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# Unlocking the industrial potential of African LDCs: Bridging the gap for sustainable development

**Nobuya Haraguchi**[1]
UNIDO
**Marco Sanfilippo**
University of Turin and Collegio Carlo Alberto

**Abstract**

Despite representing 9.5 per cent of the global population, African least developed countries (LDCs) only contribute 0.4 per cent to global manufacturing value added (MVA). The industrialization gap between African and Asian LDCs has increased considerably in the last 20 years, with Asian LDCs' MVA per capita growing threefold compared to that of African LDCs between 2000 and 2022. African LDCs' weak institutions, low competitiveness and limited global integration hamper their untapped potential for industrial growth. Tailored industrial policies that prioritize infrastructure, clean technologies and youth employment can bridge this gap and help African LDCs achieve the Sustainable Development Goals (SDGs).

## Key Messages

**1.** The industrialization gap between African LDCs and their Asian counterparts has grown considerably over the last 20 years, with Asian LDCs' MVA per capita increasing threefold compared to African LDCs.

**2.** The quality of the institutional framework, the level of competitiveness, and the extent of participation in GVCs are crucial drivers of industrialization in LDCs.

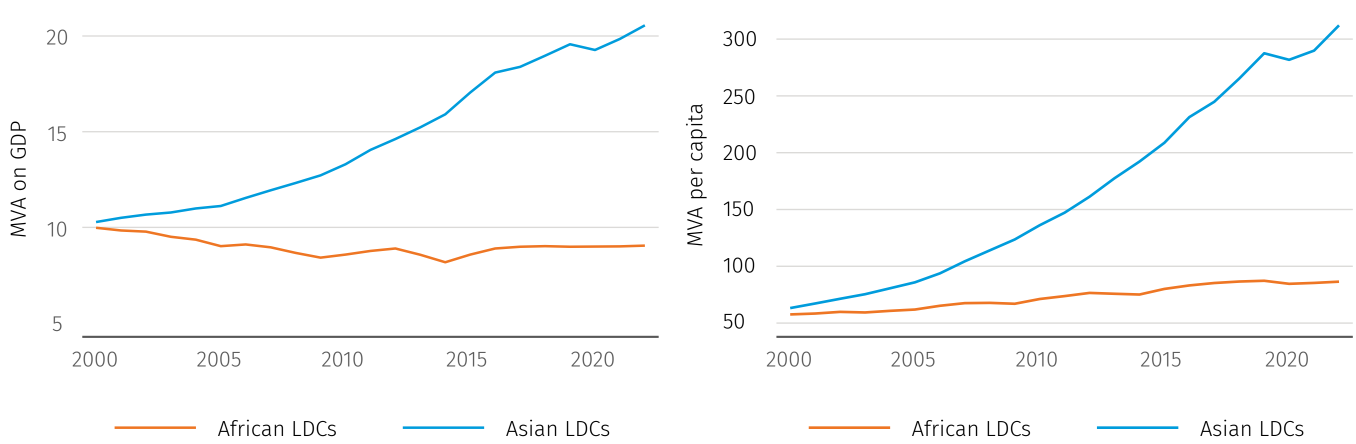
**3.** African LDCs must prioritize improving their infrastructure and business environment to attract investments in labour-intensive industries while simultaneously investing in upskilling their workforce.

## Exploring the potential for industrialization in African LDCs

African countries are overrepresented in the list of least developed countries (LDCs), with 33 out of 45 LDCs located in Africa.[2] The group of LDCs faces common challenges in terms of living standards and vulnerability to economic and environmental shocks, which severely curtails their capacity to embark on a sustained path of industrialization.

