CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

1

The Puzzle of Limited Economic Transformation in Africa

Toward the turn of the twenty-first century, economic growth took off dramatically in many Sub-Saharan African countries. Optimism about the growth turnaround and development prospects of African countries was making headlines: Is Africa at a turning point?[1] Steven Radelet, in his influential 2010 book *Emerging Africa*, categorizes a group of seventeen African countries as 'emerging' because growth has been on a consistent upward trend since the mid-1990s. Yet other commentators emphasize the significant limits to this growth turnaround and the lack of structural change in African economies. Only a few countries, such as South Africa and Mauritius, have created manufacturing industries that are internationally competitive and have diversified their exports away from dependence on a few primary commodities. Most African countries still import the majority of their manufactured goods and knowledge-based services.

In short, there was growth, but it has not been accompanied by much economic transformation. The growth turnaround in the so-called Emerging African Countries was driven by increases in international commodity prices; economic liberalization, which led to the allocation of resources to, and foreign direct investment in, sectors in which African countries already had, or could quickly create, competitive advantages; new discoveries of natural resources, using foreign direct investments to extract them; and government spending fueled by increases in foreign aid.

This type of growth was not accompanied by significant job creation, rising standards of living, and sustainable poverty reduction. Low productivity across economic activities, combined with failures to create significant new production and export opportunities, has led to high unemployment or

[1] From here on, we refer to Sub-Saharan Africa and Sub-Saharan African countries as Africa and African countries, respectively.

© in this web service Cambridge University Press www.cambridge.org

Cambridge
Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

underemployment and accounts for the widespread poverty in most African countries. African countries are poor because they have a large proportion of their populations stuck in low-productivity economic activities.

At the same time, the global economy has changed. African countries face a more challenging global economy in which to pursue 'late-late industrialization'. It has become more difficult to create value and wealth given the dispersion of productive capabilities across a wide range of developing countries and the resultant increased competition in all areas of production that has driven down prices of manufactured goods. Western countries faced a squeeze on their standard of living, and Western corporations outsourced and offshored parts of the production process but also pursued ways to maintain their profits by creating legal barriers to entry as well as continual technological innovation. As a result, production processes have become dispersed around the globe and coordinated through global production networks. In order to export and access different export markets, firms must now be able to enter these global production networks. But African countries have been falling further behind the technological frontier, given the formidable gap between their firms' technological knowledge and production experience compared to international standards. African firms face extensive challenges to entering and competing in global production networks.

African countries pose a particular puzzle given their limited economic transformation compared to other parts of the world. The economic transformation record of African countries since independence has not been good. Postindependence governments generally pursued industrialization strategies, under a range of ideological agendas both socialist and capitalist. Some African countries made progress in transforming their economies in the 1960s and 1970s. However, many of those gains were undermined in subsequent decades, leading to deindustrialization and low-productivity agriculture, such that, at the turn of the twenty-first century, many African countries were back at square one, with economies that looked remarkably similar to what they had at independence.

Therefore, nowhere is the debate on the drivers of economic development more pressing and intense than with respect to African countries. This book makes three contributions to that debate. First, it engages in the renewed discussion on the importance of economic transformation and the role of industrial policy in catalyzing it. Using heterodox economic theories, we explain first why structural transformation of the economy, and not growth per se, is what drives sustainable poverty reduction and rising standards of living, and second, why industrial policy is necessary to achieve such economic transformation. Our explanation draws on theories from earlier historical periods, but modifies them to take into account changes in the global economy and is therefore a conceptualization of industrialization and industrial policy fit for the twenty-first century.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE
Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

Related to the renewed interest in industrial policy is a return to Developmental State theory. Industrial policy requires a government that can implement it, but what kind of government is that? Significant evidence has been used to refute the empirical basis of the Developmental State concept. Therefore, to use the concept for understanding the politics of industrial policy in African countries is to search for an ideal type of governance that never existed in the first place. It is still imperative to understand why governments pursue and successfully implement industrial policies, but we need a theoretical approach that is grounded in the empirical reality of developing countries' actual experiences. The second contribution of this book is to present a comparative framework for explaining the politics of industrial policy, which we constructed by synthesizing and elaborating key elements from theoretical approaches used by critics of the Developmental State concept. This framework encompasses a theory of the conditions required for industrial policy to be pursued and successfully implemented, as well as a theory about the politics that makes those conditions possible.

