Finance-led growth in Africa: Booms and missing links

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Abstract

The economic growth of African countries turned from resource-led to service-led since the 2010s. However, in some countries, the majority of the service sector growth is driven by bloated financial activities. Despite the rapid increase in numbers of financial institutions and the share of value-added by the service sector in African economies, the domestic savings are not intermediated into the domestic investment, especially due to the absence of long-term credit. De-industrialization, coupled with financialization in African countries, is an unprecedented situation if this style of economic growth continues. This paper discusses the relationship between land ownership, financial system, and industrialization, and suggest the possibilities and challenges faced by the African service-led economies.

Keywords: Financialization, Service-led growth, De-industrialization, Long-term credit, Land property rights

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1. Introduction

Economies in Sub-Saharan Africa had experienced relatively stable growth in the 2000s when the international commodity prices were buoyant. However, as the world economy slows down, some counties started to face the deterioration of international balance, budget deficit, and accumulation of debt. In the meantime, the economic structure of the African countries started to change. UNCTAD (2013), for example, reports that the intra-investment among the African countries are increasingly in the service sector, especially in finance and transport (UNCTAD 2013:41). This is indeed a remarkable change given the fact that the economies have for long depended on the primary commodity exports.

On the other hand, Rodrik (2016) argues that the developing countries, especially the Sub-Saharan African economies[1], are experiencing a 'premature de-industrialization.' The notion of de-industrialization is not new. However, the existing discourses of 'post-industrial society' and 'de-industrialization' need to be clearly distinguished from the de-industrialization of African countries. At the same time, the de-industrialization in African countries is coupled with financialization. Again, this 'financialization' needs to be distinguished from the existing 'financialization' arguments among the industrial countries.

There are two main purposes of this essay. The first purpose is to review the structural shift of African economies by juxtaposing it to the transformation of global economies, especially by focusing on the linkage between land property rights and industrialization. The second purpose is to discuss the possibility and challenges of continuous and stable growth of service-led growth of African economies. The next section briefly summarizes the existing discourses of de-industrialization and financialization and reviews the transition of African economies. Section 3 discusses the linkage between the de-industrialization and financialization in Africa, whereby a focus is set on the ambiguity of land property rights and the availability of long-term credit. The final section discusses the possibility and the limit of finance-led growth for African countries.

2. De-industrialization and financialization

2.1. Conventional discussion

The international financial crisis symbolized by the collapse of the Lehman Brothers in 2008, has strengthened the impression of the predominance and overdominance of financial activities in the economies. As Petty-Clark's rule suggests, human economic activities in the developed economies have gradually shifted from the primary industries such as ag-

[1] In this paper, 'Africa' implies Sub-Saharan Africa and will be used interchangeably.

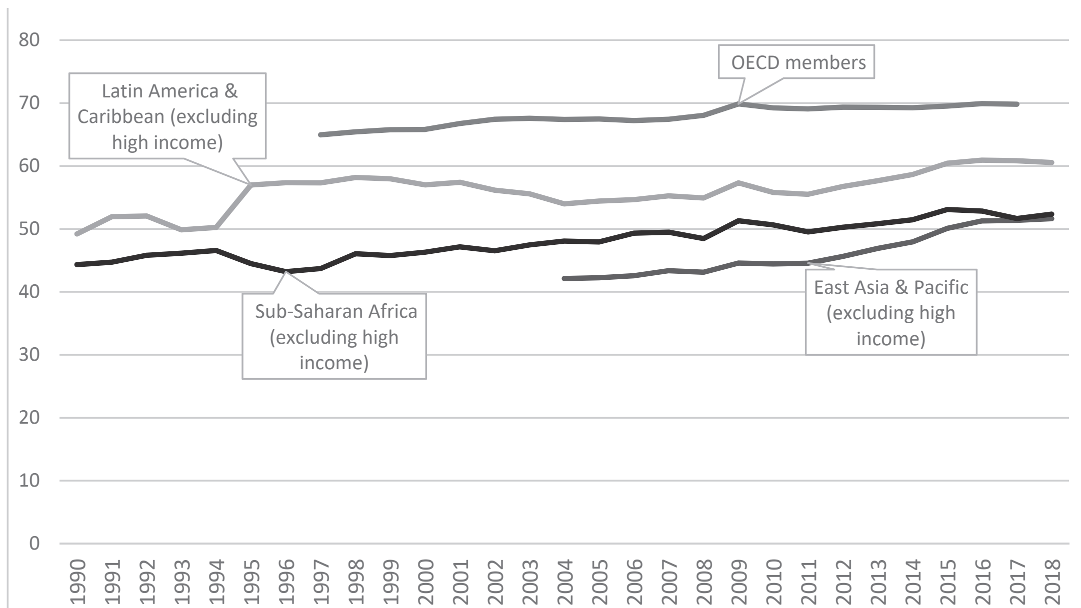

Figure 1. Value-added by the Service sector (% of GDP), selected groups
Source: *World Development Indicators 2019*.

riculture to manufacturing and then to service. As Figure 1 shows, however, the recent increase of the share of value-added by the service sector in GDP is a universal phenomenon, not only in the developed economies.

