ISI and Raw Material Dependency:
"Twin Killers" of Economic Potential of African Countries

by John I. Akhile Sr.

AFRICAN TRADE GROUP

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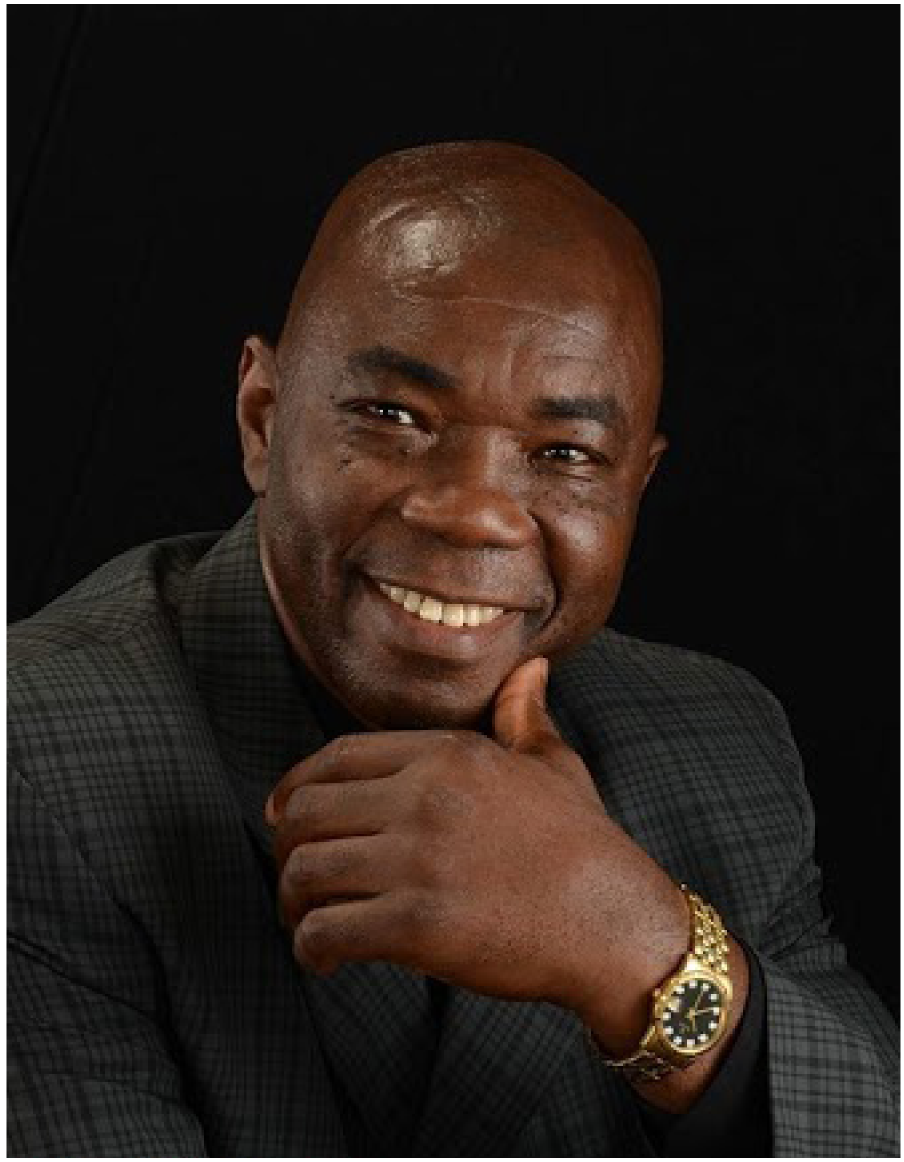

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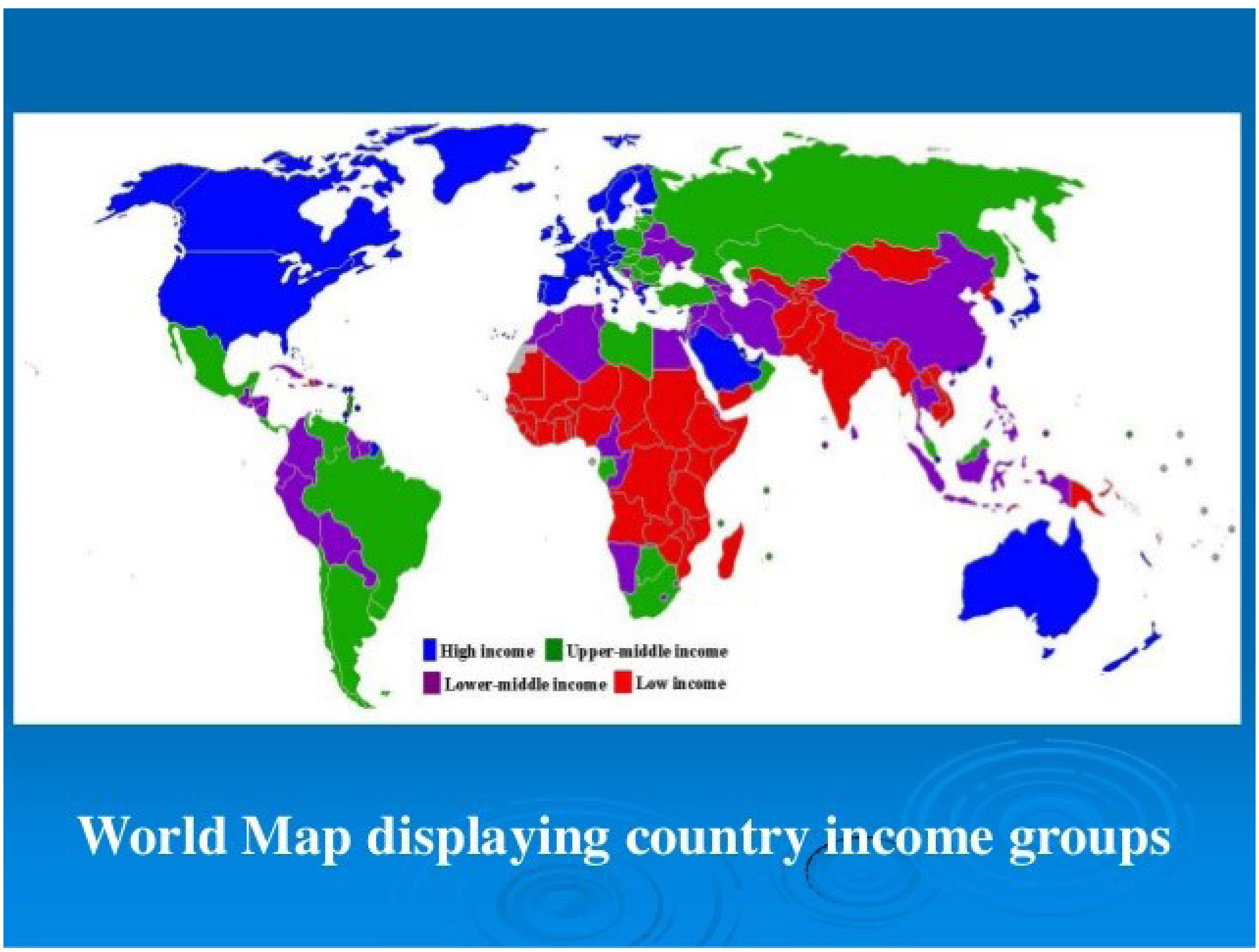
I was privileged to have an audience with the US Trade Representative for Africa, Madam Florizelle Liser, recently. During our talk she shared that she was perplexed that some African countries are still insisting on prosecuting economic development though *Import-Substitution Industrialization* (ISI) strategy. By the way, people should be wary of development strategies that are classified as *Inward-Looking Industrialization* (ILI) because it is another term for ISI. The new term has evolved to window-dress, if you will, the bad reputation of ISI. The reason the Honorable Trade Representative is perplexed is that ISI has been found wanting as a development strategy for poor countries. Not by the U.S. mind you, but by countries who tried it, including Taiwan and South Korea and all the South American countries where the idea of ISI and *dependency theory* first originated.

In their extensive experience of trying ISI, the Asian Tigers came to the conclusion that it was not the right development strategy and switched to export-oriented industrialization. At the time they switched, they only had the example of Japan's export success to look to, and it was not certain that it (the Japanese model) would work for them. But they were certain that ISI was not the way out of the financial and economic dilemma they were facing. It left them no option but to forge ahead. As for the countries of South America, their view changed when their economies collapsed under the fallacious development concept of ISI. Anyone who has good intentions about African countries would be perplexed that a concept so thoroughly discredited is being implemented by any country.



ISI, Commodity Exports and Poverty in African Countries.

ISI is one of the two main reasons for poverty and uneven dispersion of economic benefits in African countries. The other is the fact that African countries depend on raw materials for a large portion of their export income. For some countries, it is more than 90%. There is a callous inclination of decision makers in matters of life and death for the poor and underprivileged of their nations. They are at the mercy of the choices and decisions being made but are powerless to do anything to affect or change it. The policy "wonks" of African countries can point to their degrees. But they lack the "get under the hood and fix it" knots and bolts comprehension of the mechanics of (economic) development strategy. Lacking crucial know-how, they are unable to appreciate the interplay of the various parts that make up the whole. Most have spent a lifetime in academia but no time in the real world of business. As such they lack basic understanding of the practical issues of the business of nations. Make no mistake about it because a nation is a political business that has a profit and loss ledger much like a commercial entity.

> "**ISI** is one of the two main reasons for **poverty** and uneven dispersion of economic benefits in African countries."

In ISI, countries are trying to replace what they are importing with local production. Conceptually, it sounds like a good idea until you open it up and study the guts. As a practical matter, it doesn't work because it is akin to attempting to go from the first step on a stairway to the top without one's foot touching the intermediary steps. They (intermediary steps) are the basic industries that ISI goods require to be local products. They include heavy industries, steel being the paramount one. Others are metallurgical industries such as copper, Aluminum, transportation, and machinery. Base chemicals are liquefied natural gas and petrochemicals. These industries manufacture products that ISI industries use in their manufacturing and processing. Along with these are machine tools and die-cast industries that produce the parts for heavy industries. Without the machine tools, you can't make the machines that heavy industry needs to make parts and so on. The capital requirement for this process is out of the range of most African countries at this time but, can be built over a short period with a good strategy and using a stair-climber approach. More on the stair climber approach later in the narrative.

