



# Economic Liberalisation and Development in Africa

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# Contents

Introduction .....	1
Have Economic Reforms Helped Growth in Africa? .....	3
Trade Liberalisation .....	10
Gains from Agricultural Trade Liberalisation? .....	11
Tropical Fate? .....	14
Resource Curse? .....	15
Wage Competitiveness? .....	15
Changed Role of the State .....	16
Inequality, Poverty, Violence and Conflict .....	17
New Challenges .....	18
Moving Forward .....	20
Notes .....	21
References .....	22



## Introduction

Over the past three decades, sub-Saharan African (SSA) income growth has barely kept pace with population growth. After a moderate increase in per capita income during the 1970s, SSA growth averaged 2.1 percent per annum in the 1980s and 2.4 percent in the 1990s, i.e. below the population growth rate. Despite a modest recovery after the mid-1990s, SSA per capita income at the turn of the century was ten percent below the level two decades earlier. Slow and erratic SSA growth has been accompanied by regressive income distribution trends (Geda 2005). The drop in average per capita income for the poorest 20 percent in SSA was twice that for the entire population between 1980 and 1995 (UNCTAD 2001:53).

For SSA, the new generation policies espoused by the 'Washington Consensus' – now involving 'getting prices right', 'getting institutions right' and 'good governance' – are still routinely offered as advice, if not imposed as conditionalities. Income levels in most of SSA are too low to generate the domestic resources needed for rapid growth. Meanwhile, under the Heavily Indebted Poor Countries (HIPC) initiative, only part of total debt is eligible for relief and, even then, only for some indebted countries. Furthermore, despite some recent acceleration in implementation, HIPC progress remains slow. As of June 2006, some ten years after the launch of the HIPC initiative, only 15 of the 32 African countries included in the HIPC list of 38 had reached completion.<sup>1</sup>

According to the World Bank, by 1998, a quarter of the population of the developing world, i.e. 1.2 billion people, were living below the poverty line of US\$1 per day, in 1993 purchasing power parity terms. Excluding China, where the number of poor has gone down with rapid economic growth, the number of poor people increased from 880 million in 1987 to 986 million in 1998. The number of the poor in sub-Saharan Africa (SSA) rose from 217 million in 1987 to 291 million in 1998, averaging around 46 percent of the SSA population over the period (World Bank 2001b: 17, 23). The proportion of the population on less than US\$1 a day in the least developed African countries has increased since the late sixties, rising from an average of 55.8 percent in 1965-69 to 64.9 percent in 1995-99 (UNCTAD 2002: Tables 19 & 20).

**Table 1: Economic Trends in Sub-Saharan Africa**

	1960	1965	1970	1975	1980	1985	1990	1995	2000
	-65	-70	-75	-80	-85	-90	-95	-2000	-02
GDP per capita <sup>a</sup>									
An. Av. Gr. Rt.	2.76	2.37	1.79	-0.32	-1.9	-0.4	-1.43	0.68	0.75
Xs goods & services <sup>b</sup>									
An. Av. Gr. Rt.	6.91	4.25	0.81	4.46	0.18	2.86	3.28	4.73	1.79
Manufactured Xs (US\$m)									
An. Av. Gr. Rt.								5.47	
X Price Unit Value Indices <sup>c</sup> (US\$)									
An. Av. Gr. Rt.	1.4	0.27	21.12	22.45	-4.45	-2.22	1.86	-4.17	-1.78
	1960	1965	1970	1975	1980	1985	1990	1995	2000
Manufactured Xs (US\$m)					4,683		29,699	38,757	

An. Av. Gr. Rt. (Average Annual Growth Rate)

<sup>ab</sup>(const. 1995 US\$); <sup>c</sup> These data are for the whole of Africa.

**Table 2: Number of Poor in Africa**

	% living on <\$2/day 2001	Change in proportion and number of poor (<\$1/day), 1981-2001	
		%	millions
World	53	-8	81
East Europe and Central Asia	20	15	70
Middle East and North Africa	23	2	19
Latin America and Caribbean	25	-3	3
East Asia and Pacific	47	-23	-252
Sub-Saharan Africa	77	2	134
South Asia	77	-9	106

Source: UN/DESA, 2005.

Over the last two decades, real wages have fallen and income inequality has risen, as adjustment policies have hollowed out the nascent middle class in SSA. It is very difficult to reduce poverty through redistribution when average income levels are low, as in SSA. Hence, sustained poverty reduction can only proceed on the basis of rapid and sustained growth and job creation. However, the link between structural adjustment recommended by the Bretton Woods institutions (BWIs) and economic growth is generally weak, even when positive: of the 15 countries identified as core adjusters by the World Bank in 1993, only three were

subsequently classified by the IMF as strong economic performers. And the exceptional cases of rapid growth among a few strong performers can be explained by special circumstances unrelated to structural adjustment policies.

### **Have Economic Reforms Helped Growth in Africa?**

As is well known, the African development policy landscape has changed radically over the last three decades. Liberalisation and privatisation have replaced state controls and enterprises associated with import substitution. These failures can be traced to the displacement of strategic developmental thinking by policies of economic liberalisation. Ironically, while economic analysis during the pre-liberalisation developmental era seriously considered the impact of external factors on economic growth, the subsequent era, associated with globalisation, has tended to focus on 'domestic' determinants of economic performance (more recently, this internal focus has gone beyond economic policies to include institutions, governance, rent-seeking, ethnic diversity, geography, etc.).