Most of the theorizing about the politics of industrial policy refers to experiences of developing countries outside of Sub-Saharan Africa. Because African countries have been much less successful in implementing ambitious industrial policies, they have been presented as very different from other developing countries, with scholars constructing separate categories and causal explanations for African experiences or ignoring them altogether. Our framework not only includes African experiences and acknowledges variations among them, but also uses African experiences to theorize the politics of industrial policy in countries still in the early stages of capitalist transformation.

The third contribution of this book is the four in-depth African country studies, based on new empirical material, that illustrate the economic challenges that African countries face and the politics of implementing industrial policies to address those challenges. Politics are central to understanding why governments pursue industrial policies, which sectors they target and with what kind of policies, and how those policies are actually implemented. Some African countries have been more successful than others, and within the same country, governments have pursued and successfully implemented policies at some time periods and in certain sectors, and not others. There is not one African experience. Our country studies illustrate this variation across the four countries – Ghana, Mozambique, Tanzania, and Uganda – but also within each country.

The Debate on Economic Transformation and Industrial Policy

Discussions of growth, and even broad-based or inclusive growth, are receding as development economists return to the idea that transforming the economy is the key to increasing incomes and raising the standard of living. Development

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

economists also increasingly recognize that such transformation requires concerted government actions. The book by former chief economist of the World Bank Justin Lin (2012) and the edited volume by Abkar Noman and colleagues (2012) illustrate the move away from a rigid neoclassical economic approach of the structural adjustment period toward one that acknowledges the importance of industrial upgrading and the role of the state. Industrial policy is firmly back on the agenda after three decades of being sidelined in mainstream economics and international financial institutions. However, there are still intense debates about what industrial policy means, why it is necessary, and what kinds of industrial policies governments should pursue.[2] In Chapter 2, we add our perspective to this debate.

Economic transformation is about moving the economy away from being a set of assets based on primary products exploited by unskilled labor toward an economy built on knowledge-based assets exploited by skilled labor (Amsden 2001: 2–3). The more knowledge assets that firms and farms have, the greater their ability to sustain income growth and to respond flexibly to changing circumstances in international markets. Historically, it was in the manufacturing sector that knowledge-based assets were nurtured and most intensively used, resulting in increasing returns, barriers to entry, and imperfect competition. It was these specific economic characteristics of manufacturing during the twentieth century – increasing returns, barriers to entry, and imperfect competition – that created wealth within an industrializing country.

During the second half of the twentieth century, manufacturing capabilities dispersed to more and more countries through foreign direct investment and national industrial policies aimed at emulation, especially in Asia. Competition in manufacturing activities increased immensely, and thus there can be manufacturing activities with little or no productivity gains but based primarily on the cost of wage labor. Changes also occurred in agricultural sectors, where agribusiness firms/farms can capture higher profits in exports through creating barriers to entry via technological innovations, marketing, and legal mechanisms such as intellectual property rights. As a result, some manufactured goods have become commodities, in the sense that many firms can produce them, they are substitutable, and the high competition leads to lower prices. At the same time, some natural resources and agricultural goods have become 'decommodified', in the sense that the goods are not easy to produce or they are aimed at specialized markets rather than mass markets and thus experience less competition and higher prices. These changes in the global economy have important implications for less developed countries trying to 'catch up'. It no longer helps to think of economic transformation in terms of

[2] See Hausmann and Rodrik (2006), Rodrik (2007), Cimoli, Dosi, and Stiglitz (2009), and Chang 2009a). See also the debate between Chang and Lin published in *Development Policy Review* in 2009 and reproduced in Lin (2012).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

pursuing industrialization writ large, but rather in terms of how to position national firms and farms in global value chains in order to create wealth and employment.

Our conceptualization of economic transformation takes these characteristics of the global economy into account. Transformation involves diversifying the economy away from dependence on a few primary commodities to an economy based on value addition in agroindustry, manufacturing, and knowledge-based services; greater application of technology to upgrade agricultural processes and raise agricultural productivity; and moving from low-value exports to higher-value exports. This diversification process occurs through domestic firms and farms building their technological capabilities and acquiring competitiveness in new sectors and technologies, which enables them to compete in global markets and to potentially capture more value in global value chains. Thus, we think of economic transformation as composed of several separate but interacting and interconnected processes: agricultural change, export diversification, building technological capabilities among firms and farms, industrial deepening, and industrial upgrading.