ISI without Supply-Chain Components is a Harmful Course

What happens if you don't have these industries? That means you cannot prosecute ISI successfully! The companies that are developed to produce goods to replace the imports will not have the basic supplies they need. Supplies that they have in the home countries that enable them to produce and compete in their highly-charged competitive markets. In order to compensate, the local ISI plant will import partially assembled goods. They are pre-assembled in the home countries where they have the inputs from the local supply chain, which involves elements of heavy industries, chemical industries, machinery, etc. that we touched on earlier. They have no choice but to import pre-assembled goods because there is no other way to substitute imports with local manufacturing when you have HUGE gaps in the local supply-chain. The price of whatever they are producing will not be competitive and, as a result, the local market has to be protected. It is where protectionism comes in. Without banning imports of foreign-made ISI industry goods, people will simply import the "real McCoy" at a cheaper price and better quality.

We have seen that the gaps in the supply chain make it unfeasible to execute ISI in a way that substitutes local goods for imported goods because the local goods are not manufactured or produced from scratch. Instead, the companies import semi-finished goods and finish them in the local environment. Without protectionist measures, it would be impossible to manage the plants profitably because they would face external competition that has significant and scaled up production advantages. If they cannot compete with imports in the local market one can extrapolate that ISI products are not exportable to hard currency markets, where they have to compete with imports in their home markets around the world. However, they still have to have hard currency to import the semi-manufactures that they produce. In this sense, it is akin to importing the finished goods and is a major drain on a country's hard currency earnings capacity.

ISI Industries are Voracious Consumers of Hard Currency

An inefficient producer that requires special protections and has a voracious appetite for hard currency to import semi-finished goods as raw material is a liability against the most vulnerable in society. The poor and least well-off are the most burdened by high prices of ISI industries and also suffer inordinately when priority is given to the companies for hard currency because it limits the resources available for other priorities. The reason for countries to choose ISI is to mitigate the outflow of hard currency. However, when the process creates companies that have almost as high a demand for hard currency but offer products at higher cost to consumers, the net effect is bad for the economy. ISI's goal is to convert companies from needing to import with hard currency to buying supplies in local currency. Without the

“**Textile Fabrication** is a great entry-levl industry for poor countries that are **new to exporting**. It is a relatively simple industrial operation to manage.”

intermediate steps, i.e. basic industries, this goal is unrealistic and unattainable. In this sense, ISI is a baby that is trying to run before he/she can walk.

A vivid illustration is in the global textile fabrication industry. Textile Fabrication is a great entry-level industry for poor countries that are new to exporting. It is a relatively simple industrial operation to manage, and is not very capital intensive. Although it is also true that large operations with a high degree of automation is capital intensive. Like the tourism industry, it is labor intensive and employs low-skilled workers. Textile Fabrication is a source of employment for millions of workers in countries like Bangladesh, Pakistan, India, Vietnam and China. *“Bangladesh, once poor and irrelevant to the global economy, is now an export powerhouse, second only to China in global apparel exports, as factories churn out clothing for brands like Tommy Hilfiger, Gap, Calvin Klein and H&M. Global retailers like Target and Walmart now operate sourcing offices in Dhaka, the capital. Garments are critical to Bangladesh's economy, accounting for 80 percent of manufacturing exports and more than three million jobs.”* Excerpt from *New York Times* article, “Made in Bangladesh” by Jim Yardley, August 12th, 2012. Bangladesh's garment industry achieved $27 billion dollars in exports in 2014. That is almost one-third of the exports of Nigeria, the largest exporter in Africa.

Garment Factory in Bangladesh.

One of the issues that the Trade Representative, Madam Liser, touched on in our discussion was the necessity of creating a source of raw materials in African countries from which downstream fabricators can get raw materials. These plants will convert fiber (cotton, polyester, jute, wool, etc.) or any base raw material they use into textile materials that are in turn sold to the fabricators. She made the suggestion because there is an opportunity for African countries to sell partially or completely assembled textile fabrics to American companies. However, she is also aware that unless the raw materials to fabricate are available from local sources in African countries, African sub-contractors will not be able to compete in the global supply chain of textile fabricators. In the context of ISI, the fabricators would import the textile fabric for fabrication but they would not be able to sell their products to the global supply chain because it would be cost prohibitive for the market.

A Bangladesh Garment Factory.

Raw Materials in the Matrix of Costs of End-Products

The second of the twin causes of poverty in African countries is dependence on raw materials. People are not well-informed about the dynamics of international trade and the impact that each segment of the supply chain has on the finished products that are derivatives of the raw materials that African countries sell to the world. We know that African raw materials are not pooled and sold by one entity. They belong to individual countries and are sold by them. Some countries have more than others. On the whole, African raw materials, when viewed through the lens of endowment of individual countries, are not superior to other countries around the world. When we look at a map of Africa and marvel at the amount of raw materials displayed, let's remember that when you do the same exercise with any continent, it also elicits awe. Granted that Africa as a whole is dominant in endowment in many minerals. Secondly, you have to break up the entire matrix of raw materials derived from the continent into the amount belonging to each country. There is no political entity called Africa. There is only the continent of Africa with 54 political entities. On the basis of historical results, it is clear, that no country can build an economic future solely on the raw materials that they export.

On average, the raw materials that African countries sell make-up (for the purpose of illustration); let's say 10% of the matrix of costs of the finished products. These costs include other raw materials, labor, R & D, plant, marketing, transportation, compliance, etc. The finished product, naturally, will also incorporate other non-African supplied raw materials. In other words, African raw materials are not the only raw materials that go into the finished product. For the purpose of our illustration, let's assume that the total cost of the finished product is $10. Of that $10, an African supplier received $1 or 10%. Let's further assume that the final price for the product is $12. That means for $1 they earned from the original export transaction African countries that buy the product are forking over $12. The analogy is apropos because as in many cases, African countries import the finished products derived from the raw materials they supply to the world. It is impossible that any country that indulges in this sort of arrangement can be prosperous. Let us then be clear. For African countries, the path to prosperity will not be paved by raw material exports. It will be paved by deploying the cheap labor resources that African countries have in abundance. It will create jobs and enrich the countries that embark on the journey.

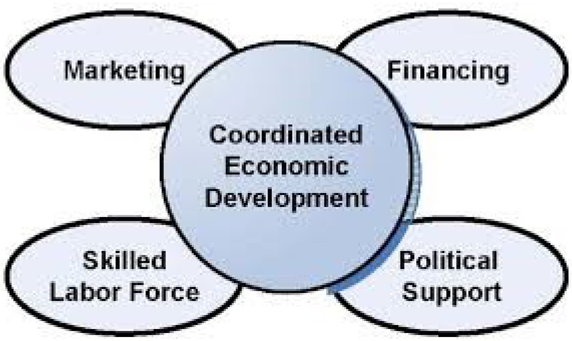
Many Countries Import as Much as 80% of What They Consume

It is a vulnerability compounded by the high level of reliance on imports by many countries. Some are as high as 80%, to meet consumer demand and on the fluctuations in the price of commodities on the world market that are controlled by non-Africans. This matrix of commodity export-high import dependency is why African countries have to have aid to make their budgets. There is not enough *MONEY* coming in to enable African countries to live a pseudo-fantasy life of perceived luxury where everyone is making things for them to consume. It is a position in the hierarchical structure of nations that is reserved for the wealthy nations. It produces a perverse reality in which the poorest nations in the world are supporting industrial jobs in wealthier nations of the world. This is not rocket science. It only requires basic knowledge of international trade and elementary business acumen to expose the lunacy in the world in which African states exist. It is why most reasonable people have said for decades that reliance on commodity exports is not a plan for prosperity but rather a "poverty plan." Because they know that the math is irreconcilable. It simply doesn't work. The sooner African countries absorb the reality the better will be the prospects for creating jobs in the countries by forging a better economic strategy. A truism that is not unique to Africa is that "*as long as one thinks something that is not working is working, one is not inclined to seek other avenues.*" After 50 years for most countries, of self-rule, the reality that the paradigm is hopelessly flawed and has never worked should have settled and concretized in the collective consciousness of leaders.

A Safe and Secure Way Forward

It is neither feasible nor necessary to dismantle ISI because there are jobs and capital investments associated with it. But it is imperative that it should be curtailed going forward. If the curtailment and modification of the effects of ISI is skillfully managed, it will yield very beneficial effects on the economy and create millions of jobs in African countries that have relied on ISI. African countries should never hesitate to seek ideas or to consult with nations from whom they can glean best practices. The first thing that policy wonks need to consider is that any strategy should have a beginning point, a middle point, and an end point. Determining the proper course and desired results will differ for every country for a number of reasons. The reasons are the size of the population (man-power), physical plant (the size of the country's real estate), and resource endowment (raw materials). But the most important consideration is the ambition of the leaders of each country. Some may want to be the next South Korea or Singapore. While others want to make sure their debts are manageable and their economy is self-reliant. There is room for both spectrums.

The safe and secure way forward is to add a vigorous export-oriented strategy to the ISI base that has been in place in some countries for decades. There are several avenues that each country can use to design a successful export-oriented strategy.



