

**Dreams to Industrialise – How can Africa Achieve
its Long-Postponed Forest Industry Ambitions?"
by**

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OUTLINE OF PRESENTATION

- ▶ **1. Long-Held Ambitions**
- ▶ **2. The Current Reality**
 - ▶ 2.1 The state of play
 - ▶ 2.2 Factors that discourage value-addition
- ▶ **3. Were Log Export Bans a Magical Bullet?**
- ▶ **4. Does Africa Still have Room to Industrialise?**
- ▶ **5. What will it Take to Industrialise African Forests? [5 intervention areas]**
- ▶ **6. Who Should Take the Lead?**
- ▶ **7. What Key Questions?**

LONG-HELD AMBITIONS

- ▶ in early 1970s the ambition to replace raw tropical log exports with processed products was already old
- ▶ 50 years later, Tropical Asia & L.America have largely made it; in timber-rich African countries it still remains just an ambition. Why?
- ▶ I present some thoughts (some speculative) not as dogma but for this industry forum to discuss.

AMBITIONS II–KEY QUESTIONS

- ▶ **Were Log Export Bans a Magical Bullet?**
- ▶ **“Does Africa Still have Room to Industrialise?”**
- ▶ **[if so] “What will it Take?”**
- ▶ **“Who Should Take the Lead?”**

THE CURRENT REALITY – I

The state of play:

- ▶ The whole African economy is un-industrialised
- ▶ Despite 17% of global population, Africa accounts for only 2–3%, 1.5–2% and $\pm 3\%$ of global GDP, Total Trade, & agricultural trade respectively
- ▶ Low value-added in ALL SECTORS is only explanation for Africa's low global economy shares
- ▶ **Examples:**
 - Africa 75% cocoa beans but 2% of \$120 billion chocolate market
 - South Africa – Africa's second-largest and most-industrial economy has similar GDP to tiny Singapore.

THE CURRENT REALITY – II

In forestry (ITTO producer member data):

- ▶ Africa has about 10% of all wood production but 33% of log exports
- ▶ Asia–Pacific 73% processed exports; L America consumes most own domestically but its 15% of processed exports are still higher than Africa's
- ▶ especially in the Congo Basin, value added decreased annually from 4.3% (1980s) to 2% (1990s).
- ▶ for 1990–1999, industrial production growth decreased from 6.9% to –2.2% (Congo), 10.4% to –1% (Cameroon), 1.6% to –7.3% (DR Congo) & 1.8% to 0.9% (Gabon)

THE CURRENT REALITY – III

In WORD text, see Table 1 and Table 2:

- ▶ From Table 2, Africa is only region where relative to logs exports for 2012–2016, the shares of sawnwood, veneer and plywood all decreased
- ▶ In L America all increased; in Asia only sawnwood share decreased

FACTORS THAT DISCOURAGE VALUE-ADDITION

- ▶ **Exporting logs actually pays better [a private firm perspective]**
- ▶ Gabon simulation for 3.43 million m³ logs shows local processing is superior only in *employment* – with indices being 100 (logs); 300 (sawnwood); 304 (veneer) and (636) plywood
- ▶ in *foreign exchange earnings*, returns differ among logs, veneer & plywood. Sawnwood actually loses money relative to raw logs
- ▶ *capital productivity ratios*: if return on logs is 100, sawnwood is 2; veneer is 5; plywood is 2.

WERE LOG EXPORT BANS A MAGICAL BULLET?

- ▶ belief that banning log export will automatically grow domestic processing is over-simplified: *Africa may have believed this too religiously*
- ▶ Outside Africa, energetic pro-investment policies have fostered forest industry growth more than mere export bans
- ▶ see Annex 3 of main paper for anecdotes on how log-export bans have worked for tropical wood processing.

DOES AFRICA STILL HAVE ROOM TO INDUSTRIALISE? – I

- ▶ **Since low industrialisation is a generic challenge for all sectors in Africa, poor growth of forest industries unlikely to be solved by focusing on forest sector alone**
- ▶ **Many countries need imports even for materials to make basics like nails, screws, nuts and bolts, let alone to industrialise significantly**

CHALLENGES FOR AFRICA TO INDUSTRIALISE – I

Changing consumer tastes:

- ▶ the decorative appearance of African timbers no longer helps much: tastes have gone bland.
- ▶ Staining technologies can convert whitewoods into any colour desired by markets without refined tastes
- ▶ reconstituted fibre/chip panels have displaced much sawnwood and plywood

CHALLENGES FOR AFRICA TO INDUSTRIALISE – II

Comparative disadvantage:

- ▶ *Africa has believed too much that just having plenty of trees and cheap labour is adequate comparative advantage (CA)*
- ▶ Africa alone believes that comparative advantage is God-given rather than something to create by investing
- ▶ Asia and L Am have buttressed natural resource and labour endowments in many other ways: subsidised industry investment, infrastructure, human and institutional capacities, industry protection, etc
- ▶ Natural humid forests are difficult to utilise compared to plantations (as proven by S. Africa)

CHALLENGES FOR AFRICA TO INDUSTRIALISE – III

The chilling effect of environmental campaigns favouring preservation of tropical forests:

- ▶ Campaigns have affected all tropical regions but Africa being far weaker has been less able to combat image problems
- ▶ To industrialise now is akin to swimming against the current, far more than when Indonesia did it
- ▶ African industry mostly foreign owned & probably less likely to fight for national gain

WHAT WILL IT TAKE TO INDUSTRIALISE? – I

- ▶ Africa must introspect about why it alone stagnated /regressed. *It should accept the likelihood that its problems are largely self-inflicted* and solutions cannot be subcontracted out
- ▶ It will take more than “action” & thus areas for proposed intervention are:
 - 1: Mindsets and discipline
 - 2: Higher ambition and persistence
 - 3: Promote a local stake in the industry
 - 4: Grow the African market and negotiate fairer trade and investment agreements
 - 5: invest, invest, and invest . . .