Since the Industrial Revolution started in Britain, until the high economic growth period in the post-WWII, the manufacturing or 'industry' has been the main engine of the growth in the developed economies. 'Industrialization' was also a synonym to 'economic development' for the developing economies in the post-war period. In 1973, Daniel Bell discussed the coming of post-industrial society by focusing on the transformation of society in developed countries (Bell 1973). Rodrik (2016) points out that in the 1950s the employment in the manufacturing sector already started to decline in the United States, and the decline in manufacturing employment and also its output share were more rapid in the United Kingdom. Related to this point, Rowthorn and Ramaswamy (1999) also discuss the decline in employment in the manufacturing sector in the developed economies. While the increasing international linkage and globalization of the value chain seem to contribute to the de-industrialization of employment in advanced economies, they argue that the shift of production site explains only a part of the decline in manufacturing employment. On the other hand, Palma (2005) draws on Rowthorn and Ramswamy (1999) and discusses the rapid decreases in employment in the manufacturing sector in the various economies in the world. He summarizes the existing hypothesis for the reasons for de-industrialization, including the one which attributes the productivity growth in the manufacturing sector, which is supported by labor-saving technologies, and also added one based on the Dutch

disease explanation as another trigger of de-industrialization.

While most of the de-industrialization argument is based on the advanced countries, Rodrik (2016) argues that developing economies are facing de-industrialization, and the peak of the manufacturing growth is even lower than the level in which the developed economies experienced. He especially points to the fact that most of the African countries started to de-industrialize before they achieve any form of development in the manufacturing industry, thus 'premature de-industrialization.'

The African premature de-industrialization argument by Rodrik (2016) is consistent with the macroeconomic transition of the African countries to a 'service-led growth.' The service sector includes various sub-industries, but for the African economies, the breakdown of the service sector is especially transportation, low-skilled services, and financial services. The rise of transportation service can be seen as a reflection of infrastructure development and increasing transactions of goods and people across the continent. However, the growth of the service sector cannot be simply celebrated as the 'reap-flogging' development patterns of the African countries. For example, a case study of Ghana below will show that the increase in financial institutions contributed to the current growth, but the financial service is not linked to long-term investment. In this regard, the recent transition can be put as a specific form of African financialization, which needs to be clearly distinguished from the conventional arguments of the financialization of the economy in the developed economies.

Braudel (1979) and Arrighi (1994) described and discussed how the global economy became dominated by capitalism and industrialization. That process and the cycle of capital accumulation and industrialization paralleled to globalization. However, as Epstein (2005) summarizes, the recent financialization discourse includes a diverse argument, aside from the discussions in terms of neoliberalism, neoclassical economics, and capitalism. For example, Dore (2000) discuss the financialization based on the study of Japanese corporations, by focusing on stock ownership and corporate governance. He points out the difference between the Anglo-Saxon type capitalism in which finance and capital (and stockholders as their owners) have more importance and the Japanese and German type of capitalism, which put more value on the welfare of employers. On the other hand, Krippner (2005) discusses the financialization of the U.S. Economy in terms of employment by sectors, the sector's contribution to GDP, and the profit produced by the industry. She argues that even the manufacturing enterprises became to depend on financial income source, and

also suggests the influences of the spatial restructuring of manufacturing production and relocation of manufacturing activities. Related to these studies, Weller and O'Neill (2014) discuss the shift of the Australian economy to the one which no longer 'make things.' As Australia has a relatively large share of mining exports, the process of de-industrialization has been understood as a sort of Dutch disease, but the authors suggest a greater structural change into financialization. The dominance of the service sector in the Australian economy today gives an interesting reference for the African economies, which are dependent on natural resource export.

The financialization in the developed economies is closely related to the industrialization and de-industrialization process, and few countries have leaped from a primary economy to a financialized economy except for small countries that specialize in being financial hubs. However, as discussed below, the current African economies seem to be transforming in an unprecedented way.

