

# "RETHINKING AFRICA'S INDUSTRIALIZATION STRATEGY IN THE CONTEXT OF RODRIK AND STIGLITZ'S NEW GROWTH STRATEGY FOR DEVELOPING NATIONS"

PROCEEDING OF THE ADSR POLICY CAUCUS MEETING HELD ON FRIDAY, AUGUST 29, 2025

1. In their 2024 paper titled: "A New Growth Strategy for Developing Nations" Dani Rodrik and Joseph Stiglitz recognized the growing need for investments in climate transition, increased skill and capital intensity of manufacturing, and the new economic nationalism. He argued for government intervention at the production stage for firms with productivity levels rated as moderate. As a result, he advocated for firms in high labour absorbing sectors such as agriculture, green transition industries, tradable services such as digital services, and labour absorbing services. Their strategy argued for a shift from manufacturing, which is less labour intensive to service, which has the capacity to absorb more labour. This has implications for how African countries should think and plan their industrialization and growth strategy.
2. Members of the ADSR Policy Caucus therefore met on Friday, August 29<sup>th</sup>, 2025, to discuss the topic: **"Rethinking Africa's Industrialization Strategy in the Context of Rodrik and Stiglitz's New Growth Strategy for Developing Nations"**. The meeting focused on strategies for economic transformation and industrialization in Africa, emphasizing the need for a balanced approach that integrates traditional manufacturing with modern technologies and adopts tailored strategies suited to Africa's unique context. To motivate the discussion, a member of the Caucus highlighted the main argument and implications of the Rodrik and Stiglitz paper while another member reacted from the African development perspective.

## A. Highlights of the Two Presentations

3. Rodrik and Stiglitz's perspective on "A new growth strategy": The presenter provided a detailed discussion of the paper, centered on three mainstream development ideas and the evolving strategies needed to enhance productivity and economic growth in Africa. Traditional approaches focus on addressing low productivity through three stages: pre-production (investment and education), post-education (cash transfers), and post-production (social safety nets). However, the new growth strategy emphasizes shifting attention toward medium-productivity firms and production-driven activities, as these offer the highest potential for supporting growth and creating employment. It also recognizes that manufacturing is becoming increasingly capital-intensive and less labor-dependent, requiring policies tailored to current realities rather than relying on outdated models.
4. He highlighted four priority sectors that will drive productivity growth, enhanced agriculture through mechanization, the green transition with a focus on sustainable industries, tradable services like digital services and tourism for higher GDP contributions with fewer resources, and labor-absorbing services that expand employment opportunities. It further stresses the need to support micro and small enterprises, formalize SMEs, and provide technology that complements labor to improve efficiency. Additionally, vocational training was identified as

critical to enhancing competitiveness, particularly in the service sector, ensuring that African economies are better positioned to adapt, integrate, and thrive in a rapidly changing global landscape. Members also reflected on the diffusion of AI and emerging technologies, noting that Africa must adopt labor-complementing rather than labor-replacing automation to ensure inclusive growth in both manufacturing and services.

