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Do the Asian Drivers Undermine Export-oriented Industrialization in SSA?

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Summary. — An increase in outward orientation in general, and in export-oriented manufacturing in particular is widely indicated as a suitable developmental path for SSA. The logic for this is drawn both from the demonstration effect of China and the earlier generation of Asian NICs, and from theory. However, the entry of China (and to a lesser extent India) into the global economy as a significant exporter of manufactures poses severe problems for export-oriented growth in SSA. This can be seen from SSA's recent experience in the clothing and textile sectors, often considered to be the first step in export-oriented manufacturing growth. Without sustained trade preferences over Asian producers, SSA's clothing and textile industry will be largely excluded from global markets and face significant threats in its domestic market. This has generalizable implications for other sectors, and for other sets of low income producers.

Key words — export oriented industrialization, SSA, China, clothing and textile industry, fallacy of composition

1. INTRODUCTION

The development agenda continues to be dominated by the belief that the key to long-term growth lies in increasing integration into the global economy. The World Bank's influential assessment in 2002 of the link between poverty and deepening globalization forcefully promoted the case for further globalization, notably through rapid growth in developing country exports of manufactures (World Bank, 2002, p. xi). Heavily influenced by this multilateral- and bilateral-agency policy agenda, and drawing on the successful growth and manufactured export experience of the first generation of Asian NICs, SSA economies have increasingly oriented their long-term growth objectives around a graduation from the export of primary products to the export of manufactures. The demonstration effect of the astonishing emergence of China as a major global exporter of manufactures and its relatively successful performance in meeting the $1/day Millennium Development Goal has provided further impetus to this policy consensus.

Two major sets of factors influence the effectiveness in SSA of this policy agenda of outward oriented growth based on the expansion of manufactured exports. The first comprises a cluster of endogenous factors which affect SSA's supply

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response to global market opportunities. These include the quality of infrastructure, the effectiveness of property rights, peace and security, technological capabilities, and effective entrepreneurship. In all these respects, with the possible exception of South Africa, almost all SSA economies face formidable challenges. The second set of factors are those which are exogenous to SSA, reflecting changing dynamics in the global economy. The successful experience of Asia suggests that the last few decades have been a particularly opportune historical moment for emerging economies to pursue outward oriented strategies, especially in regard to the export of manufactures. This being the case, the policy challenge for SSA may be summarized as comprising the need to develop weak domestic capabilities and align these with favorable external market opportunities.

Mainstream economics provides a theoretical framework to justify outward orientation, particularly with regard to manufactured exports. Productivity growth arises in large part from the division of labor (Smith, 1776) and this is aided by access to large global markets, particularly in the context of technology-induced scale economies (Moores and Verdoorns' Laws; McCombie, 1986). Access to new and demanding external markets provides the incentive for innovation and technological change (Clerides, Lach, & Tybout, 1998; Greenaway & Kneller, 2007). Notwithstanding frictional adjustments, a dynamic global economy provides the scope for all participants, irrespective of absolute advantage, as long as they specialize in areas of comparative advantage (Ricardo, 1817). It is in these circumstances that we can observe the win–win alignment between endogenous and exogenous factors which drives the commitment to outward oriented industrial growth in much of SSA.

In this paper, we challenge the relevance of this manufactured-export oriented growth agenda for SSA. In summary, we argue that the intellectual rationale for the gains from trade hinges around the validity of Ricardo's invocation to specialize in areas of comparative advantage. We argue that Ricardo's framework depends crucially on his related assumptions of full employment and immobility of capital. In a world of structural excess capacity and capital mobility, it no longer follows that all countries will necessarily benefit from trade-openness (Kaplinsky, 2005). The global advance of the two Asian Driver economies of China and India—individually much larger than the Asian forerunners of Japan, Korea, Taiwan, Singapore, and Hong Kong, and collectively of even more formidable size—challenges both the small country assumption of trade theory and the assumption of full employment amongst global trading partners (Kaplinsky & Messner, Introduction to this Special Issue). Given the absolute advantage of the Asian Driver (hereafter AD) economies in many sectors of relevance to potential SSA exporters, and given the mobility of global producers and buyers searching for least-cost supply, there is constrained space for some other (but of course not all other) participants in the contemporary global economy. SSA manufactured exports—existing and potential—are particularly adversely affected by the AD advance.

We evidence this view with an analysis of SSA's performance in the global garments and textile industries in Section 3, and consider the implications of these findings to other sectors and economies in Section 4. But, before undertaking this analysis, we briefly review SSA's recent trading experience in manufactures, both in relation to trade with the two major Asian Driver economies (China and India) and in sectors in which China and India participate effectively in the global economy (Section 2).

2. SSA MANUFACTURED EXPORTS AND THE ASIAN DRIVERS

(a) *Overall growth and trade performance*

There was a moderate revival in SSA's GDP, industrial, and manufacturing growth rates in the early years of the millennium (Table 1). Distinguishing between the first and second half of the period during 1990–2005 (when Structural Adjustment induced liberalization began to be implemented widely throughout SSA), the rate of growth of GDP and industrial value added quickened in the latter period. However, much of this industrial growth can be attributed to a replenishing of infrastructure and the processing of hard commodities since the growth of manufacturing value added (MVA) was lower than that of industrial value added, service sector value added, and agricultural value added. A second notable conclusion to be drawn from Table 1 is the relatively poor performance of SSA in comparison to that of China and India. With the exception of SSA's agricultural growth relative to that of India, SSA's performance lagged significantly behind that of both China