

African industrial competitiveness report: An overview of the manufacturing industry in the region

This document is a synthesis of the UNIDO report published in 2020 entitled "African industrial competitiveness report: An overview of the manufacturing industry in the region". This synthesis was prepared by the "Observatoire Europe-Afrique 2030" in April 2022.

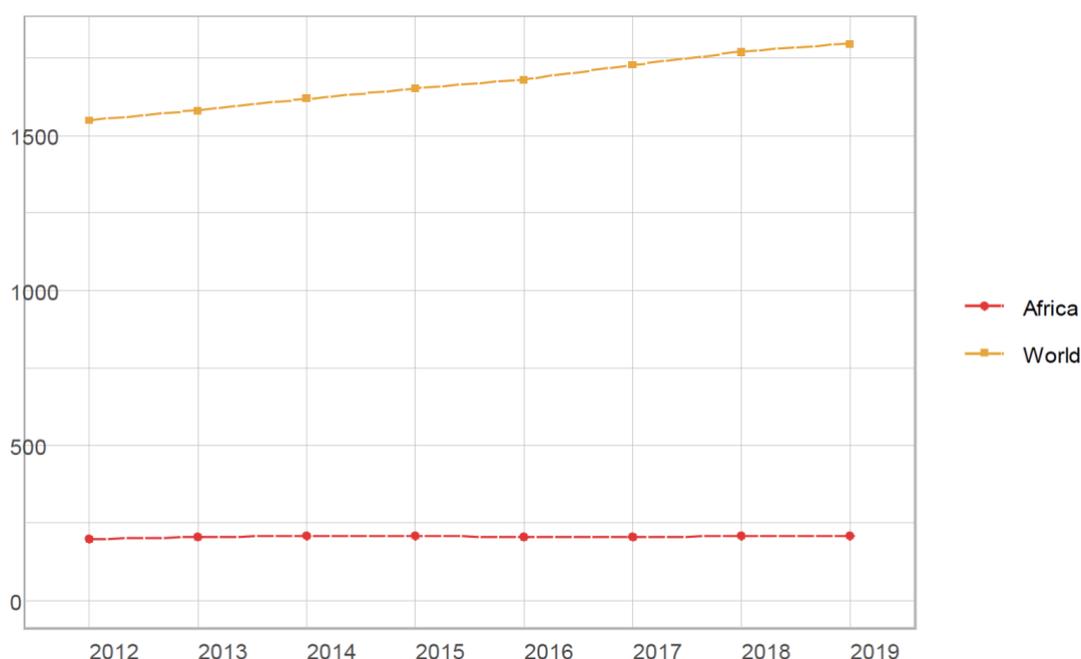
This report provides an overview and a quantitative measure of the competitive industrial performance of the African continent

Today, it is impossible to imagine industrial development without exposing the local manufacturing sector to international competition; that is the reason why industrial competitiveness is a fundamental component of industrial development. UNIDO defines industrial competitiveness as the capacity of countries to increase their presence in international and domestic markets whilst developing industrial sectors and activities with higher value added and technological content.

The African continent only generates three per cent of world GDP. This emphasizes a major disparity in income distribution between Africa and the rest of the world: 17% of the world population has access to only 3% of world income.

The magnitude of these economic disparities underscores the importance of boosting the continent's economic and social development. Industrialization is key to achieving this goal. Unfortunately, various figures on industrialization are not very encouraging. The disparities between Africa and the rest of the world increase further when we look at manufacturing.

Manufacturing value added per capita



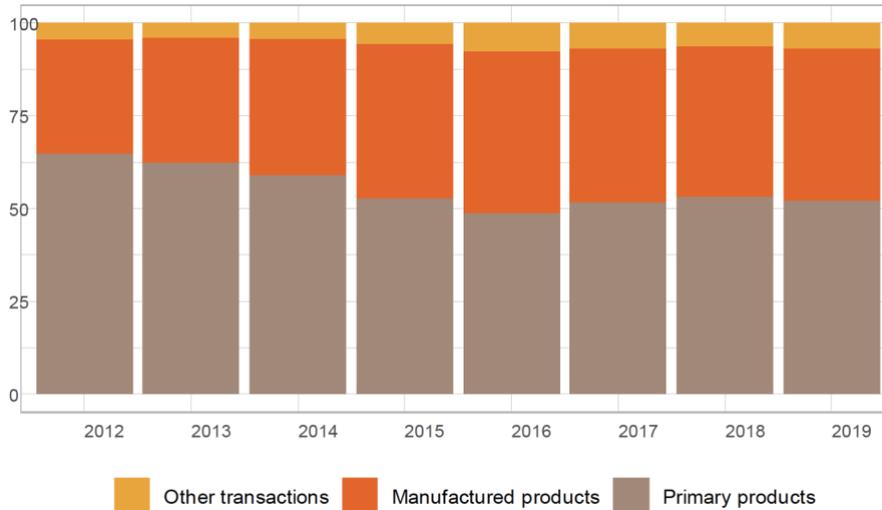
Source: UNIDO, MVA database 2020. This figure is based on available data of 54 African countries.

