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Globalization and Economic Development: Can Sub-Saharan Africa Avoid Marginalization

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Summary

The paper discusses Sub Sahara Africa decreasing participation in the global economy largely focusing on its decreasing share in the global income, international trade and foreign direct investment. The small improvement in growth and export performance in 1995-97 that led the IMF to assert that Africa may have turned the corner to a better future has not been sustained. The global recession will worsen Africa terms of trade and growth prospects.

The paper analyzes policies to integrate Africa in the global economy while promoting poverty reducing growth. Broad participation of the population in the market economy by utilizing Africa comparative advantage in agriculture is an important initial step. Policies that support smallholder farmers to participate in a market economy and protect rights of peasants, including women, to access land, credit and improved technology is particularly important for broad-based development.

African countries mineral resources have not been fully utilized. Foreign investment is indispensable for the exploration and exploitation of these resources. It is however important to adequately tax the rents to support human development that is an end in itself but will also create new areas of more rewarding comparative advantage. Special efforts are however needed to attract FDI in export-oriented manufacturing. Investment in infrastructure including telecommunication, power, water supply, roads and ports is pre requisite. The private sector may provide part of this investment particularly in telecommunication, but the public sector will have to be responsible for the other investment particularly road infrastructure. A minimum basic level of human development in the form of universal basic education, health, nutrition and housing are necessary for a sustained integration into the global economy as demonstrated by Mauritius. The technological changes and information technology revolution challenges each country that to sustain beneficial participation in the global economy to establish a knowledge based economy with widespread opportunities for life long learning.

Last but not least, the paper analyzes what type of international support Africa requires to gainfully participate in the global economy and make globalization work for the poor. The discussion of the new International Financial Architecture ignores the problems of availability of development finance for African countries. The new round of trade negotiations should explicitly address problems of market access for agricultural products and labor intensive goods that are of interest to African countries.

1. Introduction

Globalization has become one of the most politically charged issues in the world. To some it is an extension of the imperialist expansion of old, responsible for the increasing poverty, worsening income distribution and environmental degradation of developing countries. To others it is a panacea for economic development. What is needed for any poor country to attain a high growth of per capita income and join the convergence club is putting in place an institutional framework and adopting policies that promote free international trade and movement of capital. The world economy has experienced remarkable integration since 1950. The last two decades of the twentieth century have witnessed an acceleration of the process of globalization. The driving forces of globalization are technology, tastes and national and international policies (Mussa, 2001). The revolution in telecommunication and information technology has facilitated the globalization of the world economy in which integrated cross-border organization of economic activity, including production, trade, investment, financial flows, information flows and technology transfer is increasing and expanding. The tastes of consumers do not discriminate between goods and services of similar quality that are produced in foreign lands but are cheaper than local products. Government policies have facilitated the removal of barriers to international trade and foreign direct investment.

Not all countries and certainly only a few people in Sub-Saharan Africa (SSA) are participating in the global economy. Many rural Africans depend on subsistence production for their supply of food and housing. Lack of adequate physical and institutional infrastructure has drastically reduced opportunities for rural Africans to participate beneficially in the global economy. National markets in SSA are small and not internally integrated. Poor domestic transport and communication systems make major ports and cities better linked with the rest of the world than with their own hinterlands. Africa is the last frontier of the development challenge.

Is SSA being marginalized in the global economy because of bad domestic policies, or because of unequal and exploitative terms of integration into the global economy? Does globalization offer poor African countries an opportunity to leapfrog several decades of development, if they combine their low wages with basic education, technical skills and export-led growth to take advantage of the rapidly opening global markets? Can globalization be managed to promote pro-poor growth that utilizes abundant labor, generates employment and avoids ruthless growth that increases income inequality and the ranks of the poor?

To promote broad-based growth and development, Africa does not have a choice of disengaging from the global economy. Most countries that have achieved economic development have at least effectively utilized available trade opportunities. Countries that failed to promote exports have fallen behind. The challenge at the national level is to design policies that take advantage of the opportunities offered by the global economy while minimizing the risk of inappropriate exposure to global currents. The development strategy should focus on improving the investment climate for both domestic and foreign investors and increasing the capability of Africans, particularly the poor, to gainfully participate in a market economy.

After this introduction, Section 2 discusses SSA's decreasing participation in the global economy, largely focusing on its decreasing share in global trade and capital flows, particularly foreign direct investment. Section 3 of the paper analyses what the international community should do to assist SSA to integrate into the global economy. Section 4 discusses policies to integrate Africa in the global economy while promoting broad based development.

2. African participation in the global economy

The marginalization of sub-Saharan Africa can be observed in the region's decreasing share in world trade. Africa's share in total world exports decreased from an average of 4.0 per cent in 1960–9 to 1.5 per cent in 1990–9. The marginalization of SSA in world trade is largely a product of low growth of output and domestic supply constraints. Growth of output in SSA has been lower than in other regions, particularly East Asia. The share of SSA in world gross domestic product (GDP) decreased from 2.2 per cent in 1960–9 to 1.2 per cent in 1990–9 (see Table 1).