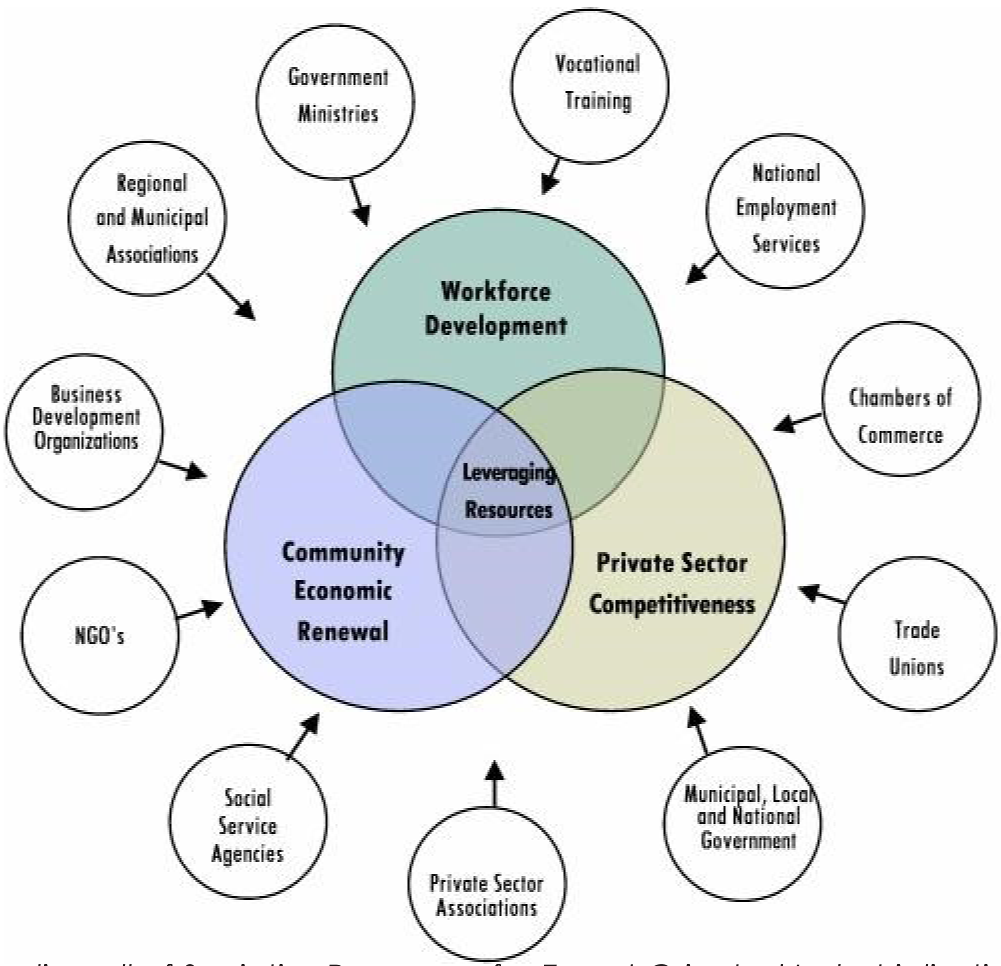
Resources for Economic Development

1. **Conversion Industries**: The first and low hanging fruit in the matrix of export opportunities is "conversion" industries. They are a no-brainer for African countries. As the term connotes, these are industries that will convert raw materials that African countries are currently exporting to finished goods in the country and then export the finished goods directly or through marketing companies in their home countries or in foreign markets. Many projects in this sector can be structured with compensatory trade techniques to be self-funding for private and public sector companies.

2. **Foreign Companies Manufacturing for Export**: The second one and just as important as the first, is African countries selling foreign companies on the idea of locating industrial plants for manufacturing and processing in their markets. These are companies that already have an established market for the products in their home markets and in most cases, in markets around the world. It is the Asian playbook that China and Singapore have used to great effect in crafting their economic resurgence. It will work in African countries if African countries learn to work it.

3. **African Companies Manufacturing for Export**: The third area is to research areas in hard currency markets in the low-capital intensive, high-labor-intensive sectors that are open to competition. And to develop a plan to introduce products into the sector or sectors using the stair-climber approach. It is the path that South Korea, Taiwan, and Hong Kong deployed to great effect. It is also the strategy being prosecuted by Vietnam.

4. **Tourism as an Export**: Tourism is a tangential but very powerful export industry. In this case, visitors who want to *rent* a bit of the culture and experience of a country bring the hard currency to the country. It is not part of the three core export-oriented industrialization strategies but is a complimentary aspect of all of them and of the hotel, motel, and restaurant industry. Visitors who visit a country are also very likely to patronize the country's exports in their home markets.



Pooling all of Societies Resources for Export-Oriented Industrialization.

Engineering the Transition

The first task is to ensure that the existing foundation is modified to support the conversion to export-oriented industrialization and not the other way around. It should start with putting some governors, i.e., restrictive parameters, in ISI. The first governor is to categorize ISI industries into segments: critical to the economy, neutral, and not critical. The ultimate goal has to be to wean all ISI companies from the dependence on government for the hard currency that they need to import supplies. At least until the intermediate industries that will eliminate the need to import semi-assembled manufactured and processed goods are in the domestic economy.

1. **ISI Companies that are Critical to the Economy**: The companies in the critical category should be reviewed to determine how long they have been operating an ISI model. What they consume in hard currency per annum and how much local sourcing they have done since the inception. Every company in this segment should be given a timeline to make arrangements to source their own hard currency to import supplies, graduated on the basis of the length of local operations. A company that has been operating for ten years, for instance, may get five years to sort it out. Others may get less or more.

2. **ISI Companies that are Neutral**: They are neutral because they may have a large labor force and manufacture products that are useful though not critical in the economy. On this basis, there would be justification to continue to allow unfettered access to hard currency as per the timeline for them to become independent in sourcing hard currency for importing their semi-assembled inputs. Companies in the neutral segment should be judged based on how long they have been operating in the country. From the grading, the companies in the group may get a high of five years and as low as one year to sort out how to import supplies without drawing hard currency official sources.

3. **ISI Companies that are Not Necessary**: These companies do employ people, so they are not entirely unnecessary. However, they may be consuming hard currency to import goods that companies can make in the country. The companies that are in this last category should be given two years, regardless of the length of operations to find their source of hard currency with which to import supplies.

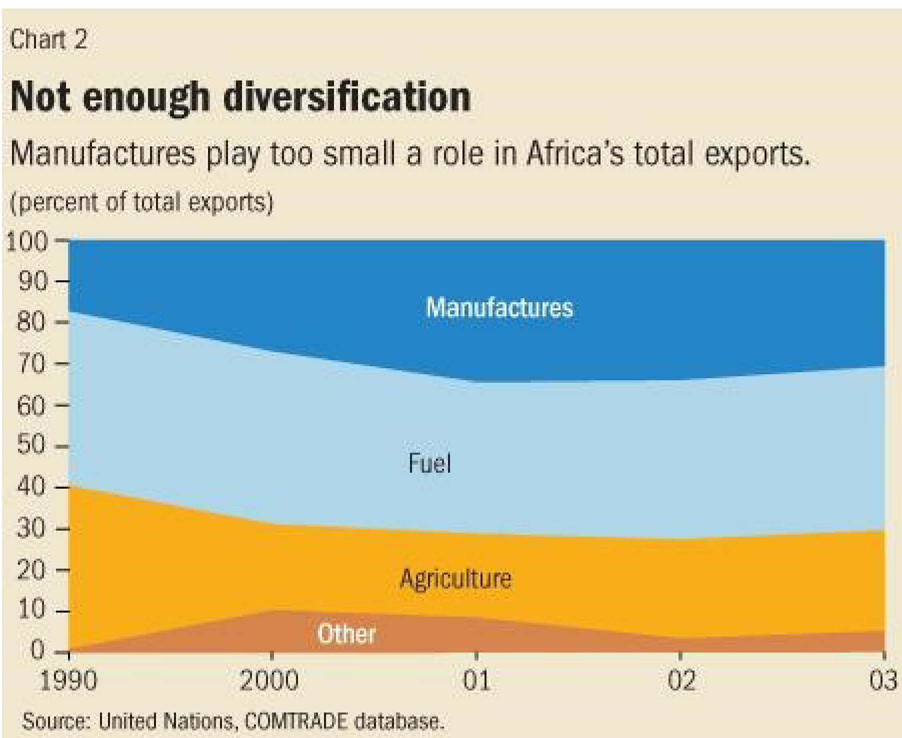
All the companies should be encouraged to invest in industries or in ventures that export goods. It will not be necessary for the companies to venture into export operations, although that would be a good outcome. They could enter into a joint venture for an export business and still achieve the goal depending on the size and export capacity of the joint venture. Some of the funds earned from the activities can be used to import supplies. The introduction of a governor such as described into ISI will have the following effect. (1) It will force established companies to become exporters of goods and services. (2) It will create new industrial and service ventures that are export-oriented. (3) It will create new jobs. The first two will expand foreign exchange generating capacity of the economy. All three will boost economic activity. The third will create happy and contented citizens.

Information dispersal and indoctrination are an important part of any transition process. Because without total buy-in from the citizens including existing socio-economic-political power-centers, businesses and the everyday person, it will be a convoluted process that is susceptible to derailment. In every African country, the importers are a powerful interest group and they are the beneficiaries of the existing paradigm. Exporters of raw materials have nothing to fear because they will get the same price for their raw materials whether they sell to a local conversion industry or to the converters overseas. The prices of commodities are in the hands of international commodity markets, the largest of which is the Chicago Board of Trade CBOT in Chicago, Illinois.

> "The motivation to achieve cohesiveness should be found in the immortal message, **'a house divided against itself shall not stand.'**"

It will require amalgamating a "carrot and stick" approach involving very strong leadership á la President Park Chung of Hee of South Korea and President Chiang Kai-Shek of the Republic of China (Taiwan) exemplifying determined, not to be denied leadership, that wielded a big stick of persuasive force-power. They were able to align everyone in society and ensure that everyone marched to the same drum and tune whether they liked it or not. And the information dispersal, teaching, coaching and indoctrinating approach of Singapore's two pied pipers, Prime Minister Lee Kuan Yew and Super Minister, Dr. Goh Keng Swee. Their method was to bring their society along by informing and indoctrinating them in the ideals of the country. Both sides of the spectrum are needed in African countries.

In the "carrot" approach, countries should consider developing cultural centers in every community where people can gather and listen to ideas and also learn about the various programs of government. It is a strategy that was deployed to great effect by Singapore, to bridge socio-economic rifts in the country. Singapore is one of a very few places in the world where Muslims and people of other faiths, including Chinese Confucianism have co-existed in peace respecting each other's unique views and culture, for more than fifty years. It fashioned and concretized the notion of "one-Singapore" for all Singaporeans. The indoctrination of Singaporeans required people to maintain their cultural and religious heritage but also to respect everyone's as well. At the same time, it helped to build commonalities, shared interest and values in the success of a unitary, peaceful and prosperous Singapore. It will also work for African countries if they decide to deploy it.



Manufacturing is the only way African countries can create millions of jobs per year.

