

**GRIPS Development Forum Seminar**  
**African Manufacturing**  
**—Current Status, Future Prospects and Policy Direction—**

**Supported by the Japan International Cooperation Agency (JICA)**

**Seminar Report**

The GRIPS Development Forum Seminar, supported by the Japan International Cooperation Agency (JICA), was held on March 7, 2014, with over 70 participants from diverse back ground—African Ambassadors and diplomats, researchers, private sector, policy makers and practitioners—who are interested in the African development.

As an introduction, Prof. Izumi Ohno gave participants the background of the seminar. While Africa's dynamic growth has attracted strong attention from every corner of the world, there are active debates on sustainability of the current growth which largely depends on natural resources and capital inflows. In this regards, the development of the light manufacturing sector is essential for sustainable and equitable growth of these countries and their structural transformation. The recent relocation of labor-intensive manufacturing in emerging economies is creating a chance for Africa to seriously consider industrialization, especially light manufacturing.

Then she explained three objectives of the seminar: (i) to celebrate the launch of *The 2014 African Transformation Report*, an epoch-making report tackling the transformation agenda in Africa, produced by the African Center for Economic Transformation (ACET)—by inviting Prof. Joe Amoako Tuffour (Senior Advisor of ACET, and Prof. of St. Xavier University in Canada) and Dr. Ed. Brown (Director of Policy Advisory Services of ACET); (ii) to learn and draw practical lessons from the pioneering research of *The Light Manufacturing in Africa*, led by Dr. Hinh Dinh of the World Bank (Lead Economist at the Senior Vice President and Chief Economist Office) and funded by the Japanese government's PHRD Fund; and (iii) to share the experiences of JICA and GRIPS in industrial cooperation in Africa. JICA has been intensifying its industrial cooperation in Africa, including partnership with Japanese private sector, particularly since TICAD V, and Mr. Toru Homma will present JICA's activities in Africa with concrete examples. Also, from GRIPS, Prof. Kenichi Ohno will discuss Ethiopia as Japan's partner in trade and manufacturing, based on the experience of Japan-Ethiopia industrial policy dialogue, which has been supported by JICA and GRIPS for last 4 years.

It is important to note that Ethiopia aspires to be a leader of African light manufacturing by 2025, and the Prime Minister of Ethiopia declared this in our latest policy dialogue held in this February..

## **Summary of Presentations**

### **1. Mr. Toru Homma, Senior Advisor on Private Sector Development, JICA “JICA’s Industrial Cooperation in Africa”**

This presentation is to introduce JICA’s activities in the industrial sector in Africa. Comparing to the situation 10 years ago, I feel now African countries are attracting much more attention as promising destinations on industry from the world including Japan.

JICA takes advantage of its field network, expertise, human network and comprehensiveness/ public entity both in the world and in Africa. In the Fifth Tokyo International Conference for African Development (TICAD V) held in Yokohama, Japan, in June 2013, they arranged 72 bilateral meetings with 44 African states and organized or co-organized 19 side-events, one of which was with ACET. They also follow “Japan’s Assistance Package for Africa” declared in TICAD V, including: (1) “Boosting Economic Growth” (Trade and Investment) and (2) “Accelerating Infrastructure and Capacity Development” (Infrastructure, Human Resource Development), under the overarching thematic pillar “Robust and Sustainable Economy”. In other words, JICA contributes to private sector development in Africa through policy assistance, human resource development, improvement of business environment and infrastructure development with comprehensive business environment improvement in mid and long-term perspectives. To press this strategy forward, JICA is implementing regional infrastructure projects such as roads, ports and One Stop Border Post (OSBP) and private sector development projects such as investment advisors, Special Economic Zone, KAIZEN and SME promotion, all over the Africa.

