COUNTRY CASE STUDY

KENYA

TOWARDS AN INSTITUTIONALIZED INDUSTRIAL POLICY FRAMEWORK

Kenya's industrial policy is contained in the National Industrial Policy 2011–2015 and the country's long term development framework *Vision 2030* which aims to foster industrialization and a robust, diversified and globally competitive manufacturing sector by 2030. This is to be achieved through improved industrial infrastructure, enhanced access to financial services and markets, especially for small and medium industries, increased value addition in the agricultural and natural resource sectors, intensified research and development, innovation and technology adoption as well as technical and managerial skills upgrading in domestic firms.

Historically, government efforts to spur industrialization through the import substitution policy and structural adjustment programs did not lead to significant industrial development. Not only was the country's industrial base eroded, but the high levels of protectionist in favour of domestic industries, high tariffs on imports, foreign exchange controls and overvalued exchanged rates contributed to declining industrial output and lack of competitiveness. In addition, the country did not have a clear long term industrial policy framework. With the failure of these interventions, Kenya adopted an export-oriented industrialization strategy, which offered incentives for encouraging industries to produce for exports. This new policy aimed to improve efficiency, stimulate private investment and increase the sector's foreign exchange earnings. The trade liberalization measures to encourage export production included removing quantitative restrictions, reducing tariffs and establishing a more flexible exchange rate regime.

KENYA'S MANUFACTURING HAS THE POTENTIAL TO PROMOTE STRUCTURAL TRANSFORMATION, JOB CREATION AND INCLUSIVE GROWTH

Manufacturing constitutes one of the economy's key sectors, although its performance has declined in the last few years. It grew by 4.5 per cent in 2010 and 3.3 per cent in 2011. In terms of job creation, manufacturing contributed 12.9 per cent of total wage employment in 2011 and some 2.5 million private sector jobs (about 17 per cent of jobs in the private sector), compared with 281,000 public sector jobs (just 4 per cent of jobs in the public sector). Manufacturing is expected to help propel the economy to a 10 per cent growth rate, envisaged in *Vision 2030*, as well as realize other development goals like creating jobs, generating foreign exchange and attracting foreign direct investment. However, this hinges on the capacity of the State to formulate, implement and monitor coherent industrial policies which promote competitiveness, raise productivity and strengthen local production capacities.

KENYA HAS INITIATED THE RE ALLOCATION OF RESOURCES TO HIGH PRODUCTIVE ACTIVITIES AND SECTORS

In order to foster structural transformation, increase productivity and raise incomes, Kenya has adopted industrial strategies to develop niche products based on its comparative advantage. As stipulated in the *Vision 2030*, Kenya aims to increase the production of manufactured and value added products by 20 per cent, increase the share of locally produced industrial components and spare parts by 25 per cent, and the share of manufacturing in micro, small and medium enterprise output by 20 per cent. Acknowledging the need to foster backward and forward linkages, the country also aims to increase the local content of manufactured goods for exports to at least 60 per cent.

INSTITUTIONAL CHALLENGES ARE CONSTRAINING THE GROWTH OF KENYA'S MANUFACTURING SECTOR

Despite the sectors importance, its declining performance can be attributed to several key challenges. First, lack of competitiveness has diminished the sector's role and businesses have to contend with high input and energy costs, low productivity levels and limited linkages with other sectors. Low levels of coordination between different ministries and industrial policy organization has resulted in heavy regulation and affected the ease of doing business. In addition, dumping of sub-standard imports and counterfeit goods into the domestic market is making it unfavourable for local manufacturers to compete while the high cost of imported intermediate capital goods and spare parts increase production costs. Other impediments include low domestic and foreign investments, the use of inappropriate industrial technologies, the low state of physical infrastructure, limited access to finance and inadequate research and development. To this end, Kenya has adopted several industrial policy tools to address these constrains and spur industrialization.

