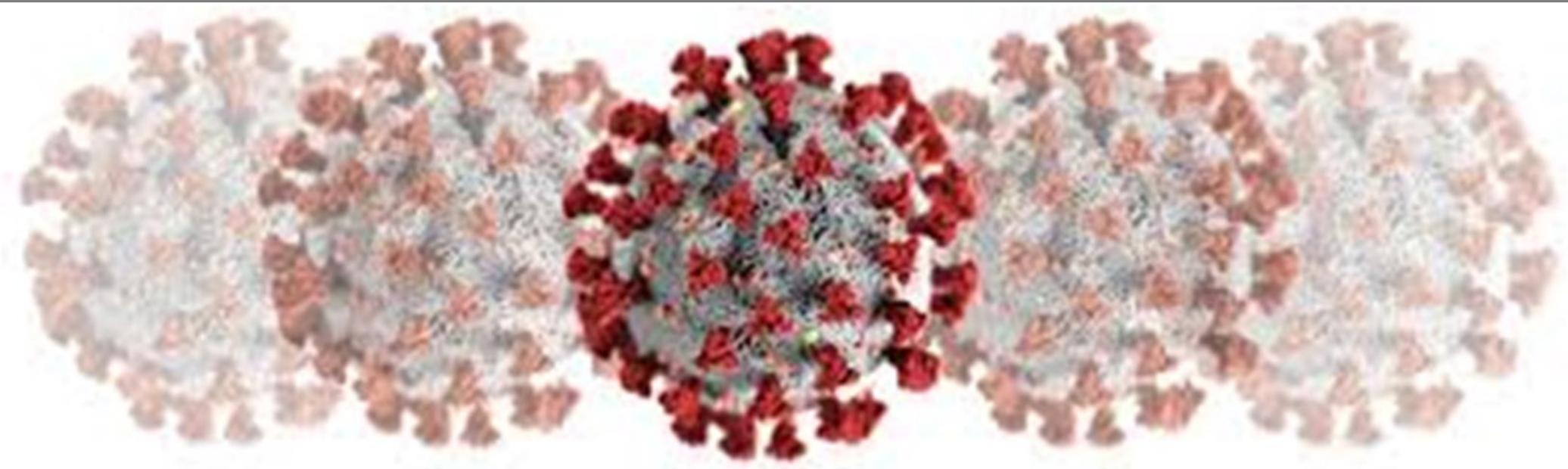




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COVID-19: Strategic Opportunities for African Manufacturing