2.2. Service-led growth in Sub-Saharan Africa

The *World Investment Report 2014* points out the increase in the greenfield investment in the service sector to African countries (UNCTAD 2014a:10). Investment in the service sector as a value share of announced greenfield projects was 63% in 2013. This was a remarkable change, given the fact that 54% of foreign direct investment (FDI) to Africa was in the primary sector in 2004. On the other hand, the *Economic Development in Africa Report 2014* points out that service sector share in GDP and the sector's growth rate surpasses other sectors in Africa, and suggests that this service-led African growth should be problematic given the fact that service industry should not be important in the elementary phase of economic development. Thus the growth may not be stable (UNCTAD 2014b: 15). The report also suggests that the majority of the activities in the service sector are the traditional, low-skilled ones. As Figure 1 shows, the service sector share in the economy surpasses 50% in African countries in 2018. East Asian and Pacific countries have almost the same share of the service sector as Sub-Saharan Africa in 2018, though the share has been even lower than the African countries. While the detailed breakdown of the service sector should widely differ across the groups, the financial sector shares the majority. However, it is worth noting that the scale of the service sector in an economy does not necessarily reflect the degree of financial deepening. For example, Figure 2 shows the size of domestic finance. It suggests that domestic financial service is not much linked to the other activities within the African countries, and the situation has not improved. On

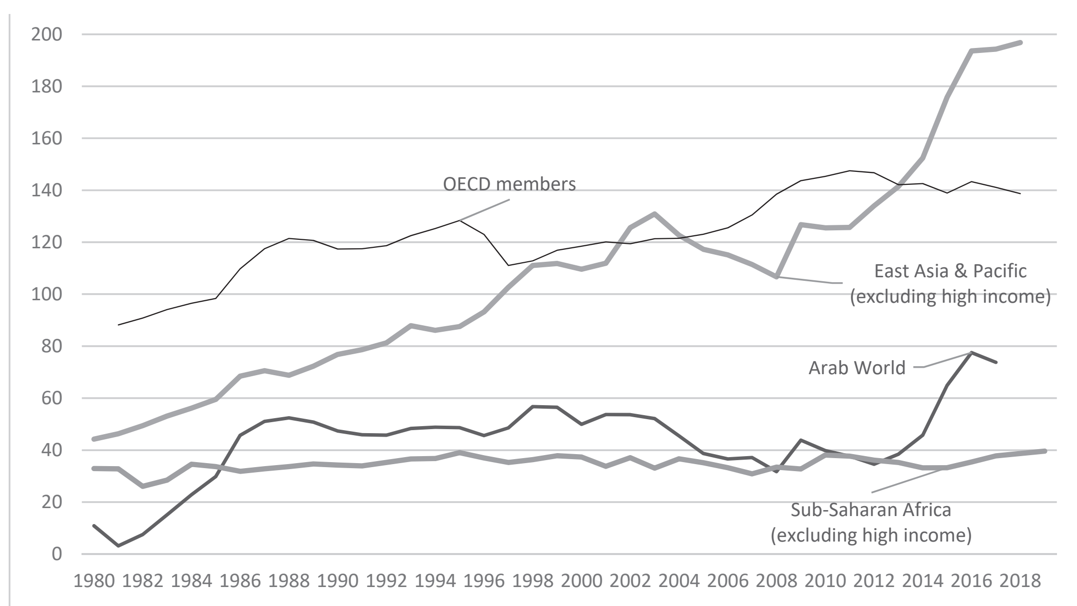

Figure 2. Domestic credit provided by the financial sector (% of GDP), selected groups
Source: *World Development Indicators 2019* (The World Bank 2019).

the other hand, domestic investments in the East Asian countries seem to be fully financed by domestic finance. This figure also suggests that the relatively high share of service sector value added in African countries reflects the weakness of other sectors, especially manufacturing but also agriculture.

If the service sector is not related to domestic investment in African countries, it deserves to ask what kind of financial service is provided. While the economic structures are diverse depending on the country, the following subsection reviews the recent restructuring in the financial sector in Ghana as a case study.

2.3. The financial sector and its recent restructuring in Ghana

Ghanaian financial sector is relatively stable and developed compared to other countries in the region. Since the discovery of crude oil in 2008 and the start of oil production at the end of 2011, the Ghanaian economy mainly depends on three commodities, gold, cacao, and crude oil. As shown in Figure 3, the discovery and the start of the oil production have significantly pushed up the GDP, but in general, Ghana has experienced not very high but still stable and moderate growth rates since the 1990s. However, the Ghanaian economy experienced a slump from 2013 to 2015. This was explained as a result of too high expectation for oil revenue and lower than expected revenue on the one hand and increases in official wage bills, which led to a deterioration of fiscal balance on the other. Ghanaian government asked for an International Monetary Fund stand-by facility in April 2015,

