

Altenburg, Tilman; Coulibaly, Brahim

**Research Report**

## Meeting Africa's employment challenge in a changing world

Briefing Paper, No. 18/2018

**Provided in Cooperation with:**

German Institute of Development and Sustainability (IDOS), Bonn

*Suggested Citation:* Altenburg, Tilman; Coulibaly, Brahim (2018) : Meeting Africa's employment challenge in a changing world, Briefing Paper, No. 18/2018, Deutsches Institut für Entwicklungspolitik (DIE), Bonn, <https://doi.org/10.23661/bp18.2018>

This Version is available at:

<https://hdl.handle.net/10419/199830>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

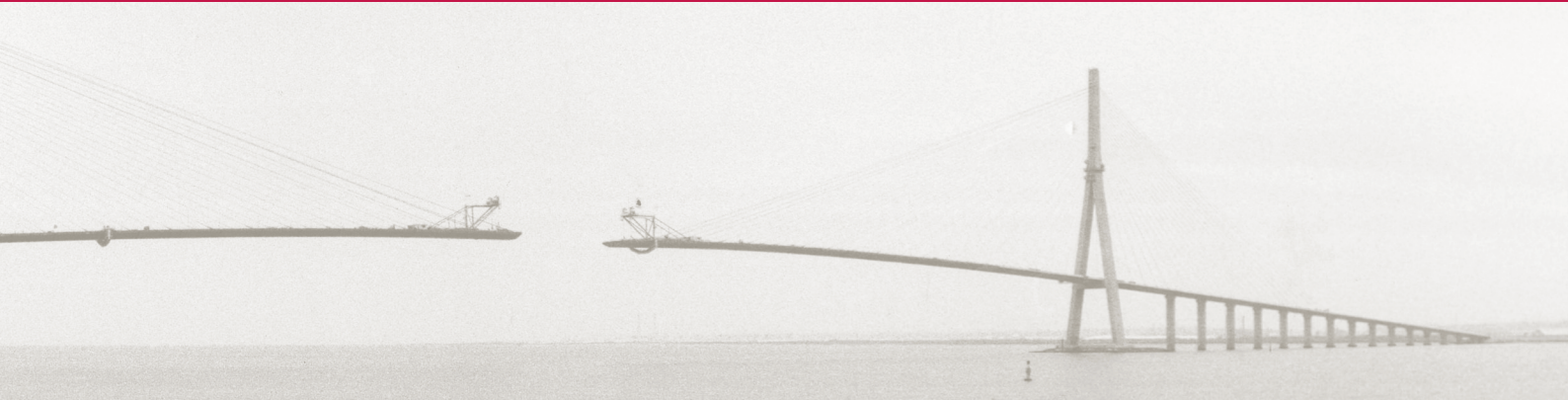
Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



## Meeting Africa's Employment Challenge in a Changing World

### Summary

Around 2031, Africa's working-age population will pass the 1-billion threshold. This growing workforce will require decent productive employment. So far, Africa's economies have largely failed to create stable and well-paid jobs. For any one person working in the formal private sector, 10 work in the informal economy. Failure to generate sufficient formal-sector jobs for young people will increase migration and global security challenges.

Creating decent jobs at the scale required is inconceivable without a structural transformation that enables workers to move from low-productivity agriculture and informal trades to modern manufacturing or service sectors. Such a transformation took place in some East Asian countries, but no comparable dynamic has so far been observed anywhere in Africa. What's more, the region has already started to deindustrialise at a stage when industry has not yet really taken off.

What, then, are the prospects for Africa's economic future? Where should the millions of decent jobs the region urgently needs come from? We suggest exploring this not by extrapolating past trends, but by analysing how certain – potentially disruptive – global trends impact on African economies:

- Natural resources are being depleted globally while the world population increases, becomes more affluent and demands higher-value food. Also, the global bio-economy is likely to boost demand for fuel substitutes. This creates opportunities for countries with under-utilised land resources.

- Urbanisation and the expansion of African middle classes will boost and diversify demand, creating opportunities for local consumer industries. Trends towards sustainable smart cities also hold promises for African entrepreneurs in transport, electronics, the construction industry and other sectors.
- New digital technologies improve connectivity. Some digital innovations enable African producers to tap into hitherto inaccessible markets, whereas others may lead to automation and global market concentration at the expense of African producers.
- China's rapidly increasing wages may lead to the relocation of labour-intensive industries to African countries with low unit labour costs – unless China uses automation to keep them at home.
- The imperative of reducing the world economy's material footprint may create new opportunities, such as in low-input agriculture or electrification based on low-cost renewable energy. At the same time, it creates the risk of enormous capital losses in high-carbon and other unsustainable technologies.