We argue that economic transformation is driven by governments' successfully implementing industrial policies. In the past as well as today, it is clear that governments have a central role to play in facilitating transformation, regardless of whether the economic activities are located within manufacturing, agriculture, or knowledge-based services. We use the term *industrial policy* broadly to refer to any targeted government support for specific productive sectors, industries, and even firms. Industrial policies aim to foster new industrial capacity, diversify production, create inter-sectoral and inter-industry linkages, promote learning, improve productivity, and shift economic activity toward higher technology and higher value-added activities. Industrial policy has to be targeted because industries face different institutional challenges and have specific needs related to the type of production and export markets. Targeted government initiatives are also required to increase agricultural productivity through direct or indirect public investments in rural roads and irrigation infrastructure, research and development, and agricultural financial services. Industrial policy is necessary to encourage investment in economic activities that are new to firms and farms by underwriting risk and by financing losses incurred while firms and farms become competitive.

Economists focus on the content of industrial policy (what governments should do), but they recognize that it is politics that determine what governments actually do. This is because industrial policy involves issues of resource allocation, institutional changes, and effective implementation of new institutions and enforcement of new rules. In short, industrial policy involves changing the distribution of economic benefits, and such changes are usually contested. Governments not only have to create the institutions required for implementation, they have to be willing and able to enforce implementation of socially contested decisions. This book provides the theoretical and conceptual

© in this web service Cambridge University Press www.cambridge.org

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

tools to analyze the implementation of industrial policy, combining knowledge from development economics and comparative politics.

The Debate on the Politics of Industrial Policy

If we want to understand why African governments have been so weak on industrial policy, then we need to turn the question around. Instead of asking why African governments have performed so poorly, we should ask why some developing countries have done so well. Under what political conditions did some developing countries successfully implement industrial policies, repeatedly? A significant body of literature has researched and debated this question. We started with assessing the accomplishments of this literature to date, highlighting strengths and weaknesses, especially in relation to explaining African experiences. In doing so, we identified three broad theoretical approaches in the literature: Developmental State, Business-State Relations, and Political Survival of Ruling Elites.[3]

The Developmental State and Its Critics

Developmental State theory emerged out of the first attempts to explain the economic success of Japan and Northeast Asian countries.[4] Its proponents aimed to challenge two prevailing schools of thought in the early 1980s: dependency theory and neoliberal theory. The first generation of Developmental State scholars was concerned with demonstrating the role of state intervention in explaining Northeast Asian success. In opposition to neoliberal explanations, their empirical studies showed that the state intervened to protect infant industries and to provide private investors with incentives that effectively constituted subsidies. They also showed that dependency theory was overly deterministic because Northeast Asian countries had found pathways out of the periphery.

The authors of these studies were more concerned with establishing that the state necessarily had a role to play in late industrialization than with explaining the politics that made state interventions possible and successful. They focused primarily on the institutional characteristics of states that mattered and turned them into stylized facts. As a result, Developmental State theory came to present a state-centric model of Northeast Asian political economy: one that embodied a rigid divide between the state and society, with the state as relatively autonomous from society (Moon and Prasad 1994). In this theory, states intervene in the economy to guide, discipline, and coordinate the private sector through the

[3] The terms *Developmental State* and *Business-State Relations* are commonly used in the literature to refer to different schools of thought. We created the term *Political Survival of Ruling Elites* to refer to a third group of authors who do not necessarily speak to each other but are making very similar arguments.

[4] Some of the early key works include Amsden (1989), Wade (1990), and Evans (1992). For reviews of the Developmental State literature, see Leftwich (1995), Lauridsen (2008: 78–89), and Stubbs (2009).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

strategic allocation of resources and the use of diverse policy instruments. The state is equated with bureaucratic rule. Politicians were seen to 'reign, not rule', creating and expanding spaces for bureaucrats to design and implement policies while insulated from political and social pressures. Bureaucratic agencies were seen as technically competent, united in purpose, and supporting national goals, because bureaucrats shared a corporate logic to pursue the national interests and their meritocratic appointment and high social status prevented capture by rent-seeking social groups. On their part, ruling political elites sought legitimacy and survival in office through good economic performance.

Weber's ideal types of governance influenced the architects of the Developmental State theory. The argument of rational-legal bureaucratic rule was used to counter the neoliberal view of the state as an arena of politicians and civil servants maximizing their self-interest in the context of rent-seeking interest groups (see Evans 1989). In countries where bureaucratic rule existed, the state was able to intervene in ways that made society better off and not worse off. Even in the soft version of the Developmental State that emphasized close relations between bureaucrats and businesses through social networks that provided institutionalized channels for policy negotiation and implementation, the Weberian conceptualization of the state is still central because it is the only way to explain what drives the state to act the way it does and how it is insulated from 'capture' by capitalists (Evans 1992, 1997).