In 1981, the World Bank published the influential *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, often referred to as the Berg Report, after its principal author, Elliot Berg from the University of Michigan's Economics Department. The document is seen as having set out the framework for subsequent economic reform led by the two Bretton Woods institutions over the last two decades in sub-Saharan Africa. The international sovereign debt crises from the early 1980s enabled the BWIs to impose the reform agenda as policy conditionalities for providing desperately needed credit in the face of the Volcker-induced world recession, following the contractionary impact of raised US interest rates in the early 1980s.

While the International Monetary Fund (IMF) was generally responsible for short-term stabilisation programmes, the World Bank generally handled medium-term structural adjustment programmes (SAPs). These programmes were later dubbed as part of the Washington Consensus, also reflecting the economic policy preferences of the US leadership, particularly the Treasury Department. The Washington Consensus is generally associated with the global trend towards greater economic liberalisation since the 1980s, and has changed over time, largely in response to poorer economic performance throughout the world, especially in the developing countries, over the last two and a half decades. Despite Nobel laureate Joseph Stiglitz's acknowledgement that the Washington Consensus had failed, and needed to be replaced by a reflationary and developmental post-Washington Consensus, there is little evidence of significant fundamental policy change despite growing dissent over those policies.

This is clearly reflected by remarks from the BWIs (for example, see *Finance & Development*, September 2002) with every hint of seeming economic success. The BWIs and their supporters have continued to deny that the poorer economic performance of the African region and the world in recent decades, can be directly attributed to the recommended or imposed policies pursued over the last two and a half decades. As the IMF puts it, 'globalization is proceeding apace and SSA must decide whether to open up and compete, or lag behind' (Fischer et al. 1998: 5). Or, as a World Bank economist has argued, 'If Africa is to reverse its unfavourable export trends, it must quickly adopt trade and structural adjustment policies that enhance its international competitiveness and allow African exporters to capitalize on opportunities in foreign markets' (Yeats 1997: 24). The key message of the BWIs to 'get prices right' through economic liberalisation is promoted as the conventional wisdom by media pundits. Commenting on the continuing stagnation of African per capita incomes, *The Economist* (2001: 12) argued that 'it would be odd to blame globalization for holding Africa back. Africa has been left out of the global economy, partly because its governments used to prefer it that way.'

Most African governments accepted the BWIs' policies, expecting the promised 'catalytic effect' on foreign capital inflows of the BWIs' stamps of approval. The actual response of private capital has, in the words of the World Bank, 'been disappointing' (quoted by Mkandawire 2005), although rates of return to FDI have generally been much higher in Africa than in any other region (Bhattacharya et al. 1997; UNCTAD 1995, 2005). This, however, has not made Africa much more attractive to foreign investors, due to ill-specified and intangible 'risk factors'. Africa is systematically rated as more risky than warranted by economic indicators. Increased foreign investment into Africa has not increased Africa's share of global FDI flows. Although average annual inflows have increased five-fold by 1998, the share of FDI going to sub-Saharan Africa (1.2 percent in 1999) was less than half its share in the mid-1980s (UNCTAD 2000).

However, from the mid-1990s, the BWIs began to claim success for their economic liberalisation and adjustment programmes. IMF officials suggested a 'turning point' (Fischer et al. 1998), claiming that the positive per capita growth rates of 1995-97 (averaging 4.1 percent) 'reflected better policies in many African countries rather than favourable exogenous developments' (Hernández-Catá 2000, quoted by Mkandawire 2005). Michel Camdessus, then IMF Managing Director, said at the 1996 annual meeting of the World Bank and the IMF, 'Africa, for which so many seem to have lost hope, appears to be stirring and on the move'. The World Bank President reported to his Board of Governors that there had been progress in the SSA, 'with new leadership and better economic policies'

(Wolfensohn 1997). A senior IMF official, Alassane Ouattara (1997), claimed that 'a key underlying contribution has come from progress made in macroeconomic stabilization and the introduction of sweeping structural reforms', while a major World Bank (2000: 21) report on Africa claims that there had been a turn-around because of 'ongoing structural adjustment throughout the region which has opened markets and has a major impact on productivity, exports and investment'.

The rise in FDI in the late 1990s was cited as an evidence that the tide was turning (Pigato 2000: 2) although there is little evidence that the pattern of FDI is likely to bring about the sustained and broad-based economic growth and employment generation desperately needed in Africa (UNCTAD 2005). However, much of the investment in SSA went to South Africa, and to mining which is hardly influenced by macro-economic policy considerations. Some new investments have gone to expand or improve existing capacities, especially in natural monopolies (for example, beverages, cement and oil, gas and petroleum refining). Such expansion may have been stimulated by the short-lived spurt of growth that caused much euphoria, but later faded away. FDI has also been drawn by one-time opportunities associated with privatisation. For example, FDI to Ghana, once hailed by the BWIs as a 'success story', peaked with privatisation, and with subsequent negative outflows. With the dismantling of protectionist barriers, import substituting activities have experienced de-industrialisation over recent decades. The end of the Multi-Fibre Arrangement (MFA) in 1995 and of its successor, Agreement on Textiles and Clothing (ATC) in 2005, has brought an end to new investments in this sector, as many associated industries survive only due to the trade preferences enjoyed in the US and European markets, threatened by further trade liberalisation.