DEVELOPMENT OF A COHERENT INDUSTRIAL POLICY FRAMEWORK

Kenya has institutionalized its industrialization strategy, priorities, targets, actions and implementation plans in its *Vision 2030* and NIP development frameworks. However, there is need to promote stronger coordination between government ministries, and industrial policy institutions (IPOs) such as the Kenya National Chamber of Commerce and Industry, the Kenya Private Sector Alliance and the Federation of Kenyan Employers. This is vital in eliminating overlapping and conflicting mandates. Also, it is crucial to ensure that IPOs are dynamic and constantly adapt to the changing needs of the industrial sector. Enhancing strategic collaboration and dialogue with key stakeholders as well as heighten political commitment and private sector participation in industrial policy design and implementation remains vital.

EMBRACING REGIONAL GROWTH STRATEGIES TO ADDRESS EXISTING INFRASTRUCTURAL DEFICITS

Kenya has also adopted the growth pole strategy and it aims to develop at least 2 Special Economic Zones and 5 Industrial Parks to foster industrial production. It also aims to increase the share of industries located outside major urban centres to 50 per cent. In partnership with its neighbouring countries, Kenya has initiated the Lamu Port–South Sudan–Ethiopia Transport Development Corridor Project in order to enhance transport connectivity, increase cross-border trade and competitiveness, as well as facilitate international trade by linking domestic markets to international ones.

MOBILIZING FINANCIAL RESOURCES TO BRIDGE THE FINANCING GAP CONSTRAINING INDUSTRIALIZATION

Given the costly nature of industrialization and the need to mobilize domestic and foreign investments, the government intends to establish an Industrial Development Fund for long term financing as well as increase the share of FDI in industrial sectors by 10 per cent.

ENHANCING TECHNOLOGICAL INNOVATION TO BOOST REGIONAL AND DOMESTIC COMPETITIVENESS IN MANUFACTURED EXPORTS

In order to improve domestic productive capabilities, the government is enhancing technology accumulation by boosting science, technology and innovation in manufacturing as well as increasing investments in research and development. This is expected to raise the share of Kenyan exports in the regional market from the current 7 per cent to 15 per cent by 2030.

COUNTRY CASE STUDY

MAURITIUS

FROM MONO-CROP ECONOMY TO MIDDLE-INCOME COUNTRY

Mauritius has transformed itself from a low-income mono-crop economy to a middle-income country, and is now one of the most successful African countries. The country's exports were heavily concentrated in the sugar, textile and garment sectors (accounting for over 80 per cent of total exports in the 1980s). With private investment from the boom of sugar prices in the 1980s, coupled with thoughtful and forward-looking government strategies (geared towards major investment in education and infrastructure), Mauritius has successfully moved from dependence on a few products to a relatively well-diversified economy, with tourism and services emerging as major contributors to export growth.

The inception of the industrial zone in the 1970s has brought about positive contributions towards its macroeconomic indicators. After more than 40 years, the contribution of manufacturing has changed significantly. In 2012, manufacturing accounted for 18 per cent of GDP. Infact, the success of the Mauritian economy can be largely attributed to its trade openness, given its small domestic market. To that end, the local economy has been growing almost consistently at 5 per cent since its independence, with GDP per capita rising from $260 in 1968 to more than $6,000 in 2011.

This commendable economic performance has been attributed to sound economic and, more particularly, well-conceived and appropriate industrial policies. Since independence, ‚Mauritius pursued a progressive industrial development policy, despite its agrarian dependence and history. Earlier incentives in manufacturing were built on income tax ordinances, which allowed generous fiscal incentives to promote import substitution industries and to attract new enterprises considered beneficial to Mauritius's economic development. More recent industrial policies aim to move away from incentive-driven processes to create clear, transparent and rule-based processes and procedures for investing in Mauritius and improve the investment climate.

SUCCESS OF INDUSTRIAL POLICY LINKED TO PROMOTING HIGH LEVEL COORDINATION AND PUBLIC-PRIVATE DIALOGUE, AMONGST OTHERS

Continual government efforts to involve public and private stakeholders in discussions on formulating and executing industrial policies have contributed to the unique success the country has registered. Behind the industrial strategy of the manufacturing sector lies a network of government and private sector institutions responsible for elaborating policies, negotiating internationally, laying out export promotion programmes and implementing agreements and decisions.