Developmental State theory was very influential and became used as a yardstick for defining which institutional characteristics of the state were necessary for good economic outcomes. As a result, typologies of the state were created to explain variations in the economic performance of developing countries that drew on Weber's work. The concept of the neopatrimonial state was coined based on Weber's patrimonial rule ideal type. Rational-legal bureaucratic rule was based on impersonal governance institutions and was seen under modern capitalism, whereas patrimonial rule was a precapitalist form of governance based on traditional legitimacy and personal loyalty between a ruler and his staff or allies. Scholars such as Eisenstadt, Medard, and others developed the concept of neopatrimonialism to explain the persistence of premodern state structures in developing countries, such as personalized exchange through patron-client networks where clients exchange political support for benefits that a patron can provide by using political power to capture public resources (Khan 2005a: 714).

The neopatrimonial concept came to dominate analyses of African countries. Its proponents argued that 'while neopatrimonial practices can be found in all polities, it is the *core* feature of politics in Africa' (Bratton and van de Walle 1994: 459).[5] Some scholars drew a direct causal linkage between neopatrimonial politics and the stifled development of capitalism (see the review in

[5] Some of the most cited works on neopatrimonialism and economic development in Africa are Chabal and Daloz (1999), van de Walle (2001), and Medard (2002).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

Kelsall 2013: 12–13). They argued that neopatrimonialism tends to bloat public expenditures, puts severe strain on the resources available for national development, and undermines the economic predictability and security required for long-term capitalist investment (Callaghy 1988).

Atul Kohli, in his book *State-Directed Development* (2004), draws on this tradition in African political studies when he characterizes African countries as having neopatrimonial states, which are considered premodern in that the patrimonial logic is dominant. On the other hand, he describes other parts of the developing world as having modern rational-legal states (although they have different configurations), which are determined by two key factors: the political organization of the state and the role of capitalists. Kohli's work diverged in useful ways from the earlier Developmental State theory in emphasizing these new factors. However, its weakness is that he did not see these factors as applying to African countries, because they were black boxed as 'premodern'. We argue that African countries should not be treated separately, but rather the same analysis can be applied to them. In this way, neopatrimonialism has been a stumbling block for theorizing about African experiences.

Likewise, Peter Evans tends to generalize Sub-Saharan African countries as having Predatory State structures, defined by a rent-seeking political class and a premodern bureaucracy, and juxtaposes them to the East Asian Developmental State (Evans 1997: 72). He illustrates his third ideal type of the Intermediate State, in which political leaders are unable to transform the entire bureaucracy but are able to create 'pockets of efficiency', with examples of Brazil and India, and leaves the impression that such states are not to be found in Africa. Both Evans and Kohli set African countries apart and treat them differently. They also seem to agree that the neoliberal view of the state as an arena where individuals are motivated by and pursue rational self-interest at the public's expense actually holds true in African countries.

Developmental State theory came under severe attack from scholars within East Asian studies, who challenged its core tenets and criticized its 'thin politics'.[6] These critics argued that the state in Northeast Asian countries had not been an internally coherent unitary entity, but rather consisted of contending factions within and among the executive, bureaucratic agencies, and the ruling party. There was intragovernmental fragmentation, because each faction had divergent institutional interests, and bureaucrats were not insulated from social constituents. The line between state and society was blurred, even under authoritarian governments. They argued that there was no uniform pattern of executive dominance in Northeast Asian states, but rather quite a bit of variation depending on leadership style, political calculation, and institutional constraints. As a result, Moon and Prasad (1994) concluded that the claim in

[6] Moon and Prasad (1994) deconstruct the Developmental State explanation very effectively. See also Cheng (1990), Haggard and Moon (1990), Wade (1992), Haggard (1994, 1998), Lim (1998), and Chibber (1999).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

Development State theory of general state autonomy through insulation lacked an empirical basis.

Critics also showed that economic transformation was not achieved through grand strategies implemented by states, but rather by numerous improvised decisions and ad hoc policy changes (Cheng 1990). Government decision making tended to be incremental and pragmatic, responding to immediate crises and dilemmas, with development strategies emerging by default, trial and error, and compromises. The outcomes of industrial policy were not always positive; there were many failures. Beneath the amazing macro-level economic performance was a myriad of micro-failures and unintended policy consequences. Furthermore, the process was replete with political battles. Institutions cannot be apolitical. 'In a real world of politics, technical rationality is bounded by political calculus' (Moon and Prasad 1994: 368). State-business networks served as a collective process of 'muddling through' and reducing the risks and uncertainties for firms, but such networks served to consolidate power just as much as they served to implement industrial policies.

