Observatoire Europe-Afrique 2030

The manufacturing sector is a key driver of African economic growth

Case study no.16

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"Industrialization is a powerful driver of rapid job creation. However, African economies have deindustrialised. Structural changes are certainly underway, but through the rise of the service sector, which is characterized by informality, low productivity and its inability to create decent jobs. To avoid the trap of informality and chronic unemployment, Africa must industrialize and create added value for its abundant agricultural, mineral and other natural resources "[1]

[1] "African Economic Outlook - 2019" - Quote from Akinwumi A. Adesina, President of the African Development Bank Group.

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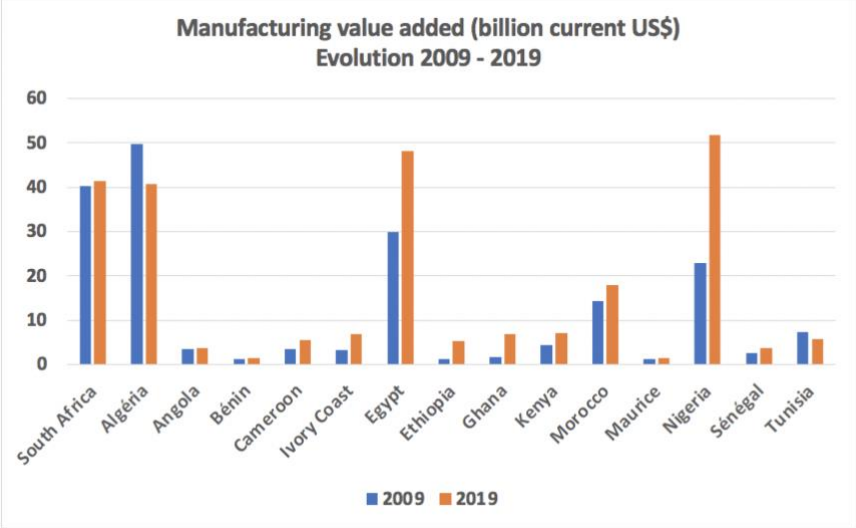
1. Objectives of the case study

This case study aims to explore the interrelationships between the evolutions of the manufacturing sector[2], economic growth and population growth in African countries. The main objective is to analyze the role of the manufacturing sector in African economic growth and to compare these developments with those of other countries outside Africa. This analysis was carried out using macroeconomic statistical data from the World Bank and the United Nations, over the decade 2009-2019. The geographic scope includes the 15 African countries covered by the Observatoire Europe-Afrique 2030[3].

2. The locomotives of manufacturing growth in Africa

In 2019, the cumulative manufacturing value added (VA) of South Africa, Algeria, Egypt and Nigeria represented 73.4% of the total VA of the 15 countries analyzed. During the period 2009-2019, Egypt and Nigeria played a leading role in the growth of manufacturing activity. As shown in the graph below, the cumulative growth of manufacturing VA of these two countries (47.06 billion USD) represented more than three times the cumulative growth of the 13 other countries analyzed (13.7 billion USD). South Africa and especially Algeria have experienced less favorable developments. Algeria is the only one of the 15 countries studied where manufacturing VA significantly decreased during the period concerned.



[2] The manufacturing sector includes the goods processing industries, that is to say mainly manufacturing industries for own account but also the repair and installation of industrial equipment as well as subcontracting operations for a third party donor. orders. Examples: Food industries, textile manufacturing, leather and footwear industry, paper and cardboard industry, chemical industry, pharmaceutical industry, metallurgy, manufacturing of computer, electronic and optical products, automotive industry. It excludes the construction industry.

[3] South Africa, Algeria, Angola, Benin, Cameroon, Ivory Coast, Egypt, Ethiopia, Ghana, Kenya, Morocco, Maurice, Nigeria, Senegal, Tunisia. The cumulated GDP of these 15 countries reaches more than 80% of the total GDP of all African countries.