Through regular contacts, their representatives are capable of monitoring the performance, constraints and opportunities of current and future production activities. Such close cooperation between government and private sector is fairly unique, made possible through structured dialogue. The main bodies are the Ministry of Industry, Commerce and Consumer Protection, the Board of Investment, the Development Bank of Mauritius, the Mauritius Chamber of Commerce and Industry (MCCI), and the Mauritius Export Association (MEXA). Of these, the first three are government and public authorities and MCCI and MEXA are private organisations. Other institutions have also been created as necessary to support effective implementation and the evolution of these institutions has been driven by careful evaluation of their performance each year.

These structured forms of dialogues exist in three parts. First are the regular meetings between government ministries directly concerned with the country's economic development, the presidents and directors of the main private sector institutions, including weekly cabinet meetings to ensure inter-ministerial coordination. Second, sees the presence of private sector representatives sitting as full-fledged members on a host of public and parastatal bodies in charge of running investment and export promotion programmes, elaborating national economic development strategies and outlining strategies and stands to be adopted. Third, Mauritius's core private institutions have representatives in European offices and at the World Trade Organisation. These multiple levels of regular public-private interactions allow for informed policy decisions and it is little wonder why Mauritius is one of Africa's success stories.

RESPONDING TO THE CHANGING NEEDS OF INDUSTRY – MAURITIUS BOARD OF INVESTMENT (BOI)

Industrialisation is not a costless process and attracting sustainable investment is vital for Mauritius to achieve its industrial policy goals. This objective forms a central role that the BOI, set up in 2001 following the Investment Promotion Act 2001, plays in industrial development. BOI seeks to attract "sustainable investment" and it achieves success largely through the flexibility and adaptability of its leadership in developing strategies that adjusts to a changing business climate. Through close coordination with private sector stakeholders, goal setting is heavily influenced by the changing needs of domestic business as well as global conditions. Mauritius has benefited from this dynamism, having witnessed the influx of foreign direct investments from a diverse range of markets, including non-traditional markets such as the Middle East, China and Russia. Not resting on its laurels, BOI has also altered its internal structures to better market Mauritius to potential investors and is currently in the process of moving to a cluster-based sales team approach.

SUPPORTING SMALL AND MEDIUM ENTERPRISES (SMES) TO COUNTER MARKET FAILURES

Recognising that the industrial sector faced the key challenges of low technology adoption and innovation, Mauritian government created the Small and Medium Enterprises Development Authority (SMEDA) to 'facilitate the promotion, development and competitiveness of small and medium enterprises (SME). SMEDA's objectives centre on equipping existing SMEs with the technical and innovative capabilities to raise productivity, efficiency and profitability.

ANTICIPATING FUTURE GROWTH CHALLENGES

Notwithstanding the notable success, the country faces some challenges. Rising production costs, logistic constraints and lack of capabilities in ancillary services constitute major hurdles. Internationally, manufacturing is facing a sharp transition from depending on trade preferences and tariff protection to competing globally.. To mitigate potential adverse impact on future growth, the government's new strategy centres on an entrepreneurial and innovation-led model of industrial development, driven by innovation and technology, high-tech investment, product and market diversification, green production, value addition, improved response time, sustainable development, synergized support services and a dynamic regional and multilateral trade policy, among critical factors. The government has also introduced the Economic and Social Transformation Plan, which lays out the policies and strategies for Mauritius to become a high-income country over the next 10 years. In addition, over the last few years, policies to promote new sectors (land-based oceanic activities, hospitality and property development, healthcare and biomedical activities, and the knowledge hub, among others) have been promulgated. These sectors will help diversify and expand the export base.

