholesalers, and the small farmers in between, all share a common definition of success, the fact that these small farmers and corporations now operate in the same space should not be considered evidence that their interests are perfectly aligned.

In accepting the corporate sector’s interest in African agriculture as the new engine of the region’s agricultural development, we also have to recognise that massive businesses like Wal-Mart, whose 2013 sales revenues exceeded the GDP of every African nation that year, have their own interests. These interests may align at times, but they may part at other times. The real trick for donors and aid agencies may be less about leveraging private power, and more about balancing it.

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Alex Park is a Researcher at Mother Jones magazine.

Can Africa learn from East Asian production networks?



Old and new global value chains

It is a good thing that people start talking about global value chains (GVCs) as an engine of economic growth. International industrial linkages can certainly enhance possibilities to introduce economic dynamism in the globalisation era. However, we must be aware that both old and new GVCs exist. By exploring new GVCs, Africa can benefit from globalisation more than just working with old GVCs.

The concept of GVCs includes old GVCs. For example, a garment factory in Cambodia imports textile materials from China every two weeks, makes baby clothes, and exports the products to the US market every two weeks. Another example of a GVC would be an oil refinery plant in Singapore that imports petroleum from a huge tanker from the Middle East and exports naphtha and gasoline to neighboring countries. However, these are relatively simplistic international industrial linkages and should not be called “production networks” because transactions in such GVCs are slow, of low-frequency, and not very sensitive to time and coordination.

The concept of international production networks¹ and the 2nd unbundling² presents key features of a new type of GVC. Differences between old and new GVCs are sometimes explained as the industry-wise

international division of labour versus production process or task-wise international division of labour. Actually, more fundamental distinction comes from the speed, frequency, and synchronisation of transactions and tight coordination along value chains. Production networks are typically observed in machinery industries where long and sophisticated value chains are extended across national borders. We also observe production networks in other industries. For example, even if the garment industry squeezes inventory stock by POS (point of sales) system and shortens lead-time from making order to delivery, such as Uniqlo and H&M are doing, it is still called a production network. Other examples of production networks are cut flower operation by air transportation and software outsourcing between the Silicon Valley and Bangalore. Typically, once a country participates in production networks in machinery industries, it can extend such business models to other industries.

Required policy environment

Not all countries can immediately participate in production networks. If we assess the degree of participation in production networks by looking at machinery industries, only a number of East Asian countries, several Central and Eastern European countries, and Mexico and Costa Rica are working in production networks, while the other developing countries are not.³ Even if development

“By attracting more and more production blocks, countries can reach the middle-income level and start forming industrial agglomeration.”

stages are about the same and wage levels are similar, some countries can enter into a production network, and some cannot. The differences are due to whether a policy environment compatible with production networks is established or not.

The fragmentation theory⁴ suggests that two conditions must be met in order to participate in production networks. First, the saving of production costs in fragmented production blocks must be large. Second, the costs of service link that connects remotely placed production blocks must be low. Development gaps may work as a factor to meet the first condition and the second condition can then become crucial. Logistics links that take care of not only monetary transport costs but also time costs and reliability are one of the essential elements.

Jump-starting industrialisation and the formation of industrial agglomeration

As Kimura (2013)⁵ describes, ASEAN and China have drastically renewed a development strategy so as to take advantage of production networks and accelerate industrialisation. Now they know how to jump-start industrialisation by participating in production networks. Rather than raising an entire industry by improving overall investment climate in a country as a whole, better investment climate local to specific industrial estates would suffice to start inviting production blocks. This makes the initiation of industrialisation much easier. Malaysia, Thailand, China, and others established such a model, and now Cambodia and Laos have started attracting machinery parts producers.

By attracting more and more production blocks, countries can reach the middle-income level and start forming industrial agglomeration. As discussed in Kimura and Ando (2005)⁶, inter-firm (arm's length) transactions typically occur over a short distance, which works as a force of generating industrial agglomeration. Malaysia, Thailand, and China, as well as Indonesia, the Philippines, and Vietnam to a lesser extent, are at the stage of constructing efficient industrial agglomeration. In industrial agglomeration, local firms and small medium enterprises (SMEs) have ample opportunities to link with multinationals and upgrade innovation. How to step up from the middle-income level to a fully developed economy is the challenge that they now face.

Taking advantage of uneven compression of space and time

Consequences of globalisation are the compression of space and time. Such compression, however, occurs unevenly. Production networks actually take advantage of such unevenness, and production activities move from

forerunners to latecomers, which may narrow geographical development gaps. Forming industrial agglomeration with production networks is another dimension of the compression of space. In industrial agglomeration, industrial development gaps between multinationals and local firms, between large firms and SMEs, and between manufacturing and non-manufacturing stand side by side. It is thus natural to think of the effective utilisation of such gaps in upgrading innovation and industrial structure.

Africa must participate in this new game. The compression of time means that the economy and society, as well as human beings themselves, can change quickly by learning from experiences in other countries. Advantages of latecomers should be explored.