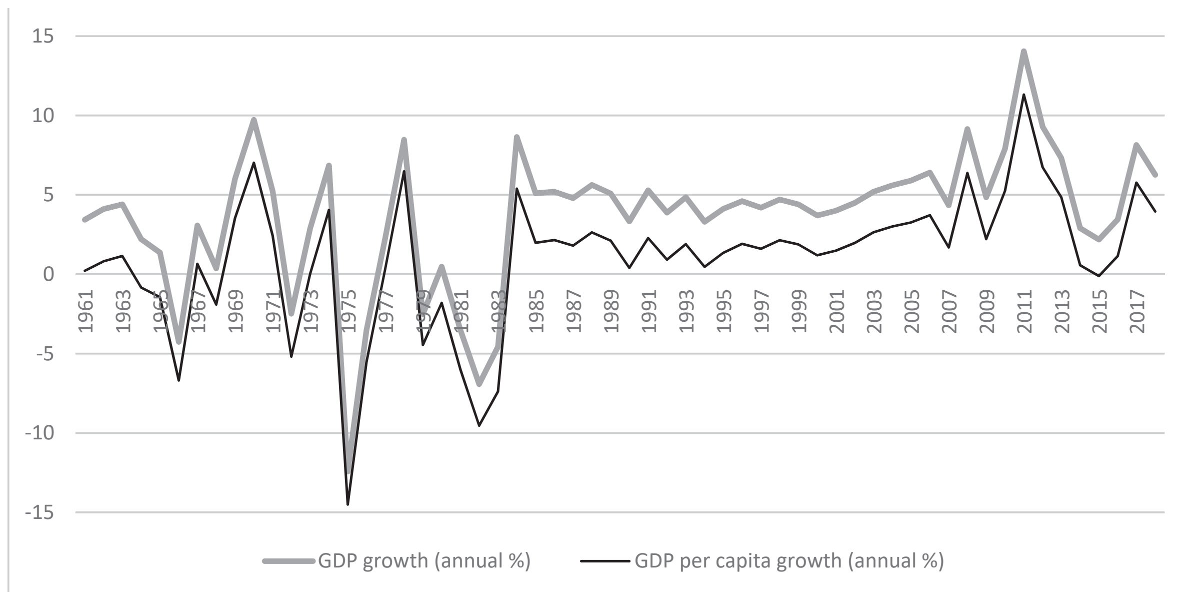

Figure 3. Ghana: GDP and GDP per capita growth
Source: *World Development Indicators 2019* (The World Bank 2019).

which amounted to about US$925.9 million (IMF 2015). The special facility was initially termed for three years, but it was extended for additional years in 2017 and ended in April 2019 (IMF 2019).

Despite such turbulence, domestic prices have been relatively stable, though the inflation rate hovered relatively high level around 15 to 20 % annually on average in the 2000s. The relatively high inflation rate can be explained partly as the result of the old monetization rule, which allowed the government to finance up to 5% of the amount of expected tax revenue in each fiscal year. This rule is now abolished, and the inflation rate is calming down recently to 10% in 2018 and is supposed to achieve a single-digit level in 2019.

Ghanaian government succeeded in a series of issuance of the sovereign bonds in the overseas market. While this helped to relax the fiscal constraint, the accumulation of domestic and external debt is becoming a serious burden. The report on the debt sustainability analysis by the International Monetary Fund in March 2019 evaluates Ghana's risk of both the external and overall debt distress as 'high' (International Monetary Fund 2019). The International Monetary Fund reports points out that the 'substantial banking sector reforms (with nine banks resolved in 18 months) has enhanced financial stability' (*ibid.*: 8), but the cost of clearance was also a burden on the government budget.

This 'banking sector reform' can be understood as a result of the recent acceleration of financial activities. The numbers of financial institutions seem to have mushroomed since 2011.The increase in licenses is partly explained that the authority needed to include the

[2]The author's interview at the Bank of Ghana in August 2019.