LDCs typically have lower levels of physical, infrastructural and human capital than other developing countries. This, however, also means that their potential for industrialization remains untapped. In 2021, LDCs accounted for only 1.1 per cent[3] of global manufacturing value added (MVA), a figure that is particularly low considering their high share of global population, which stood at 14 per cent in that same year. This disparity is even more pronounced in African LDCs, which contributed only 0.4 per cent to global MVA, despite being home to 9.5 per cent of the world's population. This lag in industrialization among

**FIGURE 1:** TREND OF INDUSTRIALIZATION OF AFRICAN AND ASIAN LDCs[4]




**Source:** Elaboration based on data from UNIDO (INDSTAD)

African LDCs becomes even more apparent when compared with the performance of Asian LDCs. Figure 1 presents the development of the share of MVA in gross domestic product (GDP) and of MVA per capita in African and Asian LDCs over the last 20 years. While the figures for the two groups were very similar in 2000, the share of MVA in GDP doubled and the level of MVA per capita tripled in Asian LDCs relative to their African counterparts.

Institutional dimensions, such as political stability and the rule of law, are critical determinants of a country's level of industrialization.

## Unveiling the factors behind the industrialization gap of African LDCs

To effectively address the lack of dynamism in African LDCs' industrialization trajectory, we must understand the underlying factors responsible for this trend. Given its role as a driver of growth and other dimensions of development, industrialization plays a key role in facilitating a smooth graduation out of the LDC category. From a policy perspective, it is therefore equally important to understand the reasons behind the widening divergence in industrial performance between African and Asian LDCs.

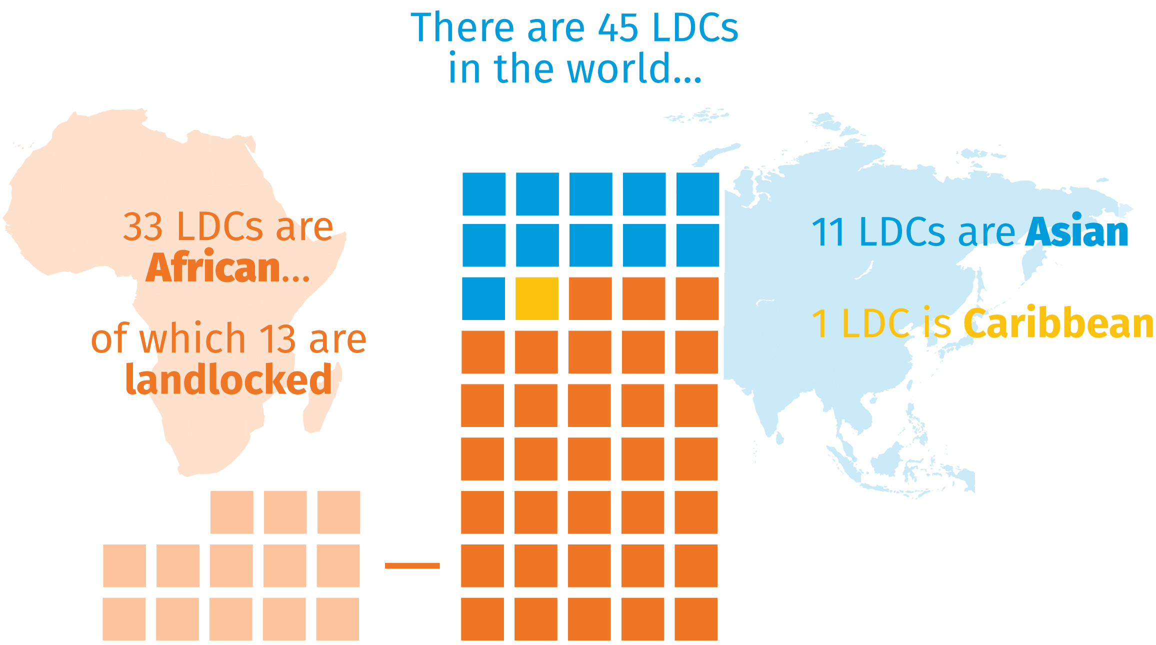
We conducted a comparative analysis of the industrial performance of African and Asian LDCs over the last 20 years by focusing on a number of key drivers of industrialization and drawing from relevant literature.[5] We examined the correlation between MVA per capita and a number of other variables proxying for factors that have a direct or indirect influence on industrialization. The aim was to identify the factors that have played a differential role in the industrialization trajectories of African LDCs relative to Asian LDCs.