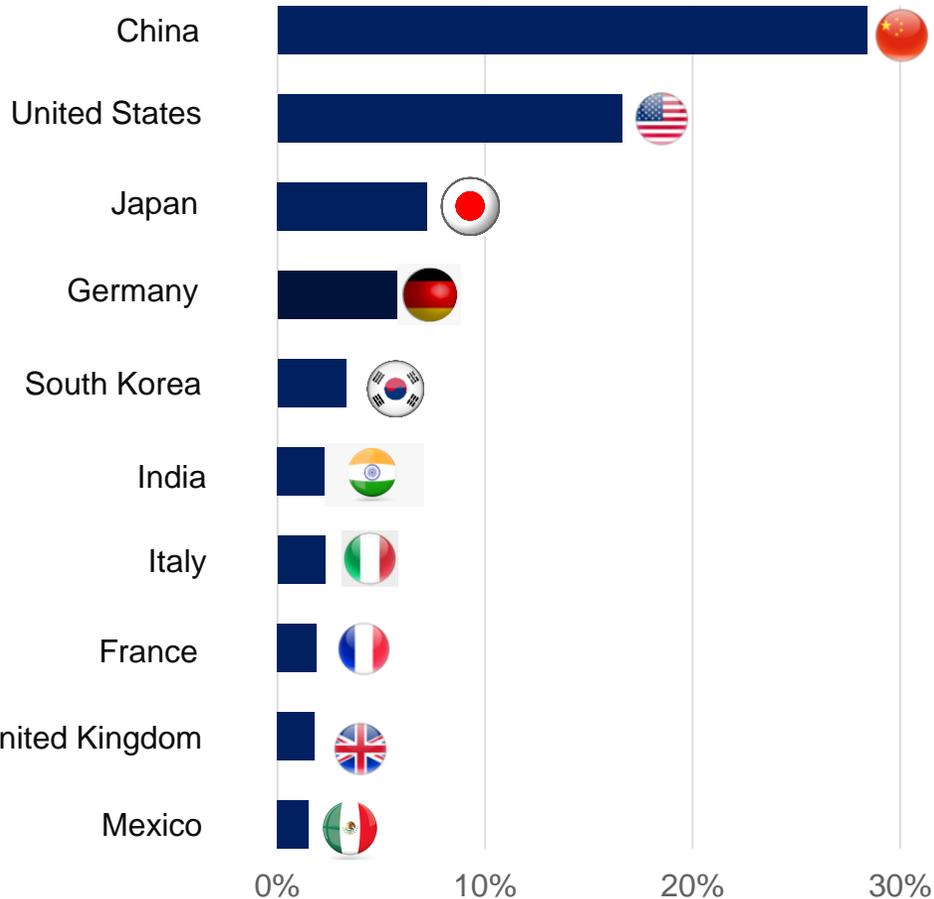
April 2020





Covid-19 is disrupting the world's largest manufacturers

World's largest manufacturing by share of global output



Covid-19 implications for global manufacturing

Immediate

- Due to factory shutdowns in China and other countries during Q1, supply chain disruptions and impaired mobility are drastically **affecting production capacity**.
- Covid-19 is causing major demand effects due to **shortages of supplies**, resulting from lack of access to raw materials.

Longer term

- Full capacity production and distribution might not be likely for 12 to 18 months.
- Opportunity for Africa to boost industrialisation by starting new product lines, capturing new markets, and exploiting disrupted supply chains, digitalisation and technology.
- A window for smart industrial policies to take hold.
- Leverage ACFTA as a vehicle to propel and interconnect African manufacturing base.



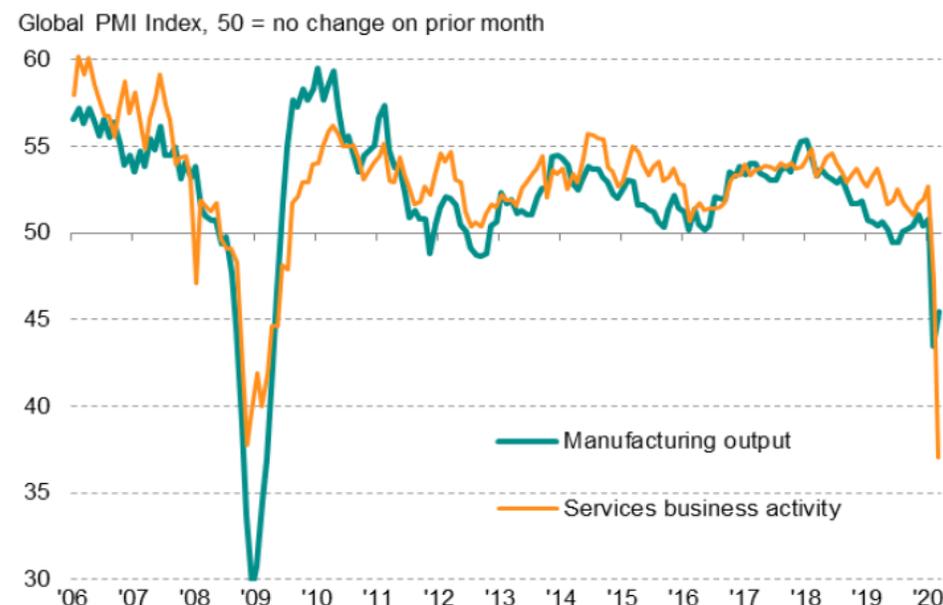
Global production declined 13% in February and March

Global PMI output & economic growth



Sources: IHS Markit, JPMorgan.

