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**African Producers in the New Trend of Globalization:  
An Interim Report**

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## Preface

This collection of the papers is an interim report of the research project “Local African Firms in the New Trend of Globalization” organized in Institute of Developing Economies. The project started from April 2009 and will end in March 2011.

After 2000, significant changes have been observed in sub-Saharan African economies. Preferential access to the US and EU market have been strengthened for particularly poor African countries, while domestic markets have grown in many countries thanks to surge of natural resource prices and agricultural products. Increased international aid also contributes to expand domestic consumption. Moreover, business environment has been improved, though slower than expectation, in many countries. Those external changes have led to significant changes in the supply side. Inflow of foreign direct investment has increased in non-resource sectors, attracted by the preferential access and enlarged domestic markets. Horticulture and garment industries are examples of FDI for export market, while foreign investment in retail (supermarket), mobile phone, and banking industries are looking for growth opportunities in the African domestic markets.

It is notable that those recent changes have potential to eliminate possible obstacles to industrial development, which are argued in the literature. While lack of skill and knowledge is often raised as a barrier for local producer, inflow of FDI may provide opportunity of learning new technology and marketing knowledge by local producers, known as FDI spillover. Through transaction with FDI firms, in-house training of workers, and movement of skilled workers from FDI to local producers, technology and knowledge has been transferred to local producers in many developing countries. Small size of local producer is also frequently mentioned as an obstacle to survive and grow, as small producers are susceptible to risk, and unable to upgrade equipment and technology due to poor access to credit. Expansion of domestic market may allow growth of small local producer by realizing economies of scale and strengthening competitiveness. Strengthened infrastructure, in particular mobile phone service and internet access, and improved business environment will enhance efficiency of production. Such favorable change in growth opportunity, in conjunction with FDI in financial sector, may possibly improve credit access of local producers.

However, possible changes of the supply side have not been investigated without a few exceptions. This is not only because such external changes are relatively new events,

but many studies on African producers, in particular industry and service sectors, rely on World Bank Enterprise Survey, which collects firm-level information over 4 subsectors. Given the standardized structure of a questionnaire, it is not suitable to capture new and sector-specific changes. Moreover, previous studies analyzing firms in the 1990s and the early 2000s explored growth retarding factors through observing firms and producers under the stagnating economies. Hence, basically they identified factors by comparing firm's characteristics between relatively good performers and bad ones. However, it is not guaranteed that elimination of the growth retarding factors will result in growth of firms under growing environment, where other things may also change. Investigation of changes of local producer after 2000 is thus fruitful to see validity of the factors mentioned in previous studies and to identify other factors.

In this research project, sector-specific approach is taken to scrutinize changes of local producers. In the first year, our colleagues worked to grasp changes of local producers in various size, sectors and regions in Africa. Tomomi Tokuori (Chapter 1) studies construction industry in Burkina Faso, which has been expanding since the early 2000s due to drastic increase of aid projects. Based on available statistics and her own fieldwork, her paper describes overview of the industry as well as preliminary results from the firm survey covering 66 construction enterprises. Akio Nishiura (Chapter 2) investigates food processing industry in East African countries. His paper indicates that extension of supermarket chains from South African and Kenya has made significant changes in food processing industry in East Africa. It is a case that FDI in retail sector stimulates local production in search of low-cost supplier of food and beverage products.

Takahiro Fukunishi and Helinjatovo Aime Ramiarison (Chapter 3) focus on garment industry in Madagascar. It has received FDI since the early 1990s from Mauritius, France, and recently Asian countries, seeking to low-cost production site for export market in US and Europe. Their interest is in relatively small impact on local firms. Megumi Muto (Chapter 4) conducted a survey on furniture workshop in Tanzania. Furniture workshops are rapidly increasing probably due to growth of domestic demand. By analyzing their location choice and productivity, her preliminary paper explores how workshops utilized economy of agglomeration. Eiichi Yoshida (Chapter 5) discussed about influx of Chinese small business in Africa. We expect one more contributor in the second year, who will study horticulture industry in Ghana.

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