3. Manufacturing value added per capita: Contrasted trends

The following graph compares the evolution of manufacturing VA and manufacturing VA per capita over the period 2009-2019. The 15 countries studied can be classified into 4 categories:

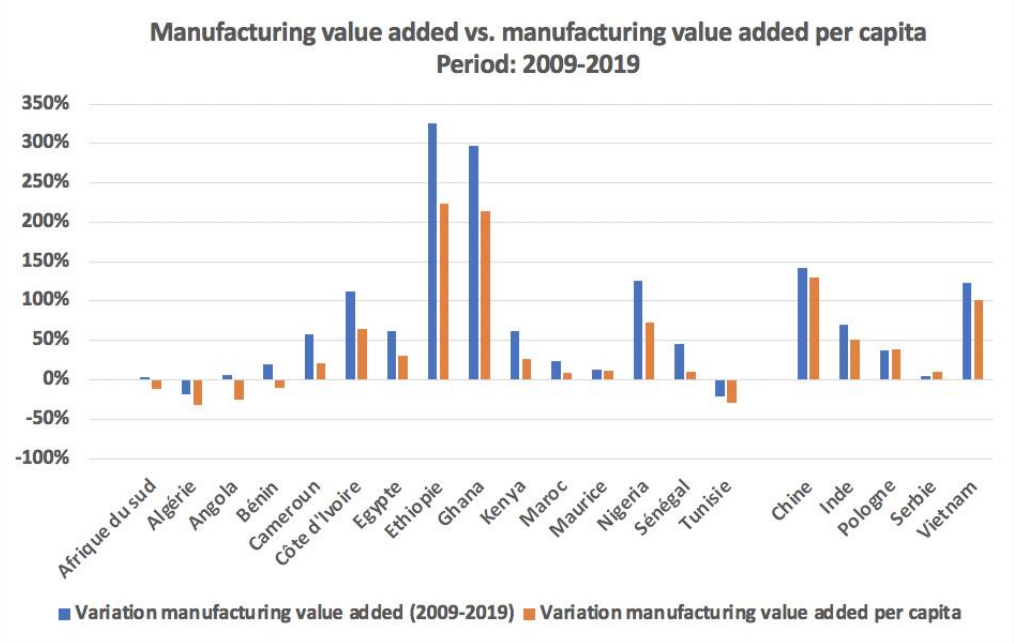
• Manufacturing VA increased strongly in Ethiopia, Ghana and to a lesser extent in Côte d'Ivoire and Nigeria during the period concerned. As a result, despite the high population growth, the growth of manufacturing VA per capita in these four countries reached + 143% over the period 2009-2019, or + 9.3% per year.

• Cameroon, Egypt, Kenya, Morocco and Senegal record low gains in VA per capita. For example, that of Cameroon only increased by 21% over the period concerned, while manufacturing VA increased by 58.3%.

• In South Africa, Angola and Benin, growth in manufacturing VA was not enough to offset population growth. As a result, manufacturing VA per capita has declined.

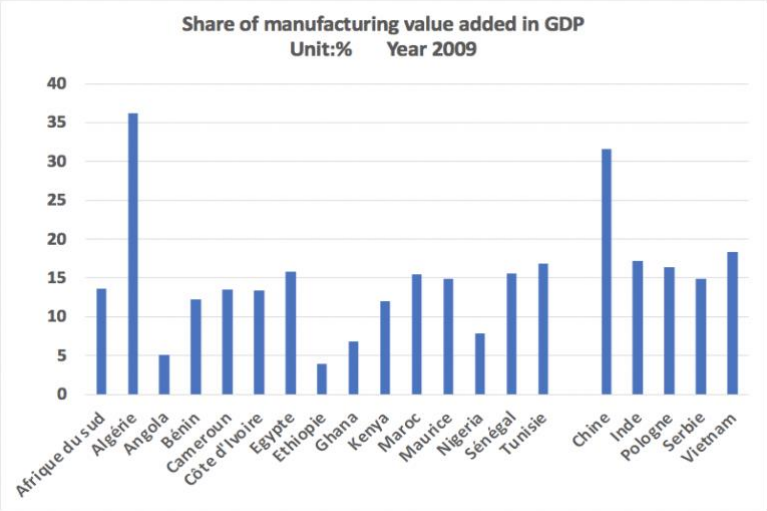
• In Algeria and Tunisia, the manufacturing VA having decreased. The evolution of the manufacturing VA per capita is frankly negative over the period considered.

During the same period, Asian countries experienced a sustained increase in their manufacturing VA per capita: + 130.1% for China, + 100.6% for Vietnam!

