

Export-led growth model behind 20th century growth miracles

- Unprecedented growth in East Asia—is closing the gap in income per capita/standards of living with advanced countries
- Major shift from import substitution model
- Open economy allowed one to avoid complexity of material balance equations—all one had to have was enough foreign exchange
- Export led growth generated necessary foreign exchange
- Didn't need to generate demand to absorb new supply
- Flexible and correctly managed exchange rate, open economy, and "attentive" producers suffice to absorb supply

This model won't be working in the future in the way that it did in the past

What will work?

A new framework for learning-led growth

- Based on "deconstructing" export-led growth



May need to combine multiple strategies

- **Manufacturing:** more directed, more limited, where possible, taking advantage of natural advantage (mineral resources)
 - Challenge for job creation will be greater because of AI
 - Competition for low skilled manufacturing may result in a race to bottom—need to be careful in giving tax breaks
- **Agriculture:** basis of employment, but can be restructured in ways that are more dynamic, with more learning, learning to learn, a kind of transformation in situ
- **Mining and oil:** important for foreign exchange (maximize revenues, taking advantage as much as possible of spillovers)
- **Services:** will be the growth sector of the future but in Africa, *agriculture also has enormous potential both in its own right and by stimulating the manufacturing and service sectors as ACET's Africa Transformation Report 2017*
- **Government:** may need to take a more active role if there is to be successful structural transformation

Agriculture-led Economic Transformation

- The African Center for Economic Transformation's 2nd major report released on Oct. 10 is timely and welcome.
- Argues that for many African countries: *"agriculture presents the easiest path to industrialization and economic transformation. Increasing productivity and output in a modern agricultural sector would, beyond improving food security and the balance of payments (through reduced food imports and increased exports) Sustain agro-processing, the manufacturing of agricultural inputs, and a host of services upstream and downstream from farms, creating employment and boosting incomes across the economy."*

Demographic Explosion: Dividend or Disaster?

- By 2100 World's population projected to **rise by 4 billion** of which 3.2 billion in Africa
- Africa's working age population to **rise by 2.1 billion** or more than the global increase of 2 billion
- Africa likely to need to generate roughly **500 million jobs** over the next 20-25 years to absorb the stock of un/under employed and the increase in the labor force
- Whether and how to make this a demographic dividend is of vital importance not just to Africa but the world
- Complicated not only by the relative decline of manufacturing but also its falling labor intensity

Key elements of a development strategy

Manufacturing



- Niche manufacturing/limited import substitution
 - Emerging markets can undertake research and become leaders in particular sectors—Brazil and China illustrate
- Pushing manufacturing further towards more complex products
- Strengthening links between "modernized" agriculture and manufacturing

Agriculture



- Need robust agricultural sector to provide full employment, including by stimulating manufacturing and services
 - Seek to add learning dimension to agriculture and other sectors
 - To reduce need for foreign exchange—using it for areas where it cannot be replaced

Service sector



- Move to service sector may have many implications
- Many services can be more easily inserted into the global economy through internet

Rethinking industrial policy

- Some service sectors are more amenable to learning
- Some learning in specific services has more spillovers to others
- General principles of industrial policies still apply (including for agriculture)
- Need to identify "learning" and "learning spillover" service sectors and agricultural activities
- These can have much of the benefits of the learning provided by manufacturing

The basis of the success of growth over past half century was export-led growth

- We have deconstructed what enabled manufacturing to provide this growth spurt, this structural transformation
- There has to be another strategy—that performs some of the essential roles that manufacturing export-led development did

It won't be able to do so in the future to anything like that extent



We have shown how a coordinated (Agriculture, Manufacturing, Mining, Service Sector) strategy has the prospect of attaining the same success of the old manufacturing export-led strategy.