5. The implication of Rodrik's Strategy is that the government is able to cluster firms by their level of productivity and could efficiently administer incentives programs to support firms with significant labour absorbing potential. Furthermore, the Strategy implies a shift in industrial policies from one that supports traditional industries to green industries in line with the global environmental movement, which might be unfit for some developing countries. Lastly, Rodrik's emphasis on labour absorbing services might be misinterpreted to imply that the government should scale down support for the manufacturing sector.
6. **Reactions from Africa Development Perspectives:** The second presenter examined the shifting of narratives around manufacturing and services in Africa's development strategy. While some Western scholars argue that manufacturing is becoming less relevant due to its growing capital intensity, technological sophistication, and limited labor absorption capacity, the argument was made that this perspective is too generalized and does not reflect Africa's realities. Many studies rely on limited data from a few countries to make broad conclusions, often overlooking the untapped opportunities within African manufacturing. Examples such as Nigeria's industrial starch production gap demonstrate the significant value chain potential that remains unexplored. Moreover, only a small percentage of African manufacturing firms use advanced digital technologies, meaning most still rely on medium- and low-scale production models that remain labor-intensive and capable of creating jobs if provided with government support, infrastructure, and incentives.
7. The presenter further highlighted the need to rethink the services narrative. While tradable services like ICT and digital technologies are highly productive, they currently create limited employment due to their skill-intensive nature. Conversely, non-tradable services employ a larger share of the workforce but face the same automation risks as manufacturing. Therefore, dismissing manufacturing in favor of services could be short-sighted. Instead, Africa's development strategy should adopt a blended approach, combining manufacturing-led growth with strategic investment in tradable services, while tailoring policies to Africa's unique economic contexts.
8. More localized studies are needed to understand how technology, productivity, and employment interact within different sectors, ensuring policies are data-driven rather than based on generalized assumptions and the need to study Africa's manufacturing sector to identify growth opportunities, particularly among SMEs, and to adopt a pragmatic approach that prioritizes meeting domestic demand before focusing on exports, effectively enabling import substitution without formal policy declarations. It was further noted that while opportunities in green industrialization exist, concerns remain regarding financing and feasibility. Some Members questioned whether Africa can realistically adopt green pathways on a scale, highlighting the need for a comprehensive database of green projects that could be linked to innovative financing instruments such as green bonds.

## B. Testing Rodrik and Stiglitz's Ideas

9. This section of the meeting discussed the extent to which members agree with some of the Rodrik and Stiglitz ideas in the context of their experience in Africa.
10. Assume Rodrik and Stiglitz are 'wrong', how best can African countries stick to and achieve their transformative objective based on the traditional industrialization strategy?
  - 10.1. Some members disagreed with Rodrik and Stiglitz's view, arguing that Africa cannot bypass traditional industrialization. They emphasized that services and "servicification" globally are still built on a foundation of industry, and without strong manufacturing capacities, Africa would struggle to compete effectively. The African Continental Free Trade Area (AfCFTA) was highlighted as a critical driver of transformation, providing opportunities to unify markets and enable industrial growth through improved payment systems, logistics, labor mobility, and production hubs.
  - 10.2. Another perspective identifies the need for Africa to tailor its development strategies to its unique economic realities. While industrialization remains vital, these members argued that Africa must understand its domestic markets and leverage AfCFTA to foster competitiveness. It was emphasized that focusing on manufacturing would not only enable import substitution but also create the necessary conditions for sustained economic growth.
  - 10.3. Climate change and sustainability also emerged as key considerations in shaping Africa's industrial strategy. The growing global focus on green and blue financing suggested that Africa should adopt a blended approach that integrates green industrialization while optimizing existing industrial capacities. This would ensure that Africa remains aligned with global trends while maximizing its natural and economic resources for development.
11. **Assume Rodrik and Stiglitz are right, whether wholly or partly, but Africa still believes its transformation is best achieved via the known traditional industrialization strategy, how best can this be done, especially by 'correcting' some of the pitfalls or shifts identified in the paper?**
  - 11.1. The discussion explored the possibility of assuming the ideas in the paper to be correct, suggesting that services could play a central role in Africa's economic transformation while rethinking traditional industrialization strategies. Members debated how best to adopt a service-oriented approach, particularly by focusing on "servicification" while remaining open to new possibilities beyond conventional development models.
  - 11.2. In assuming the paper's perspective, Members suggested that Africa should strategically invest in high-value, tradable services, particularly in the digital and ICT sectors, where global demand is rising. With a young and growing population, training the workforce for exportable digital skills presents an opportunity to generate significant revenue through service exports. However, non-tradable services, which already dominate informal economies, were seen as less capable of driving productivity gains due to structural constraints. The focus should therefore be on leveraging technology, enhancing skills, and positioning Africa as a hub for high-end services while maintaining an eye on industrial development.

