

# **Maladjusted African Economies and Globalisation**

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### Introduction

Globalisation is a multifaceted process that defies unique definition. Different authors emphasise different things about the causes and effects of globalisation, partly because of differences in the definition of the process; partly because of differences in focus; and partly because of different ideological predispositions about the process itself. In this paper, I will treat globalisation as a process whereby national and international policy-makers proactively or reactively promote domestic and external liberalisation. Africa illustrates, perhaps better than elsewhere, that globalisation is very much a policy driven process. While in other parts of the world, it may be credible to view globalisation as driven by technology and the “invisible hand” of the market, in Africa, most of the features of globalisation and the forces associated with it have been shaped by the BWIs (Bretton Woods institutions) and Africa’s adherence to a number of conventions such as the WTO, which have insisted on opening up markets. African governments have voluntarily, or under duress, reshaped domestic policies to make their economies more open. The issue therefore is not whether or not Africa is being globalised, but under what conditions the process is taking place, and why, despite such relatively high levels of integration into the world economy, growth has faltered.

Whenever globalisation and Africa are mentioned together, the word that often comes to mind is “marginalisation”. The threat of marginalisation has hung over Africa’s head like Damocles’ sword, and has been used, in minatory fashion, to prod Africans to adopt appropriate policies<sup>1</sup>. In most writing, globalisation is portrayed as a train on which African nations must choose to get on board or be left behind. As Stanley Fischer, then Deputy Managing Director of the IMF, and associates put it, “globalisation is proceeding apace and SSA must decide whether to open up and compete, or lag behind” (Fischer, *et al.* 1998: 5). *The Economist*, commenting on the fact that per capita incomes between the United States and Africa have widened states “it would be odd to blame globalisation for holding Africa back. Africa has been left out of the global economy, partly because its governments used to prefer it that way” (*The Economist* 2001: 12).

Globalisation, from the developmental perspective, will be judged by its effects on economic development and the eradication of poverty. Indeed, in developing countries, the litmus test for any international order remains whether it facilitates economic development, which entails both economic growth and structural transformation. I shall argue that in the case of Africa, this promise has yet to be realised. The policies designed to “integrate” Africa into the global economy have thus far failed because they have completely sidestepped the developmental needs of the continent and the strategic questions on the form of integration

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<sup>1</sup> There is something illogical about juxtaposing globalisation and marginalisation. Either the process is “global” and encompasses all spaces on the globe or is only partial, marginalizing certain sections of the planet. Globalisation does not necessarily mean that everyone gains; it entails gains and losers, core and periphery, top and bottom etc. African economies are encompassed by and subordinate to the global economy. Indeed it leaves open the possibility of adverse globalisation and as Stanley Fischer, discussing capital flight, states: “...in spite of capital controls, African capital has *de facto* been globalised – albeit in the wrong direction” the poor performance at the level of macroeconomic outcomes), and high levels of connectivity at the levels of policy and institutional reform. In other words, if one focuses on policy and institutional reforms, Africa is a highly integrated into, and not marginal within, the world system (Bangura 2001).

appropriate to addressing these needs. They consequently have, thus far, not led to higher rates of growth and, their labelling notwithstanding, have not induced structural transformation. Indeed, the combined effect of internal political disarray, the weakening of domestic capacities, deflationary policies and slow world economic growth have placed African economies on a “low equilibrium growth path” from which the anaemic GDP growth rates of 3-4 per cent appear as “successful” performance. I will illustrate this point by looking at two channels through which the benefits of globalisation are supposed to be transmitted to developing countries—trade and investment.

The paper is divided into three sections. The first section deals with what globalisation and the accompanying adjustment policies promised, what has been delivered and what has happened to African economies during the “era of globalisation”. The second deals critically with some explanations of Africa’s failure. And the last part advances an alternative explanation of the failure with respect to trade and access to foreign finance.