We do not know exactly how these trends will play out for individual African countries. Yet some trends will be game-changing. Hence, we recommend systematic efforts to explore them, with the aim of identifying competitive opportunities and taking strategic action early on. We identify some opportunities in manufacturing and services that we expect to become important (while recognising big differences across the region). We also suggest complementary investments in productivity and employment for the large proportion of the workforce not easily and immediately employable in competitive industries.

### Structural transformation as a key driver

Around 2031, Africa's working-age population (aged 15–64) will pass the 1-billion threshold. This workforce will require productive employment. So far, Africa's economies have largely failed to deliver such jobs. Filmer and Fox (2014) estimate that 84 per cent of Sub-Saharan workers are in informal occupations that are not properly registered and are typically associated with instability, low productivity and precarious working conditions. Only 8 per cent work in registered private firms, and another 8 per cent in the public sector. The currently minuscule formal private sector would need to expand tenfold to absorb the entire workforce currently "parked" in the informal economy! On top of that, the African working-age population is growing by about 20 million every year, further adding to the employment challenge.

The *good news* is that several East Asian countries have shown that rapid growth of formal labour markets is possible. At the heart of the success of China, Vietnam, South Korea, Malaysia, Thailand and other good performers was a structural transformation with strong manufacturing-sector growth. Structural transformation implies that workers and capital shift from low-productivity activities in smallholder agriculture, artisanry and petty trade to new specialised occupations in which productivity is much higher: typically, manufacturing and related services. When a large proportion of the workforce moves, the related boost in productivity also benefits those remaining in traditional sectors. Their salaries rise as the oversupply of labour is reduced; they benefit from increasing demand for their products; and they receive remittances from family members with wage income. Historically, the manufacturing sector has played a key role in that transformation. Manufacturing typically entails a high degree of specialisation and economies of scale. Tradability of industrial goods further enables large-scale production. Also, industrialisation goes along with technological learning. The capabilities accumulated as industries develop can be recombined to produce more sophisticated and lucrative products in the future.

The *bad news* is that structural transformation in Africa is very slow. In most countries of the region, the share of manufacturing in GDP has started to decline before it has even reached 10, 15 or 20 per cent. Such "premature deindustrialisation" (Rodrik, 2016) prevents countries from accumulating the diversified capabilities so important for economic development. It is driven by two forces. The first is global competition. In a globalising world economy, latecomer countries are disadvantaged vis-à-vis competitors who have been able to accumulate capabilities and create economies of scale as well as network externalities decades before. The second is labour-saving technologies. New studies suggest that automation of routine activities will accelerate in the next decade or two, thereby eroding the opportunities for labour-intensive manufacturing for export to act as a springboard for development. Africa is not the only region experiencing premature deindustrialisation; but here it kicks in at very early

stages of development, and the consequences are particularly severe, given the demographic challenge.

### Prospects for Africa's economic future

What, then, are the prospects for Africa's economic future? Where should the millions of decent jobs that the region urgently needs come from? We propose that the potential drivers of wealth creation in Africa will not be the same as those that allowed East Asian economies to prosper. Fundamental changes are underway, closing some development pathways but hopefully opening others that African countries may use. We consider five mega-trends as game-changers for Africa's development perspectives:

1. New opportunities arise for agro-industries, as resources for agricultural production are depleted globally (loss of fertile soils, water scarcity, biodiversity) at the same time as the world population is increasing, becoming more affluent and demanding more high-value food products, and fossil-fuel-based products are being replaced by bio-economy.
2. New digital technologies increase connectivity, breed new business models such as electronic trading platforms, enable the automation of routine tasks and impact on supply chains in multiple ways.
3. The imperative of reducing the world economy's material footprint creates opportunities in environmental technologies, yet new standards make exporting more costly. At the same time, it entails the risk of enormous capital losses in high carbon and other unsustainable technologies.
4. Urbanisation and the expansion of middle classes profoundly change patterns of consumer demand; at the same time, trends towards "smart" cities trigger all sorts of innovations, from transport to the building industry.
5. The global distribution of economic power shifts, with East Asia strengthening its position as a thriving centre of the world economy and China moving from low-cost manufacturing to a knowledge-based economy.

