

Powering structural transformation and economic development in Africa

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Summary

This thesis focuses on structural transformation and economic development in Africa¹, by examining the contributions of services, manufacturing and global value chains to economic development. This is a research area that has gained importance in recent years, particularly in the context of Africa, and will no doubt continue to attract interest. There was a time that manufacturing powered the economic growth of many advanced economies. Today, many researchers and policymakers are now questioning the role of manufacturing in development. This is because, since the 1990s, except in Asia, other regions of the world have seen a decline in the share of manufacturing output and a rise in the share of services in total economic output. Particularly in Africa, the predominant narrative is that most countries have experienced premature (early) deindustrialisation.

Given the historical importance of manufacturing to growth, what does this mean for jobs, inclusive growth, and poverty reduction in Africa? Does industrialisation represent a viable path to structural transformation in Africa? Does the question of whether services can play a positive role in economic development merit special attention in the sub-Saharan African context? Could the expansion of global value chains (GVCs) fast-track Africa's structural change and industrialisation prospect? The overarching objective of the thesis is to find answers to these questions.

Chapter 1 provides a general introduction and thesis outline. Chapter 2 provides evidence on the patterns of structural change, productivity growth and labour market outcomes in Africa. The analysis in chapter 2 shows that the agriculture sector is shedding more workers, but most of those workers have tended to move to the urban sector to engage in informal trading activities rather than in manufacturing. This contrasts with the experience of early industrializers in advanced countries and East Asia. As a result of this, the region has recorded slow productivity growth with only a moderate contribution from structural change. However, the contribution of structural change has been increasing in the past three decades and is higher than that reported in previous studies due to the structural undercounting and, particularly, the failure to properly account for the important contribution of the rising modern market services to Africa's productivity growth.

We probe this observation further in chapters 3 and 4 of the thesis by examining the rising dominance of the service sector in Africa and its implication for economic growth, productive efficiency and catch-up within Africa and the global frontier. The analysis in these chapters showed that the perceptions of services as stagnant and productivity resistant do not apply to all service sub-sectors. Productivity growth in modern, dynamic, and tradable services is equal to or higher than that in manufacturing and other sectors. The important contribution of the services sector was also evident in the region's catch-up process. While still performing below the frontier, we observe that in most of the countries in the region, agriculture and manufacturing have fallen further behind over time, while trade and business services have shown signs of catch-up to the global frontier. This played a key role in the moderate contribution of structural change in catch-up in Africa observed in chapter 3. We also found evidence of strong linkages between services

¹ Throughout the thesis, I use both Africa and sub-Saharan Africa (SSA) interchangeably. Where Africa is used, this is referring to our sample countries in SSA only.

and manufacturing. These attributes strongly suggest that services could act as a new or alternative engine of growth alongside manufacturing.

The expansion of global value chains (GVCs) and intermediate import sourcing has in recent years received attention in the discussion of structural change, productivity growth and industrialisation in Africa. Chapter 5 investigates this issue. The chapter examines how participation in GVCs affects aggregate labour productivity growth, further addressing how participation impacts upon the within and structural change components of labour productivity growth across countries in Africa with different natural resource endowments. Results in chapter 5 show that Africa's participation in GVCs is generally comparable to those of their counterparts in other developing regions. The chapter further reveals that non-resource intensive countries in the region participate in GVCs largely through backward participation allowing the import of essential intermediates needed for quality upgrading and productivity improvements. Contrary to this, in resource-based oil exporting countries, GVC participation is predominantly in upstream activities of the value chain, providing mainly primary inputs for the value chain. For this reason, we observe that the productivity growth effect of GVC participation accrues strongly through backward linkages and benefits mostly non-resource intensive countries. Results from the analysis of the within and structural change components of productivity growth show that GVC participation has a positive and significant effect on productivity growth by inducing an efficient reallocation of resources within sectors (intra-sector reallocation) but not across sectors (inter-sector reallocation).

The concluding remarks, policy implication and limitations of the thesis as well as areas for future research are presented in Chapter 6.