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Africa needs an active industrial policy to sustain its growth

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African countries will be better off with a more activist development strategy than with the failed Washington orthodoxy

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'Industrial policy used to be a four-letter word at the World Bank," observed Joseph Stiglitz, the Nobel economics laureate, in a recent conference on industrial policy in Africa that I attended. He should know. He used be the chief economist of the World Bank, albeit a very unorthodox one.

The statement itself, if a little exaggerated, was nothing extraordinary, as the World Bank's extreme aversion to industrial policy had been well known. What was extraordinary, however, was where the statement was made - a conference that was partly sponsored by the World Bank.

So, the conference was a bit like a Vatican theological colloquium trying to positively re-evaluate Protestantism.

Extraordinary it may sound, the conference is only one of many signs that signify the recent shifts in the debate on development policy, especially in relation to Africa.

In the 1980s, in their desperate attempts to survive the third-world debt crisis of 1982, most African countries became heavily indebted to the World Bank and its sister organisation, the International Monetary Fund. Their loans came with a lot of strings attached. The borrower countries were made to cut government spending, privatise their state-owned enterprises, deregulate their financial markets, and liberalise international trade and foreign investment.

The reasoning behind these policies - often called the Washington consensus policies - was that big and intrusive governments were the main causes of poor economic performances of the African countries. Once you lift the "dead hand" of the state, it was expected, private sector entrepreneurs would burst out and revive their economies.

The expectation was, to put it mildly, unmet. In most African countries, there was no private sector that could rush in to fill the vacuum left behind by the shrinking state. Even in countries where the private sector was reasonably developed, it could not thrive in an environment of vastly heightened import competition and collapsing public investments in infrastructure, education and skills.

As a result, between 1980 and 2000, per capita income in sub-Saharan Africa fell by 9%. This was a highly embarrassing record for the advocates of the Washington consensus, as the interventionist policies - whose mistakes their policies were supposed to be correcting - had raised it by 37% in the preceding two decades.

Fortunately, economic growth has come back to Africa in the new century, making the 2000s the region's fastest-growing decade ever. However, this has not come about because the Washington policies suddenly started working, as admitted by even some of the World Bank staff at the conference. It has been mainly driven by the primary commodity price boom, fuelled by the rapid growth in resource-hungry China (with the end of civil war in some countries lending a helping hand).

Moreover, the growth recovery does not mean that the African countries are out of the woods. Even after a decade of unprecedented expansion, per capita income in the region today is barely 10% higher than in 1980, given the economic devastation wreaked by the Washington consensus policies in the 1980s and the 1990s.

More important, there is a serious question about the sustainability of recent growth on the continent. Leaving things to the market, following the Washington orthodoxy, few African countries have been able to convert their recent resource bonanza into a more sustainable industrial base. Worryingly, over the past decade many African countries have increased, rather than reduced, their reliance on primary commodities, whose notoriously large price fluctuations make sustained growth difficult.

Hence the growing interest among the African countries in industrial development through more active industrial policy - similar to what we saw in the east Asian "miracle" economies, like Japan and Korea, between the 1950s and the 1980s.

This interest is even further encouraged by the fact that the main source of Africa's recent economic recovery itself - the Chinese economic boom - has been generated by such policy. Moreover, there is an increasing recognition that, contrary to the prevailing myth, most western countries, including Britain and the United States, aggressively used industrial policy in the earlier stages of their developments.

There are also changes in global politics that encourage the abandonment of the Washington orthodoxy. For many African countries, China is now a major - and often the biggest - trading partner and aid donor. This means that deviation from the Washington consensus policies is less costly in terms of aid flows and trade preferences.

Moreover, in the past several years, many other developing countries - especially the Latin American ones - have also moved away from the Washington orthodoxy, providing a certain degree of "safety in numbers" for countries that want to defy the orthodoxy. Last but not least, the bankruptcy of free-market policies in the core capitalist countries revealed by the 2008 global financial crisis is making it more difficult for local free-market economists to defend the Washington orthodoxy.

So, everything points to a more active use of industrial policy in the African countries over the coming years. No doubt some of them will make mistakes and mess things up in the process, but to judge by past records, most countries will be better off in the long run with a more activist development strategy than with the bankrupt Washington orthodoxy. And what if some of them get it wrong? The right to make mistakes - the right to be wrong - is the true sign of autonomy, which most African countries have been denied for far too long.