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Fukunari Kimura is Professor at the Faculty of Economics, Keio University, Tokyo and Chief Economist at the Economic Research Institute for ASEAN and East Asia.



Economic transformation in Mauritius: A heterodox journey

In less than fifty years since its independence, Mauritius has managed to trace a remarkable development path. Yet, at the time of independence, all the conditions were gathered to meet the predictions of the prophets of doom. A small vulnerable island, deprived of any natural resources, flanked with a monoculture economy, high unemployment, low education and low income, amongst others, were more a recipe for disaster than that of a success story. Despite that, time, leadership and vision not only proved that another outcome was feasible, but more importantly, that profound transformation was possible, and all that within one single generation. The experience of Mauritius brings useful insights into the dynamics and pitfalls of an economic transformation journey.

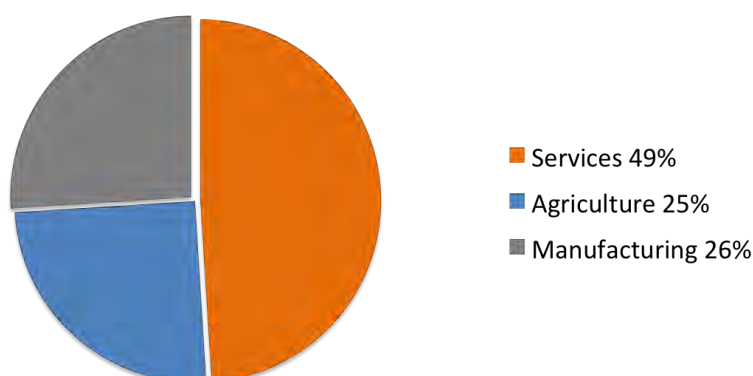
Where did it start and where is it going now?

In 1968, at the dawn of its independence, Mauritius was a sugar-based monoculture, with a stagnating GDP per capita of barely US\$200. Agriculture made up 25% of the gross domestic product (GDP), as shown in Figure 1, and sugar alone accounted for over 90% of total exports. Unemployment was rampant, estimated at 20%. Today, the contrast is striking: the economic landscape is completely transformed. GDP per capita is estimated at slightly above US\$8,000, and the country has a diversified economic structure oriented towards services, with numerous contributing pillars, as illustrated in Figure 2. Agriculture accounts for less than 4%, of which sugar barely accounts for a third of sector

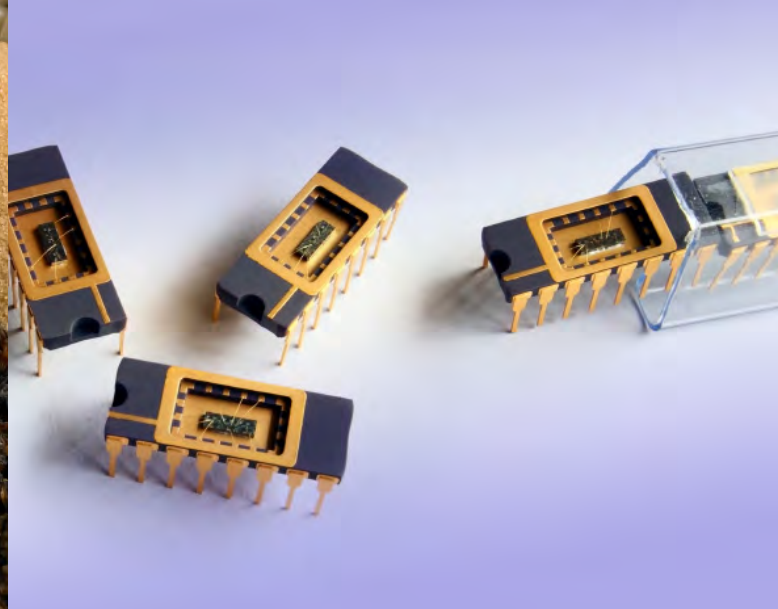
contribution. The financial services sector has taken much prominence in the last decade. With its 21 banks, 26,096 global business companies and 905 global funds Mauritius is positioning itself as a financial services hub and gateway to Africa.¹

Societal transformation was not neglected. At the time of independence only 1 out of 3 children was enrolled at primary school. Today, this rate has reached 99%, and the government is now pursuing the policy of “one graduate per family”.

Figure 1: Sectoral economic contribution, 1968



Source: Central Statistics Office, Mauritius



Access to safe water and decent infrastructure were real challenges. This has now been largely overcome. Life expectancy has improved, transmittable diseases have been eradicated and only 1% of the population live in absolute poverty.

The key tenets of the Mauritian trajectory

'Economic' transformation was conducted in such a manner that the economic landscape, society and institutions were modernised

simultaneously, though at various speeds taking into consideration the political, human, institutional and economic realities and constraints of the time. The approach was largely inclusive because the major asset was the population. On the economic front, it translated, in a nutshell, in what Figure 3 captures: systematic restructuring of the economic base through a broader sectoral focus and at the same time, a deeper focus on specific sectoral activities where there were possibilities to upgrade production.