We do not know exactly what these trends imply for the competitive positioning of African countries in the world economy. Yet they will have far-reaching consequences and it is therefore important to understand these global trends. Given the big differences within the region in terms of resource endowments, country and population size, geography, technological and institutional development and so on, these opportunities are of course country-specific. Yet, a few general lessons can be drawn.

### Manufacturing still matters – but differently

Due to its role as a driver of capability accumulation and spillovers, manufacturing still matters. But the opportunities will be different from the ones other countries used when the world was less globalised and technologically less advanced. Today, we see three major opportunities for industrial development, which African governments can exploit in ways that match their specific country conditions:

First, new opportunities arise for producing consumer goods for growing urban middle classes. Urbanisation has historically been associated with rising per capita income and diversification of life styles, thereby expanding industrial opportunities. In addition, new patterns of urban development, with investments in resource-efficient buildings, smart mobility and strong emphasis on material reuse and recycling will create many business opportunities. The challenge is to invest in entrepreneurial and technological capabilities to enable domestic industries to capture a larger share of these emerging markets instead of leaving them to importers.

Second, as industrial wages are skyrocketing in China, international investors in export-oriented light manufacturing may turn to Africa. It should be noted, however, that only a few African countries are currently competitive in terms of labour costs, the overall cost of doing business, and geographically. Two things need to be kept in mind when exploiting these opportunities: automation may soon erode comparative advantages in some light manufacturing industries, and countries should try to move away from the simplest assembly operations that may lock them into sweatshop situations. Morocco's upgrading from assembly of cable trees to more complex auto parts is a good example.

Third, new forward and backward linkages will arise from the diversification of primary activities. Agriculture tends to have far more linkages – and socially more inclusive ones – than oil and mining. As global demand for agriculture-based products is rising – including high-value crops, meat, dairy and new bio-economy products, agroprocessing has a bright future.

Across all types of industries, manufacturing will have to account for environmental impacts to a much larger degree. As environmental externalities are gradually priced into global transactions, and ecological product and process standards are harmonised in trade agreements and global value chains, being greener than your global competitor is becoming a very important asset (Altenburg & Rodrik, 2017).

### **New opportunities in non-manufacturing activities**

While manufacturing remains important, the most powerful drivers of wealth creation in Africa are arguably others that are less exposed to global competition. As Page (2018) observed, ICT-based services, tourism, and transport are outpacing the growth of manufacturing in many African countries. Between 1998 and 2015, services exports grew more than six times faster than merchandise exports (Foresight Africa, 2018).

Fortunately, the positive features of some non-manufacturing activities are similar to those of traditional industries: they absorb large workforces in highly productive activities; they require specific capabilities and thereby enable countries to avoid a purely factor cost-based competition and to reap innovation rents; they hold the potential for knowledge spillovers into newly emerging activities; some services are tradable, thereby allowing for economies of scale and foreign exchange earnings; and in some of them, the threat of labour-substituting automation is less. Page (2018) refers to these sectors as “industries without smokestacks” to highlight

those manufacturing-like characteristics. The challenge is to use opportunities in such industries in a way that sets the virtuous circle of learning, diversification of capabilities and knowledge spillovers in motion, as has traditionally happened in manufacturing.

Among the promising candidates for Africa are:

- High-value agriculture (for the reasons outlined above), ranging from horticulture to new bio-economy products that substitute fossil-fuel usage in the global economy
- Tourism, which already employs more than 5 million Africans directly and has a large unexploited potential
- Creative industries, in particular movies, music, arts and games that build on the uniqueness and diversity of African cultures and the beauty of its nature
- Business process outsourcing, allowing a skilled workforce to work for worldwide customers without any locational disadvantage. “Impact sourcing” is a new modality by which socioeconomically disadvantaged workers are contracted by international customers who want to cut costs at home but outsource with social responsibility.

### **Making structural transformation socially inclusive: Complementary pro-poor policies**

Even in the most optimistic scenario, where African countries aptly exploit the various opportunities in industries “with and without smokestacks”, Africa’s unemployment will remain challenging for a long time to come. Remember that better jobs are needed not only for many millions of young Africans entering the workforce for the first time, but also for members of the existing workforce who are currently self-employed for lack of anything better. Investing in emerging competitive advantages is therefore important, but not sufficient. To make progress on the employment challenge and reduce poverty requires complementary pro-poor policies of two types:

First, raising productivity and incomes in those activities where the poor are *currently* employed, especially in small-holder agriculture, artisanry and other small trades. This requires big investments in education and vocational training, infrastructure, access to energy, finance and business development services. The increasing cost-effectiveness of decentralised renewable energy systems entails enormous benefits by providing remote households with modern energy services and creating new economic opportunities related to installation, operation and maintenance of solar home systems, small-utility-scale wind and solar projects, biogas projects etc. As a general principle, projects should create linkages and knowledge transfer between informal firms and modern productive enterprises.