Developing a Network of Cultural Centers throughout a Country

African countries need cultural centers because their societies have religious and ethnic fissures. They have a long way to go to build the sort of cohesiveness that has been achieved in Singapore, but every country has to press on until they reach it. The motivation to achieve cohesiveness should be found in the immortal message, "a house divided against itself shall not stand." Tribal and religious constructs that weigh against political cohesion need to be put in the right context and subordinated to the concept of nationhood. Cultural centers will create jobs for the people that manage it and also the people that teach and orchestrate seminars and events. Each center can also be designed to become self-sufficient over time if amenities are provided that cater to people's needs. Examples of such amenities include facilities to rent to community members to host events. It could have a shop for miscellaneous goods, as well as eats for the enjoyment of visitors to the center. Pay-to-play data center where people can use computers to access the internet and print documents. Centers may be designed to provide some pay-to-play games for a reasonable fee for the enjoyment of visitors. Services that are well-managed will attract members of the community.

Frequent lectures about government policies and economic opportunities that are relevant to citizens along with handouts will make the cultural center a place where people can gain practical insights for their personal and commercial or professional success. It will provide the perfect forum for sharing new economic development concepts such as export-oriented industrialization and each person's place in the matrix of opportunities. Seminars on the process of starting and managing an export business and how to get foreign customers for goods and services should be a core aspect of the information provided at the center. In effect, cultural centers can become a fulcrum for dissemination of positive indoctrination that will reshape how people view their country, the economic opportunities available to them and entrepreneurship.

Architectural rendering of cultural center in Shenzhen, China.

There is non-economic policy-specific acculturation that is addressable in the context and environment of cultural centers. People need to be taught to own their government and to monitor those who deign to represent their interest. It can be used to address what society needs to do to eradicate various ills and encumbrances to a country's success including the scourge of corruption. People can learn what each person in society can contribute to eradicating it by learning the process of monitoring people in their community and to report suspicious financial expenditures in real estate or other displays by people who are given authority in (the people's) government. It may also be used to teach against the destructive habit of conspicuous consumption by sharing the virtues of financial management and investing in today's windfall for the future. It will be useful in teaching about robust banking and savings culture. Smart countries should pursue a policy of encouraging citizens to save and incentivize savings with liberal interest rates. Countries should encourage and teach citizens to eschew conspicuous consumption for a robust culture of savings by providing liberal interest rate incentives. South Korea debuted interest savings rates of more than 15% to get the citizens to deposit their resources in the banking system. Similarly incentivizing citizens of African countries to build domestic capital is a good initiative. As one can see, there is a great deal that cultural centers in African countries can do in the communities in which they are operating. The cost of building cultural centers will eventually pay for themselves from revenues generated from the services described. However, the benefit of using the centers to build more cohesive societies is monetarily unquantifiable. Peace and harmony in society are priceless commodities.

Depending on each country, a rough estimate is one center per each 20,000 to 30,000 residents. Building the centers is an economic boost to the communities because of construction and associated services. If the plan is to make the center attractive to the residents of the communities, it will be vital to take that into consideration in designing the center and also deciding the amenities to provide. The examples of civic and cultural centers of Singapore should be instructive. The worst case scenario would be to have a center that people do not visit. The front end cost of developing attractive centers that people will visit is worth its weight in gold.

A Civil and Cultural Center Development in Singapore.

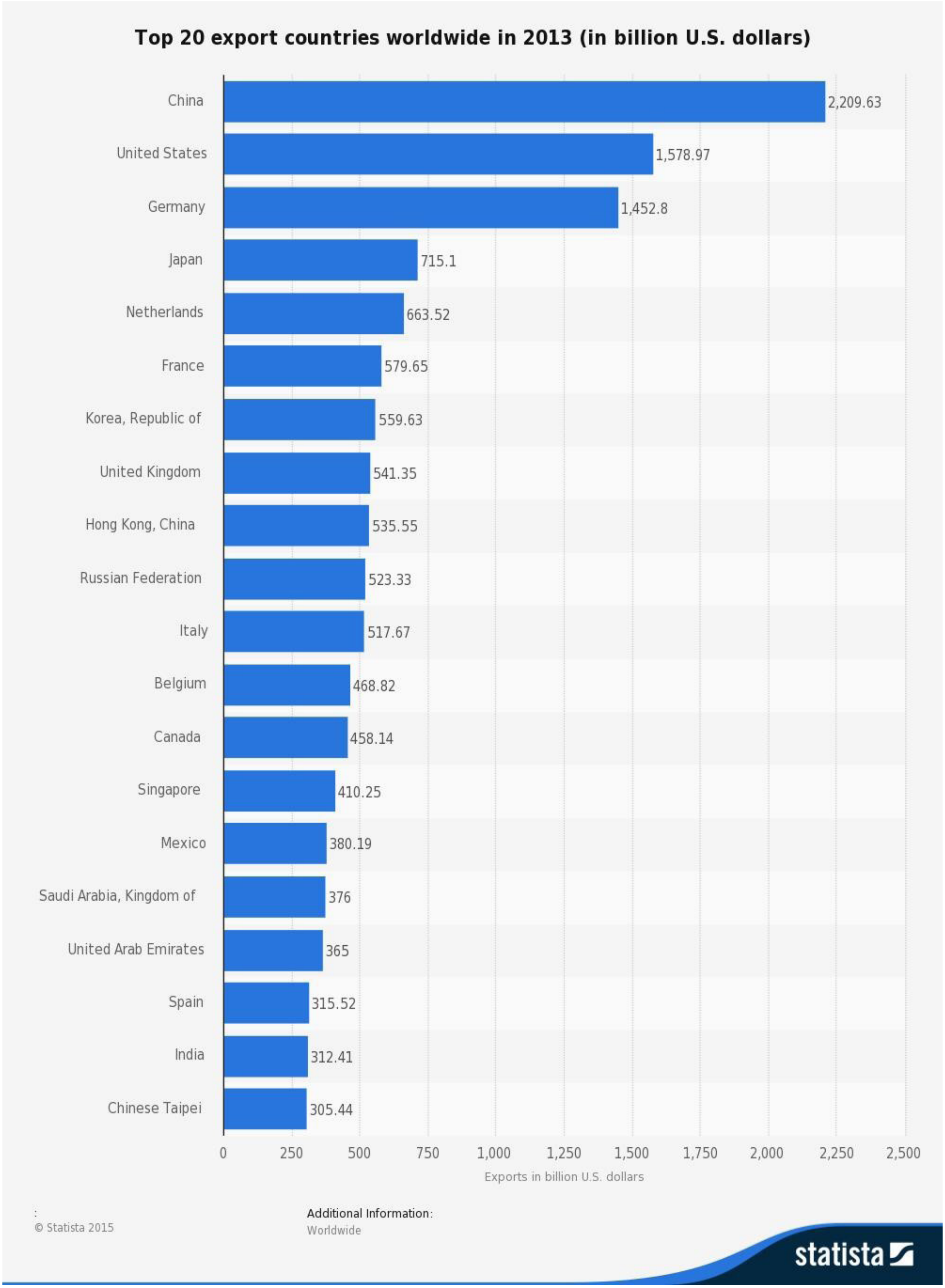
Can African Countries and People Compete in the Global Market?

Since I was a young teenager, I have heard that the reason Africans cannot do certain things is because we are not sophisticated enough to know how. That's more than 40 years ago. So my poser is when exactly will African people be able to do these things? The gravity of the poser has grown over the years as I have traveled to many countries and interacted with many peoples and their cultures. What I have learned since is that that premise is a fallacious argument that was used by former enslavers in the pre- and post-colonial era to keep Africans from having aspirations. First it was from having aspirations to self-rule or be independent and later, from aspirations of economic emancipation. In my book *Unleashed: A New Paradigm of African Trade with the World*, I describe how former colonial powers used subterfuge to perpetuate an idea of "empire by other means." Part of the machination was to give self-servicing advice which when accommodated and implemented attached many subservient strings to the newly independent country. ISI is one such string.

> "Since I was a teenager, I have heard that the **reason Africans cannot** do certain things is because we are **not sophisticated enough** to know how."

Companies in former colonial governments made a windfall in supplying so-called ISI industries. They have supplied the know-how and equipment to ISI model plants, and someone received a handsome commission for arranging the deals. The icing on the cake is that the home supplier of know-how retained a source of residual income that will continue to pay off very well into the future. The residual income is a perpetual agreement to supply partially-assembled goods to the ISI industry they helped to set up. It's a great deal all the way around for former colonial powers because the setup in effect maintains the concept of buying raw materials from the colonies and selling them finished goods. The pre-assembled and so-called raw materials for ISI industries is one step removed from the finished product. The Asians were much smarter than Africans about how to satisfy their economic interests and were able to see right through the detriments to their economy of the ISI model. That is why they (Asians) chose Export-Oriented Industrialization without support of the multilateral agencies, such as IMF and World Bank and by extrapolation; one can add their Western patron nations.

The economic advisers of these states were not against the countries succeeding. Rather, the problem was that they were not very familiar with the idea of export-oriented industrialization and would have preferred that the countries stuck to the neo-classical model of development that they are trained to sell. There are two schools of thought as to the reason for the lack of support. The first is that perhaps they have forgotten the formula that their ancestors deployed to achieve world domination. Lists of top 20 exporters in the world include most of the industrialized Western economies that are the most prosperous countries in the world. The foundation of the prosperity was established during the mercantile era by chartered companies whose export process funneled vast wealth to medieval European Empires of United Kingdom, France, Belgium, Netherlands, Portugal, Iberia, Greece, etc. The Asians have reversed that pattern and used the same (chartered company) mercantile principles in the modern era to create the successful Asian Tiger economies.


Top 20 export countries worldwide in 2013 (in billion U.S. dollars)
China 2,209.63
United States 1,578.97
Germany 1,452.8
Japan 715.1
Netherlands 663.52
France 579.65
Korea, Republic of 559.63
United Kingdom 541.35
Hong Kong, China 535.55
Russian Federation 523.33
Italy 517.67
Belgium 468.82
Canada 458.14
Singapore 410.25
Mexico 380.19
Saudi Arabia, Kingdom of 376
United Arab Emirates 365
Spain 315.52
India 312.41
Chinese Taipei 305.44
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Exports in billion U.S. dollars
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The second and more cynical perspective is that they had seen the success of Japan and wanted to retard the efforts of copycats. Whatever the reason for failing to lend support to the concept of export-oriented industrialization in the beginning, it is a fact that multilateral agencies were surprised by the success of the strategy. While they were expecting the countries to fail and come back to them for assistance, they were instead confronted by a phenomenon of overwhelming success and had no reaction. In fact, they still do not have a (constructive) rational reaction to the phenomenon.