Today, the economy is more diversified, institutions are in place to support the continuous need for change, and policy making is participatory, with a decisive role for the private sector and representatives of the civil society.

There are certainly a number of challenges that still have to be addressed. *Skills mismatch* resulting from economic re-engineering, remains a major challenge, in particular for those involved in low-productivity jobs. *Income inequality* has widened significantly over the years, especially between modest households and the constantly increasing upper middle class. While Mauritius has a basic system of social safety nets in place to insulate the most needy from absolute poverty, this does not meet the requirements of a rapidly changing society. In the *health sector*, the country has one of the highest rates of diabetes in the world, and non-communicable diseases are probably the most widespread pathologies.

That said, the Mauritian story is based on five foundational stones: political leadership, strong institutions, its ethnic diversity, a class of indigenous entrepreneur and a well structured private sector that is engaged in regular dialogues with the government on policy matters. Coupled with this, the transformation has always ensured the balance between economic and social objectives,

Figure 2: Sectoral economic contribution, 2012

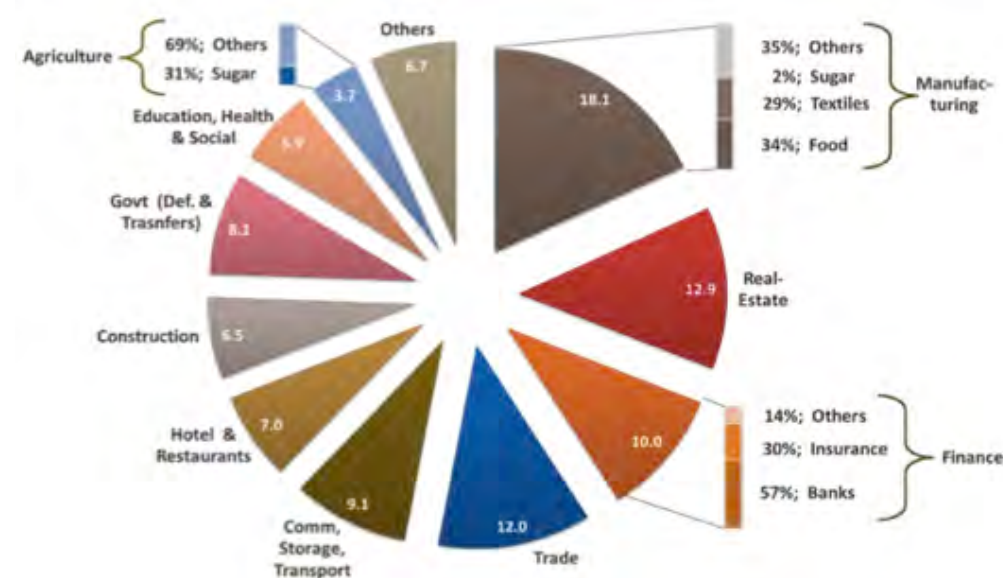
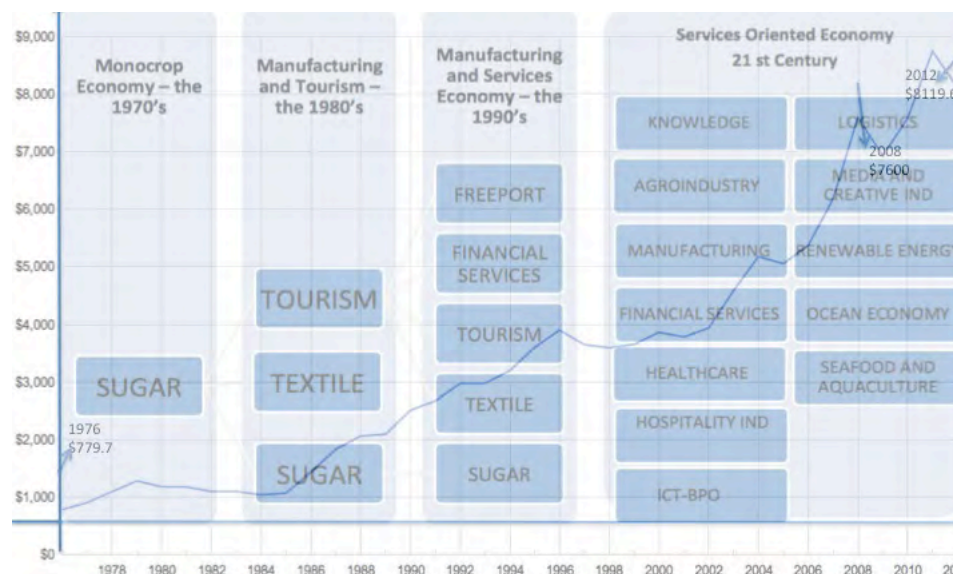


Figure 3: Mauritius economic trajectory: sectoral transformation and GDP per capita (in US\$)



Source: World Bank

notably with a strong focus on human capital, through free education and health, and a minimum basic social safety net for the most vulnerable.