Second, better social protection schemes, including public works and cash transfer schemes. With economic modernisation, urbanisation and concentration of wealth, more people will become dependent on non-wage transfers. Research has shown that mitigating poor people’s risks encourages them to make long-term investments in education and productive assets, which in turn contribute to economic growth.

Protecting the poor is not just a moral obligation, but also one of the most effective investments in productivity.

### New priorities for development action

Africa's employment challenges require action on various fronts. Most of the relevant areas are well known, and reforms are underway in areas such as education, health, infrastructure, and overall governance reforms. While there are good reasons to continue and up-scale such programmes, we focus here on four areas we consider as *crucial but neglected* in the current discourse among African governments, bilateral development partners and international organisations:

1. *Explore viable growth paths.* Today, no one can tell where the many millions of decent jobs needed in Africa might come from. While there are some local examples of economic success, none of them is at the scale needed to make big employment impacts. Disruptive technological change may open up new opportunities, both domestically and for export: in IT services, decentralised energy systems, urban consumer markets, bioenergy, high-value food exports, smart infrastructure for cities and others. How big these opportunities are, which countries are best suited to exploiting them and what pre-investments this requires – all this is far from clear. African policymakers should therefore systematically screen technology and market trends, especially those that are potentially disruptive, to be able to identify country-specific development pathways that are both future-proof and socially inclusive.
2. *Invest in country-specific competitive advantages.* Whatever the emerging opportunities may be – in software exports, agricultural value chains, bioeconomy, tourism or garment exports – specific supporting institutions will be needed to attract the right investments, create the requisite skills and

ensure compliance with international standards. Most national programmes aimed at improving investment conditions emphasise horizontal measures (simplifying bureaucratic procedures, for example). Much less effort is put into strategically exploiting new market opportunities.

3. *Maximise development spillovers from modern firms to low-productivity producers.* The small segment of modern firms engaged in officially registered business transactions is deeply segregated from the usually much larger segment of informal micro and small-scale enterprises. The productivity gap between the two tends to be extremely big. Large firms have hardly any incentive to engage in business transactions with micro-firms, which is aggravated by reliability and enforcement issues. As a result, inter-firm specialisation is low and very little knowledge is transferred from modern to traditional firms. Supporting such linkages and knowledge spillovers could help micro-firms boost their performance. Yet little is done in this regard. African governments and development partners often just bet on (foreign) large-firm investment and take linkage and spillover effects for granted; and many African governments exacerbate the problem by splitting ministerial competencies and support programmes between modern industries and micro- and small-scale enterprises (Altenburg & Lütkenhorst, 2015).
4. *Up-scale social policies.* Cash transfers, public works, nutrition programmes and other social policies reduce poor people's risks and increase their willingness to invest in education or other productive assets, which help them to overcome poverty. While there is sufficient evidence of even lower-middle-income countries being able to finance such programmes through tax revenues (e.g. India, Indonesia or, in Africa, Lesotho), low-income countries in particular are dependent on international support.

### References

- Altenburg, T., & Lütkenhorst, W. (2015). *Industrial policy in developing countries. Failing markets – weak states*. Cheltenham/Northampton: Edward Elgar.
- Altenburg, T., & Rodrik, D. (2017). Green industrial policy: Accelerating structural change towards wealthy green economies. In T. Altenburg & C. Assmann (Eds.), *Green industrial policy: Concept, policies, country experiences* (pp. 1-20). Bonn/Geneva: UN Environment.
- Filmer, D., & Fox, L. (2014). *Youth employment in Sub-Saharan Africa*. Washington, DC: World Bank.
- Foresight Africa. (2018). *Top priorities for the continent in 2018*. Washington, DC: The Brookings Institution Africa Growth Initiative.
- Page, J. (2018). *Rethinking Africa's structural transformation. The rise of new industries*. Retrieved from <https://www.brookings.edu/research/rethinking-africas-structural-transformation/>
- Rodrik, D. (2016). Premature deindustrialization. *Journal of Economic Growth*, 21(1), 1-33.

#### Tilman Altenburg

##### Chair

"Transformation of Economic and Social Systems"  
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

#### Brahima Coulibaly

##### Director and Senior Fellow

African Growth Initiative, Brookings Institution

DOI: 10.23661/bp18.2018