The role of the private sector in generating new investments, employment and financing for development

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Every developing country has the potential to grow dynamically for decades, as long as the government play the right role to facilitate the development of private enterprises along the line of the country's comparative advantages and tap into the latecomer advantages.[1]

-Professor Justin Yifu Lin

Background

It is no doubt that "Poverty" is a global issue and challenge which has been fighting against by all human beings for over thousands of years. Statistically, the total number of people who has been categorized under "poverty" has been significantly reduced especially in the past 30 years thanks to the 3rd and 4th industrialization revolution and rapid economic growth globally. According to World Bank's most recent estimates, world's population lived on less than US$1.9[2] a day has significantly dropped from 35% to 10.7% in 2013[3]. Our next or the ultimate target, as addressed in the Goal 1 of the UN 2030 Agenda for Sustainable Development[4], countries around the worlds adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. It is a great opportunity to bringing the countries and citizens of the world together to embark a new path to improve the lives of the people everywhere.

Global Economic Transformation Path

As we all know, Asian countries in particular China, has made the most outstanding contribution to global poverty reduction. Post Second World War, from 1950 to 2008, there were about 200 developing economies in the world; but there are only two economies actually moved from Lower income status to higher income status, that is South Korean and Taiwan. China is likely to be the third one by 2020. And there are only 13 Economies moved from middle income status to higher incomes status, eight of them are European economies surrounding high income developed countries, the original GDP gap was small. The other five are Asian four tigers and Japan. The fundamental secret for economic transformation for Asia Four tigers and Japan in the 1960's, and China in 1980's, is because they all captured the window of opportunity of

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[1] New Structural Economics: A Framework for Rethinking. Development and Policy, Justin Yifu Lin Washington, DC: World Bank, 2012
[2] http://www.worldbank.org/en/news/video/2017/04/14/what-are-poverty-lines
[3] http://www.worldbank.org/en/topic/poverty/overview
[4] http://www.undp.org/content/undp/en/home/news-centre/speeches/2017/international-day-for-the-eradication-of-poverty---october-17--2.html

tapping into global value chain by developing manufacturing sector which created millions of jobs, that is the jumpstart in their economic transformation.

The per capita income for China was US$154 in 1978, less than 1/3 the average in Sub-Saharan African countries. China's growth since then has been a miracle. Annual GDP growth averaged 9.8 per cent over the past 35 years, with per capita GDP of $8,100 in 2016[5], and more than 700 million people have escaped poverty. China has effectively absorbed and optimized the surplus labor. According to forecast, by 2020, china is going to become a high-income country, which means china is going to move from labor intensive-economy to a more capital-intensive economy. It means currently 85 million of manufacturing jobs is going to move out of china[6]. But where would those 85 million jobs to go? South East Asia does not have enough population and capacity to absorb all these jobs. Therefore if Africa, a continental with more than 1.2 billion population especially for those young people desperate for jobs can capture this golden opportunity, Africa can enjoy the same economic transformation like China and Asia Four tigers in the coming 20 or 30 years.

Where These Jobs Come From?

Another question then has been raised as where these jobs come from? China began at the lower end taking advantage of competitive labor but eventually built a supply chain around it and became a manufacturing center for the world for almost everything. Africa can do the same. It might be too early to saying that Africa is ready to build iPhone or Tesla, because they just don't have the full supply chain yet. But what is the easy work for them to start with? Definitely shoes, garments and those kinds of things.

There is an issue of regional integration and, of course, African nations have to trade more with each other. But if we look at Africa as a whole, it only has 2 percent of the global GDP[7]. It is not possible to create millions of jobs if just concentrate in this "internal" market. African produces must be sold to the Europe, US and rest of the world, where the markets are much bigger with higher consuming ability. What Africa needs now is success stories to provide the aspiration, confidence, and experience for realizing its potential for industrialization and shared prosperity. The successful Huajian story in Ethiopia is well-known by not only locals but in almost every Africa country. Before Huajian came to Ethiopia, no one believed Africa is ready to produce for the world. After six months of operation, Huajian doubled the export revenue for Ethiopia in the shoes sector and created 2,000 local jobs in year one, and nearly 3,500 jobs with less than two years. The biggest market of their product is America and Europe. And now, 15,000 jobs created in just 7 years and government is supporting the implementation of an ongoing USD 1 billion investment plan. All these achievements are coming from one single manufacturer which will indeed setup the benchmark of how private sector can successfully impact on society and economy to a new high level. It is clearly aligning with what Made in Africa Initiative has been devoted is to help

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[5] https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

[6] China's Rise and Structural Transformation in Africa: Ideas and Opportunities, Justin Yifu Lin, 2015