1. Political leadership to embrace difficult reforms

Mauritius suffered the setbacks of a major economic crisis at the end of the 1970s. Like most crisis-ridden developing countries of those days, Mauritius sought financial support from the International Monetary Fund (IMF) and the World Bank. But bailout loans had a painful counterpart: the implementation of a structural adjustment programme (SAP). Of the SAP, the government kept only those measures that were necessary to address macroeconomic imbalances. The remaining prescriptions, in particular regarding social expenditures, subsidies, trade reforms and state-owned enterprises were undertaken in a sequenced way that fitted the Mauritian reality of the time.

The crisis had cost the government of the time seats in Parliament and the newly elected leader made decisive policy choices that were hard to swallow but finally paid off because they profoundly reformed the Mauritian economy. Indirect taxes (i.e. sales tax) were introduced to finance the fiscal deficit and cautious wage policies were adopted to maintain export competitiveness. The politically sensitive sugar sector was restructured through centralisation of mills and

expanding labour participation in the ownership of factories. The government finally won the battle of ideas over ideology because policies did not follow any conventional wisdom but were instead heteroclitic and adaptive. Solid institutions were a key guarantee for investment, entrepreneurship and innovation.

2. Adaptive structural policies supported by solid institutions

Initial policies to transform the economic structure have not always been successful. The first industrial policy, largely inspired by the prevailing orthodoxy in many developing countries in the 1960s, focused on import-substitution policies and failed to provide results. At that time, Mauritius had a very small internal market with low purchasing power. The cost of protection for inward-looking industries soon proved too high to be sustainable. Although never totally abandoned, inward-looking policies had to adapt to meet the ambitions and needs of the economy. Subsequently, following the trend in East Asia, Mauritius embraced an outward-oriented strategy: as a small island, markets abroad provided for economies of scale. The Export Processing Zone (EPZ) was set up.

The positive lessons learnt from this first wave of industrialisation included

the setting up of a Development Bank to support industrial development with incentives. In addition, it created a new breed of domestic entrepreneurs that managed to adapt to new opportunities and exposed the labour force to an industrial work environment. This was virtually inexistent before and would probably have taken time to develop. The EPZ needed quick wins in terms of labour flexibility as well as a business and financial environment in which it could easily gain competitiveness.

There is more to the Mauritian story than just the setting up of an EPZ. At least two complementary policy choices and one external factor are important to highlight.

a) The heterodoxy of trade policy: Certainly during the 1970s but also mostly during the 1980s, Mauritius conducted a dual trade policy: open for exports and protective for import competing sectors. The export sector was a major driver of the economy and a key source of foreign exchange. It was therefore crucial to provide duty-free inputs and substantial tax incentives to encourage exports. Estimates show that during the 1970s and 1980s average rate of protection was among the highest: more than 100% in the 1980s and still as high as 65% at the beginning of the 1990s. To insulate local producers in the agro-business for instance, tariffs were quite high and in the agricultural sector, there was an extensive use of quantitative restrictions and import licensing. Most of those disappeared progressively when Mauritius joined the World Trade Organization (WTO) in 1995.

b) The role of exchange rate: Mauritius managed to keep a relatively high degree of currency undervaluation to keep exports competitive, often at the expense of imports. While the currency is pegged to a basket of currencies, it has deliberately been kept floating downwards. This, to some extent, compensated for increasing costs of domestic factors of production, although it was a double-edged sword, as it also inflated the value of imported inputs into the export sector.

c) The wide use of access to main markets on preferential rates: Since the 1970s, Mauritius, together with

other African, Caribbean and Pacific (ACP) countries, benefited from very favourable access to EU markets, in particular for its three star exports, sugar, tuna and textile products. For a long time, the rents from the margin of preferences allowed Mauritian exporters to have an edge over other potential competitors. Later on, it also significantly benefited from preferential access to the US market, through the Africa Growth and Opportunity Act (AGOA), in particular for the textile and clothing sector.

3. The importance of forging consensus

Probably the result of its political system, whereby no single political party ever managed to win elections without coalitions, policy making is built on the fundamental basis of seeking agreements, in particular between the private and the public sectors around key strategic issues. Private sector institutions occupy a central place in the policy making landscape to represent the voice of sector in the decision-making process. This has been instrumental in ensuring that government policies worked also in the interest of the business community and decisions were properly implemented. It ensured that the business environment remained indeed conducive as the economic trajectory evolved. This integrated approach towards industrialisation proved quite useful in navigating through transformation.

Increasingly now, corporate social responsibility is becoming an important vehicle for private actors to participate in social transformation. Since 2009, government has established a policy with the overall objective of mandating registered companies to pay 2% of their book profit towards programmes that contribute to the social and environmental development of the country. For instance, some have stepped up efforts to support government's programme in low-achieving schools, by providing lunch and school material to students.