Global PMI output indices



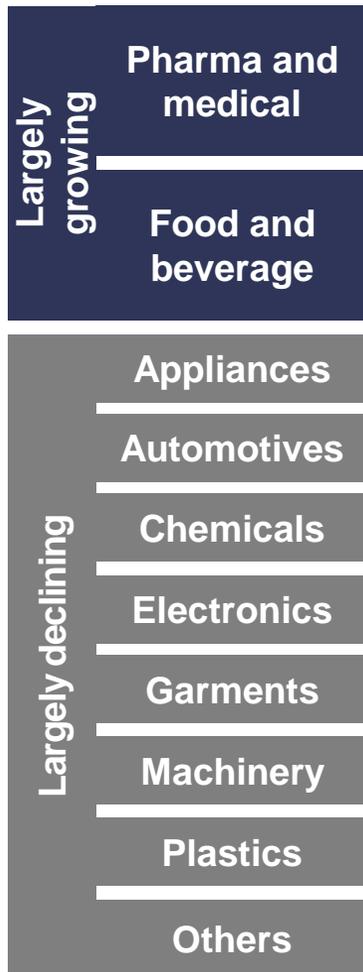
Sources: IHS Markit, JPMorgan.

The decline in global services activity in Q1 2020 was the largest ever recorded in the survey's 22-year history, while manufacturing output fell at one of the steepest rates seen since 2009. The JPMorgan Global PMI™ (compiled by IHS Markit) fell by a near record 6.7 points in March, building on a prior plunge of 6.1 points in February to drop from 46.1 to 39.4, its lowest since the height of the global financial crisis in 2009.



