

**BETWEEN LOCAL DEMAND AND INDUSTRIAL GROWTH:  
THE CHALLENGES FACING CÔTE D'IVOIRE IN THE  
TRANSFORMATION ERA**

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# PLAN OF PRESENTATION

Introduction

Literature Review

Methodology

Results

Conclusion and policy implications

# INTRODUCTION

- ❑ As Côte d'Ivoire continues to recover from post-crisis economic challenges, understanding the interaction between domestic demand and industrialization is crucial for guiding its future development policies.
- ❑ The existence of sufficient domestic demand is an essential condition for industrialization (Linder, 1961; UNIDO, 2018)
- ❑ Domestic demand stimulates the development of an export industry and allows countries to be less dependent on international market conditions (HSU, 1972).

## INTRODUCTION

**Economic literature argues that the domestic demand component that can boost industrialization is the demand of the middle classes (Murphy and al., 1989)**

The emergence of the middle class promotes the expansion of consumption, markets, and leads to a shift in consumption patterns

Horell (1996) has shown that the growth of demand among the middle classes leads to an increase in domestically manufactured products

❑ However, studies often neglect to examine domestic demand for goods in developing countries from this perspective, to the best of our knowledge.

# INTRODUCTION

- Approaches

Macroeconomic approach: (Iheonu & Nwachukwu, 2020; Keho, 2020)

- Microeconomic approach:  
(Altayeb & Daoud, 2022; Ansah and al., 2020; Horrell 1996)

The microeconomic approach is the one adopted here, using data on household budgets

Identification of income or expenditure elasticities and price elasticities of demand for food and non-food goods, within economies.

# INTRODUCTION

- ❑ The specificity of this study is that it uses household budget data to analyze the impact of demand for manufactured goods in the context of developing countries.
- ❑ Household final demand is the largest component of demand in Côte d'Ivoire, 68% of GDP over the period 2000-2016 (Keho, 2019)
- ❑ In Côte d'Ivoire, the middle class was estimated in 2015 at 26.4% (Berrou and al, 2018). This highlights the potential of the emerging Ivorian middle class, which is likely to constitute a critical mass of consumers for local industry.

# OBJECTIVES

**Assess the impact of domestic demand for manufactured goods on the industrialization of Côte d'Ivoire**



**Examine the impact of household demand on the consumption of manufactured goods in Côte d'Ivoire**



**Identify the socio-demographic characteristics of households that determine the consumption of manufactured goods in Côte d'Ivoire**

# **HYPOTHESIS**

**The middle class may have the most significant influence on the demand for manufactured goods in Côte d'Ivoire**



**The level of education of the head of household and the area of residence of the household may not significantly affect on the demand for manufactured goods**



## LITERATURE REVIEW

- ❑ Theoretical research highlights the importance of demand for industrialization (Rosenstein-Rodan, 1943; Murphy and al, 1989; Linder, 1961; Palley, 2002)
- ❑ Empirical research mostly uses data on household budgets to assess the contribution of domestic demand (Ansah and al, 2020; Molina and Gil, 2005; Horell, 1996)