One key component for accelerating industrialization and enabling manufacturing to become the engine of economic growth and social development is improving trade performance. The best way to do so is by expanding the exports of manufactured goods. Competitive manufacturing sectors can diffuse economic growth to several other activities, thereby becoming the main driver of prosperity and poverty alleviation¹

The reader may have noted a considerable increase in the share of manufactured exports in total exports from 2012 to 2019, but this increase was not the result of a rise in manufactured exports. In fact, it was the result of a major decline in the exports of primary goods. Indeed, total exports fell 27% from 2012 to 2019 and most of this drop was due to the poor export performance of primary products, which fell 41% during the same period. Manufactured exports also fell, but by only 2%. Other transactions registered an increase in exports of 9%.

¹ Experience has shown that a high export performance does not always translate into a high economic performance. It is widely recognized that a classic, successful example of the capacity of export performance to produce economic growth and increase the population's overall welfare is the automotive industry in the Republic of Korea. A much less successful example is Mexico's automotive industry. There is extensive literature on the necessary prerequisites for a competitive sector to have a strong and positive impact on economic growth; literature is also available on why the Republic of Korea's automotive industry has been so successful in substantially increasing the country's economic growth and standard of living as well as on why the Mexican experience was not as successful. Export performance may be crucial, but it is only one of many other factors that are at play, including: productive linkages, local knowledge creation, institutions, infrastructure, business environment, rule of law, etc.

Structure of African exports

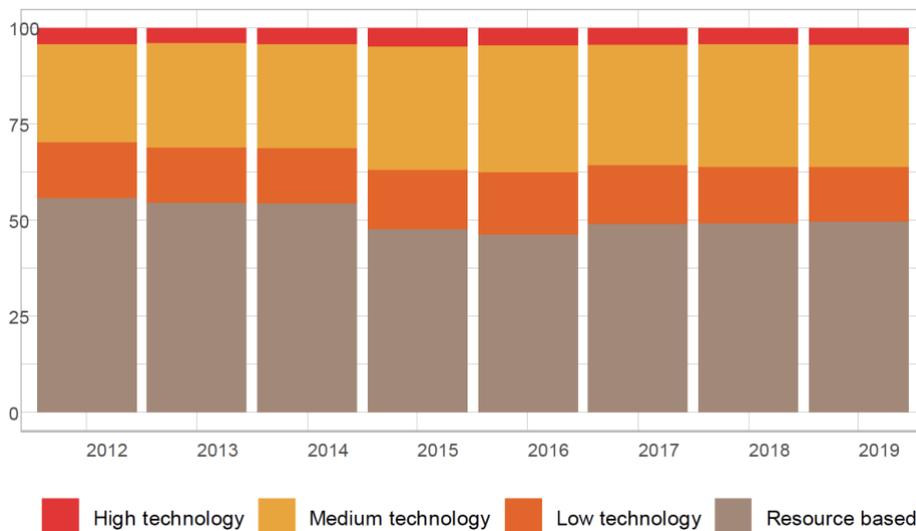


Source: Own elaboration on the basis of UNCTADstat (2020).

Note: The African aggregate is based on the 53 economies with available data, which are listed in Appendix A, with the exception of South Sudan.

Next figure illustrates the structure of Africa’s manufactured exports by type of technology. It reveals that the structure of Africa’s manufactured exports gradually changed with the incorporation of more technologically advanced products in its mix of manufactured exports. Consequently, the share of medium- and high-technology products in Africa’s total manufactured exports increased from 26.6% and 4.0% in 2012 to 31.9% and 4.3% in 2019, respectively. The opposite trend is observable in resource-based manufacturing and low-technology products, with their share dropping from 55.6% and 14.7% in 2012 to 49.6% and 14.3% in 2019, respectively. This positive development in the technological upgrading of Africa’s export mix unfortunately looks better than it actually is.