For example, in Ethiopia, JICA and GRIPS have been providing intellectual cooperation to the country’s industrial development through industrial policy dialogue since 2009. They hold periodical meetings with the Prime Minister, Ministers and State Ministers as well as operational level. In addition, these efforts have been complemented by related industrial projects, such as KAIZEN project and Champion Product Approach, which are implemented by JICA in parallel. Zambia is another example, where JICA cooperated investment promotion through the initiative built on the “Triangle of Hope” concept, which supported Government Will, Private Sector Participation and Streamlining

Public Administration.

By using various instruments, JICA has been contributing to trade/export promotion, invest promotion and SME development as well as Japanese investment in Africa. As for SME development, JICA provides assistance in accordance with 2 pillars, “Improvement of policies/institutions for SME development” and “Enhancement of competitiveness of business”. Moreover, the concept of KAIZEN, the incremental and continuous improvement of quality and productivity without additional investment, which JICA started in Asia (from Singapore in 1983), are now being fairly accepted by African countries such as Ethiopia and Zambia.

**2. Dr. Joe Amoako-Tuffour, Senior Advisor, ACET and Professor of St. Xavier University in Canada**  
**“2014 African Transformation Report -Growth with Depth-”**

Dr. Amoako-Tuffour introduced the highlights of *The 2014 African Transformation Report: Growth with Depth*. The ACET just launched *The African Transformation Report* (herein after, ATR) on March 3, 2014 in Johannesburg.

He started with Africa’s growth story, posing a question “Africa is growing rapidly; but will it last?” African countries experienced rapid growth soon after independence; but, this period was followed by two decades of economic collapse. While GDP growth per capita has now returned to the peak level of the 1970s, it is necessary to examine how to ensure that the growth can continue this time. To assess sustainability of the growth, ACET defines “Economic Transformation” as “Growth built on solid foundations”, meaning “Growth with DEPTH”. DEPTH can be broken down into Diversification of economic production and exports, Export competitiveness, Productivity increases, Technological upgrading and Human wellbeing improvements. Under this idea, the ATR intends to: (i) focus economic policy in Africa on economic transformation; (ii) provide analysis to inform transformation strategies, policies and implementation; and (iii) provide a tool for monitoring economic transformation.

In order to evaluate the transformation record of Africa, they compared Sub-Saharan African countries to ASEAN countries. By comparing economic indicators such as GDP per capita growth, diversity in production and exports and productivity, they concluded that Sub-Saharan African countries have not transformed in more than 40 years whereas ASEAN countries have achieved dynamic growth for the past decades. They presented “African Transformation Index” for each country to rank African countries on

transformation and depth.

As key messages of the ATR, Dr. Amoako-Tuffour stressed three drivers, which include “State and Private Sector as Partners in Transformation”, “Export Promotion” and “Building Technical Knowledge and Skills”. He also explained four pathways to transformation, which include “Labor-intensive Manufacturing”, “Agro-processing”, “Managing Oil, Gas, and Minerals” and “Tourism”. As for FDI manufacturing, ACET classified Star Categories from 0 to 5 for each African country according to the number of the plants as a powerful symbol of recognition and motivation. In addition to these pathways, he stressed that regional integration is also essential for sustainability growth.

In conclusion, Dr. Amoako-Tuffour stated that the African people could transform their economies to make growth durable, become competitive in a widening array of sophisticated goods and services, and expand employment opportunities for their youth to produce widely shared prosperity. However, they have to act to transform hope into reality. The ATR will continue to support and inform the push for economic transformation.

### **3. Dr. Edward K. Brown, Director, Policy Advisory Services, ACET**

#### **“Leveraging Abundant Labour for Manufacturing in Sub-Saharan Africa”**

This presentation shows how Sub-Saharan countries can leverage their abundant labor and low wages to enter the competitive production and export of manufactured goods.

Although the light manufacturing delivers increasing returns to scale and has great opportunities for technological learning, gives agriculture a boost, spawns an array of services and propelled all previous economic transformation in early stages, it is yet to take off in Sub-Saharan Africa. As for the textile and garment industry, the first rungs industries, shares of Sub-Saharan countries in the world garment export decreased from 2000 to 2005 whereas that of China increased sharply. African countries now face three key challenges: “International trade regimes”, “China’s entry”, and “Tougher requirements from global value chains”.