COUNTRY CASE STUDY

NIGERIA

NIGERIA'S INDUSTRIALISATION AND NATIONAL DEVELOPMENT PLANS

From independence in 1960 to date, successive administrations in Nigeria have made efforts at industrialization, but their attempts have not been very successful in propelling the manufacturing sector as expected. Hence in 2009, it adopted the Vision 20:2020 plan designed to propel the country to be among the top 20 economies in the world by 2020 through technologically driven and globally competitive manufacturing sector with a high level of local content and contribution to GDP. It identified five subsectors as priority areas: chemicals and pharmaceuticals; basic metal, iron and steel and fabricated metal; food, beverages and tobacco; textiles, wearing apparel and leather and leather footwear; and non-metallic mineral products. These priority areas are believed to represent segments of the manufacturing sector where Nigeria has or can easily develop comparative advantage. They have the highest potential to provide raw material for other key industries in the longer term. The manufacturing sector is expected to be private sector driven with government providing the enabling environment that would enhance operating efficiency, productivity and profitability. In this regard sectoral plans have also been developed to encourage local production of such commodities as sugar, cement and automobiles in order to reduce imports and boost youth employment.

However, so far these plans have not been very effective as evidenced by the still tiny contribution of manufacturing to GDP.

CHALLENGES TO POLICY IMPLEMENTATION FOR NIGERIA'S INDUSTRIALIZATION

While successive administrations from independence in 1960 to date have made elaborate efforts for industrialization, their attempts have not been very effective owing largely to underlying issues in industrial policy structure - poor coordination among actors, weak private sector participation, inadequate support for industrial policy organizations and major gaps in support of the private sector efforts in industry. Nigeria's travails lead to policy institutions that are disconnected from the private sector, with inefficient communication. All of this is also evidenced by the low contribution of the sector to gross domestic product in the last decade which has been hovering below 5 per cent since 1999. The sector remains structurally impaired due to pervasive growth-inhibiting factors and a myriad of challenges. Industrial policy organizations do not receive adequate support from their supervising ministry, and do not have the capacity adequately support the growth of the private sector. Another drawback is poor implementation of existing plans. Observers also point at under funding of relevant institutions with inadequate human capacity and skills. All of these, together with the inadequate infrastructure, poor technological support and low levels of innovation often result in the production of low quality goods.

FOSTERING INDUSTRIALIZATION - NIGERIAN INDUSTRIAL REVOLUTION PLAN

The challenges confronting the industrial sector prompted the government to launch the Nigerian Industrial Revolution Plan (NIRP) and the Nigerian Enterprise Development Programme (NEDEP) in February 2014. The thrust of NIRP is to increase the contribution of manufacturing to over 15 per cent over a five year period and limit age-long constraints that have persistently been against the development of the manufacturing sector, while NEDEP strives to place micro, small and medium enterprises at the centre of Nigeria's National Economic Policy. The NIRP focuses on developing industrial sectors where Nigeria has a natural comparative advantage such as agribusiness, solid minerals, and oil and gas. The enablers targeted by the plan are financing, skills development, innovation, infrastructure, business environment, enforcement of standards, and increased local patronage.

STRENGTHENING INDUSTRIAL POLICY EFFECTIVENESS

With an elaborate set of industrial policy organizations, strengthening high-level coordination and improving coherence is essential for improving industrial policy effectiveness in Nigeria. Effective industrial policy institutions reflect apex coordinating bodies that incorporate private sector inputs, provide systematic coordination and encourage super-ministerial collaboration. Nigeria needs to move industrial policies from its current focus on specific sectors to a comprehensive industrial policy that will articulate the broad vision and direction of industrialization and structural transformation. However, the success of its policies rests on effective engagement with key stakeholders and the presence of high-level coordination.

COUNTRY CASE STUDY

RWANDA

ROBUST GROWTH AND INDUSTRIAL PERFORMANCE

Rwanda's growth over the period 2008–2012 exceeded ambitious expectations as real GDP growth averaged 8.1 per cent annually, translating into GDP per capita growth averaging 5 per cent per year. Construction is the largest industrial sub-sector, with 7 per cent of total GDP or 52 per cent of industrial output in 2010, up from 41 per cent in 2002. Manufacturing makes up 43 per cent of industrial output and with also 7 per cent of total GDP, dominated by food processing and beverages and tobacco industries.