Three key factors emerge as major contributors to the industrialization gap between African and Asian LDCs. First, a country's institutional capacities play a pivotal role in its level of industrialization. While institutions are not the only determinant of industrialization, we find evidence that institutional quality explains some of the disparities between the level of industrialization in African and Asian LDCs. Institutional dimensions such as political stability, corruption and the rule of law have a significant influence on the domestic business environment. This, in turn, has an impact on firms' investment decisions, as well as on a country's attractiveness to potential (e.g. foreign) investors. Compared to Asian LCDs, African LDCs have lower levels of private investment activity in GDP weighted terms and attract less foreign direct investment (FDI) in manufacturing. While this is also related to macroeconomic fundamentals, the weak institutional framework in many African LDCs poses a significant barrier to industrialization in these countries.

Secondly, the differences in level of competitiveness between African and Asian LDCs has an impact on their industrialization trajectories. Unlike Asian LDCs, the African group of LDCs has not exploited its low labour costs to bolster its presence in labour-intensive manufacturing industries. Differences in the level of productivity (in terms of total factor productivity (TFP) and human capital have contributed significantly to the weaker growth of MVA in African LDCs in comparison to Asian ones.

Thirdly, the involvement of African LDCs in globalization is low, characterized by their limited participation in trade and global value chains (GVCs).[6] Moreover, many African LCDs often serve as suppliers of raw materials and commodities with minimal local value addition. Contrary to their Asian counterparts, even when an African LCD's participation in GVCs is high, the potential to drive industrialization in the country is usually hampered by the lack of export diversification and low backward participation. Export concentration acts as a disincentive to industrialization and exposes countries to external shocks and commodity price volatility. In addition, African LDCs face a significant disparity in the scale and type of FDI they attract. We find very little evidence of FDI contributing to industrialization in African LDCs, in sharp contrast to the group of Asian LDCs.

**FIGURE 2:** AFRICAN VS. ASIAN LDCs IN NUMBERS



## Taking stock and charting the path forward

The lack of industrialization in African LDCs is not a new challenge. The manufacturing sector's contribution to GDP has remained stagnant over the last 20 years, which not only poses a risk to the achievement of Sustainable Development Goal (SDG) 9 but has major implications for progress towards the other SDGs as well and more generally for the country group's overall development perspectives. In fact, industrialization is crucial not only for a country's long-term economic growth prospects[7], but is also a key driver of sustainable development. Recent UNIDO studies substantiate the link between the level of industrialization with people's living standards and their quality of life.[8] Moreover, there is evidence demonstrating a positive relationship between a country's level of industrialization and its progress towards the SDGs. This is due to both the direct effects of industrialization, which generates more and better paying jobs, and its indirect effects on economic growth, which in turn is a catalyst for achieving many SDGs.[9]

Unlike Asian LDCs, the African group of LDCs has not exploited its low labour costs to bolster its presence in labour-intensive manufacturing industries.

The industrialization gap between African and Asian LDCs is on the rise. Some countries in the latter group (e.g. Bangladesh, Laos and Myanmar) share similar structural weaknesses as their African counterparts but have nonetheless managed to develop a specialization in labour-intensive activities. This is not the case in African LDCs, however. While factors such as geography (13 of the 33 African LDCs are landlocked) and resource endowments undoubtedly play a role, they usually fall outside policymakers' direct control. Thus, African LDCs should pay particular attention to the factors that policy can influence, such as bolstering domestic institutions, enhancing competitiveness and increasing involvement in globalization, i.e. GVCs.

On a more positive note, the low levels of competitiveness of African LDCs are an indicator of untapped potential which, coupled with the demographic boom and increase in educational attainment levels on the continent, can turn into an important driver of future industrialization. Additionally, the weak engagement of African LDCs in globalization and GVCs may become less problematic as regional blocs continue being strengthened, especially if the African Free Continental Trade Agreement (AfCTA) fulfils its promise of deepening economic integration and enhancing trade in the region.