Also, highly speculative portfolio investment was attracted by temporary 'pull factors' such as high real domestic interest rates on Treasury Bills to finance budget deficits, as well as temporary export price booms which attracted large export pre-financing loans (Kasekende et al. 1997). Mkandawire (2005) notes, with concern, the predominance of portfolio over direct investments, and acquisitions over 'green field' FDI, as possibly unintended consequences of the FDI policies adopted. Much recent FDI has involved acquisitions encouraged by privatisation, often on 'fire sale' terms. Such investments, which have declined since the late 1990s, accounted for about 14 percent of FDI flows into Africa.<sup>3</sup> Meanwhile, there have been relatively little new greenfield investments actually creating other new economic capacities.

Incredibly, despite growing poverty, Africa has been a net exporter of capital. In 1990, 40 percent of privately held wealth was invested outside Africa (Collier and Gunning 1997; Collier et al. 1999; quoted by Mkandawire 2005). In the

period 1970-96, capital flight from sub-Saharan Africa came to US\$193 billion; with imputed interest, the total goes up to US\$285 billion (Boyce and Ndikumana, 2000), compared to its combined debt of US\$178 billion in 1996 (Mkandawire 2005). Ndikumana & Boyce (2002) argue that capital flight from Africa has been largely debt-fuelled though Collier et al. (2004) claims that serious financial capital flight from Africa has started to be reversed.

Even, World Bank economists concede that the effects of financial liberalisation have been 'very small' (Devajaran, Easterly and Pack 1999). Incredibly, they argue that capital flight may indeed be good for Africa: 'The much-denigrated capital flight out of Africa may well have been a rational response to low returns at home ... Indeed, Africans are probably better off having made external investments than they would have been if they had invested solely at home!' (Devajaran, Easterly and Pack, 1999:15-16), and conclude that there is 'over-investment' in Africa. Devajaran, Easterly and Pack (1999: 23) argue that

we should be more careful about calling for an investment boom to resume growth in Africa ... [and] about Africa's low savings rate ... [p]erhaps ... due to the fact that the returns to investment were so low. Also, the relatively high levels of capital flight from Africa may have been a rational response to the lack of investment opportunities at home.

**Table 3:** Capital Inflows to Sub-Saharan Africa by Type of Flow and New Transfers, 1975-1998 (% of GNP)

Type of flow	Including Nigeria			Excluding Nigeria		
	1975-82	1983-89	1990-98	1975-82	1983-89	1990-98
Total Net Inflows	8.6	9.9	9.3	11.5	10	10.6
Official Inflows	4.7	6.8	7.5	7.2	8	9.1
ODA Grants	1.7	3.3	5.4	2.6	4	6.4
Official Credit	3.0	3.5	2.1	4.6	4.0	2.7
Bilateral	1.6	1.8	0.4	2.5	2.1	0.6
Multilateral	1.4	1.7	1.7	2.1	1.9	2.1
Private Inflows	3.9	3.1	1.8	4.3	2	1.5
Interest Payments	1.5	3.2	2.7	1.8	2.7	2.3
Profit Remittances	1.4	1.1	1.1	1.1	1	1.2
Net Transfer	5.7	5.6	5.5	8.6	6.3	7.1

Source: UNCTAD Secretariat Calculations, based on World Bank, *Global Development Finance, 2000* (CD-ROM). (a) This item corresponds to 'Grants' as defined by the World Bank in the source and excludes funds allocated through technical cooperation.

Mkandawire (2005) comments that this conclusion ignores the fact that the social benefits of citizens investing in their own country may exceed the private benefits accruing to individuals. These findings can also be contested on both methodological and econometric grounds. First, in the standard agreed approach in growth empirics, investment should be measured in international prices. However, the study used domestic prices, which generally overestimate investment rates because of the high cost of doing business in Africa. Second, they used cross-section regressions that do not account for country-specific effects. Such an omission can lead to inconsistent estimates.<sup>4</sup>

The little FDI drawn to Africa has largely been concentrated in the natural resource sectors. Such FDI has limited economic and developmental benefits because they usually do not:

- stimulate general, broad-based development;
- significantly expand employment opportunities;
- diversify exports away from primary commodities;
- facilitate meaningful transfer technology to recipient countries, except for the limited purpose of more profitable resource extraction.

The logging of timber as well as agricultural expansion have been especially encouraged in recent years as the Washington Consensus effectively discourages (import-substituting) industrialisation for Africa. While generating temporary and dangerous (owing to the high incidence of logging 'accidents') work locally, such deforestation has also exacerbated water supply problems, droughts and desertification. More generally, corruption and ongoing resource conflicts in Africa have been fuelled by such foreign interest in the continent's natural resources.

African countries had been largely 'adjusted' by the late 1990s, with major changes in African economic policies and institutions. Africa has been 'liberalised' and opened to 'globalisation'. Most African countries experienced currency devaluation, trade liberalisation, privatisation as well as various market and investor friendly policies. Yet, improvements in terms of trade and favourable weather conditions have explained improved economic performance much more than the BWI policies, underlining the continued vulnerability of African economies to external and transient factors.

The deflationary bias of the macroeconomic policies favoured by the Washington Consensus has put African economies on a low growth vicious cycle. Keynesians argue that the causal chain is from growth to investment to savings, and not the other way around. El Bedawi & Mwega (2000) and Mlambo and Oshikoya (2001) have found that the causality runs from growth to investment in Africa as well. Capital needs are essentially determined by expected output, i.e. investment demand is driven by expected growth. Meanwhile, 'endogenous growth theories' suggest that some 'determinants of growth' may themselves be dependent on growth.