In response to this situation, he drew practical counter measures from the experiences of several countries including Mauritius and Kenya. Mauritius has only successful and the most developed textile and clothing industry in Sub-Saharan Africa. To obtain this status, the government played a strong role in the garment-based transformation. In order to accelerate the industry, the government established Export Processing Zones (EPZs)

throughout the country and provided the infrastructure, the factory space, tax holidays, duty-free imports of inputs, and competitive exchange rates as well as cheap labors by labor laws in the EPZs. The government also negotiated preferential trade agreements for the industry, and the Lomé Convention gave preferential access to EU markets. Moreover, the technology diffusion scheme was employed by the government. On the other hand, in Kenya, after experiencing the large drop of demand due to lowering tariffs on textiles which allowed more imports and invasion of second hand clothing, the Government kept the domestic and export oriented markets separate. Therefore, domestic producers could not be benefited from the advantage of the EPZs.

In addition to the garment industry, the agro processing like coffee and fruits could be a starting point of light manufacturing industry. Though an agriculture sector is seen as a primary industry, the products can be inputs of the light manufacturing industry and Africa has a lot of potential in that. Furthermore, a component assembly is also the first tier of the light manufacturing. To boost the component assembly in Africa, attracting FDIs by the lead global value chain or by the contract manufacturers is essential. The governments should strengthen its strategies to increase the capability of domestic firms and link them. ACET provides “FDI Manufacturing Matrix” as starting point for African countries to assess where they stand relative to others. According to the interview to executives of firms, Africa is considered as a market they cannot ignore because of its growing middle classes. However, risks such as policy instability and the low productivity of labor prevent firms to invest.

Given reliance on mostly imported inputs for manufacturing, and the lack of large domestic market, regional integration would provide a powerful boost to developing competitive manufacturing industries. Sub-Saharan Africa should get the EU and the US to allow garments incorporating inputs sourced from any country in the region to qualify for full duty preferences under African Growth and Opportunity Act (AGOA) and Everything but Arms (EBA). Attracting FDI for component assembly will be pushed by large and enhancing market, supported by the growing middle class and integrating the national markets.

**4. Dr. Hinh T. Dinh, Lead Economist, Office of the Senior Vice President/Chief Economist, World Bank**  
**“Light Manufacturing in Africa”**

Dr. Hinh Dinh presented the findings of the Light Manufacturing in Africa Project, which aims to find practical ways to help Africa grow its manufacturing sector and some of the

lessons that they had drawn. The project also indicated a number of implications for middle income countries and even advanced countries.

He began by stating that almost no country in the world has become an advanced economy without going through industrialization and that Africa needs industrialization, especially light manufacturing. Africa's GDP grew 5.2% per year from 2001 to 2010; but most of this growth came from commodity exports because of the high international commodity prices in recent years. Manufacturing has declined to less than 1% of total global manufacturing.

The study looked at five subsectors: apparel, leather products, wood products, metal products, and agribusiness in five countries: Ethiopia, Tanzania, Zambia, China and Vietnam. They chose China as a benchmark because any producer of light manufacturing in the world has to compete with China and Vietnam as a comparator because of its suitable size for comparing to African countries. The key contribution of the study is in its methodology. The study is based on five different sources of information or surveys: World Bank enterprise surveys, qualitative surveys, quantitative surveys, comparative value chain analysis and Kaizen study. Four of these five surveys are original work done by the study team so that they generate original and new data for their analysis as well as for future research work.

