Prof. Calestous Juma Lecture Series

How are current globalization trends impacting Africa and what are the policy agendas for Africa's future?

Raphael Kaplinsky
Science Policy Research Unit and Institute of Development Studies, University of Sussex
Sustainable Futures
An Agenda for Action

Raphael Kaplinsky
The flying geese model – replicating China’s success - defines export optimism
Specialise in core competences

• Producing something of value to buyers
• Unique to the firm
• Difficult to copy
  • Process knowhow
  • IPRs – patents, trademarks, copyright
  • Market power
UNCTAD estimates that around 75% of global trade occurs within GVCs

• Global Value Chains defined as production occurring in at least three countries:
• Two thirds of global trade is now in intermediates
• Of $19tr global trade in 2010, $5tr (28%) was double counting of intermediates
To summarise

• GVCs have grown rapidly since the mid-1980s and now account for more than two-thirds of global trade

• GVCs arise as a consequence of firms focusing on core competences and then outsourcing other inputs

• Understanding the dynamics of GVCs – and the distribution of returns from production – requires an analysis of RENTS

• The 1970s witnessed a change in the character of capitalist economies – suppliers no longer ruled, consumers shaped innovation
Beware path dependency...

- In 1957 Russia launched the first satellite, the Sputnik.
- This shocked the Americans who then launched a massive programme to enhance scientific skills.
- If that growth in training had been sustained...
- By 1992 there would be two scientists for every man, woman and dog in America

*(Chris Freeman, Malthus with a Computer, Futures, 1973, pp. 5-13)*
Techno economic paradigms

• Since the onset of the industrial revolution we have witnessed five major surges/waves of economic activity and associated political and social structures.
• Each wave lasts about 5-6 decades
• Each of these has been driven by a core heartland technology with associated communications technologies to widen market reach
• Each paradigm has an upswing, a maturity phase and then an atrophy phase
• The new paradigm emerges as the old paradigm atrophies
The Character of Heartland Technologies

- Major impact on prices and product performance and characteristics
- Pervasive use across the economy and society
- Sustained decrease in its price, in past and future
- Unlimited supply
The five paradigms

- Water power and canals – 1750-1830
- Steam power and railways – 1830-1870s
- Iron and steel and ships and telegraph – 1870-1920
- Mass production, fossil fuels, autos, air transport and containerization – 1908-2005ish
- Information and communications technologies - now
THE POST WAR GOLDEN AGE

• Growth in Golden Age – 4.5% p.a.
  • Historically unprecedented and global
• Declining to around 3% until 2006
• After 2006 economic growth was less than population growth in most high income countries
• Also a decline in investment
• And, crucially, a decline in productivity growth
The Rise and Fall of the Mass Production Economy
Share of investment in GDP
Labour Productivity Growth, 1951-2017 (%)
Productivity slowdown and declining profitability
CHEAP LABOUR SAVES THE DAY

<table>
<thead>
<tr>
<th></th>
<th>Building labourer</th>
<th>Skilled industrial worker</th>
<th>Engineer</th>
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</thead>
<tbody>
<tr>
<td>New York</td>
<td>16.6</td>
<td>29.0</td>
<td>26.5</td>
</tr>
<tr>
<td>London</td>
<td>9.7</td>
<td>19.0</td>
<td>22.1</td>
</tr>
<tr>
<td>Beijing</td>
<td>0.8</td>
<td>2.3</td>
<td>5.8</td>
</tr>
<tr>
<td>Delhi</td>
<td>0.5</td>
<td>2.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Nairobi</td>
<td>0.6</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Ratio of rich–poor</td>
<td>20.4</td>
<td>10.9</td>
<td>5.8</td>
</tr>
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</table>
GVCs and cheap labour revive productivity

US Corporate Profit as % of Domestic Income, 1990 - 2007
Turning inwards – GVCs lose their primacy

- ICTs provide a new source of productivity growth – profits no longer depend on cheap labour
- ICTs provide for customized products and flexible production which reduce economies of scale in production
- The political and social outcomes of globalisation erodes its sustainability
  - Hollowing out of manufacturing, rust-belts and protectionism (trade wars)
  - Uneven growth leads to migration, rise of populism and nationalism
- Rising energy prices will threaten dispersed supply chains
- The lessons from Covid-19
Share of GVCs in Global Trade, 1995-2015