Table 1: Regional share in world GDP and exports of goods and services (per cent)

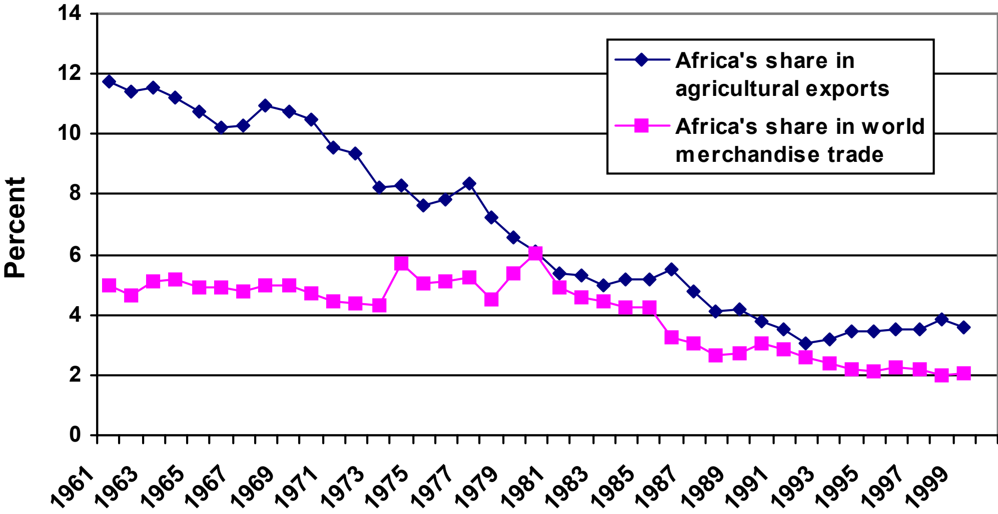
1 (a) Regional share in world GDP

	1960–9	1970–9	1980–9	1990–9
East Asia & Pacific	5.3	4.9	4.6	5.6
High income OECD countries	74.2	73.8	74.2	77.2
Latin America & Caribbean	5.8	6.3	6.0	6.1
Middle East & North Africa	1.3	2.3	2.9	1.8
South Asia	3.4	2.3	2.1	1.7
Sub-Saharan Africa	2.2	2.2	1.8	1.2
World	100.0	100.0	100.0	100.0

1 (b) Regional Shares in World Exports of goods and services				
	1960–9	1970–9	1980–9	1990–9
East Asia & Pacific	2.2	3.0	4.9	7.9
High income OECD countries	71.6	69.9	68.2	68.2
Latin America & Caribbean	5.4	4.3	4.4	4.3
Middle East & North Africa	2.5	5.5	4.1	2.6
South Asia	n/a	0.8	0.8	0.9
Sub-Saharan Africa	4.0	2.9	2.3	1.5
World	100.0	100.0	100.0	100.0

As the output elasticity of trade is usually greater than one, the export share has fallen more sharply than the GDP share. Over 70 per cent of the African labor force is employed in agriculture, and thus Africa should have a comparative advantage in agricultural products. Sub-Saharan Africa continues to produce and export primary products, facing weak world demand and decreasing world market prices. The share of primary products in the value of world trade is decreasing, because of their low income and price elasticities of demand. The

share of African agricultural exports in the world total has, however, decreased from 11.8 per cent in 1961 to 3.6 per cent in 1999. The region has lost share in its major agricultural exports; for example, its share of world coffee exports decreased from 29.5 per cent in 1975 to 11.4 per cent in 1999 (fig. 1).



The failure to maintain market share in its major agricultural exports and diversify into other products has contributed to the rapid increase in the number of the poor in the rural areas of Africa.

Sub-Saharan Africa's share in world exports of goods and services continues to be larger than its share in world GDP. Among developing regions, only East Asia has a share in world exports of goods and services that exceeds its share of the world GDP by a larger margin than that of Sub-Saharan Africa. Latin America's share in world GDP is larger than its share in world exports of goods and services. The marginalization of Africa is largely due to the failure of growth and not to a lower share of trade as a percentage of output. The fall in Sub-Saharan Africa's share in global trade is a symptom of the failure to sustain economic growth.

The long-term growth performance of SSA as a region has been disappointing. Per capita income measured in 1995 dollars has hardly grown (only 0.2 per cent per year) over the past four decades (table 2). In contrast, the East Asia and Pacific Region recorded a per capita GDP growth rate of 5.3 per cent per annum over the 1960–99 period. At the average growth rate of 0.2 per cent, SSA will require more than three centuries to double its per capita income while East Asia has been doubling its per capita income every fourteen years. As a result of a

high growth rate of per capita income, East Asian countries have been converging towards the high-income OECD countries. Growth of per capita income in SSA has been decelerating. The decade of highest per capita growth was the 1960s. In the past two decades SSA has registered negative growth of per capita GDP. In Latin America, the 1980s is usually considered a lost decade because of the negative growth rate of per capita income that was associated with the debt crisis. For SSA as a region, both the 1980s and 1990s were lost. Africa has not emerged and joined the convergence club of countries that are growing fast and steadily converging to technological and high-income leaders of the world.