Production of essential items is increasing, but most subsectors are in decline

Subsectors

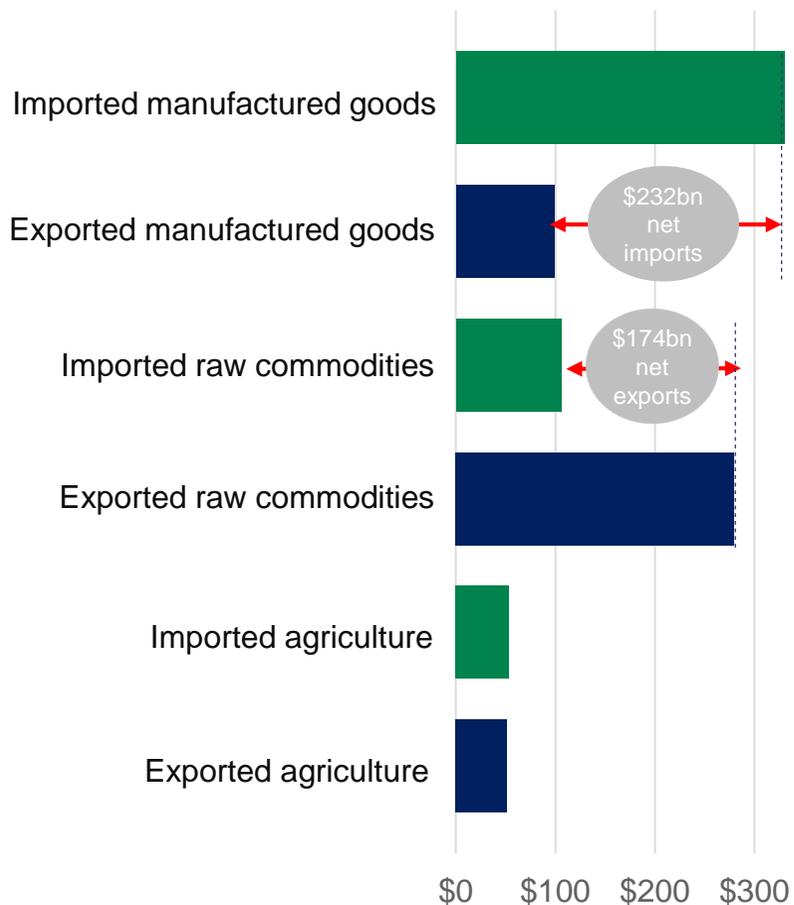


- **Medical equipment:** A surge in demand for medical equipment coupled with a contraction in China in February has driven countries to repurpose their manufacturing to meet demand. For example, vacuum-maker Dyson took an order for 10,000 ventilators from the UK government, while The Royal Mint started making plastic visors for UK healthcare staff.
- **Pharmaceuticals:** This industry is scaling up production of sanitisers, testing and therapeutics.
- **Food and beverage:** Countries are scaling up food production to ensure they do not face shortages due to the rise in supply chain disruptions.
- **Auto:** This sector will feel the impact as the Hubei province – an epicentre of the virus – is a large centre for the production of automotive parts and supply of such parts to African regions, and has been affected by shutdowns.
- **Electronics:** Production facilities of electronic parts have been halted owing to lockdowns and logistics challenges across the globe. For example, in March, Samsung Electronics shifted some of its South Korean production of smartphones to Vietnam given the spread of Covid-19 in South Korea. Likewise Transsion – which makes Tecno-branded phones in Africa – faced factory closures in China, India, Pakistan and Bangladesh. Various e-commerce companies across the globe have discontinued the delivery of non-essential items (including most electronics products), which is affecting the electronics industry.
- **Textiles:** Numerous production lines and factories have shut. For example, Myanmar's 40 garment factories are shut, as are Bangladesh's 4,000 factories, which employ 4 million people.
- **Others:** These sectors will also be affected by Covid-19 breaking supply chains: construction, transport, chemical and machinery manufacturing (with multiple factory closures in Asia).