However, the industrial sector in Rwanda is still small with 4,752 firms, mainly small-scale firms carrying out commodity processing, adding value to the country's primary products and only contributed 15 per cent of GDP in 2010. The categorization based on employment indicates that 93.2 per cent are micro, 3.9 per cent are small, 2.2 per cent are medium and 1 per cent is large. Currently, the industrial sector employs only 4 per cent of the work force, which is expected to reach 26 per cent by 2020, with, employment reaching 1.4 million people whilst ensuring that Rwandan enterprises are competitive regionally and beyond.

LINKING INDUSTRIAL POLICY TO NATIONAL DEVELOPMENT PLANS

Rwanda's industrialization strategy has a short history, with the first five year strategy put in place in 2006 and the second one in 2011 to run up to 2015. These strategies are based on targets set in the Vision 2020 document, which aims at transforming Rwanda into a middle income country with per capita income of more than USD 1,000 by year 2020. The government is also guided by the medium-term Economic Development Poverty Reduction Strategy (EDPRS 2, 2013 - 2018). Among others, its goal is to achieve an annual GDP growth rate of 11.5 per cent with the industrialization strategy key to realizing the set targets. This is envisaged to be done by increasing non farm employment, developing business, technical skills in the Rwandan work force, supporting targeted value added clusters, and strengthen the financial sector. In this regard, the Ministry of Trade and Industry has developed a number of key policies and strategies aimed at improving the business environment and complementing efforts to develop the industrial sector. These include the SME Development Policy (2010), Trade Policy (2010), and the Competition policy (2010).

HIGH LEVEL INSTITUTIONAL COORDINATION FOR INDUSTRIALIZATION

Rwanda's current industrial development strategy was developed through a consultative process involving all stakeholders, with the Ministry of Trade and Industry being the strategic policy oversight institutions. Rwanda's industrial policy has three priorities. The first is to increase domestic production for local consumption, second, to improve its export competitiveness and, third, to create an enabling environment for Rwanda's industrialization. To revitalize the industrial sector, the government established the Rwanda Development Board in 2008 to provide exporters with trade and market information to stimulate export trade. It also acts as a one-stop-shop for investors and has significantly reduced the cost of doing business, making Rwanda the most reformed economy in the region.

The government also provides support to the Private Sector Federation of Rwanda to strengthen private companies, build human capacity for the private sector, facilitate sustainable funding sources for businesses and provide economic dispute arbitration centre. Good governance and zero-tolerance to corruption has given Rwanda a competitive edge. Due to the ease of doing business reforms, including zero tolerance on corruption, Rwanda now ranks second-best to do business in Africa after Mauritius. On global scale, the annual World Bank report, which assesses country-by-country performance in ease of doing business shows that Rwanda moved 22 places, to 32ndof 189 countries.

Recognizing the importance of consultations between the government and the private sector in the development of the industrial sector, Rwanda also established the high-level council for industry, the Industrial Development and Export Council (IDEC), composed of relevant ministries and agencies, headed by the Ministry of Trade and Commerce and RDB providing secretarial support. IDEC provides mechanisms for stakeholder interaction and of views on issues of industrial development. Annually, IDEC reviews industrial policy implementation at the Annual Leadership Retreat where major decisions are made. The IDEC reports to the Prime Minister, who in turn takes the urgent matters arising from the industrial sector to the Cabinet chaired by the President of Rwanda.

SOME CHALLENGES TO THE COUNTRY'S INDUSTRIALIZATION EFFORTS

The key challenges facing industrial policy effectiveness are in areas of infrastructure, financing and human capital development. Other constraints are lack of research, technology transfer and innovation for industries, high cost of doing business, high cost of raw materials and difficulty in accessing markets. Alongside minerals, tea and coffee, Rwanda has a number of much smaller existing exports—horticulture, pyrethrum, hides and skins, and handicrafts. However, these exports have shown significant volatility in recent years, particularly due to the global economic crisis.

