Institutions and the Absence of Creative Destruction in African Economic Development

Osman John Abdul Tawab Kassim Froko

linkedin.com/in/osmanfroko

Economic history demonstrates that sustained growth has always depended on what Joseph Schumpeter termed creative destruction: the continuous emergence of new firms, technologies, and industries that displace older, less efficient ones. This process, though disruptive, has been the principal driver of industrialisation and rising living standards in every region that has achieved high-income status. In Africa, however, creative destruction on a transformative scale has been absent.

The continent missed the early industrial revolutions of the nineteenth century and the export-oriented manufacturing boom that transformed East Asia from the 1960s onward. Manufacturing value added as a share of GDP in sub-Saharan Africa remains below 15 percent, lower than in any other developing region at a comparable stage of development. Employment in large-scale industry is correspondingly limited. The question is why this pattern persists despite abundant labour, growing urban populations, and decades of policy initiatives aimed at industrialization.

The decisive constraint is institutional. Creative destruction requires institutions that permit new entrants to challenge incumbents and allow uncompetitive firms to exit. Secure property rights, predictable regulation, reliable contract enforcement, and open access to finance and infrastructure are essential conditions for entrepreneurs to invest in new production methods. Where these institutions are weak or captured by narrow interests, capital avoids productive risk-taking and flows instead into real estate, commodity trade, or foreign assets.

In most African economies, the formal institutional framework continues to favour protection of existing firms over competition. Obtaining secure land titles, construction permits, electricity connections, and import licences remains slow, costly, and discretionary. Judicial systems frequently fail to enforce contracts impartially or swiftly. Regulatory agencies retain significant powers to grant or withhold approvals, creating opportunities for rent extraction. Under these conditions, politically connected enterprises can secure monopolies or quasi-monopolies, while potential competitors face prohibitive barriers.

Manufacturing is especially sensitive to such institutional weaknesses. Factories operate on narrow margins and require consistent inputs of power, imported components, and working capital. Arbitrary policy changes, prolonged customs delays, or sudden levies can erase profitability. Investors therefore prefer sectors that tolerate uncertainty, primary commodity extraction, wholesale trade, and property development, rather than manufacturing activities that demand long-term institutional stability.

The rise of artificial intelligence presents both an opportunity and a severe test. Unlike traditional industry, AI-driven enterprises can, in principle, operate with limited physical infrastructure and relatively small initial teams. Yet even these ventures require reliable electricity, high-speed internet, enforceable contracts, and freedom from predatory regulation. Early evidence suggests that the same institutional obstacles that blocked factory-based industrialisation now slow the emergence of scalable technology firms. Data-centre projects face years of licensing delays, electricity shortages force reliance on expensive diesel generation, and new regulatory frameworks threaten to restrict experimentation.

Historical exceptions confirm the centrality of institutions. Where regulatory forbearance or benign neglect temporarily reduced barriers; Ghana's mobile-money ecosystem in the early 2010s, Kenya's M-Pesa, and Nigeria's payment platforms, rapid innovation and firm entry. These cases, however, remain outliers. As digital technologies acquire strategic importance, governments across the continent are tightening oversight, replicating the same protective patterns that stifled earlier industrialization efforts.

The conclusion is straightforward. Creative destruction cannot be engineered by industrial policy alone, nor can it be imported through foreign direct investment without corresponding domestic institutional reform. Until African economies establish rules that systematically favour entry over protection, competition over monopoly, and innovation over rent extraction, each new technological wave will continue to pass the continent by. The talent and demographic potential exist in abundance. What remains missing are institutions that allow productive transformation to occur.

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