Thus, Northeast Asian countries did not have ideal type Weberian bureaucracies as suggested by the Developmental State literature. Key departments dealing with economic issues were reformed with an eye toward economic effectiveness and international competitiveness, while other parts of the state administration were used for patronage appointments and to distribute 'side payments' or 'pork' to constituencies within the ruling coalition (Kang 1995: 575). Political systems in Northeast Asian countries were also characterized by the presence of personalized power, the domination of formal institutions by informal networks, the use of political power to drive accumulation, and the transfer of resources through patron-client networks.[7] These political features are associated with neopatrimonialism, which as noted earlier, has been argued to stifle capitalist development in African countries by lowering investment, preventing long-term planning by capitalists, and encouraging political leaders to arbitrarily favor their clients. However, Northeast Asian countries implemented industrial policies and achieved significant levels of economic transformation despite the presence of such political features.

Out of the critiques of the Developmental State theory, two alternative theoretical approaches emerged: Business-State Relations, and Political Survival of Ruling Elites. Some scholars emphasized the organization of the business sector and collaborative business-state relations and concluded that effective industrial policy requires a cooperative relationship between business and government. Another group of scholars emphasized instead how the imperative to remain in power was the main driver behind state elites' policy choices and implementation, as well as their interaction with business.

[7] For a comparison of different types of neopatrimonialism, corruption, and rent-seeking in Northeast and Southeast Asian countries and their varying economic impacts, see MacIntyre (1994), Jomo (1997), and Khan (2000a).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-1-107-10531-7 - The Politics of African Industrial Policy: A Comparative Perspective
Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjær
Excerpt
More information

Collaborative Business-State Relations

Collaborative business-state relations theory starts from acknowledging that close business-state relations were a key feature of East Asian countries and played an important role in implementing industrial policies, but also acknowledges that the neoliberal literature had a point when suggesting that much government intervention results in rent-seeking and the unproductive use of rents. Therefore, it aims to identify the conditions under which collaborative business-state relations emerge and what keeps them from degenerating into collusive relations. In this literature, collusion is often synonymous with rent-seeking, and rent-seeking is equated with directly unproductive profit-seeking. In contrast, *collaborative relations* refers to alliances of political elites, industry actors, and bureaucrats working together to solve problems for growth and investment. These coalitions or networks help to solve collective action and coordination problems, they facilitate the flow of information and increase predictability (reduce uncertainty) for firms. This theory was extended beyond East Asian experiences to explain the variation in performance of different industries within the same country, as well as the variation in performance of the same industry across different countries.[8]

The unit of analysis is the relations between bureaucrats and businesses. Scholars using this approach maintain the central importance of a Weberian bureaucracy, but also emphasize that bureaucrats must be knowledgeable of how industries work and have a shared vision of the industry with businesses. They also argue that the organization of the business sector is important. Collective business action can minimize incentives for unproductive profit-seeking and result in business associations that can effectively engage with state actors on policymaking. Characteristics of business organization that matter include concentration of firms, capabilities of entrepreneurs, and the ability to aggregate interests across firms and to act collectively. Proponents of this approach tend to focus on formal institutionalized relations through business associations, especially ‘encompassing’ (multisectoral) business associations. However, some authors emphasize that industry-specific associations can play an important role, as can informal institutionalized relations (or networks) between businesses and bureaucrats.

The literature also finds that government actions are important in influencing the organization of the business sector. Ruling elites have to provide businesses with access to policymaking, and government actions are needed

[8] Doner (1992) introduced the concept of growth coalitions involving the state and private sector in describing the political underpinnings of industrialization in East Asia. Similarly, Evans (1992) used the concept of policy network. There is overlap between this approach and some authors supporting the ‘soft version’ of the Developmental State. Key works in this approach include the edited volumes by MacInytre (1994) and Maxfield and Schneider (1997a), as well as works by Doner and Schneider (2000) and Schneider (2004). On Sub-Saharan Africa, see Brautigam, Rakner, and Taylor (2002) and Taylor (2007), and more recent work by Sen and Velde (2009) and Seekings and Nattrass (2011).

© in this web service Cambridge University Press www.cambridge.org