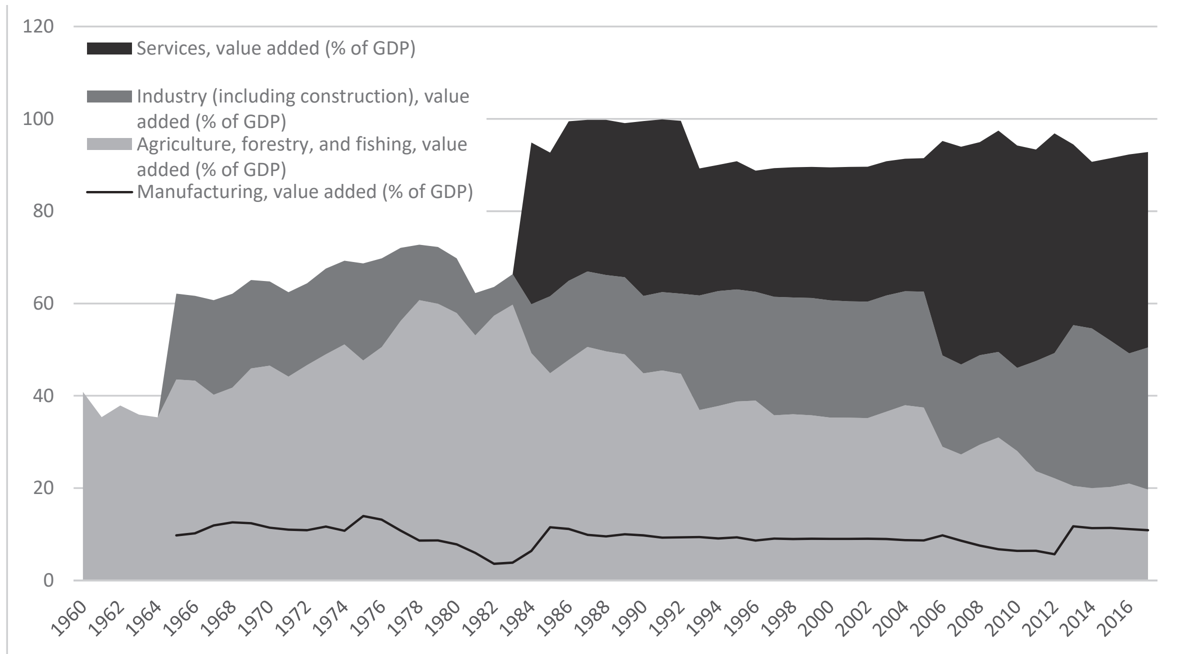

Figure 4. Ghana: Value-added share in GDP by sectors

Source: *World Development Indicators 2019* (The World Bank 2019).
Note: Agriculture includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Industry includes mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Service includes the value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services. Also included are imputed bank service charges and import duties. For more details, see the metadata of the *World Development Indicators*.

existing financial institutions under the supervision of the authority[2]. The proliferated financial institutions soon started to show problems such as increases in fraud, a ponzi scheme, and misappropriation of deposit money in some financial institutions (The World Bank 2016). The problems in the financial sector seem to have emerged already in 2015. However, the systematic clearance and reform had to wait until 2017, after the presidential election in 2016. The financial sector clean-up was completed in 2019 August. As Table 1 shows, in total, more than 400 financial-related licenses were revoked. The numbers of financial institutions almost halved through the clearing process, but it is still too many for an economy with 29 million people with per capita GDP just around 1800 USD. Through the author's interviews in Ghana, number of finance-related people suggested that other financial sectors such as rural and community banks, as well as the credit unions which are so far not supervised by the Central Bank but under the Ministry of Employment and Labour relations (Department of Cooperatives), also have problems in deterioration of balance sheets. Their problems are yet to be addressed. What Table 1 suggests is the proliferation of financial institutions. However, financial institutions usually do not offer long-term credit. The Bank of Ghana does not provide any report on non-banks, but the

operational structure seems to be diverse across the banks and non-banks even within the same category. However, the average loan size seems to be small, and long-term loans are not easily obtainable, and the interest rate is quite high, usually more than 20 to 30% annually[3]. One of the reasons for the absence of relatively long-term lending is a lack of collateral and high risk for default, as one of the main problems in the financial sector in Ghana is the high non-performing loan ratio. It is worth noting that several credit unions that are formed based on the work-places offer relatively long-term credits, usually up to one year but sometimes three years. The close ties and relationship between the credit union members enable the relatively low cost of information and low default rate.

Despite the banking reforms and revocations of licenses from 2017 to 2019, the Ghanaian economy did not show any major economic panic or related collapse of businesses. This may be because the affected depositors are small in numbers and size. The influence by the collapse of the other smaller financial institutions may be minimal, as more than 80% of the assets in the financial sector in Ghana is occupied by the major universal banks.Moreover, regarding the banking reforms, the government's remedies were well trusted. Depositors did no fear of the loss of money, and thus there were no bank runs. However, a more crucial point should be that most of the financial institutions in trouble were not much engaged in extending credit to real business[4]. This suggests the very weak linkage between the financial sector and the real economy in Ghana.

The issuance of licenses to the microfinance companies, the majority of which operated traditionally as *Susu* collectors (traditional money lenders), can be understood just as a superficial formalization of the traditional finance but not a process of the financial deepening. The mass revocation of the licenses of those microfinance institutions should be thus regarded not as a crisis in a formal economy but rather as a failure in formalization of traditional money lending. Another crucial point is that the proliferation of financial service, that is, the financialization in Ghana, does not contribute to better access to credit for investment, as the majority of loans are short term. This is a reflection of the socio-economic aspect of recent financial sector reform in Ghana, as the economy is de-industrializing and turning to be service-led, where the service is financial services. The booming in financial activities and stagnation of industry and agriculture in Ghana is evident from Figure 4. While the share of value-added by industry increases recently, this is led by mining investment and the construction of infrastructure. As the solid line at the bottom shows, the

[3]Based on author's interviews in the rural banks, community banks, microfinance institutions, and credit unions in August-September 2018 and 2019.
[4]Based on the author's interview at Ghana Microfinance Institution Network (GHAMFIN) in August 2019.