(Calculated from World Bank WDR 2020)
So the Mass Production paradigm has run out of steam

- A Political crisis – the erosion of liberal democracy – arising out of growing inequality, neo-liberalism and autarchy – which has led to the rise of populism.
  - Nationalist and populist agendas undermine the prospects for sustained economic growth
- An environmental crisis, which undermines the sustainability of both economic and social/political sustainability
- These three arenas of unsustainability area interconnected and reflect the degradation of the Mass Production techn-economic paradigm
A change in trajectory

• From the Centrifugal to the Centripetal
• Production and consumption will draw closer together, as will work and residence
• The logic of core competences and outsourcing remains
• So value chains will become more local and more regional.
• The particular attraction for South-South trade
• Remember this is a trajectory not an either-or switch
Implications for low and middle income countries (excluding ‘Greater China’)

Share of the informal economy in non-agricultural employment (most recent year, later than 2012)

<table>
<thead>
<tr>
<th>Region</th>
<th>Share of the informal economy in non-agricultural employment</th>
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</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>74.5</td>
</tr>
<tr>
<td>Western Africa</td>
<td>81.5</td>
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<tr>
<td>Central Africa</td>
<td>78.7</td>
</tr>
<tr>
<td>Eastern Africa</td>
<td>71.2</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>63.6</td>
</tr>
<tr>
<td>Southern &amp; South-Eastern Asia</td>
<td>63.7</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>54.7</td>
</tr>
<tr>
<td>Western Asia</td>
<td>48.8</td>
</tr>
<tr>
<td>Northern Africa</td>
<td>48.3</td>
</tr>
<tr>
<td>Central Asia</td>
<td>39.1</td>
</tr>
<tr>
<td>Transition countries</td>
<td>21.7</td>
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</tbody>
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Primary Characteristics of Innovative Informal-Sector Enterprises

<table>
<thead>
<tr>
<th>Features of innovation in the informal sector</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Market-pulled</td>
<td>Labour-intensive processes and basic product characteristics reflect low-income consumer markets</td>
</tr>
<tr>
<td>Constraint-based</td>
<td>Forces innovation under conditions of scarcity</td>
</tr>
<tr>
<td>Inter-enterprise division of labour</td>
<td>Small size of firms induces specialisation along the chain</td>
</tr>
<tr>
<td>Non-R&amp;D based</td>
<td>Incremental innovations, links to NSI are non-existent or limited</td>
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<td>Adaptation of existing technologies, although increasing use of ICTs in accessing suppliers and customers and in logistics</td>
<td>Adaptation and reverse engineering of imported equipment and adapting foreign products to local conditions</td>
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<tr>
<td>Intellectual property rights (IPRs)</td>
<td>IPRs absent and access to technology through spillovers and open exchange of ideas</td>
</tr>
<tr>
<td>Fast diffusion in local systems</td>
<td>Social dynamics in informal settings result in sharing practices and cooperation in procuring inputs and accessing markets</td>
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<tr>
<td>Waste is minimal but effluents high</td>
<td>Extensive reuse, recycling and repurposing of societal waste, but little concern for harmful environmental emissions</td>
</tr>
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China’s Share of Capital Good Imports, 1992-2018 (％)
How to achieve more inclusive and sustainable growth

• Greening is essential and offers opportunities for value addition and inclusion
• ‘Making the Most of Commodities’ (Morris/Kaplinsky/Kaplan) provides scope for backward and forward linkages to manufacturing, agriculture and services
• Promoting small-scale entrepreneurship, including through clusters and taking advantage of the dynamism of an increasingly educated young population
• The changing geography of trade – from S-N to S-S
  • Product markets and technology
  • Efficient Appropriate Technologies
  • Promoting innovation and entrepreneurship in the informal economy
• Issues of political economy are central
  • Breaking the power of the plutocracy
  • Income redistribution affects demand and the character of demand induces employment in the informalised sector
  • Promoting small scale entrepreneurship