Structure of Africa’s manufactured exports by type of technology, 2012–2019



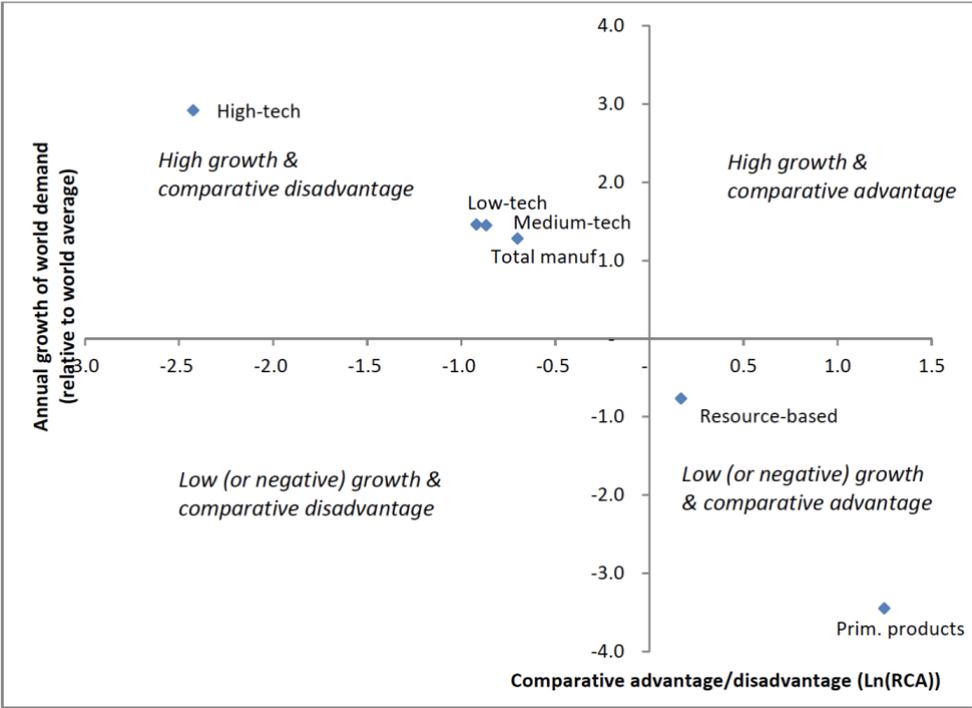
Source: Own elaboration on the basis of UNCTADstat (2020).

Note: This figure is based on the sum of exports of all 53 African economies with available data. The technological classification of products is based on Lall (2000).

Africa’s market share in manufacturing exports lags far behind, accounting for only roughly 1.3% of world exports. This share has remained fairly constant in recent years, shrinking from 1.4% to 1.3% over the period of analysis. Resource-based goods account for the biggest market share of manufactured goods (3% in 2019). The shares of all manufacturing categories decreased, with the exception of medium-technology, which witnessed a slight increase in its market share from 1.0% to 1.1% of world exports. Therefore, despite the fact that Africa’s medium- and high-tech manufactured exports increased, the market share of only medium-tech manufactured exports grew at the global level. The export market share of high-tech goods dropped from 0.27% to 0.22% from 2012 to 2019.

On the following graphic, the comparative advantage/disadvantage is represented in the horizontal axes, and the growth of world demand (in relative to world average) is presented in the vertical axes. It shows that the technology groups in which Africa has a comparative advantage are those that registered the strongest contractions in world demand. As global demand for primary products and resource-based goods fell, prospects for an improvement in exports, trade balance and economic growth weaken.

Africa’s comparative advantage and growth in world demand, by technology group (2019)



Source: Own elaboration on the basis of UNCTADstat (2020).

Note: This table is based on the sum of exports of all 53 African economies with available data, with the exception of South Sudan.

Africa's trade data has thus far painted a fairly negative picture. Specifically, Africa's total exports are declining; Africa's manufactured exports are more stable, but are far lower than total manufactured imports, which reveals the difficulties Africa's manufacturing sector has had in competing against foreign competitors, and the African population's high propensity to consume imported manufactured goods. These two factors have caused major trade deficits that hamper Africa's economic growth and consequently, job creation. Moreover, the structure of African exports is heavily based on primary products and resource-based manufactured goods. Indeed, Africa revealed comparative advantages are in these two technology groups. Regrettably, these two technology groups have registered a significant decline in relative world demand, which suggests that Africa's export performance may continue to decline, with the corresponding negative effects on Africa's future economic growth, unless corrective policies are implemented.