Export-oriented industrialization was a hands-on management of the economy by the policy making and policy executing arms of the countries. Where intervention was necessary, they applied intervention. Some of the interventions included providing special incentives and loan terms for export companies; liberal tariffs for export goods and machinery and restrictive tariffs and disincentives for import-for-consumption goods. One country, South-Korea, took over the entire banking system in order to better coordinate resource flows to the right industrial sector and companies. Together these measures conflicted with the philosophical underpinnings of development economics of the day but were right for the countries.

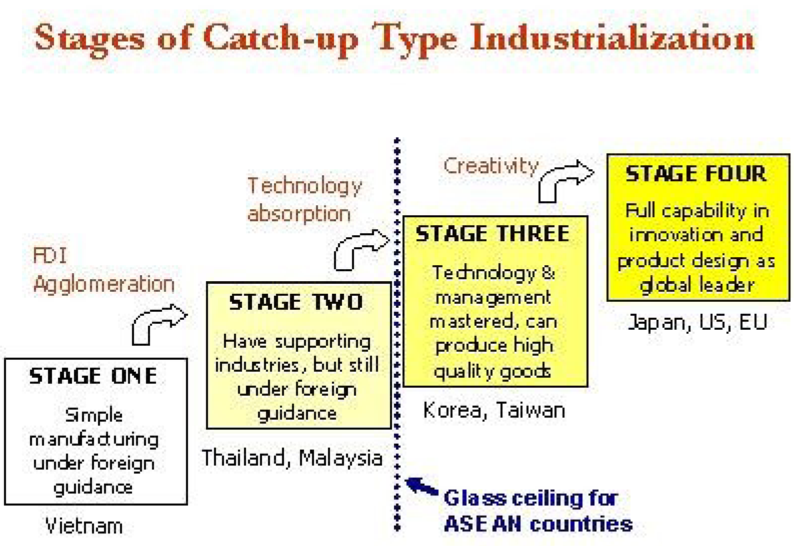
Like the Asian countries, African countries should set their course for development that addresses their present and future needs and wears well for them. It is reasonable to expect African leaders will come to the conclusion that the proper strategy is closer to the Asian model. It worked for the Asians and no evidence has shown that it will not work in African countries. It is currently also working well for Vietnam, which is a growing Tiger and increasingly is becoming a major exporter to African countries.

Consider the ramification of the statement. Vietnam was carpet bombed into the dark ages during the Vietnam War by U.S. B52s. They began the road back to civilization after the war in the 1980s twenty years after independence of many African nations. In the time since, they have learned how to export and are now major exporters to African countries. The example of Vietnam is why the chorus of voices railing against the ability of African nations to learn to export is wrong headed. The course to journey on is export-led industrialization using a stair-climber approach and process. If Hong Kong, Taiwan, South Korea and now, Vietnam can do it what stops Africans from learning how?

What is a Stair-Climber Approach?

Now to the stair-climber approach I described earlier. In my new book, *Unleashed: A New Paradigm of African Trade with the World* I have outlined South Korea›s and Taiwan›s deployment of the stair-climber approach. What the Asian countries realized at the beginning of their journey, was they had to build-up savings from the labor-intensive low-capital industrial phase, by manufacturing such goods as fashion apparel, hair extensions, fashion accessories, etc. They concentrated resources on exploiting opportunities in the vanity industry because the demand for items in this segment of commerce is huge and measures in the trillions of dollars in Western markets.

The Asians focused on a small number of products and developed industries and marketing to penetrate and capture markets in the West. In other words, in markets that uses hard currency as the medium of exchange. After establishing a position at this basic first stage, they progressed to the next stage. For some of the countries, the next stage was small electrical appliances. These include such products as, microwave ovens, coffee makers, electrical cords, hair dryers, and toasters, etc., to list just a few products in the category. After initial success, the countries began to expand into more competitive fields including home appliances, sophisticated fashion accessories, computer hardware, automotive accessories, etc. It also enabled the countries to map out specific areas of specialization and to invest in heavy industries which laid the basis for the final and ultimate goal of their stair-climber approach. That goal was to compete successfully in high-tech and capital-intensive manufacturing-for-exports arenas such as automobile manufacturing, steel, shipbuilding and many more. The countries have not only achieved it but have excelled.



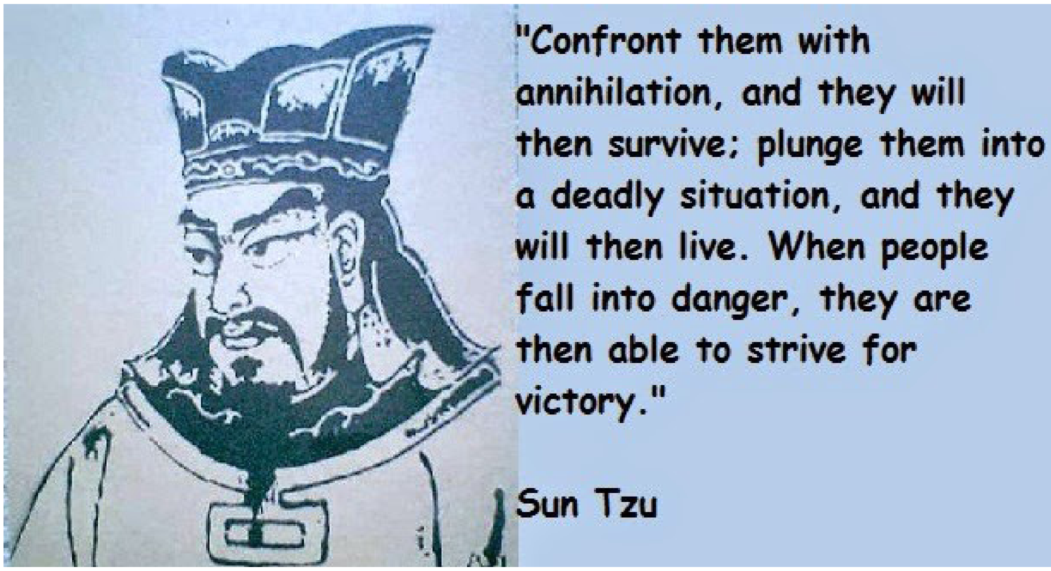
Model of Stair-Climber Approach to Export-Oriented Industrial Strategy (EOI).

In due course, agricultural was promoted, and agricultural exports joined the export agenda with great gusto. As we have seen, the stair-climber approach uses success gained from one position to move to the next level. Africa countries can do it. Countries like Nigeria, Morocco, Algeria, Egypt, South Africa, and Ghana as well Kenya, D.R Congo, Sudan, Uganda, Tanzania, and Zimbabwe, etc., will begin to flourish. A description of South Korea's approach is in the following excerpt. *«In July, 1965, 13 items were selected for Export Promotion that were considered to be superior in terms of the effects on the international division of labor, the balance of payments, and employment, as well as having spillover effects on other industries. The 13 items were silk, cotton, china, rubber goods, woolen goods, plywood, clothing, leatherwear, handicraft, miscellaneous goods, radio and electronic devices, fish and shellfish, and canned mushroom industry. For each of these* industries *a deputy director was tasked with providing financial and technical assistance. The policy proved very effective, producing 13 major export goods and promoting export-oriented industrialization in other industries."* Excerpt is from the book, Korea from despair to hope, Kim Chung-yum Chief of Staff of then-President Park Chung Hee.

To execute a stair-climber approach successfully, requires discipline. Everybody in the country has to buy-in and contribute in any capacity that they can to the overarching goal of export competiveness. It is the single most distinctive advantage that the Asians have demonstrated over African people, but it is not because they are necessarily more inclined to a disciplined life. Rather, it is because African people have not had the experience of been placed on "death's ground."

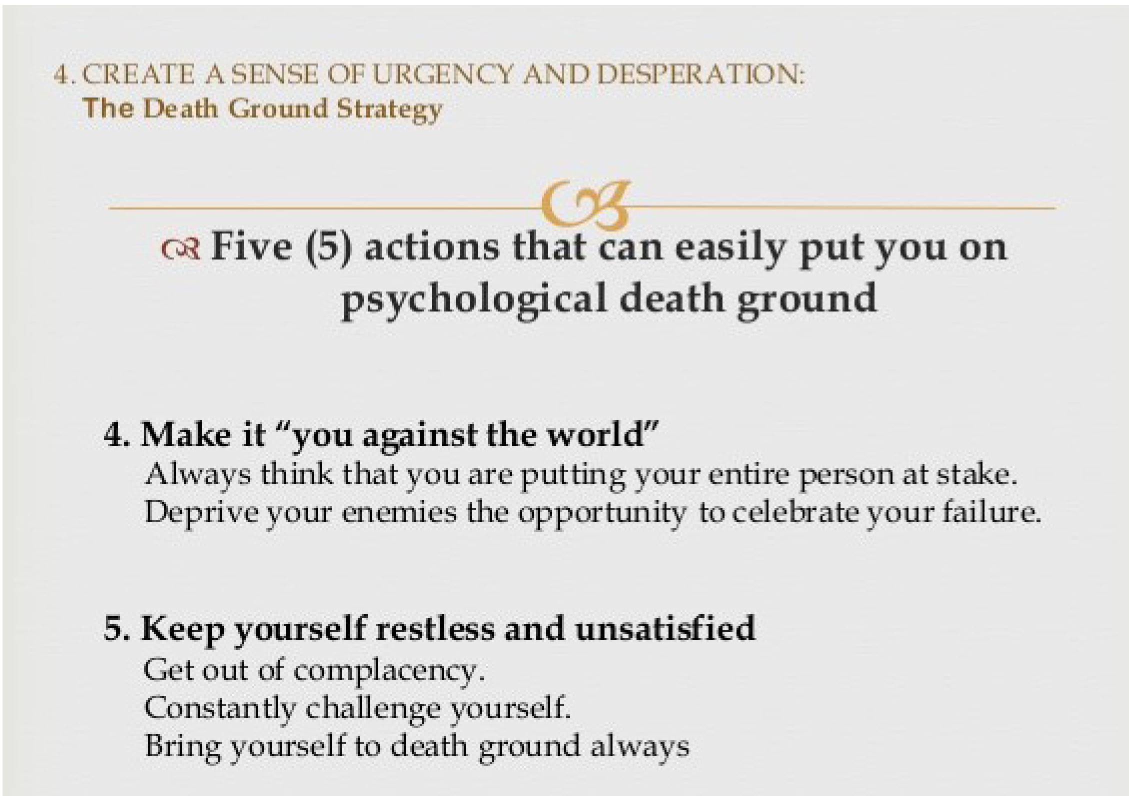
The Positive Desperation of Being on "Death Ground"

In *The Art of War*, Sun Tzu, a military genius who lived in 544 to 496 BCE, states that if you put an army on death's ground--a place from where there is no escape or retreat other than fighting their way out--each person will find within them resources that they did not realize they possessed. And in desperation will fight with braveness and strength of many men. With that motivation, a small, well-trained army of men fighting with braveness and determination will always overcome a greater army of multiple times its size, comprised of soldiers lacking such motivation. Sun Tzu's principles have been widely applied in business, political and military arenas in Asia and in the West. Many successful Western businesses use his principles to train their top management. Asian leaders put their people on "death ground" and made sure that they had to fight their way out of poverty and potential annihilation. For Taiwan, death ground was withdrawal of U.S. financial support and no prospect of survival unless new sources of replacement hard currency were found. The mortal threat was war with China, from which they had separated. In the case of South Korea, death ground involved a similar dynamic of withdrawal of United Nation's funding and an economy that was devastated by the Korean War. The mortal threat was war with Soviet-backed North Korea.