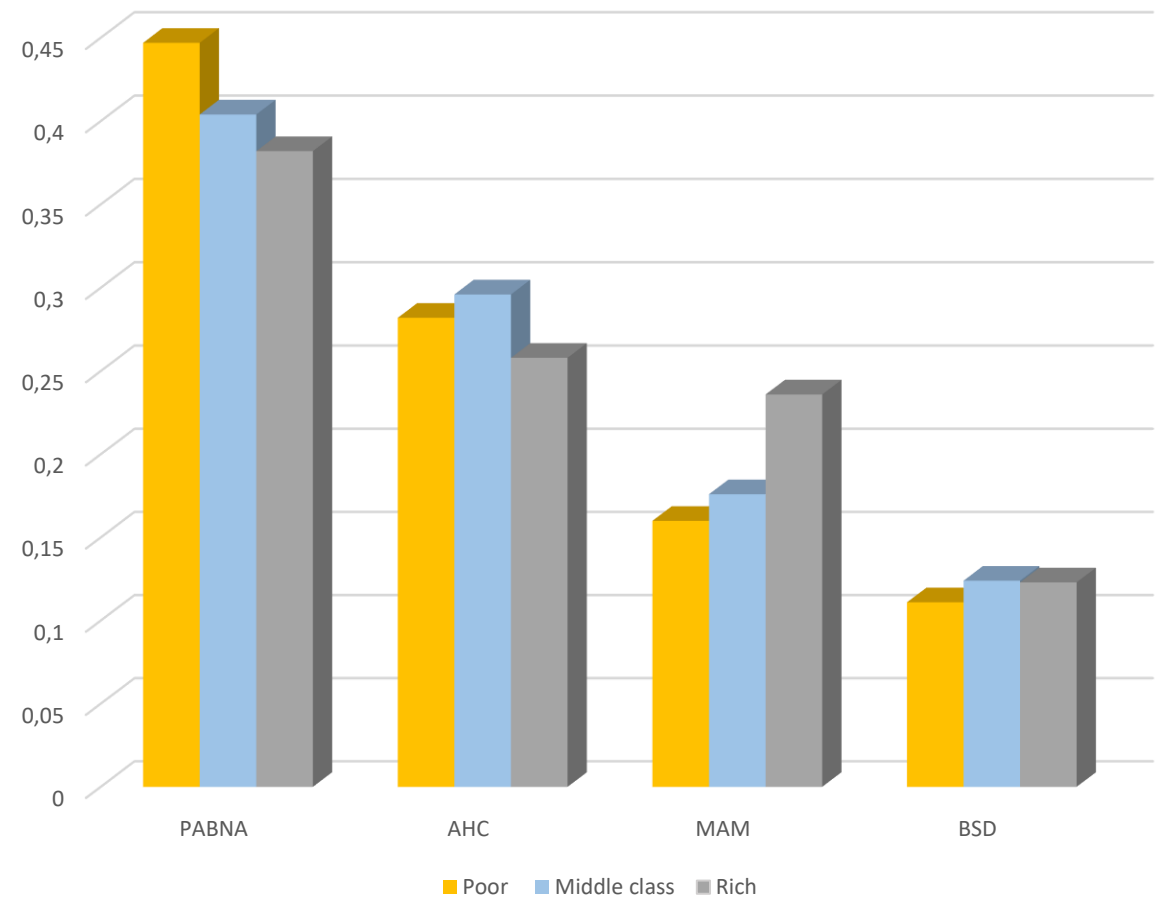
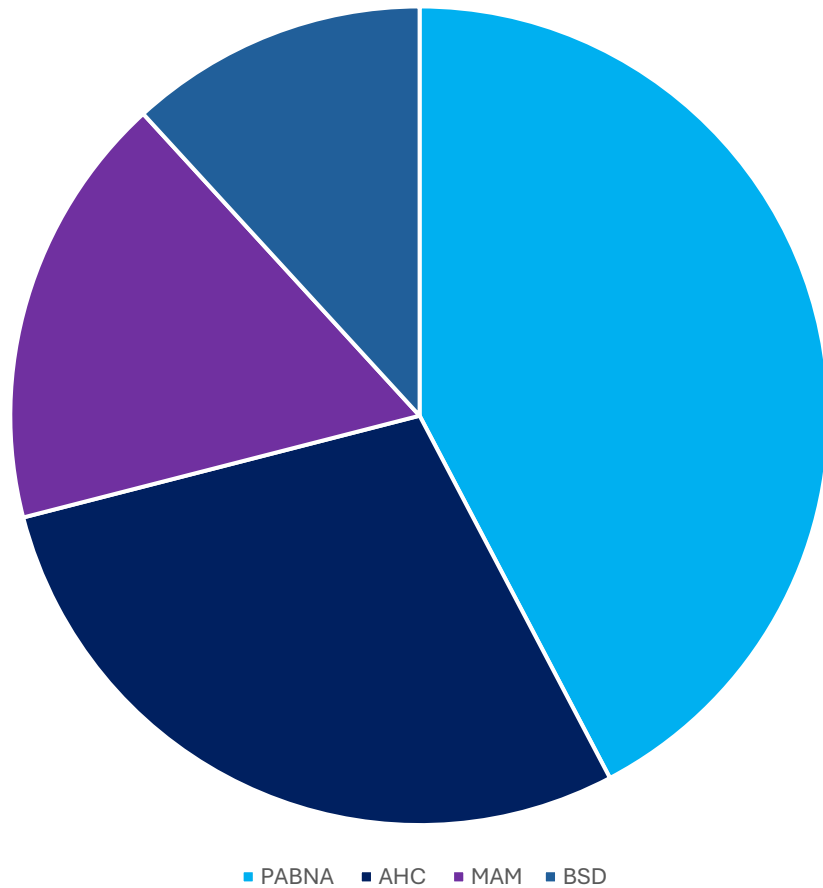
## METHODOLOGY

- We use data from the Harmonized Survey on Household Living Conditions, EHCVM (2018) Collected by National Statistics Institute and the World Bank.
- We estimate four budget shares for three income classes. Four categories of manufactured products: Food and non-alcoholic beverages (PABNA), Clothing and footwear (AHC), Furniture and household goods (MAM), and Miscellaneous goods and services (BSD).
- We estimate the demand system QUAIDS of Banks et al (1997) and Poi (2012).