Concluding remarks

Africa has been gradually industrializing over the last decade, yet there is lots of work to be done. The continent's slow industrialization is causing large trade deficits in manufactured products, which cannot be compensated by the surplus obtained from the export of raw materials and natural resources. Africa's negative trade balance in manufactured products is so large that it turns the continent's entire trade balance negative, hampering Africa's economic growth and consequently, job creation.

The negative trade balance in manufactured goods can be mainly attributed to a lack of dynamism in manufactured exports because manufactured imports have been declining. But there is more than just that. Manufactured exports were fairly stable as well as the magnitude of the deficit in the trade balance of manufactured products. The large magnitude of this deficit only became evident at the end of the commodity boom, when the prices of primary products and resource based manufactures were unable to sustain the consumption of imported manufactured products, thus revealing the significant mismatch between Africa's consumption patterns together with its propensity to import manufactured products and its capacity to produce them.

When exploring its specialization pattern, we found that African countries are heavily specialized in the export of primary products and resource-based products, which recorded a negative growth in terms of international demand. With foreign demand for the main source of African exports declining, competition seems to have intensified, as suggested by Africa's declining market share in both categories. This finding suggests that if no action is taken, Africa's export performance may continue to decline, with the corresponding damaging effects on Africa's future economic growth.

On a more positive note, Africa has already managed to improve its export structure, increasing the share of medium- and high-technology products in its manufactured exports. This is particularly relevant for medium-technology products, as this is the only manufacturing category in which Africa has slightly increased its market share in world exports. Even though Africa still does not have a comparative advantage in low-, medium-or high- technology products, increasing its market share in these categories is highly desirable. It is clear that the African continent is far from reaching its full industrial potential and therefore, additional efforts should be made to accelerate industrialization in Africa and ensure that its industrial

sector assumes a major role in the continent's economic and social development, thus generating employment, growth and poverty alleviation.

Our regional analysis confirms the previous findings. The negative trade balance in manufactured products is constant across the African continent as well as the insignificant share of high-technology products in their export structure. Additionally, all African regions have revealed comparative advantages in primary products and disadvantages in total manufactured products as well as in the fast-growing technology groups. In other words, all African regions are specialized in the production of goods that have a relatively slow growth in international demand.

Northern and Southern Africa are the regions that appear to be relatively more advanced in terms of industrial competitiveness. Not only do they have higher GDP and MVA per capita values, they also export more manufactured than primary products, particularly resource-based and medium-technology goods. This expands the range of goods exported by these regions, and places them higher up in the technological ladder in comparison to the others.

The CIP index confirms the higher level of industrial competitiveness in Northern and Southern Africa, with South Africa and Morocco leading in each region and located at the top of the African ranking. An interesting finding is the identification of the biggest challenge African economies face, which was already highlighted at the very beginning of this report: Africa's population size does not correspond to its level of production in MVA and in GDP, and to its integration in international markets. In other words, for its particular level of population, Africa should have a higher capacity to produce and export manufactured goods.

The 2020 CIP index ranks Kenya in the last quarter of the CIP global ranking, namely as 115 out of 152 economies. Our case study reveals some problems of Kenya's industrial competitiveness. In terms of its production and export capacity, Kenya exhibits some fairly negative signs. For example, Kenya's MVA share in GDP and its manufacturing share in total exports are decreasing. The results are mixed for technology, market share and revealed comparative advantage. On one hand, Kenya shows relatively high levels of manufactured exports in its total exports, market share and RCA indexes in resource-based and low-technology products. On the other hand, these levels have been decreasing considerably over time and the only technology group that has reinforced its comparative advantage is primary products. In this sense, while the situation is not yet critical, the technological trajectory of Kenya is pointing towards a deterioration of its technological capabilities, removing some of those activities that were adding value to its natural resources.

From the comparator countries' perspective, these results help explain why the CIP index shows that Kenya's neighbour, Ethiopia, is catching up in terms of industrial competitiveness, while its gap is expanding with the other front-running comparators Côte d'Ivoire and Sri Lanka.