COUNTRY CASE STUDY

SOUTH AFRICA

LINKING INDUSTRIAL POLICY TO NATIONAL DEVELOPMENT PLANS

South Africa's national industrial policy illustrates sophisticated and efficient high-level coordination among government authorities, public organizations and private stakeholders. The National Industrial Policy Framework, launched in 2007, was South Africa's first comprehensive industrial policy. It is aimed at facilitating diversification beyond reliance on traditional commodities and non-tradable services, and to foster long-term intensification of the economy to build a knowledge-based economy and to promote labour-absorbing industrialization. It is centred on a strategy to strengthen the manufacturing base by mobilizing trade, financing and procurement instruments that would help develop prioritized sectors. The current approach to industrial policy is influenced by unconventional economic perspectives while earlier policies were more influenced by economic orthodoxy that favoured a smaller role for the state and a larger role for the markets.

The Growth Employment and Redistribution (GEAR) policy and the findings of the Industrial Strategy Project (ISP) emphasized giving market forces a prominent role in coordinating economic activity, based on a conviction that free markets would drive economic and employment growth. Adopted in 1996, GEAR focused on building an economy that displayed strong macroeconomic fundamentals that appeared credible to foreign investors. So GEAR's proposals included the liberalization of the capital account, inflation targeting, the privatization of state owned enterprises and a floating exchange rate.

The ISP entrenched a liberal trade agenda that focused on export-led growth, arguing that the previous trade protection strategy had induced an anti-export bias that created an uncompetitive industrial sector with capital-intensive, mineral-based sectors at the expense of downstream labour-absorbing sectors. It was hoped that trade liberalization would improve the industrial sector's competitiveness and generate a diversified industrial base that would be integrated into the global economy.

The multiplicity of public and private actors involved in the formulation and implementation of the country's industrial policy allows the involvement and contributions from different sectors and ministries and making sure that the industrial policy is in line with the national development strategy.

EFFICIENT AND SOPHISTICATED HIGH LEVEL COORDINATION

The design, implementation, monitoring and evaluation of national industrial policy plans in South Africa illustrate sophisticated and efficient high-level coordination among government authorities, public organizations and private stakeholders. The process of designing and implementing The NIPF and The Industrial Policy Action Plan (IPAP) provides a useful example of this coordination and collaboration.

The NIPF is the articulation of South Africa's national industrial policy vision, and the Industrial Policy Action Plan (IPAP) is its implementation document. IPAPs are three-year rolling plans that are published annually (South Africa is currently implementing IPAP 2). These plans emphasize the importance of manufacturing and its ability to generate dynamic increasing returns to the depth of its linkages and recognize the technological progress that is embedded within manufacturing.

The design and implementation of the NIPF and the IPAPs are the responsibility of The Industrial Development Policy Development Division (IDPDD), which is under The Department of Trade and Industry (DTI). IDPDD is also responsible for two interlinked programmes: the Industrial Competitiveness Program (ICP) and the Customized Sector Program (CSP). ICP is responsible for designing and implementing "cross cutting or transversal interventions that are aimed at building capabilities and competitiveness across the targeted IPAP sectors", while CSP designs and implements "high impact sectoral strategies."

The policy design of the CSP and design, implementation and monitoring and evaluation of the IPAP involves all main primary and secondary stakeholders. The primary actors as "the core actors responsible for managing the activities and outputs in the policy phase" and the secondary actors are those who "provide inputs, reflections and commentary in the policy phase." The CSP articulates the targeted sectors' strategic and implementation plans, which are then incorporated into IPAP as key action plans. Both of these are "living documents and are thus under continuous review and revisions as milestones are met or redesigned or key actions introduced".