Table 2: Regional growth of GDP and GDP per capita (per cent)

Region	1960–99	1960–70	1970–80	1980–90	1990–99
Growth of GDP					
East Asia & Pacific	7.2	5.9	6.8	8.0	7.5
High income OECD countries	3.4	5.4	3.4	3.3	2.2
Latin America & the Caribbean	3.9	5.2	5.6	1.7	3.4
Middle East & North Africa	n/a	n/a	n/a	2.0	3.0
South Asia	4.5	4.0	3.4	5.6	5.6
Sub-Saharan Africa	3.0	5.2	3.3	1.7	2.2
World	3.6	5.4	3.8	3.4	2.5
Growth of GDP per capita					
East Asia & Pacific	5.3	3.4	4.7	6.3	6.1
High income OECD countries	2.7	4.4	2.6	2.7	1.6
Latin America & the Caribbean	1.6	2.4	3.1	-0.2	1.8
Middle East & North Africa	n/a	n/a	n/a	-1.1	0.8
South Asia	2.1	1.6	1.0	3.4	3.6
Sub-Saharan Africa	0.2	2.5	0.5	-1.2	-0.4
World	1.8	3.3	1.9	1.6	1.1

The poor growth performance is also reflected in the volumes of exports. Annual growth of SSA exports has only averaged 2.7 per cent compared to the world annual average of 6.1 per cent, and the East Asia and Pacific region annual average of 9.8 per cent. For small economies, such as those of Africa, growth of exports is necessary for financing imports of

capital goods and intermediate inputs needed for the expansion of the production capacity and full utilization of existing capacity, and the tapping of economies of scale.

Countries that have successfully integrated into the global economy have recorded a high growth of manufactured exports and have increased their share in total exports. In the East Asia region, the share of manufactured goods in total merchandise exports have increased from 25 per cent in 1965 to 45 per cent in 1980 and 81 per cent in 1998, similar to the share of high-income OECD countries. SSA has continued to depend on primary exports throughout the 1960s to the 1980s. The share of manufactured exports increased in the 1990s and reached 39 per cent, but is still the lowest in all regions except the oil-rich Middle East (table 3).

Table 3: Manufactured exports (per cent of merchandise exports)

	1965	1970	1975	1980	1991	1995	1998
East Asia & Pacific	25.0	32.1	38.9	44.8	72.6	78.9	81.0
High income OECD	69.2	73.3	74.1	72.7	78.6	79.3	81.4
Latin America & Caribbean	8.6	15.9	21.2	19.7	37.1	45.0	48.8
Middle East & North Africa	5.2	6.0	5.6	7.6	14.9	20.3	20.7
South Asia	41.7	48.2	44.6	53.8	72.9	76.3	78.7
Sub-Saharan Africa	17.2	18.8	15.2	12.4	20.2	34.1	38.5
Low & middle income	18.6	24.0	28.3	32.0	55.8	63.3	63.6
World	59.1	63.8	65.8	65.9	74.4	76.9	78.3

Source: World Bank World Development Indicators

Sub-Saharan Africa is not homogeneous. Trade performance is not uniform across the region (Rodrik, 1998). Botswana and Mauritius have done well but the overall trend in most African countries since 1980 has been falling market shares. The African giants, South Africa and Nigeria, also have lost market shares in world exports. This is largely the result of stagnant economies and export concentration on commodities with falling prices.

African countries have not yet exhausted the potential expansion of agricultural exports, but they also need to diversify away from tropical beverages into manufactured goods without losing their market share of agriculture exports.

2.1. Capital inflows to Sub-Saharan Africa

Developing countries as a group experienced a phenomenal increase in resource inflows during the 1990s. Aggregate net resource flows to all developing countries (including economies in transition) increased by a factor of two between 1990 and 1993. The increase of aggregate transfers (net of debt service payments and repatriated profits) was more than five-fold between 1990 and 1993, and more than eight-fold between 1990 and 1997 (see Table 4).

Table 4: Aggregate net transfers, annual average (USD, billion)

Region	1970–4	1975–9	1980–4	1985–9	1990–4	1995–99
East Asia and Pacific	2.2	3.5	4.5	0.4	37.9	72.8
Europe and Central Asia	0.7	3.6	3.2	-2.9	13.7	33.7
Latin America and the Caribbean	3.2	10.7	1.4	-17.8	15.7	56.6
Middle East and North Africa	-2.5	2.6	2.1	6.1	3.0	1.6
South Asia	1.5	3.0	5.2	7.9	6.7	6.1
Sub-Saharan Africa	1.3	4.5	6.8	8.5	9.8	10.6
All developing countries	6.4	27.8	23.3	2.1	86.7	181.3

Source: Computed using data from World Bank Global Development Finance 2000

The 1997 Asian financial crisis caused a sharp decrease in net transfers not only to the East Asian region, but also to other regions, including Sub-Saharan Africa.