WHAT WILL IT TAKE TO INDUSTRIALISE? – II

Intervention area 1: Mindsets and discipline

- ▶ jettison the culture of laying blame on others instead of pursuing solutions
- ▶ Build capacity to develop and implement policies & plans but even more instil discipline, self-confidence and “can do” attitudes, while killing long-held tendencies to rely on external help
- ▶ Encourage ambition and refusal to be satisfied with small achievements and endless pilots.
- ▶ Invest in honesty and destroy corruption.

WHAT WILL IT TAKE TO INDUSTRIALISE? – III

Intervention area 2: Higher ambition and persistence:

- ▶ Is a sub-set of the mindsets issue above
- ▶ The culture of pursuing projects only as long as external project funding flows will get Africa nowhere
- ▶ Taking ownership of the opportunities and challenges is fundamental

WHAT WILL IT TAKE TO INDUSTRIALISE? – IV

Intervention area 3: Promote a local stake in the industry:

- ▶ using Gabon as example of what needs correcting, in 2011, European- companies' controlled 40% of forest business, Chinese 28%, Malaysian 19% and Gabonese 8% [*mostly small and fully absent from veneer & plywood*]
- ▶ How can mostly foreign players have the passion to scale greater heights?
- ▶ both the governments & private sector must stop accepting as “the natural order of things” that local companies are far behind in size and performance

WHAT WILL IT TAKE TO INDUSTRIALISE? – V

Intervention area 4: Grow the African market and negotiate fairer trade and investment agreements:

- ▶ Africa, a major exporter of crude petroleum and gas, imports almost all its refined fuels and petroleum-based agro-chemicals despite being farm-dependent.
- ▶ Situation in forestry is similar: it is equally indefensible
- ▶ Look to domestic markets and not only to increasingly-fussy external ones
- ▶ Grow global shares enough to exit “price and policy-taker” status

WHAT WILL IT TAKE TO INDUSTRIALISE? – V

Intervention area 5: invest, invest, invest . . .

- ▶ Reverse smallness of forest industry and negative investment growth: wood manufacturing investment decreased in Cameroon from 2.3% to zero (1996 –1999); in DRC, average annual investment growth was –5.1% (1980s) and –2.7% (1990s)
- ▶ most remaining African wood is in Central Africa is inaccessible – invest in transport infrastructure and/or in more accessible plantations
- ▶ Make investment capital more accessible, especially for nationals
- ▶ Defeat corruption and burdensome bureaucracy

WHO SHOULD TAKE THE LEAD? – I

- ▶ Only government failure can explain Africa's economy-wide inability to grow and industrialise; unless this is solved, the private sector can do little
- ▶ My personal view is: governments must prioritise improvements under Intervention areas 1 "*Mindsets and discipline*" and 2 "*Higher ambition and persistence*". Only then can greater investment succeed
- ▶ in main paper see necessary actions in Section 6.1 [African Governments]; and section 6.2 [private sector]

WHO SHOULD TAKE THE LEAD? – II

The private sector:

- ▶ Foreign firms should stop peddling the tired argument that processing in Africa cannot compete against shipping logs for processing in their home countries [Japan and South Korea used that argument before Indonesia forcefully came to dominate plywood manufacture]
- ▶ the mostly SME local entrepreneurs should stop being atomised and organise themselves into consortia that can grow into industry champions for their countries. Governments should support this using merit rather than favouritism to select prospective champions
- ▶ Promising local firms should act to grow big and be ready to undergo initial incubation by governments, with/without partner foreign investors.

WHAT KEY QUESTIONS? I

For Governments:

- ▶ *in all sectors* what key policy changes & investments to unlock industrialisation and private sector willingness to grow beyond raw material extraction?
- ▶ *In the forestry sector:*
- ▶ How to make industrialisation attractive to the private sector when trading in raw logs may be more profitable?
- ▶ Encourage domestic entrepreneurs to organise, group and grow – some into champions?
- ▶ Incubate emerging entrepreneurs for upscaling?
- ▶ Establish accessible sources of dedicated funds for forest industries?
- ▶ In accessible locations, establish industrial wood plantations to support future industries and trade?

WHAT KEY QUESTIONS? II

Domestic entrepreneurs must stop glorifying small and medium enterprises and seize the ambition for some of them to become giants and champions of their countries' forest industries. How to?:

- ▶ **Get mutually-beneficial cooperation & mentorship between large foreign companies and smaller local ones?**
- ▶ **What makes local entrepreneurs apparently accept that “the natural order of things” is for them to be marginal in their own countries' industries?**
- ▶ **How to make industry work with governments to see the value beyond immediate financial profits that industrialisation would yield in Africa?**

THE END