Mkandawire (2002) argues that successful adjustment in Africa placed the continent on a 'low growth path'. He notes that oft-invoked 'determinants' of growth (for example, income growth) are themselves determined by growth (Macpherson and Goldsmith 2001), including the global growth slowdown of the last two decades (Easterly 2000). There is strong evidence that growth has been slower since the 1980s, with liberalisation and globalisation in most of the developing world, including sub-Saharan Africa, compared to the previous two and a half decades (Weisbrot, Baker, Naiman and Neta 2000; Weisbrot, Naiman and Kim 2000; Weisbrot, Baker, Kraev and Chen 2001; Weisbrot et al. 2005). Thus, slower growth has been attributed to the deflationary bias inherent in BWI stabilisation and adjustment programmes.

The investment patterns induced by economic liberalisation measures appear not to be associated with high economic growth. Historically, investment, growth and productivity have moved together. For instance, investment was associated with relatively high growth and significant total factor productivity gains in the pre-adjustment era (Rodrik 2001). The transformation due to economic liberalisation has instead brought economic stagnation, de-industrialisation and agricultural decline, rather than structural change induced by differential productivity gains and changing demand due to increasing incomes (Mkandawire 1988; Singh 1987; Stein 1992; Stewart 1994). Institutional Investor ratings for Africa deteriorated from 31.8 percent in 1979 to 21.7 percent in 1995 (Collier and Gunning 1997). The two countries that performed well were Botswana and Mauritius, both high growth economies not pursuing orthodox adjustment programmes.

Economic Liberalisation and Development in Africa

**Table 4:** Africa: Savings and Investments, 1975-1999 (as % of GDP)

Indicator	1975-84	1985-89	1990-97	1998	1999
<b>Gross Domestic Savings (GDS)</b>					
Sub-Saharan Africa (SSA)	21.3	18.2	15.9	16	15.8
SSA minus S. Africa & Nigeria	15.3	13.4	11.1	12.7	12.6
<b>Gross National Savings (GNS)</b>					
Sub-Saharan Africa (SSA)	17.9	13.3	11	13.3	12.1
SSA minus S. Africa & Nigeria	12.1	8.4	4.9	10.4	8.5
<b>Resource Transfer (GDS-GNS)</b>					
<b>Abroad</b>					
Sub-Saharan Africa (SSA)	3.4	4.9	4.9	2.7	3.7
SSA minus S. Africa & Nigeria	3.2	5	6.2	2.3	4.1
<b>Gross Domestic Investment (GDI)</b>					
Sub-Saharan Africa (SSA)	22.9	17.7	17.3	18.8	18.4
SSA minus S. Africa & Nigeria	19.9	17.3	16.9	19.2	19.4
<b>Resource Balance</b>					
Sub-Saharan Africa (SSA)	-5	-4.4	-5.9	-3-2.6	
SSA minus S. Africa & Nigeria	7.8	4	5.9	-6.3	-6.3

Source: World Bank (2001a)

When other developing economies embarked on import substitution industrialisation, most of Africa was still under colonial rule. In fact, the import substitution phase in most of sub-Saharan Africa was relatively short, lasting barely a decade in many countries (Mkandawire 1988). Thus, trade liberalisation prematurely exposed African industries to global competition from mature industries, causing de-industrialisation. UNIDO notes that African countries had been increasingly gaining comparative advantage in labour-intensive manufacturing before such forced de-industrialisation. Given the BWI presumption that import substitution in Africa was bad, there was no attempt to see how the existing industries could form the basis for new export initiatives. Assuming that African import substituting industries had been protected for far too long and would never become viable, let alone competitive, the policy was simply to abandon existing industrial capacity.

Hence, the share of manufacturing in GDP has fallen in two-thirds of the countries (Mkandawire 2005, Figure 4). The rates of growth of manufacturing value added have fallen continuously from the 1970s, and actually contracted by an annual average of one percent during 1990-97 (UNIDO p. 245, quoted in Mkandawire 2005). UNIDO found that in ten industrial branches in 38 African

countries, labour productivity declined by seven percent between 1900 and 1995. The decline in total factor productivity can be attributed to de-industrialisation.

### **Trade Liberalisation**

African countries have not been exempt from trends in the international terms of trade which have moved against developing countries over the decades.

- The prices of primary commodities have declined against those of manufactures, as suggested by Prebisch and Singer more than half a century ago (see Ocampo and Parra 2006);
- The prices of tropical agricultural products, compared to temperate agricultural goods, have fallen, as observed by W.A. Lewis decades ago;
- Recent decades have also seen the decline of the prices of generic manufactures, where access to industries has not been inhibited, compared to manufacturing monopolies protected by strong intellectual property rights.

The likelihood of developing countries gaining from trade has been frustrated by protection and subsidies in most rich economies. For example, their tariff structures have been biased against developing countries. Hence, tariffs on imports between developed countries average only one percent. Meanwhile, tariffs on agricultural products from developing countries have been as high as 20 percent, while the tariffs on textiles from developing countries have been as high as 9 percent.

It is now generally acknowledged that economic growth is needed for trade expansion, rather than the other way round. Not surprisingly, the World Bank estimates a very modest contribution to economic growth of 0.6 percent by 2015 attributable to full trade liberalisation based on what many would consider to be optimistic assumptions. Also, rapid resource reallocation to accelerate growth is unlikely without high rates of growth and investment in the first place. Even, trade liberalisation advocate, Jagdish Bhagwati, urges the need for aid to compensate economies for the loss of tariff revenue and trade preferences associated with trade liberalisation, as well as to build up production and export processing capacities to be available to take advantage of opportunities created by trade liberalisation.