The capital flows to developing countries became increasingly dominated by private flows. In 1990, private flows accounted for 44 per cent of all aggregate net resource flows to developing countries, and by 1996, this proportion increased to 89 per cent. The Asian financial crisis of 1997 not only decreased aggregate net resource flows but also the share of private capital flows that decreased to 75 per cent in 1999. Aggregate figures for the developing countries mask enormous country-specific and regional differences. The East Asian and Pacific region has been the main beneficiary of private capital inflows, receiving 45 per cent and 35 per cent of all inflows during the 1990–4 and 1995–9 periods, respectively. Latin America emerged from the 1980s debt crisis (when it was transferring resources to the

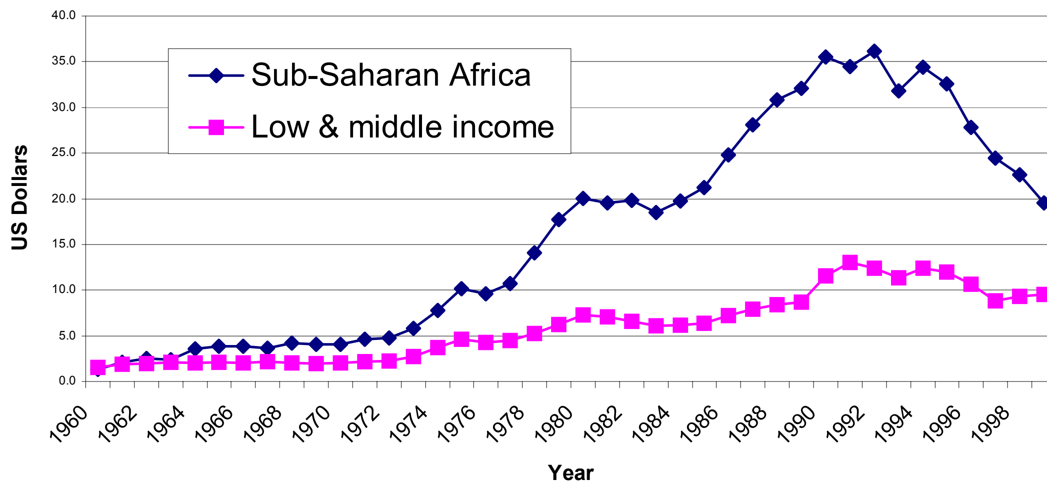
developed countries) and started receiving net resource transfers. SSA received only 2.3 per cent of private capital flows from 1990 to 1994. The share of private capital flows destined to SSA has fallen over time (see Table 5).

Table 5: Regional Shares of Private Capital Flows (Per cent)

	1970–4	1975–9	1980–4	1985–9	1990–4	1995–9
East Asia & Pacific	17.0	14.9	23.3	26.5	45.0	35.0
Europe & Central Asia	5.9	6.9	10.2	15.9	12.0	16.2
Latin America & the Caribbean	66.5	56.7	50.1	19.3	33.9	40.7
Middle East & North Africa	-0.2	12.1	4.9	18.3	2.7	1.9
South Asia	0.8	0.4	3.8	11.9	4.1	2.7
Sub-Saharan Africa	9.9	9.1	7.7	7.3	2.3	3.5
Low & middle income	100.0	100.0	100.0	100.0	100.0	100.0

Private capital flows as a share of total resource flows have been decreasing in SSA but increasing in all other developing regions. The causes of declining shares of private capital inflows to Sub-Saharan Africa include low economic growth and small markets, policy environments that are not conducive to investment, high perceived risk, weak institutions, and debt overhang.

Africa is increasingly dependent on official flows and receives the highest per capita aid compared to all developing regions (Figure 2). Aggregate official flows to all developing countries are decreasing in nominal and real terms. From 1994 to 1999, official development assistance to SSA fell by 35 per cent in nominal terms, despite the fact that more countries implemented market-friendly reforms. With the end of the cold war, the United States has drastically reduced development assistance to all countries except Israel, which is a high-income country. It seems only Denmark, Luxembourg, Netherlands, Norway and Sweden continue to be politically committed to international solidarity of contributing at least 0.7 per cent of their GNP to development assistance. African countries will need to effectively use the decreasing development assistance and increasingly tap global private-capital markets to supplement their domestic savings.



2.2. Foreign direct investment

In the 1990s, there was a dramatic increase in foreign direct investment, mainly in the high-income OECD countries – particularly, the European Union, Japan and the United States. The liberalization of the capital account transactions within the OECD, which began in the 1970s and was largely completed in the first half of the 1980s, laid the foundation for the explosion of foreign direct investment in these countries mainly in the form of mergers and acquisitions. Developing countries also experienced a surge of foreign direct investment inflows in the 1990s, but this increase has generally bypassed most African countries. Despite the shortage of capital in sub-Saharan countries, capital inflows have been limited. Foreign direct investment is concentrated among the industrialized countries and only a few emerging economies. The share of global foreign direct investment inflows to Sub-Saharan Africa has been decreasing (table 6). The United Nations' *World Investment Report 2001* estimates that in 2000 the developed countries accounted for three quarters of the inward foreign direct investment inflows. In the 1990s, the share of emerging and developing economies has increased from 12.6 per cent in 1990 to 40.4 per cent in 1994, only to decrease to 19.0 per cent in 2000. The whole of Sub-Saharan Africa, however, accounted for only 0.9 per cent of the inward foreign direct investment inflow in 1999, compared to 4.6 per cent and 1.4 per cent in 1972 and 1995, respectively.

From 1990 to 1999, SSA accounted for less than 1.2 per cent of the total foreign direct investment to all developing countries, despite the fact that rates of return on foreign direct investment in SSA averaged 24–30 per cent, compared to 16–18 per cent for all developing countries (Bhattacharya, Montiel and Sharma, 1997; World Bank, 1997). Most of the foreign direct investment was in natural resource extraction, particularly in the petroleum

sector. The leading recipients of foreign direct investment inflows include Nigeria and Angola; almost all of it is directed to the petroleum industry.