# METHODOLOGY

- ❑ Structure of the consumption of goods and distribution of budget shares by household groups

Budget shares



# METHODOLOGY

- The specification of the QUAIDS model according to Banks et al (1997) is as follows:

$$s_i = \alpha_i + \sum_{j=1}^n \gamma_{ij} \ln p_j + \beta_i \ln \left[ \frac{H}{g(p)} \right] + \frac{\lambda_i}{k(p)} \left\{ \ln \left[ \frac{H}{g(p)} \right] \right\}^2$$

With  $s_i$  the budget shares allocated to the consumption of goods.  $P_j$ : The price of the category of goods consumed;  $\frac{H}{g(P)}$  actual total expenditures. And  $g(p)$  et  $k(p)$  are price indices.

# METHODOLOGY

□ Other explanatory variables other than total expenditure and prices are introduced to account for the heterogeneity in the preferences of consumers of manufactured goods in Côte d'Ivoire, as suggested by Poi (2012) using Ray's (1983) scaling technique.

$$s_i = \alpha_i + \sum_{j=1}^n \gamma_{ij} \ln p_j + (\beta_i + \omega_i'z) \ln \left\{ \frac{H}{H_0(z)g(p)} \right\} + \frac{\lambda_i}{k(p)f(p,z)} \left[ \ln \left\{ \frac{H}{H_0(z)g(p)} \right\} \right]^2$$

With  $z$  the vector of demographic variables

# METHODOLOGY

□ Following Ansah et al. (2020), we specify the empirical model as follows:

$$s_i = \alpha_i + \sum_{j=1}^n \gamma_{ij} \ln p_j + \beta_i \ln \left[ \frac{H}{g(p)} \right] + \frac{\lambda_i}{k(p)} \left\{ \ln \left[ \frac{H}{g(p)} \right] \right\}^2 + \eta_i z + e_i$$

□ Where The budget shares allocated to the consumption of manufactured products in Côte d'Ivoire are PABNA ( $s_1$ ), AHC ( $s_2$ ), MAM ( $s_3$ ), et BSD ( $s_4$ ).  $e$  is the random error term.

With  $z$  the vector of demographic variables;

# RESULTS

	PABNA	AHC	MAM	BSD
Constant $\alpha_0$	0.370*** (0.027)	0.194*** (0.025)	0.348*** (0.027)	0.087*** (0.010)
Consumer expenditure $\beta$	0.032** (0.015)	0.079*** (0.013)	-0.126*** (0.013)	0.015*** (0.005)
Consumer expenditure squared $\lambda$	-0.007*** (0.002)	-0.012*** (0.002)	0.022*** (0.001)	-0.003*** (0.001)
Area of residence (living in urban area)	0.0005 (0.008)	-0.021*** (0.007)	0.013 (0.009)	0.007*** (0.003)
Education of head of Household (higher education)	-0.021*** (0.010)	0.0003 (0.009)	0.021 (0.013)	0.001 (0.003)
$R^2$	0.667	0.633	0.711	0.491
<b>Prob &gt; F</b>	0.000	0.000	0.000	0.000


# RESULTS

## □ Expenditure elasticity

Manufactured goods	Elasticity of total household expenditure	Expenditures elasticity of the poor households	Expenditures elasticity of the households of the middle classes	Expenditures elasticity of the rich households
<b>PABNA</b>	0.907*** (0.020)	0.944*** (0.019)	0.881*** (0.022)	0.657*** (0.069)
<b>AHC</b>	0.954*** (0.019)	1.006*** (0.018)	0.913*** (0.023)	0.217 (0.179)
<b>MAM</b>	1.082*** (0.011)	1.040*** (0.014)	1.101*** (0.010)	1.159*** (0.012)
<b>BSD</b>	0.858*** (0.042)	0.931*** (0.039)	0.808*** (0.048)	0.388*** (0.175)



# CONCLUSION

- ❑ The results show that household spending affects  the consumption of manufactured goods.
- ❑ Low-income households are most likely to consume manufactured goods as their income increases, followed by the middle class.
- ❑ The proportion of the budget spent on basic manufactured goods decreases as income increases.

# POLICY IMPLICATIONS

Strengthen the implementation of the productive social safety net program for the most vulnerable households and ensure effective implementation of the decision to raise the minimum wage.

Introduce tax incentives and subsidies for certain key locally manufactured products.

Encourage the development of adequate industrial capacity, with a focus on diversifying production and manufacturing consumption.

## LIMITATIONS AND FUTURE STUDIES

- ❑ Due to limitations in the availability of data over an extended period of time, we chose to use a cross-sectional approach.
- ❑ Lack of information on the origin of manufactured products consumed in Côte d'Ivoire.
- ❑ This research could be extended to a multi-sectoral analysis by combining general equilibrium models with demand systems. This would allow the variation in industrial structure to be taken into account.



*Thank you for your kind attention*