[7] Africa's Path from Poverty, Justin Yifu Lin 2015

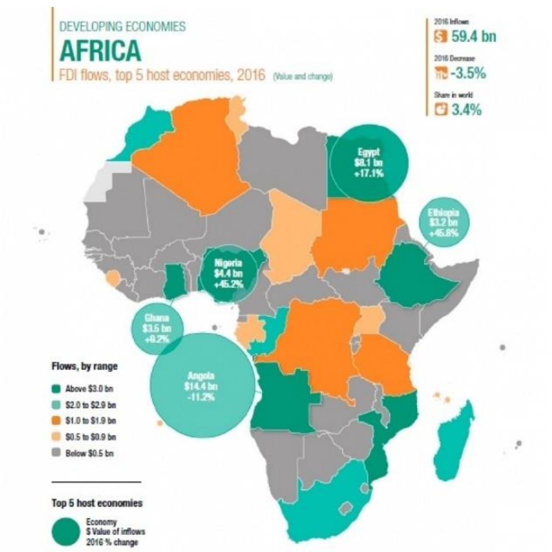
Africa exploit this window of opportunity to achieve dynamic, sustainable, and inclusive growth by creating pilot successes in African countries.

Everyone agrees that education and knowledge transfer play a very important role in terms of poverty reduction. Traditionally most Africa countries are mainly focusing on how many people have been to school and how long they can stay in there. However, there is one missing piece that previously have been ignored, which is how many of these educated people can get a permanent job or been employed after they left school. By utilizing private sector's practical experience, once foreign investors launch operations in the labor-intensive sectors in Africa they will train the local workforce. Shortly some of the experienced and skilled workers will become managers and then they will establish contacts with international buyers and investors. Eventually, some of them will be able to raise capital and start their own business – exporting companies owned and operated by Africans.

Investment From Private Sector Is Also A Key For Economic Development

Practical experience in many African countries have also proven that an opened business operating environment with attractive legislation incentives offered by government can also facilitating more investment from private sectors for economic development. If we just concentrate in Ethiopia, as showing in the Figure 1 below, although the total FDI flows to Africa region was declined in 2016, Ethiopia's FDI had reached its new high by up to 46% growth rate[8]. Investment from private organizations mainly concentrate in agriculture, manufacturing, construction, hospitality and horticulture sectors[9], which have significantly stimulate the development of local SMEs and industrialization process.

Figure 1 FDI flows, top 5 host economies in Africa[10]



8 World Investment Report, June 2017 UNCTAD
9 http://www.xinhuanet.com/english/2017-12/30/c_136860540.htm
10 World Investment Report, June 2017 UNCTAD

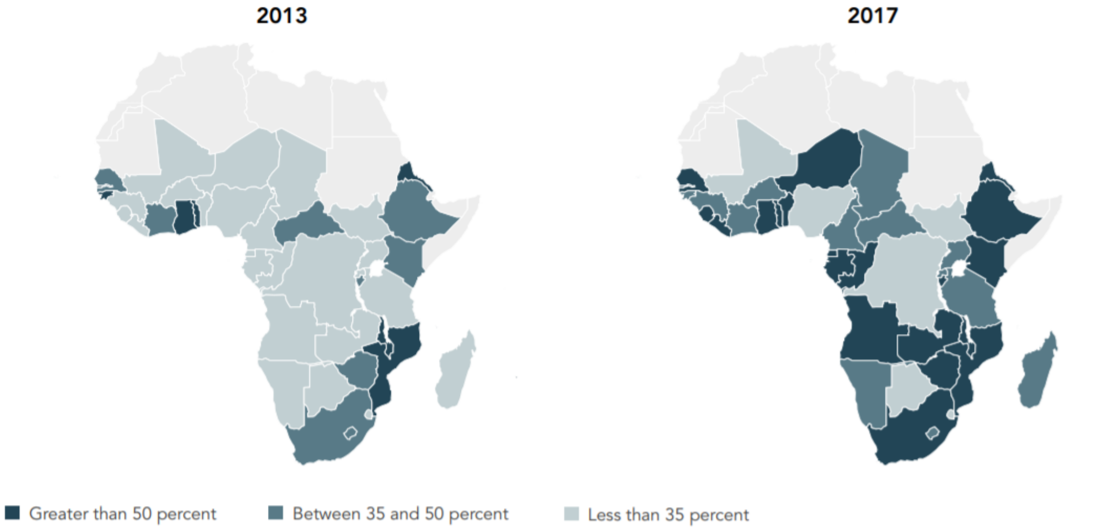
There are over 279 Chinese companies are operating in Ethiopia and 100 under construction until 2017. Total projects worth almost US$600 million and has created more than 28,000 jobs[11]. Ethiopia's case had a big snow balling effect in Africa, by the invitation of President of Rwanda, H.E. Paul Kagame and Rwanda government, Made in Africa Initiative helped the country to build its first garment factory called C & H Garment. It has become the largest export of its kind in Rwanda and hired more than 2,000 employees which 60% of them are women from local region[12]. Made in Africa Initiative is working with Rwanda government for the business expansion. There are many similar examples in other Africa countries clearly indicates that once private investment and sectors are growing, one of the obvious results is the booming of secondary industry, meaning the manufacturing and industry sector. It will directly stimulate the direct and indirect employment and soon or later this will feed millions of skilled and trained talents back to the factory for further development. Every one job in manufacturing creates 2.2 jobs in other sectors, therefore it is not hard to image that if all the planned industrial parks are operating in Ethiopia, it will effectively reduce the amount of unemployment and benefit both individual as well as local communities. Africa as the youngest continent, have abundant supply of young and dynamic labour force at very competitive wage level, this enormous advantage would effectively enhance the economic growth by receiving the coming global industrial and capacity relocation especially from Asia countries.