The study found that Africa does have the potential to be competitive in light manufacturing and could create millions of productive jobs due to low wages, natural resources, privileged access to high income markets for export and growing domestic and regional markets. On the other hand, it recognized the vicious circle of pervasive poverty and low industrialization because of delay in infrastructure development. Africa's infrastructure deficit is huge because of poverty as well as the continent's characteristics including low population density, low rates of urbanization, the large number of landlocked countries and the numerous small economies. Therefore, Africa needs to break out of this circle through a targeted approach. At a broad level, in the three African countries and across subsectors and sizes, the following major aspects emerged as the binding constraints to light manufacturing: availability and quality of input industries, access to industrial land, access to finance, trade logistics, entrepreneurial skills and worker skills. A main finding from this observation was that key constraints to manufacturing growth vary by country, sub-sector, and by firms size. Therefore, policies to address these constraints have to be specific. To help Africa industrialize, they propose that these specific binding constraints in each promising sector be identified and policies be designed to remove or reduce these specific constraints. These policies do not

necessarily involve a lot of government spending. For example, the leather industry in Ethiopia employs far fewer workers and export far less than Vietnam despite lower wages and abundant cattle in Ethiopia. Their study found the most binding constraint is shortage of quality processed leather due to poor disease control, lack of quality processing of raw hides and trade policies on processed leather. The recommended solutions, therefore, could focus on three areas; (i) treatment of ectoparasites, (ii) technical assistance and (iii) allowing the imports and exports of leather.

The policy lessons from this study are as follows. Firstly, it is important to create a supportive environment for manufacturing through public endorsement of private sector initiatives and maintaining conducive macroeconomic and trade policies. The second lesson is to fill knowledge and financial gaps through FDI and networks. The role of FDI is a key not only to supplement domestic savings but also to provide the expertise, technology and ideas. The third is to use substitution policies and the right sequencing. Industrial parks, industrial clusters and trading companies would substitute for the first best policies and they do actually work. Bonded warehouses also could offset the difficulties surrounding the availability of inputs and logistics. Sequencing of trade reforms is important as well. The fourth lesson is the need to start small and scale up or down as needed. Finally, it is necessary to establish islands of success by focusing policies on the most promising manufacturing subsectors. The most important point is, however, to start now. Africa cannot afford to miss another opportunity.

## **5. Prof. Kenichi Ohno, Professor, GRIPS**

### **“Ethiopia as Japan’s Partner in Trade and Manufacturing—A Perspective from Ethiopia-Japan Policy Dialogue-”**

The presentation shows a perspective from Ethiopia-Japan policy dialogue, which is underway from 2009 to present in response to the request from former Prime Minister Meles taking an opportunity of TICAD IV.

Prof. Ohno started by describing negative aspects of Ethiopia. Landlockedness, limited natural resources, unsatisfactory business environment, undeveloped private sector, lack of competent middle officials and experts and primitive industrial policy has been preventing the country from development. On the other hand, positive aspects of Ethiopia are political stability and high diplomatic standing, seriousness in learning industrialization and, for Japan, proper understanding of and high expectation from Japanese business and cooperation.

There are two pillars in Ethiopia-Japan policy dialogue: (i) Kaizen project conducted by JICA; and (ii) industrial policy dialogue led by GRIPS and JICA. They meet Prime minister, ministers and operational level quarterly and semi-annually for pragmatic discussions in the Ethiopian context. To convert talk into reality, JICA and JETRO selectively offer concrete industrial projects. Based on the experience of the phase I (2009-2011), the JICA/GRIPS team was impressed by the positive attitude of Prime Minister and ministers toward industrialization and realized that mindset needs to be combined with policy capability on the ground. The current discussions in phase II (2012-15) focus on planning method, concretizing Prime Minister's idea to "become the leader of African light manufacturing by 2025", and specific measures for creating champion products and FDI attraction including the possibility of Japanese aid.