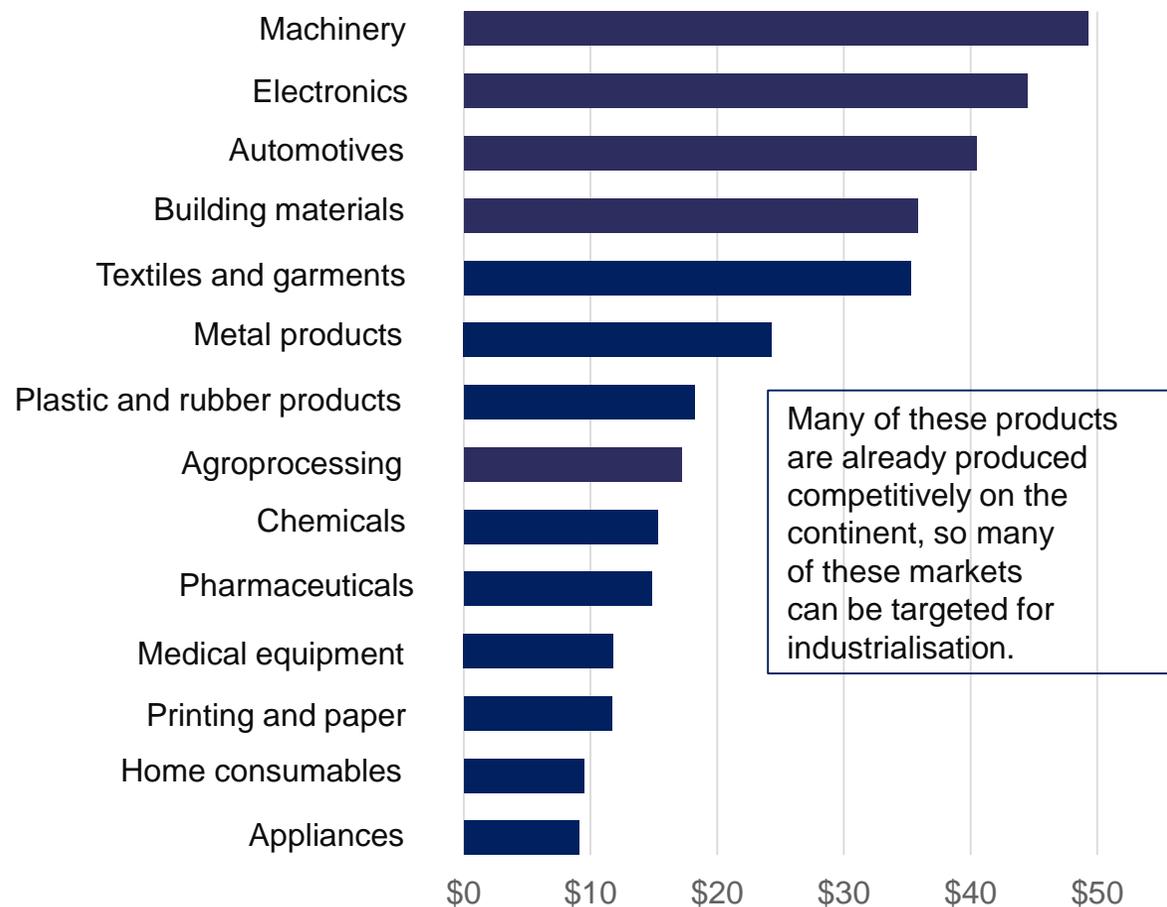


Africa imports \$330 billion worth of manufactured goods every year

Africa imports and exports, \$ billion 2019



Africa's manufacturing imports by product, \$ billion 2019





This creates strategic opportunities for manufacturing in Africa

Subsectors with potential

Agroprocessing

Automotives and machinery

Chemicals

Electronics

Home consumables

Medical equipment and pharmaceuticals

Metal fabrication and building materials

Plastics and packaging

Textiles and garments

Africa's strengths

- ✓ Governments increasingly focused on a business-enabling environment
- ✓ Market size and growing middle class
- ✓ Scope for backward linkages on inputs, especially in agroprocessing and textiles
- ✓ Strength of emerging tech sector
- ✓ Cheap, increasingly productive and growing labour force

Africa's opportunities

- ✓ Covid-19 opening up new product lines
- ✓ Higher transport cost advantage vs Asia
- ✓ Emerging industrial hubs, e.g. garments in Ethiopia and auto in Kenya.
- ✓ Cloud and automation processes can support pharma and agroprocessing
- ✓ Scope to accelerate ACFTA

Africa's weaknesses

- ⚠ SME base still limited
- ⚠ Suitable energy still an issue in major countries (e.g. Nigeria)
- ⚠ Skills shortages remain
- ⚠ Infrastructure gap remains, but improving
- ⚠ Smart industrial policy in infancy

Africa's threats

- ⚠ Push for reshoring in advanced countries
- ⚠ Failure to address infrastructure constraints
- ⚠ Domestic manufacturers not becoming export oriented
- ⚠ Failure to align on standards
- ⚠ Misaligned trade policy, especially by advanced countries



Countries can build on progress made in recent years

	 Nigeria	 Kenya	 Morocco	 Ethiopia
Subsector	Building materials	Pharmaceuticals	Automotives	Textiles and garments
Key features	Lagos Free Trade Zone (LFTZ), first launched in 2002, intends to be a trade and logistical hub for all of West Africa. Became fully operational in 2018. Many construction materials manufacturers are situated there and many use e-procurement.	Kenya is the largest pharma producer in COMESA. Manufacturers benefited from SEZs that provide stable access to electricity. Kenya's prescription market is worth over \$500 million and was expected to grow 11.8% in 2020 pre Covid-19.	Leading African car manufacturer. Pre Covid-19, the country was on track to hit US\$10bn in export turnover in 2020. Has an efficient automotive cluster system. The sector supports 84,000 jobs. The subsector is expected to average 5.6% annual growth between 2019 and 2024.	Ethiopia has developed numerous industrial parks. Hawassa Industrial Park is dedicated to textiles and has attracted over 20 brands in the last few years, supporting 50,000 jobs. Exploiting AGOA and strong export services.
Driver of success	Pivotal in its linkages with other sectors, thereby having a multiplier effect on them, most notably on real estate and building materials.	Significant and growing domestic market. Access to ECA and COMESA markets.	Trade agreements signed with EU and US. Growing investments from the region and government incentives.	Relatively strong export-oriented industrial policy by government.
Constraints	Substandard materials and unethical operational practices.	Affordability and low reimbursement rates.	Shortage of skilled labour and managerial capacity.	Housing and foreign exchange shortages.



