It is time to switch on the transformative power of industrial policy in Africa

Since the 1970s many African nations have missed out on the most important economic policy of them all. Export-oriented industrial policy has been essential to the success of most high-income and rapidly emerging nations. Whether in the United States, United Kingdom, Germany, Israel, Japan, China, Costa Rica, Chile, India, Morocco, Mauritius or Vietnam, this policy tool has been indispensable, and the evidence on the critical importance of what you export to your development trajectory is clear.

Export-led industrial policy comes across to many as highly technical and complicated, including many well-versed global leaders and development practitioners. Yet actually it is a simple concept: it is merely the coordination of policies across governments to ensure the facilitation of investment in sectors that have the greatest potential to develop an economy by growing the number of value-adding, job-creating, foreign exchange-earning businesses. Whether Chilean wine, Vietnamese electronics, British textiles in the 1600s, Israeli agriculture or UAE's tourism, these all required the coordination of enablers like energy, land, roads, market development, technology, investor facilitation and regulations.

Countries in which these align around the right sectors have often transformed. Clearly, industrial policy is the tool to allow this if led by a responsible head of government. It is now increasingly established that industrial policy is needed to manage and address the market and government failures that we all know are perverse in every economy of the world, let alone low-income countries (LICs) and lower-middle-income countries (LMICs).

However, many global policymakers have shied and continue to shy away from it. There are many reasons given for this – all of which are weak. Some people still argue that the government is incapable of picking winners, despite the evidence that it can back winning sectors, even with large institutional limitations. Some argue that it may be a route to elite capture and corruption, even though elite capture and corruption are already there without strong industrial policy and is often the result of the vacuum caused by policy incoherence. Some argue that it is unfair to favour certain investors over others – although the reality is that one of the functions of government is to arbitrate these issues: limited resources mean you cannot, for example, develop all the roads in a country at once, meaning that government decisions will favour some firms and sectors over others either way. Another reason given is that industrial policy is a coordination job, and this is just too hard, so many think it is best avoided. Government agencies' inability to provide policy coherence to private investors in the most transformative sub-sectors is exactly what maintains the status quo and undermines all other development efforts, whether SDGs, RCTs, technology rollout, democracy & improved governance or climate change.

Lately, a new argument has emerged, which is based on the misguided concerns that Africa is suffering from pre-mature de-industrialisation – a weak argument that ignores the reality that industrial policy has essentially been missing for the past 40 years in African countries and many other LICs and LMICs. Finally, others argue that China's economic model and automation will undermine the success of the industrial policy. However, China's large investment in Ethiopian industrial parks refutes the former claim, while the lack of evidence of the negative impact of automation on job creation refutes the latter. Even if automation did lower job creation, the answer is to double down on an industrial policy that gives you a bigger chance to create jobs and counter any potential negative impacts of automation.

Despite all the technical arguments against export-led industrial policy being refuted and its importance being accepted by mainstream global and local policymakers, industrial policy is still being shied away from. It is important to understand the reasons why an industrial policy is key to preventing African nations and other LICs/LMICs from continuing to be left behind by the global economy.

There are two main reasons. First is the legacy of the Structural Adjustment Programmes and Washington Consensus. As Cramer, Okubay and Sender document, African policymakers – particularly in Ministries of Finance and Development Planning, President's Offices and Ministries of Trade and Industry – have been influenced and trained to deprioritise the implementation of a robust industrial policy. I have worked with Departments of Industry in countries like Malawi, Liberia and Guyana, and engaged in various others and seen how they are essentially backwaters in terms of policy, making them far removed from the real decision-makers in the centre of government, with their industrial policy documents gathering dust. The typical Ministry of Finance and Development Planning officer, much less Minister, still doesn't show much interest in an export-led industrial policy that can bring to life the 'real economy' vision they have for their nation or acknowledge that fiscal policy and monetary policy – let alone trade, labour, TVET, land and investment policy – should all follow its lead. I'll give a personal example: when I worked with the government of a particular country for 3 years, the Minister of Finance showed no interest in the industrial policy the Ministry of Trade and Industry and of Agriculture were promoting. But after I left the country, I learnt – via a Facebook post of his – that he was a big fan of the product space model developed by Hausman and Rodrik. He didn't show any interest because the conversation around him by stakeholders such as the IMF, World Bank and his own technicians in the Ministries didn't allow space for it. This appears to be improving today, and some countries such as Ghana are making good headway, although there remains a long way to go.

The second reason is the cause of the first and probably the cause of all the weak technical arguments presented above against industrial policy. African nations and many other LICs/LMICs continue to suffer from an extractive political economy. The global economy has historically – since before colonisation and accelerated exponentially by colonisation – come to engage with many of today's LICs and LMICs in two ways: extracting raw or semi-raw resources from Africa and exporting finished goods back to African nations. The evidence of this is extensive – such as how the British empire dismantled factories in Eritrea and took them to the UK – to the commoditised primary source of exports of many nations, such as copper in Zambia, iron ore in Sierra Leone, oil in Angola and uranium in Niger. Even in countries without major natural mineral resources, trade has been extractive: think of the export of raw coffee from Ethiopia, tea from Kenya and cocoa from Ghana and Cote d'Ivoire. And in terms of the exportation of finished goods back to African nations, consider the political power in African capital cities that import traders have: be it of cars, fertiliser, fish, rice, machines and so on. For example, France has over 350 companies in Cote d'Ivoire, but few of these are investors in the productive sectors .

Many – probably fairly – argue that it remains in the interest of most high-income countries to maintain this type of extractive and import-based relationship with African nations. Many economic and political strategists in Washington DC, Paris, London and Brussels still argue that they want to retain the value-added benefits in global value chains in their countries. The good news is that some countries, such as China, Netherlands and Germany, have recognised that it is in their own enlightened self-interest to prioritise investment in factories, value-added agriculture, call centres, value-adding forest economies and tourism in African nations. An increased focus by nations like the US on tech start-ups and telecoms is an important step in the positive direction, although modern tech must be seen as an integral part of industrial policy, not a be-all and end-all, as most of it is at present. Data alone doesn't create jobs and increase foreign exchange and tax revenues at scale unless embedded in the growth of firms on a national scale.

Yet, to change these constraining dynamics and unlock the transformational power of export-led industrial policy across Africa, and thus unleash Africa's true economic and political potential, the drive has to come from African nations. African leaders are increasingly recognising the importance of job creation, export-generation and tax base widening strategies. Beyond the front-runners like Mauritius, Morocco, Botswana, Egypt, Ghana and Ethiopia, others such as Senegal, Rwanda, Tanzania, Cote d'Ivoire and Uganda are accelerating their focus on investor-led and export-oriented industrial policy, driven by agencies at the centre of government instead of just letting it lie idle in the Ministries of Industry, Agriculture or Tourism.

It is essential for African nations to continue to build this momentum. The more the 5 key agencies of government – the Presidency, Ministry of Finance, Ministry of Industry and Trade, the Investment Agency, and the key line ministry of the priority sectors – can align around this, the more African governments can unlock the power of export-led industrial policy. This will also help African economies to chart their own course for turning their own vision for the socio-economic transformation of their nations into actual reality, just like high-income countries have done. It is also important for well-meaning global policymakers and development practitioners – particularly those concerned about global inequality and entrenched poverty in African and other LICs and LMICs – to come to grips with this and develop a supportive mechanism to assist these countries to implement a robust export-oriented industrial policy. After all, know how to.