Table 6: Share of world foreign direct investment, net inflows per cent

	1970–4	1975–9	1980–4	1985–9	1990–4	1995–9
East Asia & Pacific	3.5	3.9	4.9	4.6	13.1	12.7
Europe & Central Asia	0.5	0.2	0.2	0.2	2.3	4.3
Latin America & the Caribbean	11.6	11.9	11.0	5.2	7.9	11.3
Middle East & North Africa	-4.5	1.9	0.1	1.7	1.6	0.6
South Asia	0.4	0.2	0.3	0.3	0.4	0.8
Sub-Saharan Africa	3.4	3.3	1.4	1.3	1.0	1.3
High income OECD countries	83.3	76.7	79.1	84.5	70.8	66.9
Developing countries	14.9	21.5	17.9	13.4	26.3	31.0
World	100.0	100.0	100.0	100.0	100.0	100.0
	1994	1995	1996	1997	1998	1999
East Asia & Pacific	19.3	16.6	16.6	14.4	9.6	6.3
Europe & Central Asia	2.9	5.3	4.4	5.2	3.8	3.0
Latin America & the Caribbean	11.8	9.3	11.8	14.3	10.9	10.2
Middle East & North Africa	1.3	-0.1	0.6	1.1	1.0	0.2
South Asia	0.7	0.9	1.0	1.1	0.5	0.3
Sub-Saharan Africa	1.4	1.4	1.4	1.8	1.0	0.9
High income OECD countries	58.7	63.8	61.1	59.7	72.0	77.9
Developing countries	37.5	33.4	35.9	37.9	26.8	21.0
World	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Development Indicators 2001

2.3. Can African countries attract private capital inflows?

African countries need to design their development strategies that take into consideration their own realities without falling into the trap of believing that “open trade and investment policies are the surest ways to achieve economic growth and poverty alleviation.” As Rodrik (2001) has argued for developing countries as a whole, “Policy makers need to forge a *domestic* growth strategy, relying on domestic investors and domestic institutions.” Policy makers should aim at improving the investment climate facing their own small and medium-scale enterprises rather than providing subsidies and tax breaks to attract foreign investment. At their current level of development, however, foreign capital can supplement domestic savings. Official development assistance is likely to continue decreasing despite major improvements in the economic policies of African countries.

Access to private foreign capital can facilitate the transfer of technology necessary for sustaining economic growth and structural transformation. Foreign direct investment is the appropriate form of capital flow. The key question is what policies are required to attract these flows?

2.4. Macroeconomic stability

Most African countries have liberalized their foreign exchange markets and have made their currency convertible for current account transactions. Inflation rates in most countries not experiencing civil wars are moderate and declining, below the 40 per cent threshold considered by Barro (1997) and Bruno and Easterly (1997) to be harmful, and thus not very likely to cause a decrease in long-term growth. At least 30 African countries has had single digit inflation rates in the past 3–5 years. Parallel market exchange rate premiums are disappearing. By 1997 at least 35 Sub Saharan African countries had exchange rate premiums of less than 10 per cent.

However, many African countries are far from macroeconomic stability, with unsustainable fiscal deficits and an accumulation of external and domestic payment arrears. In many cases inflation control has been achieved by the use of the cash budget under the auspices of the IMF-supervised stabilization program. Many countries, including Côte d’Ivoire and Nigeria, have huge debt payments arrears, which hinder access to commercial bank loans and any possibility of attracting portfolio flows, even to their national stock exchanges.

Despite the extensive liberalization that has been undertaken in many sub-Saharan countries, the continent is perceived as largely economically unfree. The Heritage Foundation/*Wall Street Journal* 1998 Index of Economic Freedom Report concludes that:

> Sub-Saharan Africa remains the most economically unfree – and by far the poorest – area in the world. Of the 38 sub-Saharan African countries graded, none received a rating of free. Only 7 received a rating of mostly free, 25 were rated unfree, and 6 were rated repressed. Economic freedom in sub-Saharan Africa, in fact, declined in 1997; 11 countries (29%) received lower scores this year, while 9 (24%) improved their scores.

2.5. Small markets

Sub-Saharan African countries have very small economies. Compared to the value of GDP of the whole of SSA, China's economy is more than three time as large, Brazil is almost two and a half times as large, Mexico is more than one and half times as large, and India is almost one and half times as large. What would be the long-term economic viability of Mexico if it were divided into 48 independent states, most of them with their own currencies, visa requirements for traveling, and independent trade policies with customs inspection in all major border crossings?

South Africa accounts for around 40 per cent of the Sub-Sahara Africa GDP. Nigeria accounts for another 10 per cent. The remaining 46 countries have a combined GDP of 90 per cent of that of Denmark. Most African countries have GDP levels similar to that of a medium-size European town. The 1998 GDP estimates show that each of the 46 countries had GDP of less than 12 billion dollars. Twelve countries had GDP value of less than one billion dollars. In addition to being small markets, 19 Sub-Saharan countries are land locked. Balkanized Africa cannot attract large inflows of foreign direct investment.