What can governments do to exploit strategic manufacturing opportunities?

First, it is important to preserve gains made in recent years from the triple shock of trade disruption, suppression measures and declining commodity prices.





Consider targeted policy options to protect existing manufacturing sector, so it can bounce back stronger





Practical steps to exploit strategic opportunities in manufacturing

01

Task one senior minister or agency head to lead – to be the champion and point of accountability to the president on this. Empower that minister accordingly. Could be minister of trade and industry, head of investment promotion agency or another senior minister or government official. A direct line to president or vice-president/prime minister is essential.

02

Open a line of private-sector dialogue with existing manufacturers, potential new investors showing interest and import agents to identify opportunities, and later, specific bottlenecks that need fixing (see step 4). This assessment should be light touch but robust. There are good examples of government-private-sector collaboration to inform this, such as in Kenya with the Kenya Manufacturers' Association and South Africa with the Business Coalition for South Africa.

03

Conduct rapid market assessment to identify new opportunities from government procurement, disrupted imports of manufactured goods or emerging opportunities in the circular economy, and climate-smart solutions.

04

Prioritise 1 or 2 subsectors to focus on, given limited bandwidth. Better facilitating one or two subsectors and succeeding in attracting investment, than failing to see key deals through to close. Moving fast is essential. Countries that succeed prioritise sectors that are export oriented, or that can compete with imports. In other words, those that are profitable – or can be profitable in a market economy with the right government support – apart from having a strong broader economic case.

Continued on next page...



Practical steps to exploit strategic opportunities in manufacturing

05

Identify bottlenecks to anchor investors or to subsector. Develop a short, manageable list of tasks for the government to fix. These will depend on subsector issues and may range across:

- deal facilitation
- making strategic public investments
- providing land or factory space
- providing targeted infrastructure services (e.g. industrial parks, energy solutions, port access)
- ensuring access to inputs
- ensuring access to skills and labour (domestic or foreign)
- regulatory adjustments and licensing provisions
- tax allowances
- fixing problems at customs
- tariff adjustments and fixing non-tariff barriers to accessing markets and inputs
- facilitating access to finance with the banks or development lending
- facilitating linkages to SMEs, technology solutions and target markets

06

Champion coordination of relevant government agencies to focus on one or two manageable interventions each, while being responsive to the private sector and interventions. Lead minister should chair a taskforce with relevant government agencies and development partners, backed by strong secretariat and delivery team to ensure follow up, problem solving and resource mobilisation.

07

Institute iterative problem-solving after initial problems are tackled to build political and economic momentum and keep improving manufacturing enabling environment in new strategic areas. Use learnings to inform sector development plans going forward – e.g. industrial park or special economic zone planning, trade policy, tax policy, skills policy etc. Focus these around needs of sectors with greatest economic potential for industrialisation of country.



Case study: rapid assessment for Ghana's pharmaceutical industry

Existing Ghanaian brands



Strengths (to build on in plan)

- ✓ Well-functioning pharma regulation systems in place.
- ✓ Among strongest in ECOWAS.
- ✓ Established local manufacturing industries.
- ✓ Government budget for addressing endemic diseases.
- ✓ Well-functioning industrial park.

Opportunities (to exploit in plan)

- ✓ WHO pre-qualification enables better access of local producers to international markets.
- ✓ Production of API, excipient and packaging material locally.
- ✓ Facilitation at presidential level.
- ✓ First mover advantage in region.

Weaknesses (Bottlenecks to be fixed)

- ⚠ Under-utilisation of local pharma capacity.
- ⚠ High unit cost of production.
- ⚠ VAT on imported input materials critical for manufacturing.
- ⚠ Insufficient backward and forward linkages.
- ⚠ Lack of focus on Pharma R&D issues.

Threats (Risks to be managed)

- ⚠ Supply chain risks for raw material access.
- ⚠ Influx of low-cost Asian generics.
- ⚠ Counterfeit pharma products.
- ⚠ Unmet HR/skills development needs.
- ⚠ Lack of consensus on TRIPS implementation and compulsory licensing.