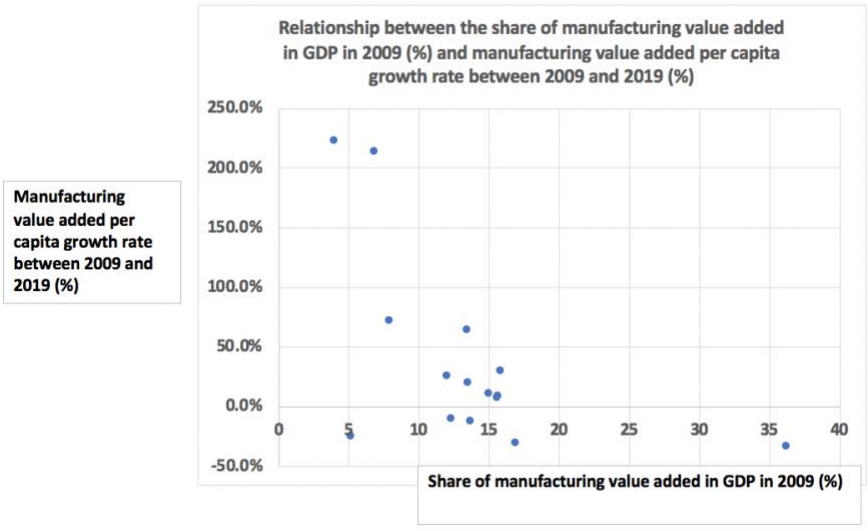


4. A tendency towards homogenization

The best performances in terms of manufacturing VA per capita over the period 2009-2019 correspond to African countries which started from the bottom. This is particularly the case for Ethiopia, Ghana, Nigeria and the Ivory Coast. In 2009, the share of manufacturing VA per capita in GDP did not exceed 3.9% in Ethiopia and 6.8% in Ghana, while the average of the 15 African countries analyzed was 13.5%. Conversely, Algeria, Tunisia and South Africa, which already had a solid manufacturing sector in 2009, recorded a stagnation (or even a decrease) in the share of their manufacturing VA in GDP.



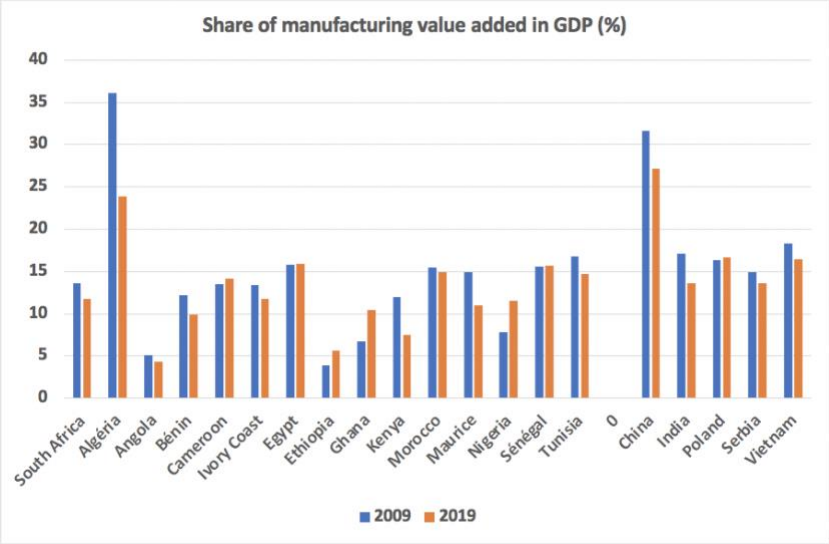
The period 2009-2019 therefore corresponds to a phase of homogenization of the share of manufacturing VA in GDP for the 15 countries concerned. As shown in the graph below, the higher this share was in 2009 for a given country, the less that country performed over the period 2009-2019. Overall, the weighted average share of manufacturing VA for the 15 countries analyzed decreased from 19.2% to 14.5% of GDP during the period 2009-2019.



5. African manufacturing VA remains marginal globally

The share of the 15 African countries analyzed in the world manufacturing VA has fallen sharply, dropping from around 2.4% in 2009 to around 1.4% in 2019. This decrease represents an inflection: Indeed, over the period 2000-2014, Asia's share in global manufacturing VA increased from 11% to 39%, while that of Africa rose from 1% to 2%.

This decrease in Africa's share in global manufacturing VA is all the more revealing of the weakness of the African manufacturing sector as during this period the relative share of manufacturing VA decreased in many countries “outside Africa”, among which Asian countries like China, India and Vietnam.