At the occasion of the TICAD V, Prime Minister Hailemariam repeated that Ethiopia was committed to industrialization, and Japanese FDI and technology were strongly needed. He requested assistance of GRIPS Development Forum in formulating the next 5-year plan. Prime Minister Abe's visit to Ethiopia also played a strong role for people to recognize importance of ongoing Kaizen and industrial policy dialogue. Looking at Japanese FDI in Ethiopia, Japan had no manufacturing FDI in Ethiopia until 2012 whereas Turkey had over 400 FDI projects, and India and China also had hundreds. Some of them are large-scale labor-intensive OEM producers of brand apparel and shoes. In 2013, however, Hiroki, a leather shop, invested in Addis Ababa after careful preparation. GRIPS and JICA recognized that Japanese investors' interest in Ethiopia was rising and were going to create a mechanism to let various Japanese organizations work together to turn this interest into real investment. By interviewing the Embassy of Turkey in Ethiopia, the team figured out that manufacturing FDI attracted to Ethiopia because of (i) low wage, (ii) serious and disciplined workers, (iii) political stability and personal security, (iv) the government's commitment to industrialization, (v) easy access to EU market by air and sea, and (vi) breakthroughs for landlocked location. Charts in the slides, which compare African and Asian countries in many indicators including manufacturing value added, manufactured export and FDI inflow, illustrate that Ethiopia stands at far away from Asian countries, though. As a result, Ethiopia's current manufacturing capability is very limited and there is long way ahead. Recent arrival of light manufacturing FDI and rising investor interest, however, are good signs. Ethiopia could take off as Africa's leading light manufacturing exporter if good policy is combined with current advantages.

Prof. Ohno stressed that Japanese FDI is unique because of (i) manufacturing-focus, (ii) "monozukuri" (manufacturing) spirit, (iii) long-term orientation, (iv) providing technical



assistance and (v) legal compliance. These features should be highly desirable for African businesses wanting to improve skills & technology for long-term rather than pursuing short-term profits. In addition, he proposed to Japanese firms that, although initial conditions are less favorable than East Asia, patience and trust-building should open up new frontiers in the long-run. Japanese business style is slow but sincere and this characteristic should be kept in doing business in Africa. Japanese firms should work with the Japanese embassy, JICA, JETRO and even GRIPS for solving policy-related problems. The Japanese business style should be widely known in African countries.

### **Open Discussions (Q&A)**

#### **Community involvement and land acquisition**

One of the ambassadors expressed concern over the risk of excluding the community from the stakeholders when light manufacturing policy is promoted. She took the land acquisition problem, as an example, that would be caused by lack of communication with community members.

In response to her comment, Dr. Brown mentioned the EPZ as one of the countermeasures that would ease the site acquisition as well as lower the transaction cost and the infrastructure constraint for private companies. Mr. Homma added that, in JICA operations, they definitely involve the community, guided under JICA's vision "Inclusive and Dynamic Development".

#### **Additional support for infrastructure, access to the market and KAIZEN**

An ambassador stated the importance of additional support to infrastructure and KAIZEN for the light manufacturing sector in Africa to take off and add value to the products. Another participant also commented that improving access to the market was essential to attract FDI as it was important criteria for private sector to invest in.

Both Mr. Homma and Dr. Hinh Dinh agreed on the importance of infrastructure, KAIZEN and access to the market for the light manufacturing sector to become functional appropriately. Mr. Homma additionally noted that JICA was now working on supporting both infrastructure and KAIZEN in African countries in accordance with TICAD V commitments. In KAIZEN projects, he stressed that preparation of government side and institutional arrangement in recipient countries are prerequisite for success. JICA is also trying to link financial cooperation (ODA loans) for infrastructure and technical

cooperation for industrial development to maximize the synergy effects. Dr. Brown noted EPZ as an example of minimizing the costs of infrastructural development for governments.

### **Assistance for the informal sector**

There were several questions about the way to assist the informal sector and poorest people because the majority of the poor were engaged in the informal work.