**12. Assume Rodrik and Stiglitz are right, whether wholly or partly, and Africa decides to follow their advice on the proposed industrialization/growth strategy, what should Africa consciously do to maximize the new trend, and what part of his advice should we take with caution?**

- 12.1 Assuming the idea in the paper is right and Africa decides to adopt a services-led growth strategy, the priority should be to identify and invest in high-value tradable services with strong job creation and foreign exchange potential. Examples include business process outsourcing (BPO), fintech, health tourism, and IT-enabled services, similar to how India and the Philippines leveraged their human capital to drive service exports. This requires deliberate investments in digital infrastructure, such as broadband penetration, cloud services, and data centers, as well as policies that enable cross-border service provision. Education and skills development must also be aligned with these sectors to ensure a workforce capable of competing globally.
- 12.2. However, a blended strategy is essential. Services alone cannot fully substitute industrialization, especially for employment-intensive growth in Africa, where manufacturing remains critical for absorbing low- and semi-skilled labor. Instead of abandoning industrialization, Africa can complement it with service-driven competitiveness by embedding services within industrial value chains, for instance, logistics, design, and digital marketing that support agro-processing, pharmaceuticals, and light manufacturing.

**13.**

**Why has it been difficult for Africa to industrialize, and if the underlying factors are still present, combined with the likely shifts identified in the paper, what implications would this have on rethinking Africa's industrialization strategy going forward?**

- 13.1. The discussion focused on the case of Nigeria's industrialization strategy and the need to rethink its current approach to avoid being left behind in a rapidly changing global economy. Members questioned whether continuing with traditional policies would yield different results and debated what areas Nigeria should prioritize, such as manufacturing consumer goods, industrial metals like steel, or components that support domestic production. A strong argument was made that Nigeria cannot truly industrialize without developing energy, given its critical role in infrastructure and manufacturing. Rodrick and Stiglitz's perspective was also highlighted, suggesting that focusing on labor-intensive services and mid-productivity firms could create more jobs than traditional manufacturing alone. The paper advocates targeted government interventions in sectors with high productivity potential, particularly in the production stage where job creation is greatest.
- 13.2. Members emphasized the need for a blended and deliberate industrialization strategy that integrates manufacturing, services, technology, and competitiveness. Nigeria must identify industries that can absorb large numbers of workers while enhancing domestic value addition and linking manufacturing with its resource base. Without conscious

planning, the country risks lagging further behind globally. For instance, instead of distributing cash that may be spent on imports, the government could procure locally assembled goods and services to stimulate domestic production and reduce foreign exchange pressures.

- 13.3. The policy dimension was also emphasized, particularly the idea that government interventions such as cash transfers should be tied directly to domestic production and procurement. For instance, public spending on locally assembled goods (such as ICT devices) could stimulate industrial activity while reducing dependence on imports.

## C. General Comments and Concluding Remarks

### 14. Overall, the consensus was that to

- 14.1. Evaluate the applicability of the paper's framework on green transition, enhanced agriculture, tradeable services, and labor-absorbing services in the African context.
- 14.2. Consider how government intervention should be targeted at medium productivity sectors versus traditional industrial growth strategies.
- 14.3. Adopt a well-researched, targeted, and integrated approach to industrialization, balancing manufacturing, services, and technology to create jobs and drive sustainable economic transformation.
- 13.4. Conduct further research on Nigeria's manufacturing sector to understand technology adoption patterns and employment potential.
- 14.5. Consider how to support medium productivity businesses during the production phase to achieve higher productivity.
- 14.6. Identify firms that can potentially and significantly scale up their employment in the next 3-5 years for targeted government intervention.
- 14.7. Explore the implications of Artificial Intelligence and the Fourth Industrial Revolution on Africa's labor markets and production systems, with a focus on labor-augmenting technologies.

The meeting ended with members emphasizing the importance of documenting and continuing these engagements to influence Africa's policy directions on industrialization and economic transformation. Also discussed is the need to support the Caucus for continuous and frequent intellectual dialogue, with consideration for formalizing outputs through policy briefs, public reports, or media platforms to amplify African perspectives.