The current industrial sector, in particular the textile sector, has managed, over the past 25 years, to reabsorb the rising unemployment and to fuel the rest of the economy by providing opportunities for local entrepreneurs to build linkages

outside the sector. But with time, the traditional textile-driven industrial sector showed its limits. Today, it remains a sector of low productivity, connected to the lower rung of the value chain. It did not manage to attract ideas and capture activities where the highest value is made. As labour costs increased over time, footloose companies got itchy feet and moved elsewhere. How can Mauritius manage its future growth trajectory?

What now: How can Mauritius avoid the middle-income trap?

While significant progress has been achieved in the last 40 years, global dynamics call for more and more reforms if Mauritius wants to avoid the middle-income trap and join the club of high-income countries. There are already indications of worrying signals: the average growth rate since 2010 has stabilised at less than 5%, necessary to enable incremental changes, but insufficient to steam up the engine to the next level. Beyond redesigning the economic landscape, some long-hanging reforms will have to be addressed. Three main weaknesses will have to be addressed.

Today the **education system** remains one of the weakest points. While Mauritius has a 99% enrolment rate at the primary level, what comes next is very disappointing. Out of every 100 children who enter primary school, only 80 manage to pass their primary school exam to enter secondary school. Then, only 60 will manage to succeed after the first 3 years, 40 will pass the grade 5 exams only 20-30% will reach the end of the secondary school cycle. This clearly does not match the requirements of a high-income country. The curriculum is often criticized as being too academic with little openings for technical and vocational training.

Additionally, **labour market reforms** still need to be completed to ensure flexibility. A diversified economic base only makes sense if it is possible for people to move across sectors. Currently, the stiffness of labour market and employment schemes that go with it still makes it difficult for people to move around. The basic principle should remain to protect people rather than jobs.

Finally, Mauritius must step up efforts to plug into **regional and global value chains**. It must continue to build on the regional market and must upgrade its participation in global value chains, preferably by capturing activities with higher value added. Today, regional market penetration remains too weak: In 2013, a Study² estimated that Mauritius exports to the SADC region amounted to only 1.3% while its imports from the SADC region amounted to 2.5% in 2011. Similarly, the country has too big a bias towards its traditional markets in the EU and the US to export low value added products. Competition over concepts rather than over processes is necessary to have a meaningful role in GVCs. To achieve this, increased investment in innovation, research and development and technology is crucial.

Economic transformation is a continuous process and Mauritius has had a good track record so far. The challenge for Mauritius however now lies in combining sustained domestic reforms with efforts required to keep up with international trends to become a global player. This is certainly going to be a rocky road, as it will have to count the presence of new emerging African middle-income countries that are increasingly catching up with their economic trajectory. It will only succeed if it manages to navigate through competition, turning challenges into potential opportunities.

Notes

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Isabelle Ramdoo is Deputy Programme Manager of the Economic Transformation programme at ECDPM.

EPA UPDATE

ECOWAS ad-hoc group convenes to review Nigeria's concerns

The ad-hoc group tasked with drawing up a solution to the latest impasse in West Africa's Economic Partnership Agreement (EPA) negotiations met last week in an effort to come up with ways of assuaging Nigeria's concerns over the agreement.¹

The group, set up during the last the Economic Community of West African States (ECOWAS) Heads of State meeting in March consists of Cote d'Ivoire, Ghana, Nigeria and Senegal. The last-minute objections raised by the West African giant had prevented the adoption of the deal during the meeting.

The group is tasked with coming up with a way out of the current situation. Cote d'Ivoire and Ghana are the two ECOWAS countries where pro-EPA industries are the strongest. They are also the strongest backers of the deal in the region. A significant share of their exports rely on preferential access to the European market which will come to lapse in October 2014 should no EPA be signed. Senegal has, as of late, assumed the role of regional mediator when it comes to EPA negotiations. Its president, Macky Sall, was appointed to supervise negotiations by his peers last year.

Nigeria, for its part, is home to a strong industrial sector that has long opposed the EPA. Industry representatives had strongly criticized the agreement when it was announced earlier this year that ECOWAS and EU negotiators had found a compromise on outstanding issues in the agreement.

GREAT has yet to gather information on the outcome of the meeting but the process is foreseen to lead to the issuing of new guidelines to chief negotiators. This, according to our sources, should happen in late May. It is unclear if a reopening of negotiations is possible: European officials cited by Reuters prior to the Heads of States and government meeting had warned that "[ECOWAS] should not re-open anything".²

With Nigeria asking that some tariff lines in the liberalisation schedule be reviewed and that the development financing commitments undertaken by the EU be strengthened, it is unclear what steps regional officials can take without re-opening the negotiations with the EU. The Nigerian Ministry of Trade has explained that he wishes to see products and sectors targeted by the high-profile Nigerian Industrial Revolution Plan shifted in the category of goods excluded from liberalisation. He also stressed the importance of working "together as ECOWAS members and not to allow EPA to divide us".³

In the meantime, the Ghanaian press has reported on a public meeting between Ghanaian officials and the business community. According to the report, tensions in the business community are running high between pro-EPA industries and other sectors generally wary of increased competition. Some heavyweight companies in Ghana's agricultural sector – such as Cargill or Golden Exotics – have warned that the loss of preferential market access to Europe would severely affect their future operation in Ghana and compromise their presence in the country.⁴ Other sectors fearing competitive pressures were

apparently up in arms against the Ghanaian's government wish to sign the EPA.