Dr. Hinh Dinh responded that the solution varies by country and it is necessary to find out the specific constraints for the informal sector to become formal. In some countries this could be due to the heavy fiscal burden of the formal sector. In others, this could be due to government policies focusing only on creating small and medium enterprises but not on making them grow bigger. Creating and offering jobs with wages by growing the light manufacturing sector would help the poorest people in the informal sector. Thus, this should be an important responsibility of the government. Dr. Amoako-Tuffour added that the government could give some incentives to informal companies to register.

### **Land-locked location and regional integration**

A participant asked about strategies to overcome land-locked location, which would considerably affect export costs, such as the case of Ethiopia. Another participant commented that regional integration could be one of the ways to solve the land-locked problem.

Prof. Kenichi Ohno answered that high priority should be placed on bench marking and targeting the process to connect corridors toward the sea. Djibouti-corridor for Ethiopia can be an example. Then governments should ensure that 100% of cargo could reach the destination in a certain days. To make this measure functional, there is a need for strong cooperation from neighboring countries. Mr. Homma also referred that some country saw itself as a “land-linked” country, not a “land-locked” country, which could access many neighboring emerging markets and tried to take advantage of its location. Dr. Hinh Dinh additionally stated that other solutions such as “dry ports” for land-locked countries can be found in the World Bank’s project reports.

As for the regional integration, Dr. Brown responded that it has both merits and demerits. For example, ECOWAS is one of the largest economic communities in Africa and could provide better FDI environment in large area. On the other hand, because the ECOWAS

involves too many counties, it might be difficult to meet all requests and conflicts on market matters might occur among the participant countries. He emphasized that leadership and commitment by the leaders of the member countries were important to make the regional integration work. Dr. Amoako-Tuffour added that the way to utilize natural resources such as gas, minerals for All-Africa should be considered seriously in the frame of the regional integration.

### **Accuracy of data in the reports**

Some participants asked about the data used in the reports of ACET and the World Bank. An ambassador showed his interest in the accuracy of data and its process method in the ACET report. He also clarified whether the contents of ACET's and the World Bank's reports were accepted by the relevant countries, such as Ethiopia. Another participant asked Dr. Amoako-Tuffour how to obtain enough data from the informal sector.

In response to these questions, Dr. Brown explained that they gathered the data from reliable sources such as ministries or governmental officials of each country and because of it he believed the results of their analysis were also acceptable for the countries. Dr. Hinh Dinh explained that, as for the World Bank's report, they had sufficient discussions with government officials of the relevant countries before publishing as well. Dr. Amoako-Tuffour first asked the audience to see the annex of ATR which contains detailed data of each country. He also stated that they corrected data based on the idea to ensure comprehensiveness and comparability. In some indicators, ACET processed raw data into 3-year average for smoothing and standardizing. As for the informal sector, he added that they used residual of the formal sector data, for example the percentage of labor force, as a crude index of the informal sector.

Regarding the World Bank's report, a question was raised why 3 countries—Ethiopia, Tanzania, and Zambia—were chosen for case studies. The participant was skeptical about that the World Bank chose these 3 countries because they are accomplishing certain results in industrialization, in other words, the World Bank picked winners.

Dr. Hinh Dinh responded that they picked Ethiopia and Tanzania because of their political stability and the government's strong interest in industrialization. The abundance and challenge of mineral resources is the reason of selecting Zambia. He explained this choice was "backing winners" not "picking winners". He believed that the report would support these countries by easing their producing and exporting.

### **The World Bank's operations in Africa**

A participant asked whether the World Bank has taken on a different approach to supporting financial intermediary loans, which used to provide long-term resources to local financial institutions to finance real sector investment needs. He noted that the Bank ceased this type of operations to African countries over the past years, although he understood that this is primarily due to the bad performance of those financial institutions. He would like to know the World Bank's position in this type of operation under the new leadership at present. Dr. Hinh Dinh said that he was not aware of any changes in these areas yet.

Another participant commented that for the World Bank to move into financial intermediary loans, countries would need a few years to prepare the basis for such assistance.