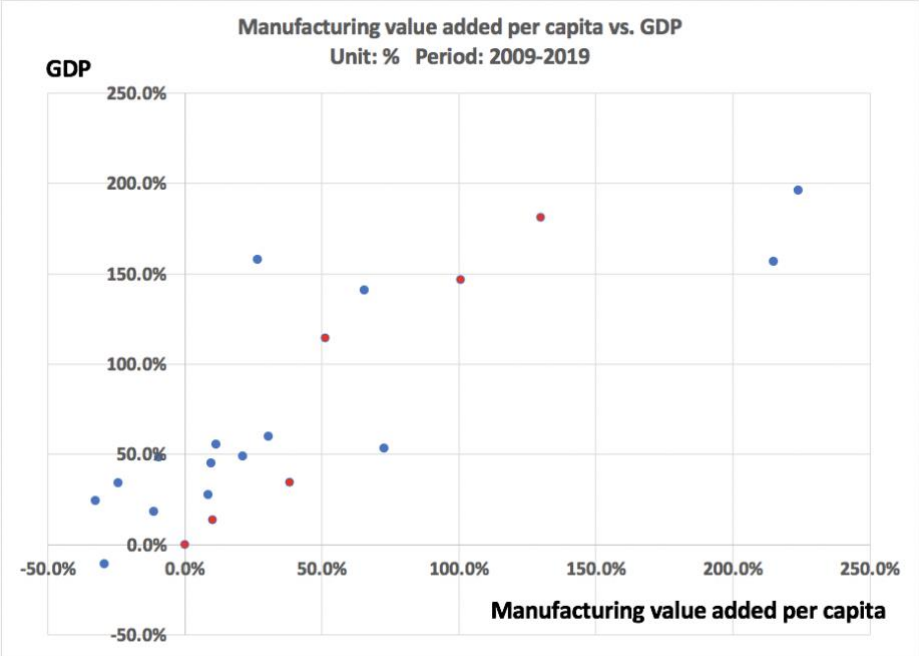


6. Change in manufacturing activity and economic growth

The following graph suggests the existence of a close relationship between the evolution of manufacturing VA per capita and that of GDP over the period 2009-2019, with an elasticity close to 1.

African countries with low growth in their manufacturing sector also suffer from low economic growth.

Growth in the manufacturing sector therefore appears to be a decisive driver of economic growth in the countries analyzed.



7. Conclusions

The above analysis has highlighted the following lessons:

• During the period 2009-2019, Egypt and Nigeria have played a driving role in the growth of African manufacturing activity.

• During this period, Ethiopia, Ghana, Ivory Coast and Nigeria were the best performing countries in terms of manufacturing VA growth per capita.

• The period 2009-2019 corresponds to a phase of homogenization of the share of manufacturing VA in GDP for the 15 African countries studied. The higher the share of a country's manufacturing VA in its GDP in 2009, the poorer its performance over the period 2009-2019.

• Africa has further lagged behind in manufacturing development compared to other areas of the globe. Its share of global manufacturing VA decreased from around 2.4% in 2009 to around 1.4% in 2019.

• The growth of the manufacturing sector is a key driver of African economic growth. African countries with low growth in their manufacturing sector also suffer from low economic growth.

8. Recommendations

Sub-Saharan Africa will only be able to achieve balanced economic development if a competitive manufacturing sector emerges[4]. The direct transition from the stage of “emerging countries” to the “post-industrial” stage, essentially based on high value-added services is an illusory scenario.

On the other hand, "basic" manufacturing sectors such as building materials, textiles / clothing and leather products will not be enough to boost manufacturing value added.

Beyond these sectors, it is essential that Africa succeeds in carving out a place in manufacturing sectors with higher added value, by focusing its efforts on the following sectors:

• Transformation of raw materials (precious metals, gas, oil, ores) into intermediate products (steel, chemicals) and finished products (metal processing, electronic components…..)

• Food industry

• Manufacture of equipment goods intended for the energy transition: wind turbines, solar panels, hybrid mini-grids, electric generators, electric vehicles, hybrid and electric buses, desalination plants, electrical distribution equipment.

• Manufacture of parts or assemblies with a high technological content in the automobile and aeronautics sectors.

In all these sectors, the opportunities linked to the size of the African market are immense.

The need to materialize large-scale manufacturing co-production agreements between French companies and African companies has therefore never been stronger. This would make it possible to bring into play the Africa-Europe synergies in terms of production costs and to move production upmarket.

[4] According to the IMF, “20 million net job creations per year will be needed over the next two decades to absorb new entrants into the labor markets. But currently, only 10 million jobs are created each year. Only higher growth, of the order of 6% on average between 2018 and 2022, against 4% used by the IMF in its baseline scenario, could accelerate employment growth by 0.6 to 0.8 points. percentage in the medium term. This would bring total net job creation in the sub-Saharan region to around 16 million jobs [per year] by 2022, closer to the 20 million needed. "