GREAT will report on the conclusions of the ad-hoc meeting as soon as information becomes available.

SADC EPA negotiations down to 2 issues, electoral season in South Africa complicates end game

EPA negotiations in the SADC grouping are now down to two outstanding issues: export taxes and agricultural safeguards, but the South African electoral calendar is seen as complicating prospects for a speedy outcome.

The EU has submitted two revised texts to the region after a meeting on the margin of the EU-Africa summit where negotiators could not overcome their differences on these two topics. The texts are the EU's latest attempt to meet the SADC EPA group halfway. Generally, SADC EPA states have been vehemently opposed to the inclusion of disciplines on the use of export taxes. They consider these tools as important to their industrialisation efforts. Agricultural safeguards are important to South African Customs Union (SACU) countries for which the agricultural sector holds a number of sensitivities on products such as poultry.

Sources in the region indicate that trade ministers in the SADC region are to meet mid-May to review the latest proposals sent by the EC. The proposals, seen by *GREAT*, have a number of built-in flexibilities such as specific time, volume and value bound exemptions for export taxes. On agricultural safeguards, the main

10 May
May (date TBC)
May (date TBC)

ECOWAS ad-hoc ministerial meeting on EPA (Accra, Ghana)
SADC inter-ministerial meeting on EPA (location unknown)
EAC-EU ministerial meeting (EAC region, location TBC)

bone of contention appears to be the number of products falling under its remit.

It appears that after a flurry of technical and senior officials meeting the ball is now squarely in the camp of political decision-makers in the region. This could be complicated by the current electoral season in South Africa – with the regional press indicating that coming to a political decision on the EPA might not be possible before the appointment of a new cabinet.⁵

Under pressure from Cameroon, Central African EPA group revives EPA negotiations

A report by Enda's *Centre Africain pour le Commerce, l'Intégration et le Développement* (CACID), a Senegalese NGO based in Dakar, indicates that the central Africa region has re-opened the EPA dossier after years of relative inactivity.⁶

This follows earlier reports that Cameroon was apparently considering entering alone in signing an EPA, or at least applying the Interim EPA it concluded back in 2007. Cameroon, home to a significant banana industry, relies on EU preferential access for a significant share of its exports.

At an earlier meeting, in February 2014, the *Council of Ministers form the Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC) had "expressed concerns regarding Cameroon's application of its Interim EPA" and called on "sectoral ministers to (...) come up with an action plan to speed up the conclusion of a regional EPA".⁷ The Central African EPA group is

made up of eight countries, six of which belong to CEMAC, a customs union. Ministers have expressed the fear of seeing Cameroon apply preferential rates to EU imports while its neighbours do not.

The report published by CACID relays the conclusion of an inter-ministerial conference held in Kinshasa on March 28th, where trade Ministers from the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC) issued guidelines for negotiators. The last negotiating session *GREAT* has heard of dates back to 2011 – but a meeting between Central African and European negotiators could have taken place in recent weeks.

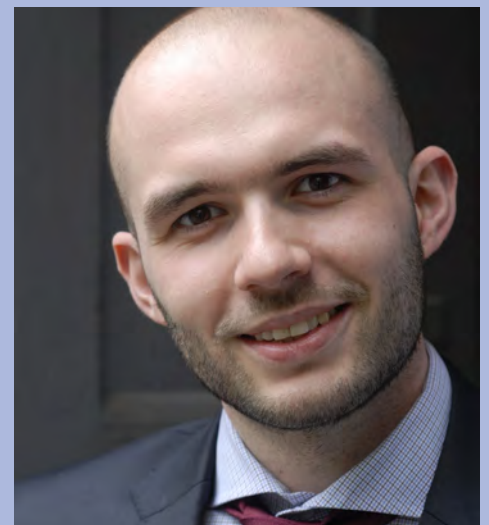
According to the ministerial report, the EU has reportedly agreed to drop the Most Favoured Nation (MFN) clause from negotiations in Central Africa. The ministers further outline that the region is ready to open its market to the tune of 73% of tariff lines over 20 years – largely in line with what was agreed with West Africa a few months back. In stark contrast with its West African neighbour, however, the region seems determined to negotiate on services – including mode 4. The text also reveals a strong wish to condition any tariff dismantlement on solid commitments on the EU's behalf to finance the region's accompanying adjustment plan, the *Programme d'Accompagnement du Développement dans le cadre de l'APE* (PRADA).