Table 1. The number of financial institutions in Ghana

Category	Licenses *revoked*: 2017-2019	Currently licensed
Universal banks	9	24
Microfinance companies	347	137
Microcredit companies	39	31
Savings and Loans	23	25
Others		175
total	418	392

Source: The Bank of Ghana HP, *Supervision and Regulation*.
Note: The list of licensed institutions is as of the end of November 2019. There are currently 14 categories for the financial institutions in Ghana, and all but 419 Forex bureaus are included as Others.

manufacturing share in the economy on average stays the same for more than 50 years.

In contradiction to the increase in the service sector share in the economy, the capital market in Ghana is dormant, and the interbank market is limited to that of foreign exchange. Ghana Stock Exchange (GSE) was established in 1989, and there are several listed companies. However, as Figure 5 shows, the stock movement is shallow, as most of the stocks are that of the mining companies and transnationals, which has their historical roots since the colonial era. The stockholders are fixed, and those are not traded. GSE started the second-tier market (Ghana Alternative Market) for the start-ups, trying to foster the entrepreneurship in Ghana. It also runs start-up programs. However, not many enterprises have completed the fostering process, and there are only five companies listed in the second-tier market[5]. The weak functioning of the capital market as an intermediary of a financial resource implies that credit availability is almost limited to bank loans or loans from non-banks such as the credit unions, which are so far officially not "financial institutions.'

The financialization of the Ghanaian economy is not led by the financial activities typical in the developed economies such as securities trading or active interbank tradings. The financialization in Ghana and Sub-Saharan Africa is a reflection of the formalization of traditional financial activities, which is typically in the form of a small amount, relationship-based, and short-term credit.

3. The missing link

The Ghanaian example suggests that the recent rise of the service sector in African countries is led by the proliferation or formalization of financial activities. This African type fin-

[5] Author's interview at the Ghana Stock Exchange in August and September 2018.

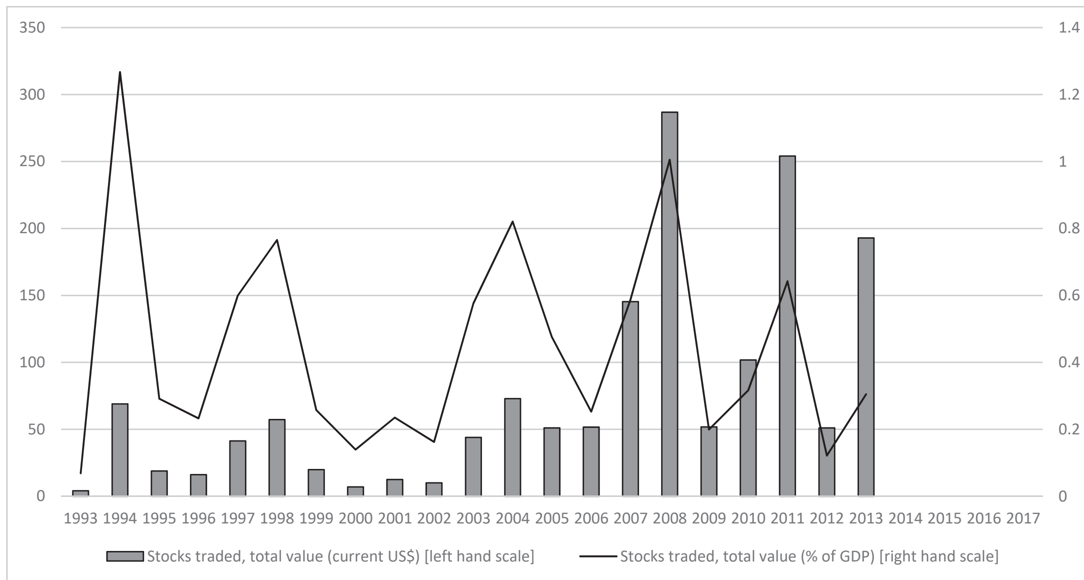

Figure 5. Ghana: Stock traded

Source: *World Development Indicators 2019* (The World Bank 2019).
The total values are in millions of US$ (bars, left-hand scale), and shares are in percentage (line, right-hand scale). The statistics since 2014 are not reported.

ancialization is also deeply linked to the de-industrialization of African economies. Here, the focus is on the short-term credit or the absence of long-term credit, and the linkage between the industry, namely the manufacturing, and the financial intermediation service.

