Towards Sustainable Wealth and Job Creation through Economic Transformation

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The past 10 years have marked an important turnaround for Africa. The discourse on Africa, celebrating Africa’s great story, is now well anchored. But it is time now to make a distinction between economic growth and economic transformation.

Transformation occurs when the structure of the economy changes and exports of sophisticated good increase not simply through higher value or volume of commodity exports. There is no mystery to how jobs and wealth are created. They take place through economic transformation.

This is not what has happened in the last decade. This is why rapid growth has not created commensurate jobs. This is why growth has not been broad-based and inclusive.

The history of nations indicates that all countries, including today’s richest, were once poor. I believe that at this point, much of Africa has an opportunity for a breakthrough in job creation – and I want to suggest that this is largely due for four reasons: the natural resource boom; favourable demographic dynamics; rising wages in Asia; and Africa’s re-profiled risk.

And it is this fact which should prompt African leaders to exercise the critical leadership skill of asking the right questions. How did the once-poor countries emerge from poverty? We all know how Korea, China, Brazil, South East Asia have transformed in 30 years.

In the late 1970s, Deng Xiaoping, beginning the process of opening China, was grappling with the same problems that Africa is dealing with. Visiting Hong Kong in the late 1970s, the Chinese leader, credited for heralding China’s industrial revolution, asked the right questions. He wanted to know why Chinese people were fleeing to Hong Kong in tens of thousands every week. The bureaucrats on both sides, in Hong Kong and Guandong, were recommending greater security and patrol measures. Deng, the leader, realized this was the wrong answer. People trying to escape were not criminals. They were looking for opportunities. The right answer was to create jobs in China.

This is how China’s first Special Economic Zone was established in 1980 in Shenzhen village, in the coastal province of Guangdong next to Hong Kong. And this is how Hong Kong subsequently became a major conduit of capital to China. The rest, as they say, is history.

In spite of variations between individual country experiences, a regular pattern emerges. First, job creation can only come about as a result of growth, trade and investment. Second, there are many ways of job creation, whether it is in
agriculture, or services. The right kind of education and training are needed; so are labour market policies required. Nonetheless, throughout history, the manufacturing sector has been a cardinal feature of modern employment generation. As jobs were created in manufacturing, clusters in services of the industries were developed – and linkages with other sectors, such as agriculture, intensified and overall productivity and employment increased.

In the past century, the main hubs of labour intensive manufacturing have migrated, as we know, first from Europe to America and then to Asia – and now the emerging economies of China and India.

Needless to say, a major driving factor has been the cost of labour. As labour costs have increased, countries have moved up the value chain and literally shipped whole industries to cheaper parts of the world.

There are good reasons to believe that, subject to a number of factors, Africa is about to experience the transformation in its manufacturing potential caused by the increasing labour costs and aging populations of Asia.

Today, China and other Far East economic powers are no longer low-wage economies solely geared to producing cheap goods for the global market. The countries have been forced to export some of their manufacturing activities to other countries, beginning in Southeast Asia to places like Cambodia, Vietnam, Philippines and others. Recent data show that compared to Ethiopia, average wages in manufacturing in China are at least five times higher and those in Vietnam twice as high. This is creating competitive wage differentials and opening up opportunities for the continent.

The improving African business environment is an added boost. The question is: How many African countries will be able to provide homes for these industries relocating from their current locus? Let me share with you the example that I encountered in Ethiopia.

**A Chinese shoe manufacturer in Ethiopia**

On my recent visit to Addis Ababa, I was struck by the story of the Huajian Group of China, a shoemaking company which has relocated to Ethiopia. As I said earlier, throughout history, shoe manufacturing has migrated from Europe, then to the Americas, followed by Korea, Taiwan and now China.

The company set up a factory to manufacture shoes for leading global brands, taking advantage of Ethiopia’s environment, abundant leather and competitive
conditions such as electricity. The Government provided them with 300 hectares of land in the precincts of Addis Ababa. The firm initially sent more than 80 workers for training in China to equip them with relevant skills. Currently, the firm employs about 1,000 workers out of which only 180 are Chinese. From their three production lines, they produce 2,000 pairs of shoes per day with exports worth one million dollars per month to the US and Europe where they compete with similar brands in both price and quality.

The impact of the company on the area where it is based, about 20 kilometres outside Addis Ababa, is impressive. The 1,000 jobs in the factory, have spurned off thousands of other jobs. The company and its workers demand goods and services such as food. This has spurned activities in agriculture, transport and related services and created local employment opportunities. Local government has also received a boost in taxes.

The story of the Huajian Group in Ethiopia implies no specific magic to success. It is based on tested business values, foresight and careful assessment of opportunities. The Ethiopians are succeeding here because of proactive suitable policies. There are still obstacles, but they are being overcome. Management informed me that business start-ups anywhere, including in China, have to overcome a number of obstacles before they can start reaping the benefits. They told me they can compete on price and quality, but lead time is a problem due to logistics and absence of clusters. Indeed, the Huajian Group managers told me that for now, they import most of those inputs.

Such pioneer firms have to contend with logistical difficulties, such as infrastructure challenges, customs and port clearance delays, and absence of clusters to support its business input requirements. I learnt, for example, that shoemaking could sustain a dozen different industries – from sole-making, chemicals, labels, glue manufacturing packaging and ornamentation.

Meantime, the Huajian Group has remained focussed on expanding its business and optimizing on the factors that create value for the firm. The Government has established a Leather Industry Development Institute to develop the industry and regulate standards, to ensure good leather quality and overcome those other problems identified by pioneers. As those improvements are made, overall system efficiency will increase, and more jobs created. This is the right strategy for sustainable wealth and job creation.

The Ethiopia leather example can be replicated elsewhere; maybe it is happening already but there are prerequisites. At this time when Africa is experiencing a second generation natural resource boom and a youth bulge, it is the opportunity to
utilize this window to put in place conditions that create jobs. These two factors could provide a launch pad to kick-start significant job creation for Africa. For perhaps the first time in decades, Africa has a real potential to reduce these obstacles from the revenues generated by natural resources whose sectors, of course, spin off very few jobs due to their capital intensive nature. To quote Michael Porter’s famous dictum, ‘This is how inherited wealth can be translated into created wealth’.

The resources from the natural resource boom well spent could go a long way in building conditions for manufacturing and developing the human capital required. If this is done, Africa’s youth bulge, which many countries see as a threat to their social harmony, will be a source of strength. It is the demographic dividend which made Asia, what it is in the past 30 years.

As Africa’s risk re-profiles among investors, success stories will multiply such as the Government of Kenya’s plans to invite domestic and foreign investors to take part in the development of Konza Techno City, as part of the broader plans to develop a Silicon Savannah in East Africa.

**Role of the African Development Bank**

The African Development Bank has been at the forefront of creating conditions for foreign direct investments mainly by addressing the critical issue of infrastructure, logistics and economic integration. Our new long-term strategy, covering 2012-2022, is axed on economic transformation. We shall, through policy support, help natural-resource-rich countries to prudently manage their newly found wealth and invest proceeds in physical infrastructure, human capital and economic integration. We will work together with the African Union, Regional Economic Commissions and others to expand Africa’s internal market away from the ‘zero sum calculus’ delaying economic integration. Investors will look at Africa as one potential market.

**Conclusion**

Let me end where I began, to reiterate that there is no mystery to wealth and job creation. The toolbox is known: right skills and training; enabling policies; labour market flexibility; and states and businesses working hand in hand. If these conditions on the ground are right, Africa stands at a new dawn from the ongoing shift in the global economy. It will take asking the right question and most importantly a mind-set change.

I thank you all.