It is unclear what the next steps in the region are. The DG Trade website did not indicate a negotiating session with Central Africa in the future.⁸

Notes

See <http://ecdpm.org/great-insights/emerging-economies-and-africa/epa-update-april-2014/>

1. <http://www.reuters.com/article/2014/03/27/us-westafrica-eu-trade-idUSBREA2Q25V20140327>
2. <http://allafrica.com/stories/201404020429.html?page=2>
3. http://www.spyghana.com/epa-debate-causes-stir/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Spyghanacom+%28SpyGhana.com%29
4. <http://www.polity.org.za/article/new-sa-cabinet-to-make-eu-trade-deal-call-as-talks-near-end-2014-04-25>
5. See <http://ictsd.org/i/news/passerellesynthese/188046/> for the full text (in French).
6. http://www.cemac.int/sites/default/files/26%2B%C2%BFme%20Session%20-%20CM_UEAC.pdf
7. http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf

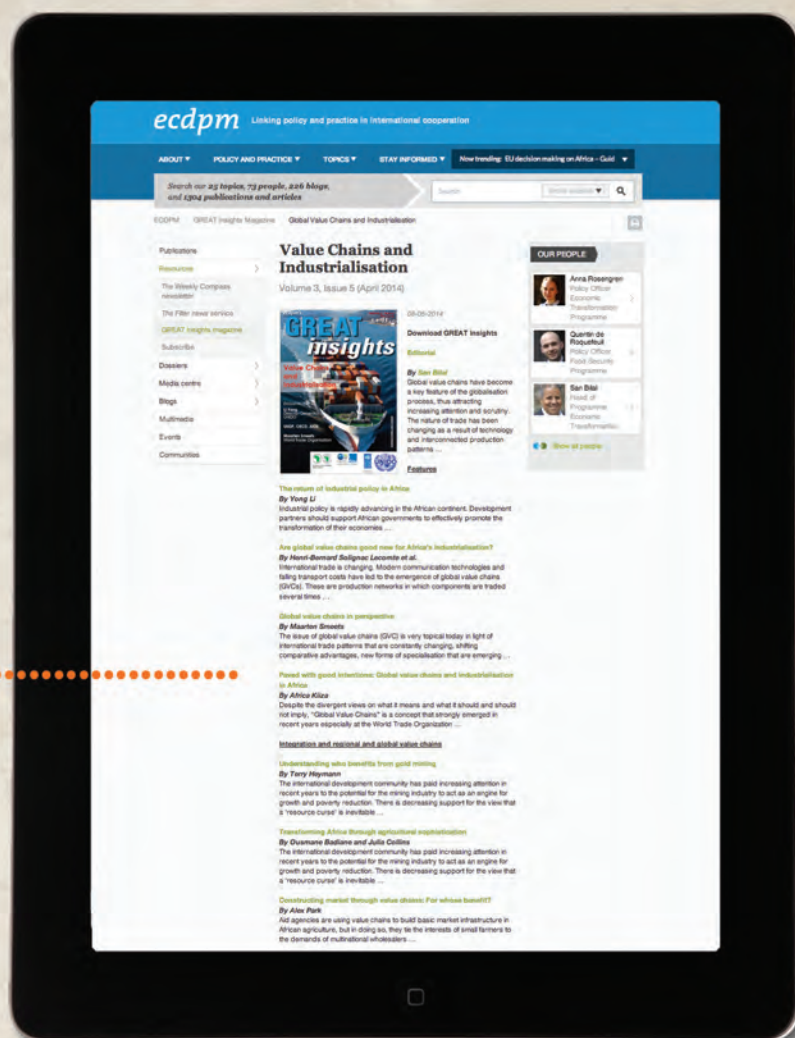


Quentin de Roquefeuil is Policy Officer at ECDPM.

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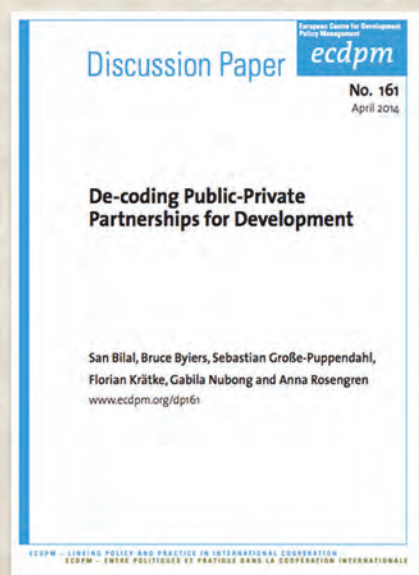
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DISCUSSION PAPER 161

This background study aims to stimulate discussion on partnerships between public and private actors for achieving and financing sustainable development post-2015. It was prepared to feed into the UN Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) Outreach Event on Co-creating New Partnerships for Financing Sustainable Development, in Helsinki, Finland, on 3-4 April 2014.