3.1. Industrialization and the financial sector

The saving mobilization is a necessary process in the industrialization of a country, and the financial system which intermediates the savings into investment is also crucial in industrialization. Teranishi (1991) discusses the industrialization and the role of the financial system, suggesting the importance of long-term capital in the stage of industrialization through technology transfer from the industrialized countries. Teranishi argues that in most developing countries, credits provided in the private financial sector are limited to short term. As manufacturing technology is transferred, the demand for long-term financing rapidly increases, but the supply of long term credit is very limited. Moreover, the accumulation of information and the information market is also absent. Teranishi terms this dual absence as 'market failure' and thus argues the importance of policy finance. The absence of the information market here should also include the underdevelopment and low adoption of accounting and auditing.

While Teranishi does not explicitly suggest, one related issue here is the lack of institutions that enable access to collateral. Feder *et al.* (1988), Besley (1995) and Feder and

Nishio (1999) discuss the importance of land property rights as collateral to obtain credit for investment. Their focus is more on the linkages between agricultural land property rights, which functions as collateral and availability of credit for agricultural investment to enhance the productivity and the protection for the landless poor. However, the land property rights of non-agricultural land and investment in non-agricultural production are also critical because, in the industrialization process, capitals are required in relatively large size and for the long term, which usually needs to be collateralized when obtained as debt. As discussed in the next subsection, land property rights seem to be vital in promoting long-term contracts, especially in terms of credit transfer.

3.2. Land reform and long-term capital market

Land reform, especially the agrarian land reform, has been one of the main topics in economic and social development. For example, a now-industrialized country, Japan, had a drastic agrarian reform between the 1940s and 50s. Japanese land reform was implemented in the aftermath of the WWII when the whole nation was still staggered in a shock. The principle of the Japanese agrarian reform was to allocate a land title to each tenant farmer to improve the productivity of land and also to alleviate poverty in the rural area (Dore 1959, Hayami and Ruttan 1971). It is well known that Japanese agrarian reform was strongly influenced by the GHQ/SCAP, which represented the U.S. view (Kawagoe 1995). The idea behind the reform was that the individual land property right would correctly incentivize the farmers to invest in the land and improve the agricultural productivity, which in turn leads to the alleviation of poverty in the rural area.

This view is also represented by the international organization which supports the economic and social development of the developing nations in the post-war period. The logic that individual property rights are the fundamental parts of the institution which promotes an effective resource allocation and growth is rooted in the neoliberalist, neo-classical, and institutional views (North 1990, Feder and Nishio 1999, De Soto 2000). Feder and Nishio (1999) are based on field surveys in villages around the world and argue that land title contributes to the improved access to cheaper credit. The linkage between land property rights and access to credit is also stressed by Deininger (2003). On this point, Chimhowu and Woodhouse (2006) provide a valuable review regarding the confronting views between the one which promotes private land property rights and the one which supports the communal land system.

More relevant to the discussion here is that land as collateral enables to lengthen the lending term. As Biswanger and Rosenzweig (1986) discuss, the characteristics of land as collateral is suitable for long term contract; land as collateral last for a long time; is immobile; and needs no maintenance (Byamugisha 1999, Feder and Nishio 1999). If land property rights support and foster the provision of long-term credit, this is also closely linked to industrial investment. Indeed, the agricultural finance cycle heavily depends on the seasonal cycle of planting and harvesting, and a creditor needs to grant relatively a long-period until the borrower can harvest and sell the products in the market so that the debtor can pay back the debt. However, industrial investment, especially manufacturing, often requires an even longer period until the initial investment starts to make a profit.

The mere existence of land as collateral does not automatically provide long term capital. For example, Iijima (1952) discusses the role of financial service at the agrarian reform and modernization of agriculture in Japan during the post-war period. He points out that the agrarian land reform and allocation of land titles enabled access to credit with the land as collateral. However, the credit was short-term, and thus it was not invested bur instead functioned as consumer's credit. Moreover, Agricultural Land Law in Japan restricted land transactions beyond the regulated land scale, which practically limited the usage of agricultural land as collateral (Kudo 1974). In the Japanese case, the government established a policy finance institution, the Agriculture Forestry and Fisheries Finance Corporation, in 1953, which operated until dissolution and integration to another policy finance institution, the Japan Finance Corporation, in 2008. The Corporation extended credit based on policy finance, which enabled the long term credit to the agricultural sector. Kudo (1974) suggests that the establishment of the specialized policy finance institution also shifted agricultural promotion from the dependence on agricultural subsidy to policy lending, which helped to ease the fiscal burden.