The 'new trade theories' and evolutionary studies of technological development suggest that countries risk being 'locked' into permanent slow growth by pursuing static comparative advantage. It is now generally acknowledged that economic growth precedes export growth, while UNCTAD

has long pointed to the importance of growth for trade expansion, more specifically, to an investment-export nexus that accounts for the failure of many countries to expand and diversify their exports. Rapid resource reallocation is generally not also feasible without high rates of growth and investment.

Before the recent liberalisation measures, monetary and other policies in East Asia ensured relative prices favourable to export industries (instead of non-tradables) with preferential interest rates supporting investment and economic restructuring. Export promotion strategies have generally involved an investment-export nexus, including measures to promote public investment, subsidised inputs (from state-owned enterprises and with preferential special exchange rates), direct subsidies (including tax incentives), selective credit allocation and other industrial policy instruments (Akyüz 1996). Government instruments for stimulating investment and industrial development have been severely eroded by economic liberalisation measures.

Mkandawire (2005) notes that, from the outset, the advent of the WTO trade regime was expected to entail losses for Africa, especially with the loss of preferential treatment (from erstwhile colonial rulers and the European Union under the Lome Convention). Trade liberalisation under WTO auspices has significantly reduced policy options utilised by developmental states, especially for industrial or investment policy (Adelman and Yeldan 2000; Panchamukhi 1996; Rodrik 2000a), though some (for example, Amsden 1999) would still argue that the WTO regime still leaves room for industrial policy initiatives.

### **Gains from Agricultural Trade Liberalisation?**

A major premise of the Berg Report was that Africa's comparative advantage lies in agriculture. If only the state would stop 'squeezing' agriculture through marketing boards and price distortions, agricultural producers would respond, thereby enabling export-led growth. Recent changes in Africa's exports indicate no general increase in output in activities in which African countries ostensibly have a 'revealed' comparative advantage. Indeed, after two decades of reforms, the most striking trend has been a lower African share of global non-oil exports to less than half what it was in the early 1980s (Ng and Yeats, quoted by Mkandawire 2005).

Contrary to current popular wisdom, it is not clear how much Africa would gain from agricultural trade liberalisation. After all, many food importing African countries would be worse off without subsidised food imports, while very few economies are likely to be in a position to significantly increase their exports. African agricultural production and export capacities have been undermined by the last three decades of economic contraction and neglect. Severe cuts in

public spending under structural adjustment caused significant deterioration of infrastructure (roads, railway systems, etc.) and undermined potential supply response (UNECA 2003), even though numerous micro studies have confirmed the importance of good infrastructure for trade facilitation (Badiane and Shively 1998; Abdulai 2000). As Table 6 shows, existing estimates of the overall welfare effects from multilateral agricultural trade liberalisation do not point to significant gains, but on the contrary, suggest the likelihood of some losses.

**Table 6:** Selected Estimates of Welfare Effects from Multilateral Agricultural Trade Liberalisation

	50% Tariff Cut	50% Domestic Support cut	Elimination of Export Subsidies
Laird, et al. (2003)			
World	27.5	..	-4.0
Developed Countries	11.1	..	1.9
Developing countries	8.2	..	-2.9
NICs + China	4.4	..	-0.2
South Asia	0.3	..	0.0
SS Africa	0.2	..	-0.4
North Africa and ME	3.0	..	-2.2
Others	0.3	..	-0.2
Dimaranan, et al. (2004)			
Developing countries	..	-0.36	..
Asia	..	-0.11	..
Latin America	..	0.14	..
North Africa & Middle East	..	-0.27	..
SS Africa	..	-0.13	..

Sources: Laird et al. (2003) and Dimaranan et al. (2004)

In the 1980s and 1990s, Africa's export collapse has involved 'a staggering annual income loss of US\$68 billion – or 21 percent of regional GDP' (World Bank 2000, quoted by Mkandawire 2005). However, 'Africa's failures have been developmental, not export failure per se' (Helleiner 2002a: 4). Rodrik (1997) argues that Africa's 'marginalisation' is not due to trade relative to GDP, although this is low by cross-national standards. Given its geography and its per capita income level, Africa trades as much as is to be expected. Indeed, 'Africa overtrades when compared with other developing regions in the sense that its trade is

higher than would be expected from the various determinants of bilateral trade' (Coe and Hoffmaister 1999; Foroutan and Pritchett 1993).

**Table 7:** Africa: Destination of Exports (% of Total)

	1990-2002 Av.	1999-2001 Av.
Africa	4	5
European Union	64	52
United States	17	19
Asia	10	16
Other	6	9

Source: UN Comtrade

Meanwhile, by the end of the 1990s, the few gains from trade generally acknowledged were of a one-off character, often reflecting switches from domestic to foreign markets without much increase in overall output (Helleiner 2002a, 2002b; Mwega 2002; Ndulu et al. 2002). In some cases, manufactured exports increased even as the manufacturing sector contracted. 'No major expansion occurred in the diversity of products exported by most of the sub-Saharan African countries ... Indeed, the product composition of some of the African countries' exports may have become more concentrated. Africa's recent trade performance was strongly influenced by exports of traditional products which appear to have experienced remarkably buoyant global demand in the mid-1990s' (Ng and Yeats: 21, quoted by Mkandawire 2002).

Despite the unrealism of using the World Bank's CGE model, Taylor and von Arnim (2006) show that Africa will not gain, on balance, from trade liberalization. Their exercise suggests that:

- If trade elasticities are less than as stipulated by the Bank, sub-Saharan Africa will experience welfare losses, even if the absence of macroeconomic shocks is assumed.
- If the current account can respond to trade liberalization, and imports exceed exports, Africa will experience a worsening trade balance.
- If the government's fiscal deficit is incorporated into the analysis, fiscal balances in Africa will often worsen as they improve in the rest of the world.