From The Art of War.

For African countries, there is no compelling mortal threat on the horizon. Although some will say that mortgaging the future by giving the "jewels' of your economy to the same culture of people who were at the Berlin Conference of 1884 to 1885 is putting the society in future peril. Because the indigenes will own very little of their economy and the country would be beholden to former enslavers. However, Africans can simulate the pressure and reality in the aura of "death ground." For them, "death ground" is to remove the umbilical cord of aid and hand holding by the world especially Western nations and recently, China. It would involve setting a specific date within which to achieve economic independence and self-sufficiency without requiring aid support, economic or otherwise, or grants. The underlying caveat is that society will be subjected to great sacrifice and hardship if they fail to achieve the goal. For African countries that would be their "death ground."



Applying "Death Ground" strategy to development of African Countries.

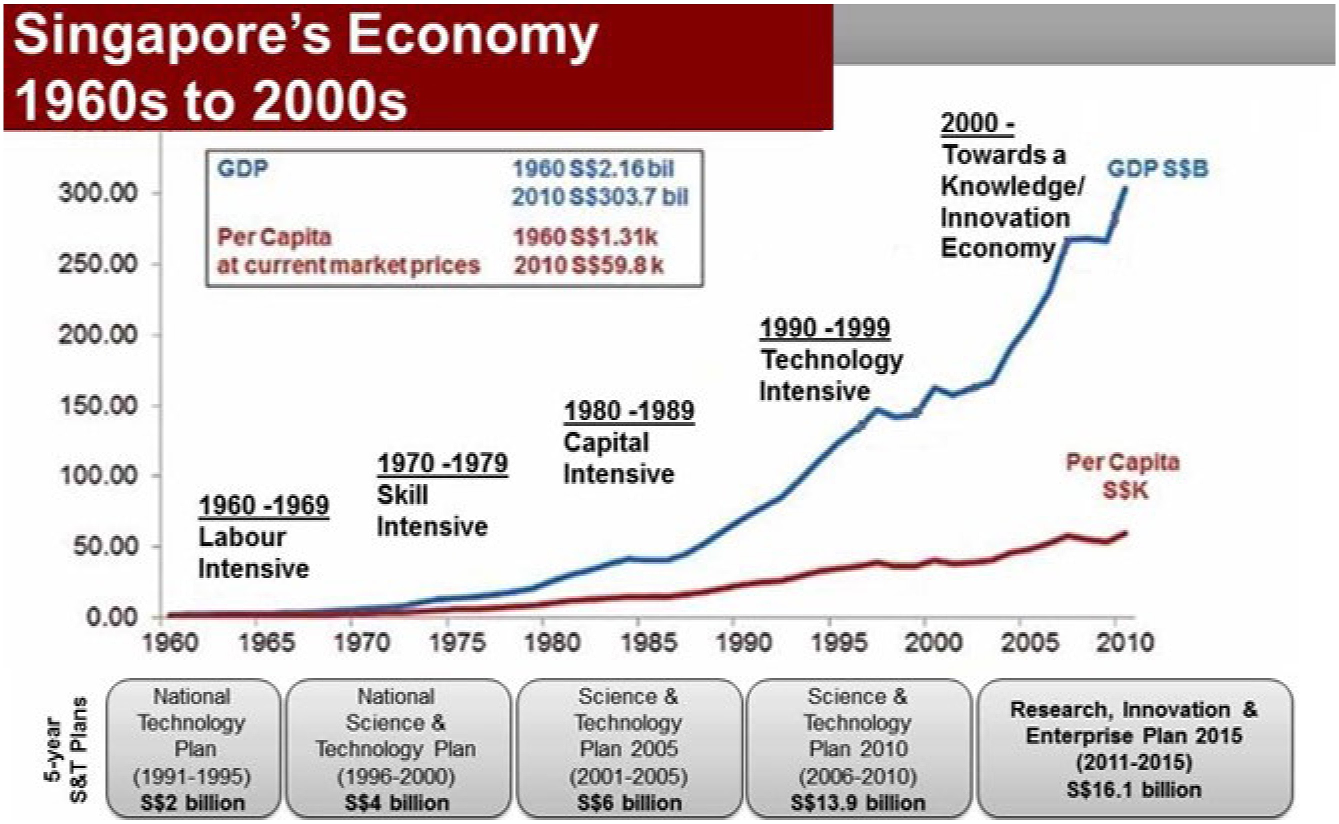
From Consumers to Producers

The human mind is an extraordinary commodity. It is capable of achieving tremendous feats. It was created to do this. Benjamin Disraeli, a Jew who was a commoner, who became Tory Prime Minister of then-anti-Semitic England, put it this way when he said, "Nothing can resist the human will that will state even its existence on its purpose." In other words, I will do it or else, die trying. And the last time I looked, Africans are humans and each African possesses a mind. The naysayers who are claiming that Africans cannot learn to do what Asians have done are false prophets. They deserve to be, in the immortal words of the late, Dr. Goh Keng Swee, "denounced" and shouted down. Dr. Swee was creator and inspiration for Jurong Industrial Estate now JTC Corporation, one of the most successful industrial enterprise promotion ventures in human history. In the beginning, Jurong Industrial Estate was known as “Goh’s folly” because it did not have many industrial customers, but he and Singapore’s EDB (Singapore’s Economic Development Board) persisted.

> **"People should not be unfamiliar with strategy,**
> **Those who understand it will survive,**
> **Those who do not understand it will perish"**
>
> **Sun Tzu's the Art of War**

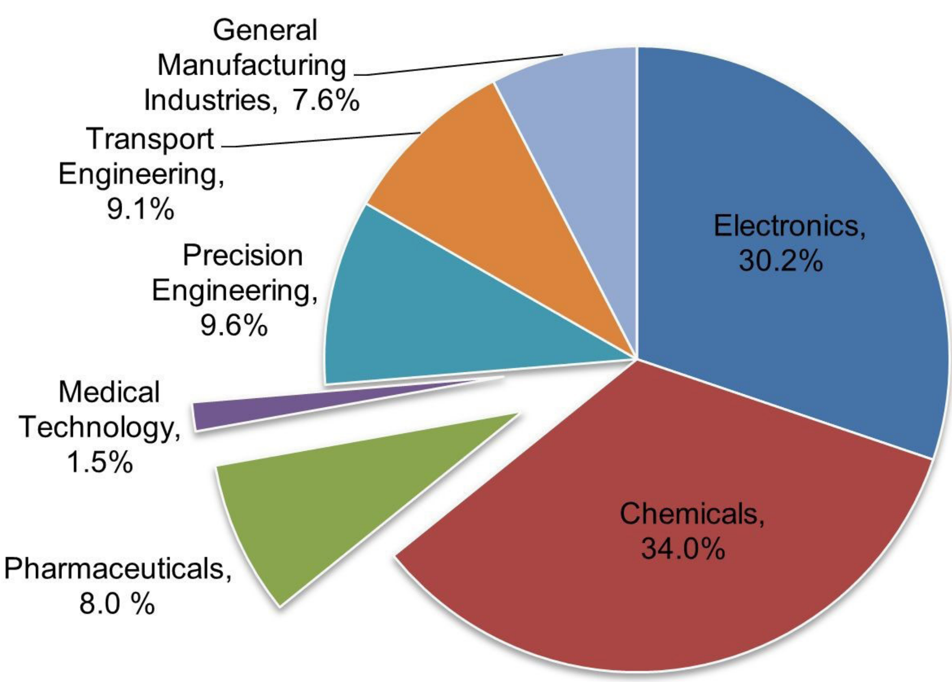
Before long, the “haters” and naysayers were firmly planted in the cheering section when Jurong Industrial Estate took off. That was more than 50 years ago, and it hasn’t skipped a beat. As the co-pilot of Singapore’s extraordinary climb to one of the richest nations in the world, Dr. Swee faced the same doubters. They comprised of former colonizers and homegrown sheep in wolf’s clothing, which were doing the bidding of former colonizers. The effort of the team of Singapore’s leaders, headed by First Prime-Minister, Lee Kuan Yew, the conductor of the orchestra, created the economic phenomenon of modern Singapore. It is a city-state of less than 6 million people that has a GDP of $250 billion and exported of $410 billion in goods and services in 2013. The highest exporter in Africa is Nigeria, which exports $91 billion and ranks 35th in the world and has a population of almost 180 million people. Singapore is the 14th largest exporter in the world and has the 3rd highest per capita income in the world at $78,000. To put it in perspective, Singapore, a city-state of 5 million people is more than 4x more proficient in exporting than the best exporting country in Africa. It speaks to the power of having a great economic development strategy.

I think that should give every reasonable person a bit of a pause and elicit the question, “why?” By the way, it is apropos to mention that the state of Singapore has *NO RAW MATERIALS* that they export. Just manufactured and processed goods and services. The city-state has the highest per capita rate of millionaires in the world by some lists and ranks in the top 3 on every list. It is illustrative of the success of Singapore›s founding fathers that per capita income in Singapore in 1961 was $450.00. At the same time that many African countries started their journey as independent nations. For the sake of comparison, Singapore went from per capita GDP of $450.00 in 1961 to $78,000.00 in 2013 while most African countries went from $200.00 to an average of about $4,500.00.