This example suggests that the establishment of land property rights does not simply guarantee the availability of long-term credit to agriculture. The same logic applies to the provision of long term capital for investment in the manufacturing industry. Again, Japanese experience suggests the importance of the role played by the policy finance institutions which enabled especially long-term finance for the industrial sectors of national priority (Teranishi 1995; Hoshi and Kashyap 2001).

3.3. The African dual system

While some view that African land reform is incomplete, the situation can also be viewed as a dual system. That is, current land ownership in most of the African countries still retains 'customary relations' (Amanor 2018), and this can be interpreted that the situation reflects the integration of traditional society into 'statutory land administration.' The dual administration system with traditional chieftainship can also be a symbol of the harmonization of the modern and western system and African tradition. However, the conservation of traditional political power and culture means the conservation of traditional and communal land ownership, which maintains the ambiguity in land ownership. This strictly limits the function of land as an asset, which severely harms the development of the capital market. The consequence of the absence of long-term capital market is the current low investment, especially in the sector that requires investment for the long-term, represented by private corporations and firms in the manufacturing sector.

Related to this point, Chimhowu and Woodhouse (2006) discuss whether a government should consolidate the customary land system or establish the private land property rights for the promotion of land transfer and alleviation of rural poverty. They alert that communal property rights and the traditional mechanism of land transfer need to be readdressed, and suggest a possibility to maintain communal land ownership. However, It is worth distinguishing the difference between the physical utility of agricultural land and the utility to provide an intangible asset. A Tenure, namely physical usage of a part of the land, can be exclusive to the current tenant even under an ambiguity of communal land ownership once the land is already occupied. On the other hand, usage of land as collateral cannot be physically exclusive to one user, and there is a risk that under an ambiguous land ownership, more than one person or group uses a piece of land as collateral. This point parallels the argument by De Soto (2000). Land, forest, and other resources that are abundant in developing countries are not used as assets. As he puts it, a resource's material life can be separated from the resource's life as asset. In relation to the financial system, registration of land ownership enables the land to become an asset while the physical usage parallels the functioning as an asset, but the land property rights need to be established as an individual's right.

4. Tentative remarks: The limit of a service-led growth

As discussed above, the de-industrialization in Sub-Saharan Africa and the financialization seem to have the same root. The ambiguity of land property rights determines the current

situation where the long-term credit market is absent, and this means a very limited long-term investment in industries, especially manufacturing. Low domestic investment is one of the causes of premature de-industrialization in Africa. On the other hand, the recent service-led growth in Africa is a result of financialization. Again, this financialization is not based on long-term investment bur rather short-term credit, and the proliferation of small scale financial institutions. In the absence of long-term credit, economic activity needs to be short-term, and financial activity in the style of money-creates-money is an easy way for the ones who have access to a certain amount of capital.

When the retention of customary land system in Africa is viewed as the result of refusal of western-style capitalism, then, the current 'premature financialization' in African countries is the ironic 'reap-frogging' to 'post-industrial' style of capitalist society where increasing number of people depend on short-term debt, and where financial activities dominate the economy.

An alternative way to understand the recent financialization of Africa is to see the growth as superficial. That is, recent financial-led growth in Africa is, in fact, as a result of formalization of the already existed informal financial activities and not a practical increase in value-added. This is a crucial point in the recent financialization in Ghana: Among the communal system of the society, only the service for short term credit was formalized while other related factors such as land ownership, private property rights, and other information still remain informal. It is worth noting that aside from financial services, the traditional informal service sector in developing countries is still significant, especially in the urban areas where many people work in the service sector, such as vendors on the streets or at kiosks, taxi drivers, and hairdressers. Here, the argument on the credibility of the African statistics by Jerven (2009, 2013) has a significant relevance, as such informal economic activities are usually not reflected in the statistics of GDP.

A looming question which needs to be ask is whether current service-led growth is a real growth, and whether this is sustainable. The case of Australia, which also experiences contraction in the manufacturing sector and a shift to a service and mining-led economy, is a reference for the African countries. The service sector's contribution to the Australian was accounted to be 79% in 2017 (Office of the Chief Economist 2018). The service industry is supported by high-quality Australian institutions, especially the internationally competitive educational system which is supplying the highly skilled and specialized workers into the domestic service sector. While the Australian type of service-led growth can be a model for the African countries, there are many challenges to overcome.

As Weller and O'neill (2014) cite, the question for Australia is whether they wish to be an economy that 'still make things.' On the other hand, the question African countries need to ask is whether they wish to be an economy that *never and ever* makes things. As Rodrik (2016) points out, premature de-industrialization is problematic for the developing economies, as the manufacturing sector usually induces higher labor productivity, absorbs mass unskilled workers, and enables the production of tradable which can be sold in the external market. Dismissing the development of manufacturing is stepping out of the 'quintessential escalator' (*ibid*., 3).

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