Regional economic integration is necessary for Africa to gainfully participate in a globalizing world. The quest for economic integration has dominated African development thinking and intergovernmental conferences. There is, however, a proliferation of Regional Integration schemes with limited practical achievements. Lack of success in implementing various regional integration schemes did not deter African heads of states from declaring the formation of the African Union in 2001.

Most of Africa's regional integrating schemes followed a model of "closed" regionalism that aimed at creating trade barriers to the rest of the world. Despite the proliferation of regional integration schemes since the 1960s, intra-African trade accounts for

only 10 per cent of total external trade of Africa. Inward looking regional economic integration has failed in Sub-Saharan Africa (World Bank, 2000; Oyejide et al., 1998).

Africa is now increasingly committed to open regional economic integration. President Abdoulaye Wade (2001) of Senegal has argued in his Plan Omega:

> At a time when financial markets are globalizing and foreign direct investment is booming and both production networks and trade in goods and services are going transnational, Africa should be plugging into the new global economic deal. Globalization is a major challenge that should be met with a global and comprehensive vision of African development that will speed up the sustainable economic growth of African countries within a perspective of regional integration.

The main stumbling block to open regional integration is poor infrastructure within and among African countries. The New Partnership for African Development has noted that

> [u]nless the issue of infrastructure development is addressed on a planned basis – that is, linked to regional integrated development – the renewal process of the continent will not take off. Therefore, the international community is urged to support Africa in accelerating the development of infrastructure.

Effective regional integration schemes require a convergence of political systems towards democratic governance and their legitimacy within each polity. The African Union in many respects follows the European Union model. African leaders should seriously take into consideration that

> from the very beginning, the model of integration pursued by Europe has gone beyond the economic sphere. It now entails significant political and legal integration – with a directly elected Parliament, a European Court of Justice, and a common legal and regulatory architecture that spans more than 80,000 pages (Rodrik, 2001b).

2.6. Good governance

The rule of law is the extent to which the country's institutional arrangements effectively provide for the implementation of laws of the land, protect the security of individuals and their property, adjudicate disputes, provide orderly, but not necessarily democratic, succession of power. Political stability and the rule of law have been lacking in many African countries. Both the levels of investment and the efficient utilization of the existing capital stock and labor are affected by the rule of law.

African leaders increasingly appreciate the importance of good governance, at least in their statements. In the New Partnership for African Development they have argued:

> It is now generally acknowledged that development is impossible in the absence of true democracy, respect for human rights, peace and good governance. With the New Partnership for Africa's Development [NEPAD], Africa undertakes to respect the global standards of democracy, whose core components include political pluralism, allowing for the existence of several political parties and workers' unions, fair, open, free and democratic elections periodically organized to enable the populace choose their leaders freely.

The democratization process is gaining momentum in Africa. South Africa is the leading democratic country in the region. Botswana and Mauritius, the best performing economies in the region, have remained democratic throughout their post-independence period. In 2000, there was good news of the peaceful democratic change of government in Ghana and Senegal. The recent election experience in Zimbabwe has unfortunately put a huge question mark over the African leaders NEPAD commitment to organize "fair, open, free and democratic elections."

The most appropriate policy for promoting productive foreign investment is to create an environment conducive to domestic saving and investment. The policy priority for attracting growth-promoting foreign investment is to establish macroeconomic stability, a competitive real exchange rate, efficient infrastructure, and "rules of the game" that promote saving, investment and enterprise, and improving the human capital base. Building institutions that support stable governance and legitimize the state to its citizens is a necessary ingredient in promoting broad-based development.

3. What should be done by the international community?

3.1. Debt relief and development assistance

The extending of loans to African countries was largely influenced by cold war rivalry and less by rational economic calculations of the productivity of external borrowing in African economies. The growth of debt was too high compared to the growth of exports. African governments seem to have perceived most of the external loans as grants. Lenders tended to be in the driver's seat. During the "Cold War period", the supply of loans created its own demand, regardless of the loans' contribution to economic growth.

Among the 42 countries that are classified by the IMF and World Bank as heavily indebted poor countries (HIPCs), 35 are in Sub-Saharan Africa. The implementation of the HIPC initiative has been very slow. Largely as a result of intense pressure from international civic organizations, such as Oxfam and Caford, as well as the anti globalization “brigade” that has been tormenting conferences of international institutions, the IMF and World Bank have speeded up the debt relief qualification process for eligible countries. Many of the HIPC debt relief packages were approved only in late 2000. As of March 2002, four countries: Bolivia, Uganda, Mozambique and Tanzania had reached completion point and received large debt relief. Other 21 countries had reached decision point at which bilateral and multilateral donors start reducing debt service payments to enable the eligible countries to commit more resources to measures that can reduce poverty.

For the 24 countries that have benefited, the IMF and World Bank estimate that debt service falling due over 2001–3 will on average be about 30 per cent lower than the actual payments in 1998–9, averaging 8 per cent of exports – less than a half of what the typical developing country pays – or 12 per cent of government revenue – about half the 1998–9 share.

Oxfam (May 2001) argues that,

> of the twenty-two countries receiving debt relief, three-quarters will be spending over ten per cent of government revenue on debt this year. Sixteen countries will be spending more on debt than on the health of their citizens, and ten will be spending more on debt than on primary education and health combined. Oxfam is calling for deeper and wider debt relief, and for 100% cancellation of IMF and World Bank debt.”