- If employment and income can vary, they may increase in sub-Saharan Africa, but together with trade deficits and foreign debt, which will in turn make the gains sustainable.

### **Tropical Fate?**

The World Bank (1993: 77) noted that temperate countries grew on average by 1.3 percentage points more than tropical countries during the 1965-90 period, after controlling other factors. The study explains this significant shortfall in terms of the greater prevalence of disease, poorer soils, more frequent typhoons and other natural calamities in the tropics.

Surprisingly, the study seems to be oblivious to W.A. Lewis's (1969; 1978) pioneering work on the economic performance of the tropics. As Lewis (1978) has shown, tropical exports grew faster than temperate zone exports during the last period of global liberalisation from the end of the last century. For the period 1883-1913 for example, French Indochina, Thailand, British Ceylon, West Africa, French West Africa and Madagascar all had average annual export growth rates of five percent or more, while Brazil had 4.5 percent. The comparable rates for temperate settlements, the USA and Northwest Europe were 4.3, 3.8 and 3.5 percent respectively.

While the tropics generally had more modest export bases than the temperate zone, to begin with, this also suggests that the tropics were better able to respond to export demand despite the disadvantages they faced. Lewis emphasised that not all tropical countries were able to seize opportunities from increased export demand. He suggests that the exports in greater demand were largely water-intensive; hence, only those areas with enough water to substantially increase their exports were able to take advantage of the new opportunities. The more arid tropical grassland areas, for example in Africa, thus could not benefit from the increased demand for tropical products.

While some Southeast Asian newly industrialising countries and some other tropical countries have also grown rapidly since the sixties, most countries in the tropics have fared badly in recent decades. It is not enough simply to attribute the tropical growth shortfall to 'pests, diseases, typhoons and other natural calamities', though such factors may not have been unimportant.

Lewis observed that the terms of trade for tropical exports deteriorated badly against temperate exports. In the half century between 1916 and 1966, for example, the index for natural rubber fell from 100 to 16. This suggests that productivity gains in the tropics were largely lost to worsening terms of trade, and the situation was worse where few productivity gains were made.

Many observers (for instance, Intal 1997) have suggested that sub-Saharan Africa has lagged behind in terms of agricultural development since the sixties due to inadequacies in agricultural R&D and infrastructure, crop and agronomic considerations and macroeconomic conditions. He argues that higher temperate agricultural productivity has partly been due to long, sustained and larger investments in agricultural R&D, which temperate LDCs (for example, Chile, Korea and Taiwan) have been better able to take advantage of. The tropical Green Revolution in rice farming since the sixties has mainly benefited irrigated farms in Southeast and South Asia, while drier agriculture in Africa has generally been left behind.

However, the Southeast Asian success with tree crop agriculture offers some hope. This experience suggests that significant investments in tree crop agricultural R&D (for example in rubber, oil palm and cocoa) as well as rural infrastructure have made possible productivity gains in tree crop agriculture as well. The geographic and climatic specificities of agriculture imply that, for imported agricultural varieties and technologies to be successfully adopted, there is a great need for effective adaptive investments in R&D and extension. Unfortunately, many governments have neglected or under-funded agriculture.

### **Resource Curse?**

The Sachs's ADB (1997) study also suggests that natural resource wealth is bad for growth. Curiously, the study defines natural resource abundance in terms of the ratio of net primary product exports to GDP in 1971, without distinguishing extractive non-renewable natural resources (especially minerals) from agricultural products. The so-called Dutch Disease mainly involves the former, which tend to be very capital-intensive and only involve a small proportion of the population in extraction of the resource. Consequently, the added income accrues to a few while the appreciation of the country's currency affects the entire population.

Agricultural exports generally involve much more of the population, and increased income usually accrues to all involved, diffusing the adverse consequences of currency appreciation. The Southeast Asian high performing economies have been major agricultural exporters, helping to offset problems associated with the mineral exports of Malaysia and Indonesia, in sharp contrast to, say, Nigeria. Generally better macro-economic management has also helped, especially to offset the tendency to indulge in expenditure on non-tradables.

### **Wage Competitiveness?**

Intal (1997) has argued that the marginal labour productivity – and hence, the opportunity cost – of farm labour for manufacturing is higher in land-abundant African economies, compared to land-scarce Asian economies, even though average labour productivity is usually higher in the latter. Hence, it is unlikely that the former will be able to compete with the latter in labour-intensive manufactures. The Malaysian experience suggests that labour-scarce, land-abundant economies can only be competitive in skill-intensive rather than unskilled labour-intensive manufactures, requiring considerable investments in human resource development.

The situation in much of Africa suggests that not unlike Indian labour, African labour may also not be competitive in wage/productivity terms in both agriculture and industry. With full employment not assured, following trade liberalisation, there is the real possibility of both de-industrialisation as well as de-agriculturalisation in much of Africa with greater trade openness.

### **Changed Role of the State**

The economic reforms of recent decades have fundamentally transformed the nature and role of African governments. While many of these reforms were imposed, some were adopted by domestic elites who saw their interests best advanced by such reforms. As a consequence, African governments' fiscal means have been considerably reduced, constraining their potential developmental as well as redistributive capacities, even for governments which might be so inclined.