STRONG PUBLIC AND PRIVATE SECTOR PARTICIPATION

The agenda setting and implementation strategy of sector plans is determined through research of the outcomes of the sector and extensive consultation with organized business and labor in that sector, before the CSP is formally adopted, and incorporated into the national strategy in the IPAP. This illustrates the multiple stages of feedback and collaboration and formal feedback mechanisms in the process. This coordination allows the private sector to have more confidence in upcoming policy because they were heavily involved in its creation. This creates confidence in businesses and interventions that are useful to and needed by the private sector. In addition, the multiplicity of public actors involved in the creation of IPAP through multiple CSPs, allows for national strategies that involve the coordination of different sectors and ministries and that are in line with the national development strategy.

HIGH-LEVEL REVIEW, MONITORING AND EVALUATION OF THE INDUSTRIAL POLICY IMPLEMENTATION

The performance of the IPAP is monitored regularly within the Department of Trade and Industry and at the Cabinet and Director General levels, as well as an oversight being provided by the Parliamentary Committee on Trade and Industry. During these meetings the challenges are discussed and solutions designed to fast track the implementation of the IPAP milestones. The IPAPs are also monitored by several other bodies, including a council of different departments called the Forum of South African Director Generals (FOSAD), which draws members from multiple departments to facilitate joint or coordinated policy development and implementation.

INNOVATIVE FUNDING CONCEPT

The Industrial Development Corporation play san essential part in South Africa's industrial development, especially through its most recent and innovative funding mechanism—the Manufacturing Competitiveness Enhancement Programme, which disburses grant funding for production incentives and a working capital loan facility for IPAP sectors. The programme is aimed at improving productivity levels, value addition and job retention and creation. State financing has recently been injected into the Industrial Development Corporation for IPAP programmes to augment its on-balance sheet funding. This is part of the strategy to broaden its developmental mandate.

In summary, the country's first comprehensive industrial policy in the past six years has been successful. Still, continuous fine-tuning will ultimately see that the broad objectives of the policy-makers are realized before 2020. However, recent labour market frictions, particularly regular strikes, have tended to disrupt productivity and thus slow the process of industrialization.

COUNTRY CASE STUDY

TUNISIA

FROM "TUNISIFICATION" TO LIBERALIZATION

Since the 1950s, the Tunisian government has strived to support industrial development and bridge the inherent gaps and shortcomings. The early years of independence were devoted to a "Tunisification" of the economy by nationalizing production units and creating heavy industry. In the absence entrepreneurial class, the bulk of investments were made by the state to create a basic industrial network. The private sector was marginalized, investment and productivity low.. Business was limited to the creation of a fragile and light industry, import substitution and dependence on a tiny domestic market.

The period 1970 and 1980 was marked by the desire to pursue a liberal policy with an emphasis on developing export industries. However, at least two weaknesses were observed in the export structure during this period. First, some 70 per cent of manufactured goods exports were from the textile, clothing and leather secto, and by 1977, 54 per cent of new investments and 87 per cent of jobs were in those industries. Second, private investment was largely confined to a few regions, particularly coastal areas. Due to the economic crisis and the social unrest during this period, the first Structural Adjustment Plan was introduced with the International Monetary Fund's help.

In 1993, a new code of investment incentives was adopted and intended mainly to stimulate investment in such areas as high-tech and export-oriented industries. The free trade agreement with the European Union was also signed in 1995 with industry in mind, to ensure greater integration in the liberalization process by lowering tariff barriers.

DEVELOPMENT PLANS CONSISTENT WITH FOCUS ON INDUSTRIALIZATION

Three major programmes were implemented to raise the competitive edge of enterprises by restructuring and modernizing the private sector. First was the Upgrade Programme, part of the 9th (1996–2001) and 10th (2002–2006) Development Plans. It intended to help the private sector by providing access to technical assistance and training and through investment incentives. Second is the Industrial Modernization Programme (2003–2008), which aimed to boost business productivity and thus competitiveness by focusing on intangible investment. And third was the Program to Support the Competitiveness of Enterprises and for Facilitating Market Access, which stretched over 2010–2013 with a budget of 23 million euros. Its main aim was to enhance the capacity of Tunisia's industry to cope and respond to the standards and quality requirements of the European market.