Manufacturing Output (By Industry)

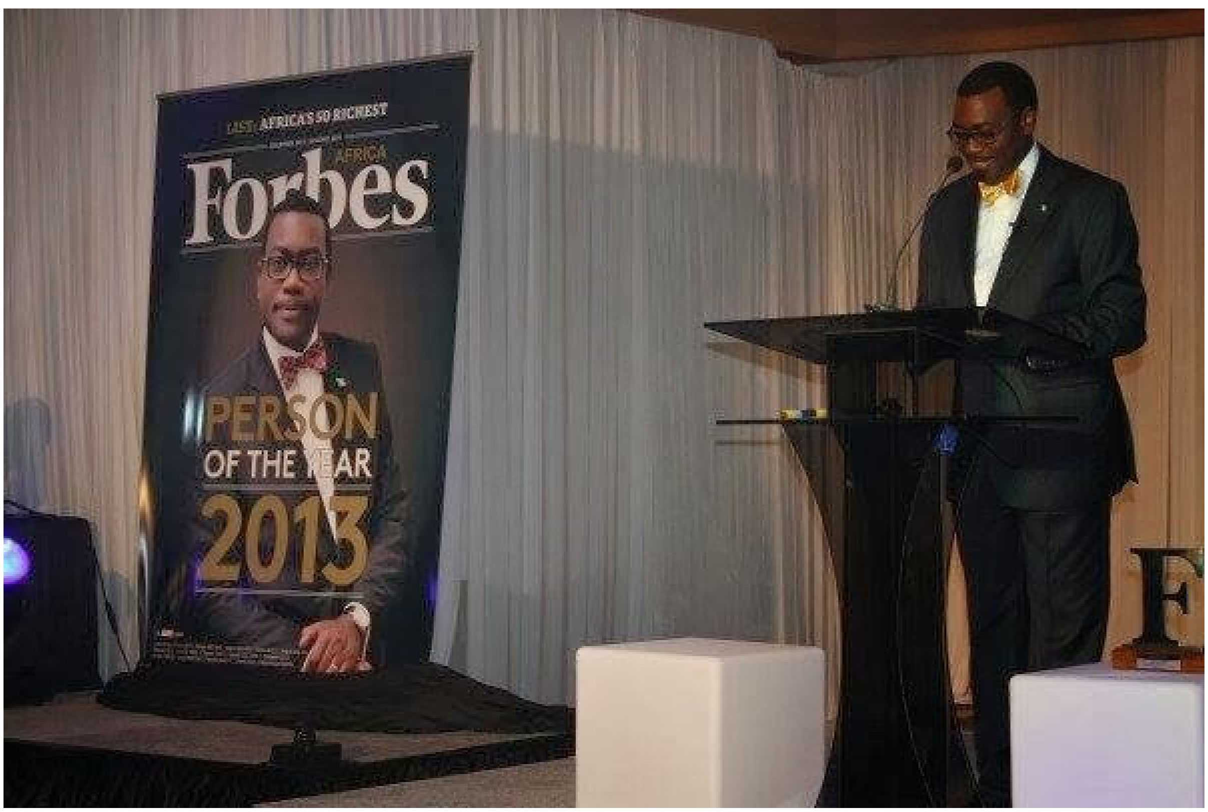
Total Output = S$285.5B (2011)



Source: Singapore Economic Development Board

Denouncing the False Prophets

The people who are declaring that Africans do not have the mental acuity to learn the art of selling to people in other countries are wrong. Dead wrong! It is insinuating to be more knowledgeable than the creator who has placed no limits on his creation. African people survived the middle passage during the slave trade. They survived the hellish existence of the barbaric institution of slavery. Many examples of extraordinary acts of bravery; scientific, philosophical and educational achievements populate the history of the African person. On the incontrovertible substance of the preceding, the only limit on the African is one placed on them by their environment. These would be the external and internal false prophets, self-imposition, and the wolves in sheep's clothing in positions of leadership who are stealing and robbing the (investment) seeds from their people. As for the latter, everything that holds African countries back is beneficial to them. It was set up by the colonizers to create the incentives to affect indirect rule. It was the (blood-money) benefits given in return for them doing the bidding of externalities, including working against the interest of their (own) people. The colonizers have left but by the concept of "empire by other means" their influence is still being felt. Through the actions and activities of their former colonial surrogates which has been passed down from one generation to the next. That is why their view is tainted and thoroughly discountable.



Strive Masiyiwa, Zimbabwean Billionaire, Chairman & Founder Econet Group.

Heikal Ahmed, Egyptian Billionaire, Chairman & Founder of Qualaa Holdings.

Tony Elumelu, Nigerian Billionaire and Chairman & Founder of Heirs Holding.

Instead of making the claim that African countries don't have people who can manage businesses that export goods and services to the world, the substantive issues should center on how to train prospective business owners and entrepreneurs to learn how to develop and manage export enterprises just like the Asians did in their accent. People always sidestep discussing where the Asians were when they started export-oriented industrialization. Virtually every country was in the same or worse situation than African countries in the 1960s. They also did not have gifted people who carried their countries by their (incomparable) business brilliance. Instead, they had very determined "plodders" dogged in the pursuit of success and willing to take the risks and buck the world community to force their way into global export trading arena. Their governments set the table by creating supportive structures through preferential financing, export performance incentives, and rewards, providing training and market research for prospective export markets. The entrepreneurs did the rest.

Towards the end of 2014, I read a piece in which a very high ranking central banker of an African country reasoned that his country has no other choice for development strategy other than ISI. In his stated view, they (the country and its people) are not ready or able to compete in the global market. Setting aside the defeatism of the perspective, “it is akin to proposing that one who was unknowingly ingesting poison should continue (even) after having recognized the toxicity. Because continuing to live requires that one has to expend the effort to manage the challenges of life,” author’s quote. For certain, the poison will bring about one’s demise but, on the other hand, one may succeed in managing the affairs of life and live prosperously. It is a defeatist proposition because it does not weigh the compatibility of the view with the aspiration of the people of the country.

The premise is faulty on two crucial points. (1) After 50 years of trying something (ISI) that has failed to yield expected results, any reasonable person will consider other options. (2) The idea that African people cannot learn export trade flies in the face of the reality of all the Africans who have studied in foreign countries and have returned to their home countries to start businesses. It ignores the existence of many large first-world-class indigenous African businesses. I have highlighted the CEO and Founder of three of such businesses. Finally, it ignores or discounts businesses in African countries that are owned by foreign nationals who are already familiar with the culture in export markets.

For Their Survival African Countries Must Develop a Value-Added Export Industry

The issue is not if African people can become successful exporters; rather it is one of the African governments awakening to the arena of exporting as the only path to successful economies for their countries. It is not a coincidence that the most affluent nations in the world are also among the top exporting nations. It shows there is a correlation between export prowess and economic success. The realization should motivate policy makers to embrace the opportunity and to marshal all the resources available within and without the country to embark on the road to export-oriented Industrial development. At the least, it requires that countries inform themselves about exporting. It necessitates developing the soft and hard skills necessary to effect the transition.

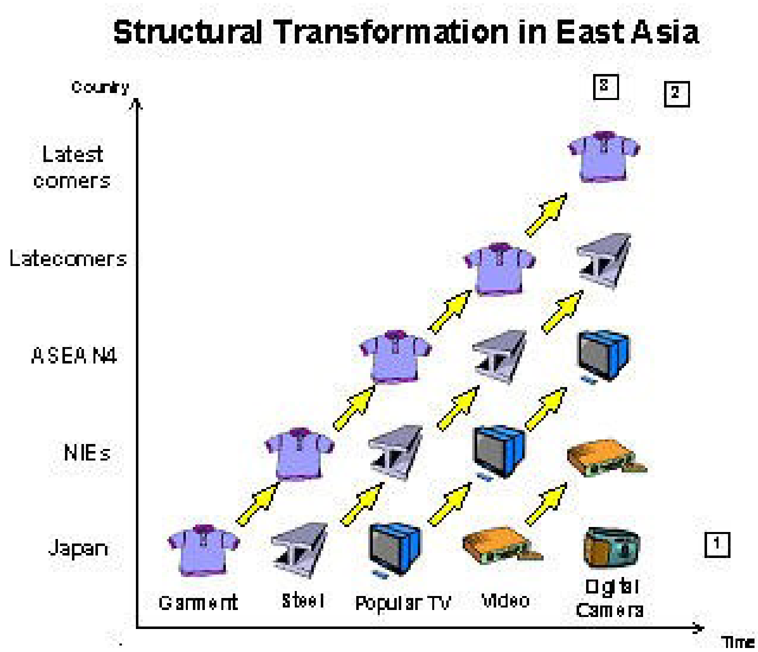


Illustration of low-tech, labor intensive to hi-tech, capital intensive ind. in Asian Export Strategy

"It is not a coincidence that the **most affluent** nations in the world are also among the **top exporting nations**. It shows there is a correlation between export **prowess** and economic **success**."

The most important resource available to exporting countries is their companies. They have to incentivize existing business to consider manufacturing for export. Exporters are not (divinely) "created," but rather developed through a structured process of coaching, nurturing and empowerment. It is the duty of government to create a program to teach their people the art of exporting and with time, industries manufacturing for export will dot the landscape. An opportunity to own and operate a profitable business whose clients are in hard currency markets and who pays in hard currency is enticing to people all over the world in rich and poor countries, including Africans. The opportunity is one that many African entrepreneurs and business owners will find sufficiently appealing that they will want to give it a try.

Setting the Table for an Export-Oriented Culture

Society has to be trained and indoctrinated because a society that imports 80% or more of what it consumes is a consuming society. Consuming societies usually have a large percentage of people with high net worth and a vast jobs engine that provides good income for a large middle-class. Only countries with very successful economies can boast of such profile. A poor country that is a consuming society is doomed (economically) because a situation where a poor country is supporting jobs in more affluent countries is untenable, in the long run. It is the assurance of impending (economic) doomsday because the model is hopelessly flawed. Unfortunately, it is the model most African countries are operating today. The objective of every African country should be to transition from a consumer to a producer society. To transform a country from a consumer to a producer requires changing the mindset of the people. A powerful communications program that will reach everyone in society should drive the acculturation. The suggestions for a cultural center would be invaluable for engineering the transformation.