Meanwhile, taxation systems have generally become far less progressive, if not more regressive. On the other hand, government spending has also become less progressive, if not also more regressive. A relatively smaller share of government expenditure goes to the social sector, and even here, reforms have made social spending less progressive. Although even World Bank research has found targeting to be costly and largely ineffective (Mkandawire 2005), 'donors' continue to urge targeting, thus undermining social solidarity and the political sustainability of such social benefits. Not surprisingly then, high-income countries spend 2.5 times as much of national income on health, education and welfare compared to low-income countries (UN/DESA 2005), further exacerbating the consequences of inequalities in the latter. This is reflected in Africa's low enrolment rates at both primary and secondary school levels (see Table 8).

**Table 8:** Enrolment Rate by Region and School Level, 2001

Indicator	Highest	Lowest
Net Primary Enrolment Ratio	95.6% L. America + Caribbean	62.8% Sub-Saharan Africa
Net Secondary Enrolment Ratio	89.2% N. America + W. Europe	21.3% Sub-Saharan Africa

Source: UN/DESA (2005)

Measures of unemployment in Africa are not deemed to be very meaningful, not only because of the limited statistical capacities of most governments, but also because unemployment is rarely an option for survival in low-income economies, offering few, if any, social benefits to the unemployed. Thus, the vast majority are often under-employed due to limited resources for productive self-employment. Millions have migrated to urban areas, seeking and adopting different economic survival strategies in the face of very limited employment opportunities in the formal urban economy, whether in the debilitated public sector or in the private sector, following the de-industrialisation in the continent over recent decades. Not surprisingly then, informal employment remains highest in sub-Saharan Africa among the regions of the world.

**Table 9:** Share of Informal Workers in the Non-agricultural Workforce by Region

Region	% Share
Latin America & Caribbean	51
Asia	65
North Africa	48
Sub-Saharan Africa (excl. S. Africa)	78

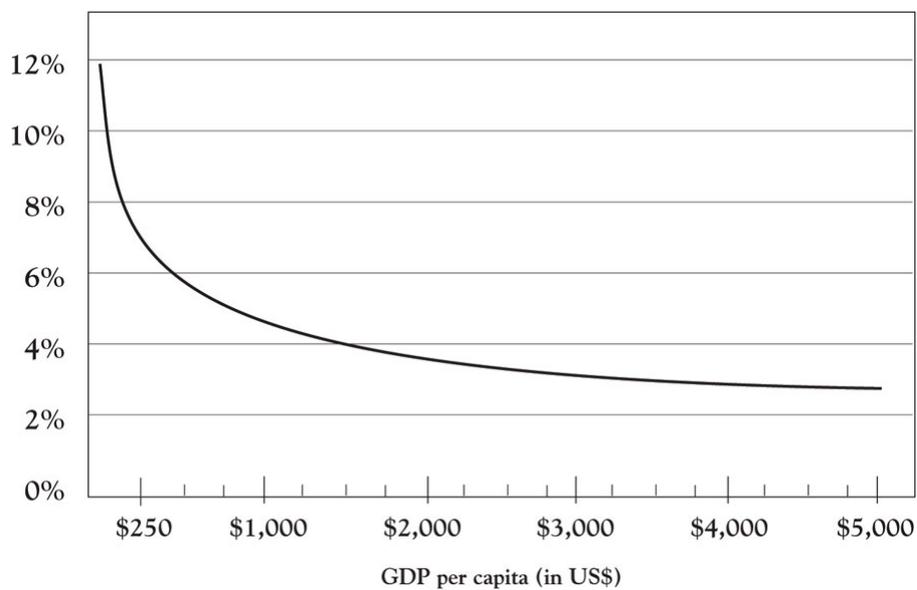
Source: UN/DESA (2005)

### **Inequality, Poverty, Violence and Conflict**

There are a few general explanations for violence and conflict, but much violence and conflict may be related to poverty and inequality, although the links between inequalities, poverty and extreme aspects of social disintegration beg better understanding and explanation. Some recent analyses point to relations

between inequality, poverty, violence and conflict (for example, see the figure below), involving complex links among reduced growth and development, poverty, lack of opportunities, inequalities (including the so-called 'horizontal' inequalities between cultural groups, regions, etc.), authoritarian governance and armed conflict, often for resource control (Mkandawire 2005; Collier et al. 2003: 11-50).

**Figure 1:** The Probability of Relapse into Civil War Within Five Years Rises with Poverty



Source: UN/DESA, RWSS, (2005)

### New Challenges

Developments since the 1980s have fundamentally changed the environment and conditions for developmental states attempting to pursue selective industrial or investment policy. Most importantly, economic liberalisation – at both national and international levels – has seriously constrained the scope for government policy interventions, especially selective industrial promotion ef-

forts. This is especially apparent in international economic relations, but is also true of the domestic policy environment, where WB and IMF policy conditionalities as well as WTO and other obligations have radically transformed the scope for national economic policy initiatives.

There has been a widespread, sweeping and rapid opening up of trade, investment, finance and other flows. Very often, such liberalisation has been externally imposed by the Bretton Woods institutions, as part of the conditions laid down to secure access to emergency credit during the debt crises of the 1980s, and more recently, in the wake of more currency and financial crises. Various policy packages for (price) stabilisation in the short term or for structural adjustment in the medium term have involved such conditionalities. The new political, intellectual and policy environment which emerged during the 1980s - under Reagan and Thatcher - led to the so-called 'Washington Consensus', which has promoted such policy reform despite repeated failures to improve economic growth and development, let alone social equity and welfare.