In defense of the enhanced HIPC Initiative, the IMF and World Bank have pointed out that

> Before the HIPC Initiative, eligible countries were on average spending slightly more on debt service than on health and education combined. For the first 24 countries that have qualified for HIPC relief, this is no longer the case: all of them are now spending more on social services than debt service, on average more than triple; and all have shown a marked increase in the share of health and education in their budgets under their recent IMF-supported programs.

The IMF and World Bank are opposed to 100 per cent debt cancellation on the flimsy ground that “debt relief comes at a cost.” As Cohen (2000) has pointed out,

> the HIPC initiative is distorted by the fact that – contrary to the Brady deal itself – it lacks all perspective on the "market value" of the debt which is written down. The appropriate "market value" is one that takes account of the risk of non-payment: arrears, rescheduling and "constrained" refinancing of various sorts. The (HIPC) initiative is about ten times less generous than face value accounting would suggest.

The Bretton Woods Institutions have dragged their feet in providing debt relief to poor countries. They first argued that their special privileged creditor status should be protected at any cost, so that they can raise funds in capital markets at low interest rates. Their debt could not be rescheduled, let alone cancelled. It was only intense pressure from developed countries' civil society that led to the HIPC initiative. They oversold the first HIPC initiative as adequate to reduce the external debt of poor countries to sustainable levels, which was not true, and thus the Extended HIPC Initiative was introduced.

Cancellation of external debt per se will not deliver enough resources to implement growth and poverty-reduction strategies. The limited capability of African governments needs to be directed in designing and implementing national poverty-reduction and growth strategies. This means creating delivery capacity for social policy, better expenditure management, and the many other elements of economic, social, political and institutional reform. Scarce technical capacity available in Central Banks and Ministries of Finance is being utilized to prepare phony debt sustainability analyses and compile information for voluminous decision and completion point documents. Poor countries should receive 100 per cent debt cancellation and new development assistance to deserving countries should be in the form of grants.

In The New Partnership for African Development, African leaders have pledged to ensure that the continent achieves the agreed International Development Goals (IDGs), which are:

- to reduce the proportion of people living in extreme poverty by half between 1990 and 2015;
- to enroll all children of school age in primary schools by 2015;
- to make progress towards gender equality and empowering women by eliminating gender disparities in the enrolment in primary and secondary education by 2005;
- to reduce infant and child mortality ratios by two-thirds between 1990 and 2015;
- to reduce maternal mortality ratios by three-quarters between 1990 and 2015;
- to provide access for all who need reproductive health services by 2015;

- to implement national strategies for sustainable development by 2005, so as to reverse the loss of environmental resources by 2015.

  The World Bank has estimated that

  it will take on the order of an additional $40 to $60 billion a year to reach the Millennium Development Goals – roughly a doubling of current aid flows – to roughly 0.5% of GNP, still well below the 0.7% target agreed to by global leaders years ago.

  Jim Wolfensohn (2002), the World Bank President, has called on rich countries to

  commit to matching the efforts of developing countries step by step with a phased-in increase in aid – say an additional $10 billion a year for the next 5 years; building to an extra $50 billion a year in year five.

It should be noted that USD 50bn is only a seventh of the subsidies of USD 350bn a year provided, in rich OECD countries, as farm support that goes mainly to a relatively small number of agribusinesses, many of which are large corporations.

3.2. A development trade round

Africa can diversify its exports into non-traditional products, including labor intensive manufactured goods and services such as tourism. What is needed is correct policies of moving Africa into the global economy, such as production-oriented trade liberalization, better institutions, investment in infrastructure and human capital, and improved public services and supportive environment for private sector development that can initiate and sustain a rapid growth of non-traditional exports. There is no justification for persistent Afro-pessimism. If governments play their part by investing in infrastructure and make current reforms credible by improving the investment climate and eliminating remaining anti-export bias, labor intensive exports will grow. A book written by African researchers, published by the World Bank (2000), has rightly argued that trade policy reforms should be integrated into an overall business plan for economic diversification that include improved infrastructure, better public services delivery, improved education and technical training, stable exchange rate regimes, broadening fiscal base from trade taxes, and an investment strategy for promoting small and medium-scale enterprises.

Open regional integration can promote export growth and diversification not only by enlarging economic space but also by locking in trade reforms. Inward looking regional integration is simply not viable. To benefit from global trade and protect its own interest, Africa should actively participate in multilateral trade negotiations, preferably in regional blocs and in

alliance with other developing countries with similar interest. Africa needs improved market access for its agricultural products, processed products and labor intensive manufactured goods, such as textiles and clothing. Africa should negotiate hard to exclude trade restrictions on developing countries' exports based on labor standards and environmental issues.

Africa should insist on "dramatic reduction of agricultural subsidies in rich countries – which currently stand at USD 350 billion a year, roughly seven times what rich countries spend on development aid" (World Bank, 2001). The least developed African countries should also insist on special and differential treatment in meeting WTO obligations. As Finger and Schuler (1999) have noted,

> WTO obligations reflect little awareness of development problems and little appreciation of the capacities of the least developed countries. In most cases standards have been developed with little input form the least developed countries, undermining their sense of ownership.