KOTRA's Chicago, Illinois Office

Organizational Structure for an Export Oriented Culture

A key component of an export-oriented industrialization strategy is an administrative and logistical infrastructure that will execute the strategy. There are two complimentary organizations. Most countries already have them or something akin to them. The first is an overall coordinator of the industrialization strategy. In Singapore, it was the Economic Development Board. The responsibility of this body encompasses the overall management of the country's industrial economy including the export-oriented industrialization.

The second organization is the Export Marketing body. Japan created the original template and they called it Japan External Trade Organization or JETRO for short. The Koreans copied the model and named the organization, Korean Trade & Investment Agency or KOTRA. This body should be responsible for coordinating all aspects of the export marketing program of the country. The crux of the export marketing body's duties is to ensure deployment of relevant policies for export competitiveness. It would be in-charge of establishing international outposts that will act as a two-way funnel for inquiries from designated markets. Developing and executing a marketing plan to promote the country's exports and ensuring that inquiries are forwarded to the respective companies promptly. In my book, *Unleashed: A New Paradigm of African Trade with the World,* I have outlined the steps of building an infrastructure to support an export-oriented culture in any country.

As described in suggestions for a cultural center, a mass information dissemination process is necessary to gain support of citizens. It would be expedient for the economic development board (the coordinator of industrialization policy) and the export marketing body to jointly execute it. Frequent seminars should be part of the arsenal. In my book, *Unleashed: A New Paradigm of African Trade with the World*, I have outlined a framework for such seminars. In this scenario, it behooves government to educate its citizens about how to export but most importantly, to recruit new entrepreneurs and existing businesses to enter the sector. A high volume of interest and involvement by existing businesses and entrepreneurs should be the goal. The achievement of which would be propitious for the program. The more people involved, the more will be the competition to provide services that cater to the sector. As a potential positive by-product, high volume of interest would also improve chances for tangential exporters to mushroom.

Team Export

As was the case in the successful export-industrialization drive by the Asian Tigers, every part of the economy should be marshaled to aid in the process. Countries that have established capital markets should use the markets to drive private resources to the sector. The Asian Tigers used "outside the box" thinking because a lot of what they did, aside from a generic pattern from a trail-blazer like Japan, had no direct precedence. And unlike the Asian Tigers, the Japanese came to the process with an established industrial capacity. The Japanese had heavy industries that manufactured aircraft carriers and planes during the lead up to WWII. So the comparison to the Tigers is not precise even though they learned from Japan.

If the matter has the proper level of priority and national commitment, the head of state would take personal responsibility for ensuring that the program achieved its goals. That is the example set by the heads of state of the Asian Tigers. They were engaged and committed. One of the most effective ways in which then-President Park Chung Hee of South Korea managed the process was through monthly meetings involving the heads of all the relevant organizations and exporting companies. This meeting was the ultimate form of accountability. It was a forum for review of performance and participants received praised when the report reflected a good performance month and tongue-lashing when it was lagging. The best exporter of the month was awarded a trophy and heavily publicized in the nation's media.

Exporting Builds a Competitive Culture and Society

A successful export economy depends on developing efficiencies at all levels of activities that impact the movement of goods overseas. It starts with financial resources being available to the sector including a factoring industry. Factoring enables exporters to have access to cash before the payments for exported goods have been received. It is a critical process of cash flow management for exporters. Factors are independent trade finance operations. Banks can also have a factoring arm that functions as a line of credit for exporters enabling cash-flow to mitigate normal gestation period for consummating export payments.

Exporting requires efficient public sector interactions because transactions are highly time sensitive. Every exit and entry port system has to be made to be time sensitive in processing goods in and out of the system. Another aspect of building competitiveness is creating a logistical system for moving goods to customers overseas. Including decentralizing where goods are processed for export and ensuring that there is vigorous competition in the transport sector so that prices will be competitive with other exporting nations. Because rail transport is still in its infancy, every opportunity has to be explored to reduce operating costs for long haulers to make transport of goods within each country competitive with global counterparts.

The key mindset for executing a successful export strategy is awareness of the reality that the competition for each nation is from other nations who are also keen to maintain or expand the market share for their products. As a result, the logistical support structure for an export economy has to be cognizant of the importance of competing with the costs in other exporting nations. The competition is not on a line item basis but on a total cost of non-manufacturing or processing costs associated with getting a unit (weight/size) of product to its international destination.

All-of-the-Above Export Strategy

In the example of Singapore, their extraordinary success came through operating one of the three possible strategies for export-oriented industrialization. They needed to create several million jobs for their people. To achieve the goal, they developed a matrix of attributes that U.S companies found attractive. (1) They created a labor environment that pacified the then-radical and combustible labor movement. It included a labor law and a housing and transportation plan for society that also benefited the workforce. (2) They developed industrial shells in Jurong Industrial Estate complete with supporting water, power, and other amenities. (3) Investing in some of the companies as a good faith gesture that they (Singapore) believe in their country. (4) Establishing favorable exchange rate policies in support of exporting.

U.S. and other international companies bought the idea and located plants in Singapore to manufacture goods for distribution outside Singapore. U.S. companies have invested about $195 billion in the little city-state. General Electric (GE), one of the greatest business organizations in the history of the world, has established several manufacturing facilities in Singapore. It is the ultimate validation of the strategy. An interesting piece of insight is that once a major company makes the move; there will be a stampede of others to follow the example, and that is what happened in Singapore. Singapore has since added tourism (including medical tourism), educational services, banking and financial services to the pillars of its arsenal of export-oriented economic growth engine.

Conversion, Labor-driven, General Exports and Tourism Industries

African countries can use this strategy in conjunction with others in an all-encompassing export-oriented industrialization strategy. As was mentioned earlier, the others are conversion of raw materials into finished goods for export and general export manufacturing using the stair-climber approach.

Conversion Strategy: Conversion industries are the low hanging fruit for African countries. It means converting agricultural and mineral commodities to finished goods and exporting the finished goods. They have a transactional profile that lends itself to non-traditional self-funding arrangements using compensatory trade techniques. The range of industries covers most of the commodities African countries sell to the world.

Labor Strategy: Labor-based exports are a trickier arena for African countries because it requires attracting companies to a country to manufacture goods for export to its customers in its home market and around the world. Like the example of Singapore, it requires a sales package that will compel companies to change their existing business model. Changing a business model is not an easy task for companies. If it fails, the CEO and key managers will likely be jettisoned by the board. If it succeeds, they will be hailed as heroes, so it is high risk and high reward scenario for management. Improved profitability is the *only* measure of success for companies. They have to be convinced beyond the shadow of a doubt that such a move will improve their (operating) margin. Notwithstanding the complexity, it is a good prospect for countries that can create and execute a successful strategy. For such countries, it is an excellent opportunity to create millions of jobs in a short time span because the most attractive of the matrix of attributes of countries is the opportunity for companies to reduce labor cost.

General Export Strategy: The best approach for a new exporting country is to start at the bottom and use the stair climber approach favored by other successful exporting countries. The head of the export marketing company (the export czar) in conjunction with the Economic Development unit would have the responsibility of coming up with the initial list of products. The selected products would be ones that have been researched and determined to have tangible market penetration opportunity for the country's exporters. In my book, *Unleashed: A New Paradigm of African Trade with the World,* I have outlined a plan for market research and penetration targeting hard currency markets.

> "The **key mindset** for executing a successful export strategy is **awareness** of the reality that the **competition** for each nation is from other nations who are also **keen to maintain or expand the market** share for their products."

Tourism as an Export Strategy: Tourism development is a very important export industry. As Singapore was able to do very successfully, African countries should consider weaving a vigorous campaign for tourist dollars into their industrial development strategy. Tourism is more than people visiting a country. When acquisition of tourists is with definite intentions, it becomes a branding and global positioning activity. African countries proclaim that they want visitors but in reality their actions, with the exception of a very few, reflects a wish rather than an intentional purpose. It lacks "purposeful" desire backed by appropriate resources and plans.

Visitors that Become Human Billboards

People who visit a country and return with a positive account of their visit are akin to "human billboards" promoting the virtues of the country. It leads to more visits and, tangentially, the visits help to build awareness about business opportunities in the country. Building awareness about business opportunities leads to investments and in turn, to more visits. As a result of a well-orchestrated strategy, the intentionality of purpose to attract visitors to the country will yield a critical mass of positive attributes. It begins with happy, satisfied visitors and evolves into a self-reinforcing feedback loop of positive developments. Not only in the tourism and hospitality sector but the impact is throughout the entire economy.

Drivers of Export-Oriented Industrialization

Exporting will be driven by businesses who want to diversify because the opportunity is compelling. By ISI companies who branch into export ventures to ensure that they have an independent source of hard currency for imports and by entrepreneurs who see an opportunity to start an export venture. The incentives and financial support that government creates is the triggering mechanism that will attract them to the sector. A clear path to profitability with muted risks is the best argument. The role of government, short of guaranteeing success, is to deliver the opportunity to all of society. Export-oriented Industrialization is the way forward for African countries. It will enable countries to escape from the crushing burden of a unitary plan of depending on commodity exports that the colonial governments placed on African countries. It will also facilitate integration into the global economy on a broader level and by virtue of it, help African countries to grow.

AFRICAN TRADE GROUP is an Africa-Centric company that is focused on African trade. We specialize in helping clients in African countries to develop industrial projects. We also supply commodities and manufactured goods to and from the global market to African countries.

OUR VISION

AFRICAN TRADE GROUP will be a critical component of African countries ascendancy in global commerce through industrial exports. In addition to fostering the rise of export industries in every African country, AFRICAN TRADE GROUP aspires to become the premier company in the trading of commodities and manufactured goods of African origin. AFRICAN TRADE GROUP will channel trade engineering expertise to facilitate vast expansion of intra-Africa trade. By 2016, AFRICAN TRADE GROUP will have a company owned and managed operation center in every African country and territory.

OUR MANDATE

AFRICAN TRADE GROUP is committed to using our trade engineering expertise to catalyzeregional and intra-African trade and industrialization of African countries.We also cater to companies around the world who are interested in the products and services we offer. Our objective is to be the preferred partner for traders, manufacturers, producers and purchasers of commodities (ferrous as well as non-ferrous) in every part of the world. We will achieve this objective through developing and sustaining long term business partners and relationships in every part of the world using our commitment to delivering exceptional service, cost of goods factor and by adding value at every step of the supply chainfor our valued clients.