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When African Lions become Asian Tigers

African industry needs to enjoy the same protections as its Asian counterparts did in their infancy

Throughout the history of capitalism, the process of industrialisation has been the engine of economic development. That's why we use the terms 'industrialised countries' and 'developed countries' interchangeably. No region in the world suffers more acutely from the lack of industry as Africa. While African countries differ in their industrial capabilities (there are 54 of them, after all), the lack of industry across the continent is striking. In fact, you will have a hard time naming any reasonably-sized, internationally competitive manufacturing firm that has its origin in Africa.

The lack of industrialisation in Africa explains in large part the widespread economic poverty that still persists in most countries on the continent. More than 60 per cent of people in sub-Saharan Africa live in extreme poverty and 70 per cent of workers there have to put up with unstable jobs – working on informal contracts or working the land. Industrialisation would ensure more reliable incomes and jobs for Africa's citizens. This is why China, nicknamed 'the factory of the world', has lifted more people out of poverty in the last 30 years than the rest of the world put together.

While most economists agree that developing countries need more industry, the debate on how to achieve this has been raging for centuries. Should the state intervene to support their national industries, or will the free market allocate resources more efficiently? Nowhere is this debate more intense than in Africa, where governments are routinely accused of being corrupt, despotic, inefficient and overly bureaucratic, and therefore incapable of successfully formulating industrial policy.

Free, yet costly

Today the global policy consensus seems to be in favour of free markets, reflected in the preference for international trade agreements. The World Trade Organisation (WTO) is officially tasked with pushing its member states to eliminate protectionist barriers to trade, such as tariffs on imported products and government subsidies to national firms.

Supporters of free trade argue protectionist policies have proven inefficient and unsuccessful, preventing the best allocation of resources. They say that by eliminating trade barriers, countries are able to specialise and trade in the products that they are 'naturally' best at producing. Under the conditions of free trade, countries are said to have a comparative advantage in producing and trading.

However, this line of reasoning has some serious flaws. Under free trade, poor countries have been pushed to produce 'poor-country-goods' while rich countries are producing 'rich-country-goods'. Whether a country makes potato chips or computer chips matters when it comes to its overall economic prosperity. High-tech goods are worth more on the international market, leading to higher wages and improved living standards. And it's rich countries that get to produce them.

So how did those countries that today make the rich-country-goods – today's industrialised countries – get there? They mostly defied the rules of free trade by nurturing their 'infant industries': they had governments who protected and supported industries deemed important for national economic prosperity, until these industries became competitive on the international market. The first person to systematically set out the infant industry argument was Alexander Hamilton, the first Treasury Secretary of the United States. He saw that US manufacturing industry had no chance of catching up to Great Britain, the industrial powerhouse of the time, without government support, or 'patronage' as he called it. In the spirit of what Hamilton set out, the US became the bastion or protectionism. Between 1816 and World War II, the US had the world's highest average tariff rate on imports.

As well as import tariffs, the anti-protectionists also rail against governments that subsidise their countries' own firms. Following the rapid industrialisation of the Asian tigers – Hong Kong, Singapore, South Korea, and Taiwan – between around 1960 and 1990, there has been intense debate as to how great a role protectionism played in their economic growth. The doyens of free-trade orthodoxy argue it was these countries' participation in international trade that underpinned their success. Indeed, the Tigers made a tremendous effort to boost their

exports. But they did it in a clever way: they handed out subsidies (or other benefits) to firms they wanted to become internationally competitive, and, in exchange, these firms had to meet certain performance targets. The late economist Alice Amsden called this a reciprocal control mechanism (RCM).

The lion learns to roar

A number of African countries also experiment with protectionism during the 1960s and early 1970s, but it brought few discernibly positive results. Some blame its lack of success on a failure to properly design RCMs. But this does not mean protectionism in Africa is doomed. Ethiopia, the continent's fastest growing economy for over a decade now, is finding innovative ways to protect and nurture their manufacturing industry. For example, the more Ethiopian manufacturers export, the lower the interest they pay on loans from the Ethiopian Development Bank. The country also sticks high tariffs on imports sold on the domestic market, and gives tax breaks to manufacturers that export all their products. Such protectionist measures are not dissimilar to those implemented in East Asia beginning in the 60s.

But Ethiopia is not a member of the WTO (yet). This gives it a huge advantage, since all WTO member states are encouraged to lower their tariffs and strictly prohibited from using export subsidies. The WTO maintains the elimination of trade barriers encourages global prosperity through more international trade. Like the WTO, I am a big supporter of international trade. But don't be fooled, the policies of the WTO are not simply a reflection of this rationale. They also reflect the interest of a huge lobby of powerful transnational corporations that want to eliminate competition from firms in developing countries.

I urge the leaders and bureaucrats of African countries to remember the lessons from history: protectionism can certainly fail, but without any measure of it their infant industries will struggle to compete internationally. Unfortunately, even those African governments that advocate for protectionism are limited in what policies they can implement, due to the rules of international trade agreements. This is why we need to pressure organisations like the WTO to allow today's developing countries the same trade policy autonomy that the US enjoyed in the early 19th century: the autonomy to nurture and protect their infant industries.



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