For some African countries, "implementing WTO obligations would cost as much as entire year development budget."

4. Policies for promoting development in a globalizing world

Participating in the global economy through trade and attracting investment is important for growth and human development. We have shown that Sub-Saharan Africa's decreasing share in world trade does not result from exporting a smaller share of its GDP, but largely from the failure to attain growth and diversification of exports. The falling export volumes and market shares suggest that the binding constraint on Africa's participation in global trade is domestic supply problems rather than inadequate market access. The first challenge is therefore to increase African capability to supply goods that are in demand in a dynamic global economy.

In the past decade, Africa has implemented far-reaching reforms. Most countries have currencies that are convertible for current account transactions. Overvalued exchange rates are no longer a common phenomenon. Quantitative restrictions have been reduced. The number of tariff categories has been reduced and rates lowered. Average rates are still higher in Africa, largely because of Africa's dependence on import duties as a source of fiscal revenue. With a few exceptions of countries recovering from long-term decline, such as Uganda, reforms have not restored the growth that was attained in the 1960s and 1970s. To revive growth, Africa needs more public and private investment and better institutional

arrangements, such as credit to smallholder farmers, to promote fair market interactions and create markets where they do not exist.

To increase domestic supply capacity, African countries must continue with the implementation of market-oriented policies and build institutions that complement competitive markets and address problems of market failures. In order for market-enhancing policies to succeed, it is necessary for the governments to be fully in control of the reform process. Reforms should not be imposed as conditionalities for access to World Bank, IMF and donors' resources (Killick, 1998).

To promote broad-based growth that will drastically reduce poverty in Sub-Saharan Africa requires creating a favorable climate for investment and growth and empowering poor people to participate in that growth. The consensus is that sustained growth, expansion and diversification of exports and reduction of poverty is promoted by:

(a) macroeconomic stability in the form of moderate inflation, a competitive exchange rate, and low, broadly defined fiscal deficits (including public enterprise and other semi- autonomous government-funded institutions);

(b) good governance and strong institutions that promote the rule of law with effective law enforcement, control of corruption and limits to bureaucratic harassment, especially in the administration of regulations and taxes;

(c) sound management of public expenditure and allocation of public resources into priority sectors, such as education, health, infrastructure – particularly roads – and agriculture research and extension;

(d) a tax system that is simple to manage, broad-based, with low tax rates, capable of generating government revenue equivalent to at least 20 per cent of GDP;

(e) a sound domestic banking system, with an adequate supervisory and regulatory framework, and a growing financial system that provides credit at affordable interest rates, not only to medium and large enterprises but also to smallholder farmers and micro enterprises.

Increasing numbers of African governments are improving their macroeconomic management, but it will take time to build high-quality institutions and a sound banking system, providing credit to most people at affordable rates. Building growth-promoting institutions requires specific understanding of local conditions and constraints, as well as experimentation. The challenge to African leaders is to build institutions that will improve the investment climate, taking into consideration their own cultures and historical experiences.

In order to initiate and sustain broad-based growth of 6–8 per cent, Africa needs gross investment rates of 25–30 per cent, which should be efficiently utilized rather than being used to build monuments. Among less developed countries, Africa has the most inadequate infrastructure. For most countries, domestic tax revenues are insufficient for improving basic infrastructure, including rural feeder roads; restructuring and revamping basic primary education systems; reorienting post-primary education toward technical and science-based training; carrying out primary health care, including setting up a system that will provide vaccination against the most common communicable diseases; building agricultural research and extension capability; and strengthening the legal framework to promote productive investment.

African access to private capital markets is limited. Most countries cannot raise money on the international bond market for long-term financing of infrastructure construction. Private sector participation in the provision of infrastructure services should be encouraged wherever possible. It would, however, be a mistake to have any illusions that the private sector can provide most of the infrastructure and utilities that Africa needs in order to develop. African markets are small and perceived to be politically risky. Private investors want to maximize returns and minimize risks. They will invest in countries that offer public guarantees of high prices and a minimum purchase agreement. Prices sufficient to lure private development of electric power and other utilities are likely to be too high for competitive, new manufacturing industries to emerge. Public investment in roads, rehabilitation of railways, power generation, and water supply will continue to be indispensable. African governments are broke; private investors have limited interest at present, except at government-guaranteed rates of return. Concessionary development finance will continue to be indispensable. Effective participation by Africa in the global economy requires international public support for investment in infrastructure and human development.

The 35 per cent fall in nominal official development assistance to Sub-Saharan Africa between 1994 and 1998, even as more countries are implementing market-friendly reforms is alarming. The World Bank and the IMF argue that economic reforms are working in Africa, while reducing support to the region. Public opinion continues to believe that more money is thrown to Africa without any impact on development and poverty reduction. The crisis in development assistance to a Sub-Saharan Africa that is reforming should be highlighted. If the US Congress fails to take a progressive position and provide its share of finance to multilateral development institutions, African countries that are willing to undertake reforms will find it more difficult to initiate and sustain poverty-reducing growth. Africa has

succeeded in selling NEPAD to the international community. African leaders should abide by their commitments in NEPAD of practicing good democratic governance, in order to be taken seriously in a globalizing world.

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