Blended Finance model is playing a facilitation role

Although few of the largest economies in Africa experienced a slowdown growth rate for almost five years, such as Angola and Nigeria, majority of the global economists still believes that many Sub-Saharan Africa countries will continuously enjoy fast-growing economy in the coming few years[13]. Meanwhile, Africa is still poor and its financing capability on investment to the next round of development and poverty reduction is very limited, especially since the public debt risk for many Africa countries have risen (Figure 2). ODA, international donors and public debt could possible jump-start many of the large scale project and finance economic growth for the region, such as infrastructure improvement. Africa governments may still need another hand to push the growth simultaneously, more likely from private sectors. By leveraging public-private “blended” financing model, it will significantly relieve some of the pressures from default risk while private sectors will also enjoy better operating environment. China has many proven practical example that public, private sectors and financial institutes jointly setup financial assistance pool which offer micro loans to poverty people for production and manufacturing uses, such as buying seed, fertilizer and machinery. Both productivity and income level have progressively increased and such group of people is unlikely to fall back to poverty in most of the cases in long term.

[11] http://www.chinadaily.com.cn/business/2017-11/10/content_34354640.htm
[12] http://www.newtimes.co.rw/section/read/201156
[13] Foresight Africa 2018 report, Chapter 2 The Imperative of Domestic Resource Mobilization, Jan 2018

Figure 2 Total Public Debts as a Percentage of GDP in Sub-Saharan African Countries



Source: International Monetary Fund, World Economic Outlook database, October 2017

Conclusion and Recommendation

In conclusion, poverty eradication for most Africa countries is still a tough battle to keep fighting against in a foreseeable future, while ODA and international donation is not reliable with many uncertainties. At the same time, the unequal development between urban and rural area also means that it is becoming even more difficult to reach those remaining in extreme poverty, who often live in fragile contexts and remote areas. Moreover, for those newly moved away from poverty, progress is often temporary: food insecurity, economic shocks and climate change may easily drag them down to poverty again. It will be critical to find the right ways to tackle these issues as we make progress toward 2030 Agenda. We need to know what the key enablers and challenges are for industrial development for Africa. Instead of the hundred enablers in World Bank's doing business report, Made in Africa Initiative believes "Triangle collaboration" is the key enabler in Industrialization for Africa. The triangles are:

- Enabling African Government to facilitate the economic transformation;
- Global manufactures know how, today that practical know how is mainly come from China and East Asia;
- Western markets, retailers and traders to open it is market for Made in Africa Products;

Today's Africa only has less than 2% global GDP[14], if we are talking about scalable job creation, Africa must produce to global markets. For African countries, it is vital to change from transfusion to blood-making approach by collaborate with private sectors in more broader range to achieve best outcomes and long term sustainable growth.

Lastly, it need to be highlighted that Africa is a continent with more than 1.2 billion population today, most of them are young people desperate for jobs. This is not only

[14] Africa's Path from Poverty, Justin Yifu Lin 2015

Africa's problem, it is a security problem for all of us in the world. European countries have already experienced refugee issues for few years. Without scalable job creation in Africa of the coming 10 years, and if local young and dynamic population missed this window to get Africa become a big player in the global value chain by taking the opportunity that China is relocating 85 million jobs, when SDG meet its deadline by 2030, should we celebration "a life of dignity for all" or should we "keep the same target: poverty eradication for Agenda 2060"?

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World Investment Report, June 2017 UNCTAD