Also two main activities had a significant impact on industrial development—the 72-83 law on export promotion and the investment incentives code, which offered a range of tax incentives to attract foreign direct investment. The 72-83 law provided incentives to foreign investors to establish manufacturing firms, and the investment incentives code provides tax benefits on imported inputs and on profits made by companies producing for export—"offshore" companies. These companies are largely spared the paperwork and red tape that face their counterparts which primarily produce for the domestic market—"onshore." This compartmentalization has resulted in productivity spillovers and limited linkages between the productive offshore sectors and the relatively inefficient onshore companies, keeping the country stuck as a low value added economy.

However, Tunisia has to continue its gradual shift from traditional sectors to more advanced technological industries. Following a study conducted in 2008, the government adopted a new industrial policy known as "Horizon 2016." Its objectives are to double exports between 2008 and 2016, triple industrial investments within the same period, and raise the share of technology in industrial exports from 25 per cent to 50 per cent.

These programmes and initiatives, coupled with changes in the overall thrust of the economic policy with a consistent focus on industrialization since independence, have played a key role in the economic transformation and social development of the country. Since the mid-1960s, Tunisia has undergone profound structural economic changes, with domestic production shifting from agriculture and raw materials to services and manufacturing. This structural change has enabled Tunisia to achieve a growth rate close to 5 per cent each year over the last two decades, making industry – and the manufacturing sector in particular – a major source of job creation. In 2011, the manufacturing sector's contribution to GDP exceeded 18 per cent, and manufactured goods accounted for 75 per cent of total exports, against 35 per cent in 1980, indicating increased private investment, export diversification and impact of the export promotion policy.

INDUSTRIAL POLICY AND INSTITUTIONAL COORDINATION

Industrial development policy lies with the Ministry of Industry, while export promotion policy lies with the Ministry of Trade and Crafts. Both ministries coordinate their strategies with the Ministry of Development and International Cooperation. The institutional network for implementing industrial policy includes governmental and non-governmental organizations and institutions as well as agencies jointly managed by the public and private sector. Among them is the Upgrade Programme Office formed under the Ministry of Industry. It is charged with improving the competitive edge of Tunisian companies, helping them cope with competition both in the domestic market and in foreign markets and contributing to their export strategy and modernization plans.

Recently the government has come up with sector specific industrial strategies. In 2007 – 2008 a strategic orientation for each sector was designed to develop specific measures applicable to a sector based on its status. The new strategies were oriented towards a knowledge economy as recommended by the 10th (2002-2006) and 11th (2007-2011) Development Plans.

ENHANCING TECHNOLOGY TRANSFER, INNOVATION AND COMPETITIVENESS

Tunisian industrial strategy has opted for "clustering" as a key growth factor on which innovation and added value in the sectoral development strategy would be anchored by 2016. In order to raise the competitive edge of the Tunisian economy through innovation and help create a new generation of companies with high value added capacity, the development of clusters and technology has been made the strategic focus of the country's economic development policy. The programme of competitive clusters was formally launched in 2006 when progress towards a knowledge-based economy became part of the 10th Development Plan (2002 - 2006) although it is still being streamlined and structured. The competitive clusters approach aims at accommodating, within a given geographical area, firms, training centres, public and private research units through partnership aimed at developing synergies for a technologically developed industry so as to promote competitiveness and industrial innovation. Targeting key sectors of the economy with their cluster's location based on the existence of economic assets specific to each region of the country.

GRAPPLING WITH UNEMPLOYMENT AND SOCIAL INEQUALITY

Despite all these developments, the Industrial sector is yet to enable Tunisia to cope with unemployment and regional development—the major challenges it faces. Industrial development was seen as an outlet to sustained growth capable of generating decent jobs and reducing inequality and dependence on primary commodities and mining. But as the socio-political upheavals of 2011 demonstrated, growth in manufacturing remain insufficient for Tunisia to absorb unemployment, especially among young graduates, and bridge the inequality gap.