This has been especially true of much of Latin America and Africa, which experienced a 'lost decade' of economic growth in the 1980s, following (sovereign) debt crises and ensuing 'stabilisation' and 'structural adjustment' reforms, usually imposed by the international financial institutions. The 1990s were only slightly better, with a few spurts of high growth here and there which have been touted as proof of the success of the Washington Consensus, when precisely the opposite has been true. While the Washington Consensus has been challenged, if not discredited in academic circles, it continues to constitute the ideological basis for economic analysis and policy-making in developing countries, especially in Africa, Latin America and other smaller economies.

Invariably, the circumstances of such policy changes and the limited policy capabilities of the governments concerned have meant that little preparation – in terms of a pro-active strategy or transitional policies to anticipate and cope with the implications of sudden exposure to new international competition – has been undertaken. Few of the investment policy instruments of the past are viable or feasible options today, including many used successfully in post-war East Asia. Most of the main industrial policy tools were used by the advanced industrial economies, including those that now deny others such selective industrial promotion. Indeed, most advanced economies still have a plethora of policies and institutions involved in research and development (R&D), skills training, investment promotion and infrastructure provision, for instance, for the new information and communication technologies (ICT).

Such policies and institutions are probably necessary, but certainly not sufficient for stimulating and sustaining economic growth and structural change for developing countries to try to 'catch-up'. Additional initiatives are urgently needed to prevent such economies – already at a historical disadvantage in various respects – from falling further behind the industrially more developed economies of the North, as well as the other newly industrialised economies that have emerged in recent decades.

### **Moving Forward**

The preceding discussion strongly suggests that much of the ostensible conventional wisdom regarding African development and poverty is not only wrong, but often harmful. For example, IMF research has recently acknowledged that international financial liberalisation has not improved growth, but has instead exacerbated volatility. For Africa, net capital outflows, facilitated by such liberalisation, have exceeded ODA inflows – not only a net, but even on a gross basis.

Worse still, there is strong evidence that some of the economic policy advice given to, and conditionalities imposed on governments in the region have reflected vested interests and prejudices. In recent years, much emphasis has been given to promoting FDI even though experiences elsewhere show that FDI generally tends to follow, rather than lead, domestic investments. Not surprisingly, there continues to be limited FDI, mainly in the minerals sector, with limited employment and other benefits. Nonetheless, the economic policy reforms have enhanced the profitability and protection of FDI while reducing the trickled-down benefits to the domestic economies of such enclave investments.

Available evidence suggests that the gains from trade liberalisation will be modest for the world economy; and the gains for Africa are hardly assured, as trade liberalisation is not necessarily welfare-enhancing for all. There is also considerable evidence that the main winners from agricultural trade liberalisation will be the existing big agricultural exporters of the Cairns group from North America, Australasia, Southeast Asia and the Southern cone of Latin America. Nonetheless, many well-meaning NGOs have joined in the chorus calling for agricultural trade liberalisation as a gain for Africa. Thankfully, other NGOs have helped developing countries to try to ensure that the Doha Round is truly developmental, by ensuring the policy space for trade and other policy instruments for development.

In view of the pervasive influence of such erroneous and harmful policy advice and conditionalities, it has become crucial to increase 'policy space' for governments to be able to pursue policies for development. Countries need to be able to choose or design their own development strategies as well as to develop and implement more appropriate development policies. Besides enhancing policy space, it is also crucial to be able to increase resources for development. The removal of the huge debt overhangs of the poorest countries through debt relief is an important step in this direction. Prolonged and massive increases in ODA are also needed to kick-start investments and growth and, in the longer term, to reduce the continent's resource gap and dependence on aid (UNCTAD 2006). Three decades of economic stagnation, contraction and increased poverty have also taken a huge toll on the continent's economic, social and political fabric, and pro-active efforts are urgently required in order to build new capacities and capabilities for development.

As economic growth and development do not necessarily reduce poverty and inequalities, special efforts will need to be made to ensure such outcomes. The United Nations' Millennium Development Goals (MDGs) provide some specific welfare targets and indicators for this purpose. Enhanced social expenditure should be universal, as far as possible, to ensure broad public support and sustainability. But selective targeting, including affirmative action measures, may be needed to overcome long-term discrimination, marginalisation and neglect. After all, progress towards achieving the MDG indicators may still bypass the poor, as the rising tide of economic development does not lift all boats equally.

The MDGs are important for, and mutually reinforce, the UN's broader Development Agenda, derived from the UN's global summits and conferences, especially since the 1990s; such as the Earth Summit in Rio de Janeiro in 1992, the Population and Development Conference in Cairo in 1994, the Beijing Conference on Women in 1995, the Monterrey Conference on Financing for Development in 2002 and the Johannesburg Conference on Sustainable Development of 2002, among others. This agenda has been reiterated and given greater coherence by the Millennium Declaration of 2000 and the Outcome Document of the Summit in September 2005.

### Notes

1. This part has been heavily drawn from Mkandawire (2002).
2. As Mkandawire (2002) observes, this paper seeks to 'help boost SSA's image as an investment location' (Pigato 2000: 2), explaining the positive conclusions painstakingly promoted despite data suggesting otherwise.

3. In 1998 alone, privatisation in SSA attracted US\$684 million of FDI (UNCTAD). Such one-off sales explain the jump in FDI in the 1990s; but by 1999, privatisation-related FDI had slowed down.
4. I owe these observations to my colleagues, Carl Gray and Oumar Diallo, who have also provided other valuable comments and suggestions.

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## Economic Liberalisation and Development in Africa

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