## The role of industrial policies for African LDCs

Tailored Industrial policies can close the industrialization gap and guide the process of industrialization, taking African LDCs' specific contexts into account, namely their low fiscal space and weak institutional frameworks. Moreover, non-economic goals need to be incorporated into the industrialization agenda.

The formulation of effective industrial policies will be crucial if African LDCs are to exploit their untapped potential, as industrialization plays a central role in addressing the multiple obstacles that lie in the way of achieving economic, societal and environmental growth in forthcoming decades. Industrialization holds the potential to generate a large number of new and decent jobs which are essential in light of the demographic boom in Africa while simultaneously tackling the most pressing global challenges, especially the green transition. However, to realize their potential in the age of digitalization, African LDCs must prioritize improving their infrastructure and business environment to attract investments in labour-intensive industries whose production processes will most likely remain unaffected by advanced automation for at least a decade. While leveraging their comparative advantage in labour-intensive industries, African LDCs must simultaneously prioritize investments in upskilling their workforce. This is important considering that future technological advancements will increasingly demand skilled labour.

Charting a sustainable path towards industrialization will require African LDCs to invest in clean technologies, particularly in agriculture and renewable energy.

Planning a sustainable path towards industrialization will require African LDCs to invest in clean technologies, particularly within agriculture and renewable energy. Amid pressing demographic challenges, governments in African LDCs should focus on policies that are tailored to create opportunities for youth, many of whom currently face unemployment or are engaged in informal or unpaid work.[10] This objective cannot be achieved without enhancing competitiveness first, i.e. facilitating the growth and specialization of firms in high productivity sectors, thereby driving structural transformation. This necessitates substantial investments in infrastructure. Access to transportation, electricity and internet connectivity holds transformative potential and is instrumental to achieving industrialization and unlocking new market opportunities.[11] These measures will be crucial for the AfCTA to exploit Africa's potential by integrating the continent's countries into global trade and enhancing their attractiveness to foreign investors.

## Endnotes

[1] We would like to thank Alejandro Lavopa and Cristiano Pasini for their invaluable comments on an earlier draft version of this brief and to Niki Rodousakis and Florian Hespeel for their editing and layout assistance.

[2] Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania, Zambia.

[3] Information computed based on UNIDO's INDSTAT data.

[4] Note: The figures report the simple average of share of MVA in GDP and MVA per capita by country group.

[5] See, for instance, Haraguchi, N., Martorano, B. and Sanfilippo, M. (2019) What factors drive successful industrialization? Evidence and implications for developing countries, *Structural Change and Economic Dynamics 49*, 266-276.

[6] The share of GVC-related trade is estimated at around 2.5 per cent to 5 per cent of GDP for most sub-Saharan African countries where LDCs are concentrated (see OECD).

[7] Szirmai, A., 2012. Industrialisation as an engine of growth in developing countries 1950–2005. *Structural Change and Economic Dynamics* 23 (4), 406–420.

[8] UNIDO (2020) How Industrial Development Matters to the Well Being of the Population. Vienna: UNIDO; UNIDO (2021) Industrialization as the Driver of Sustained Prosperity. Vienna: UNIDO; UNIDO (2024) Industrial Development Report-- "Turning Challenges into Sustainable Solutions: The New Era of Industrial Policy". Vienna: UNIDO.

[9] UNIDO (2021) *ibidem*.

[10] Bandiera, O., Elsayed, A., Smurra, A., Zipfel, C. (2022) Young Adults and Labor Markets in Africa. *Journal of Economic Perspectives* 36(1): 81–100

[11] Sanfilippo, M. (2022) Industrialising Africa: The transformative potential of infrastructures. IGC blog, available at: https://www.theigc.org/blogs/industrialising-africa/industrialising-africa-transformative-potential-infrastructure

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