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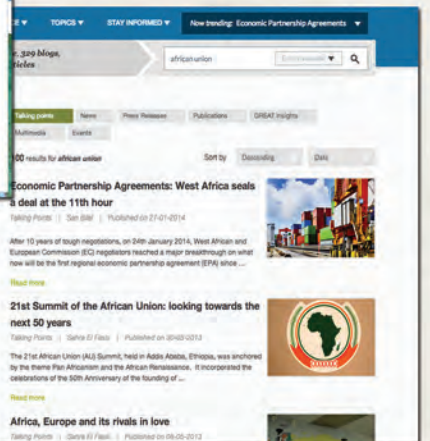
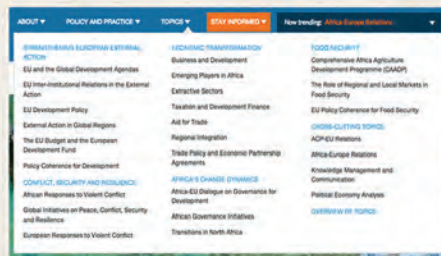
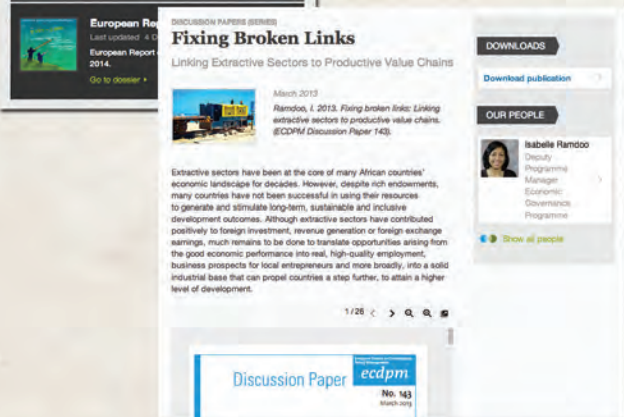
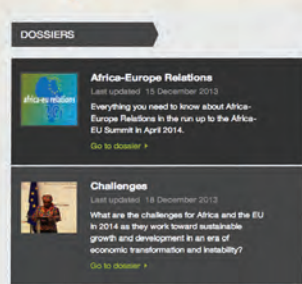


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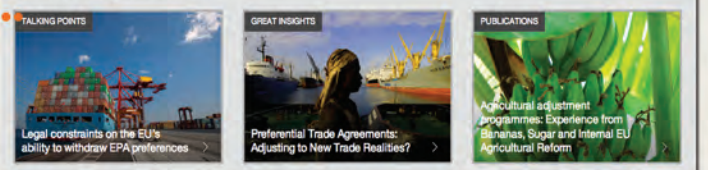
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What are the possible economic ramifications for ACP countries of mega-regional trade agreements - those which involve three or more countries, constitute a quarter of world trade or more, and entail deep, behind the border regulatory commitments - being negotiated by major industrial powers like the Trans Pacific Partnership and the Transatlantic Trade and Investment Partnership? This paper from ECIPE explores these issues and urges a policy of constructive engagement in the WTO by the ACP countries through participation in established working groups to explore the new regulatory issues, and preparing the groundwork for their subsequent incorporation by negotiation into the multilateral trading system. While the WTO remains central to defending ACP trade interests, ECIPE encourages ACP states to conditionally support plurilateral negotiations, ensuring that their interests will be accommodated by withholding consent until such time as concrete and enforceable undertakings are in place.

Demand for Democracy is Rising in Africa, but Most Political Leaders Fail to Deliver

Weekly Compass, 25 April 2014

Seven out of ten Africans prefer democracy to other political regimes, and the proportion of deeply committed democrats has risen steadily over the past decade according to citizen attitude surveys conducted by the Afrobarometer in 34 countries. The study points out that while ordinary Africans clamour for high-quality elections and leadership accountability, too many political leaders continue to manipulate the polls, challenge term limits, and even seize power by coup. Several African countries – notably Cameroon, Cote d'Ivoire, Nigeria, Uganda and Zimbabwe – continue to experience a deficit of democracy in which popular demand for democracy greatly exceeds the amount of democracy that political elites are willing or able to supply.

How Does the EU Make Decisions That Matter for Africa?

Weekly Compass, 18 April 2014

ECDPM's latest guide is for African and European audiences eager to know more about how the European Union makes decisions on Africa in an ever changing and inter-dependent relationship between the two continents. What guiding documents, financial and other instruments does the EU use? What are the main dynamics and challenges? No death by powerpoint here! This new guide is an in-house presentation supported by infographics and narrated by our own Essete Abebe Bekele and Clem Silverman. It is based on previous ECDPM's research and body of knowledge.

New Deal for Fragile States Needs Time and Political Commitment to Flourish

Weekly Compass, 11 April 2014

Some claim the 2011 "New Deal" for Engagement in Fragile States is already in crisis, but statebuilding demands patience, resources and resolve writes Helder da Costa, General Secretary of the g7+ in The Guardian. The New Deal calls for peacebuilding and statebuilding objectives to be at the forefront of international efforts in conflict-affected countries. But to achieve change on the ground, the New Deal must change mindsets and shift priorities at the very highest levels. Yet it has too often been seen as a technocratic exercise, something that can be "implemented" by one or two ministries and their local donors. Da Costa argues we need to bring the politics back in. This means building momentum and commitment to change at all levels of society, from the grassroots to the president. You can also listen to a podcast on what he expects from the First High-Level Meeting of the Global Partnership.

Next issue of *GREAT insights* on
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June 2014, Volume 3, Issue 6

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