## **The Promises and Consequences of Globalisation**

### *The Promise of Trade*

Expanded opportunities for trade and the gains from trade are probably the most enticing arguments for embracing globalisation. The SAP’s promise was that through liberalisation, African economies would become more competitive. As World Bank economist Alexander Yeats (1997, 24) asserts, “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”. Trade liberalisation would not only increase the “traditional exports” of individual countries, but would also enable them to diversify their exports to include manufactured goods assigned to them by the law of comparative advantage as enforced by “market forces”. Not only would trade offer outlets for goods from economies with limited markets, but also, perhaps more critically, it would also permit the importation of goods that make up an important part of investment goods (especially plant and equipment) in which technology is usually embodied..

By the end of the 1990s, and after far reaching reforms in trade policy, little had changed. The few gains registered tended to be 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). Indeed, some increases in exports of manufactured goods even occurred as the manufacturing sector contracted. According to Francis Ng and Alexander Yeats of the World Bank “no major expansion occurred in the diversity of products exported by most of the Sub-Saharan African countries, although there are one or two exceptions like Madagascar and Kenya. 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 2000: 21). Furthermore, recent changes in Africa’s exports indicate no general increase had occurred in the number of industries in which most African countries have a “revealed” comparative advantage. Indeed, after decades of reforms, the most striking trend, one that has given credence to the notion of “marginalisation of Africa”, is the decline in the African share of global non-oil exports which are now less than one-half what they were in the early 1980s (Ng and Yeats 2000), representing “a staggering annual income loss of US\$68 billion – or 21 percent of regional GDP” (World Bank 2000).

### *The Promise of Additional Resources*

A persuasive promise made by BWIs was that adhesion to its policies would not only raise domestic investment through increased domestic savings, but would relax the savings and foreign exchange constraints by allowing countries to attain higher levels of investment than would be supported by domestic savings and their own foreign exchange earnings. One central feature of adjustment policies has been financial liberalisation. The focus is on the effects of interest rates on "loanable funds", and as the price variable that adjusts to equilibrate the supply of savings to investment. The major thesis has been that "financial repression" (which includes control of interest rates and credit rationing by the state) has discouraged savings and led to inefficient allocation of the "loanable funds" (Fry 1988; Shaw 1973). The suggested solution then is that liberalisation of markets would lead to positive real interest rates which would encourage savings. The "loanable funds" thus generated would then be efficiently distributed among projects with the highest returns through the mediation of competitive financial institutions. Significantly, in this view, saving precedes investment and growth. After years of adjustment, there is little discernible change in the levels of savings and investment (See Table 1).

Table 1. Savings and Investment in Africa 1975-2001: periodical average (as % of GDP)

*Source:* World Bank Africa Database 2003

Perhaps even more attractive was the promise that financial liberalization would lead to increased capital inflows and stem capital flight. Indeed, most African governments' acceptance of IMF policies has been based on the claimed "catalytic effect" of agreements with IMF on the inflow of foreign capital. Governments were willing to enter the Faustian bargain of reduced national sovereignty in return for increased financial flows. Even when governments were sceptical of the developmental validity of the BWIs' policies, the belief—that the stamp of approval of these institutions would attract foreign capital—tended to dilute the scepticism.

To the surprise of the advocates of these policies and to the chagrin of African policy-makers, the response of private capital to Africa's diligent adoption of SAPs has, in the words of the World Bank, "been disappointing". The market "sentiments" do not appear to have been sufficiently persuaded that the policies imposed by the BWIs have improved their attractiveness to investors. The much touted "catalytic effect" of IMF conditionality has yet to assert itself. The scepticism of private investors about the BWIs' stamp of approval is understandable in

<i>Indicator</i>	<i>1975-84</i>	<i>1985-89</i>	<i>1990-97</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Gross Domestic Savings (GDS)</i>							
SSA	19.9	15.7	16.0	14.5	15.6	18.7	17.4
SSA excl. SA & N	14.8	13.4	12.6	11.6	13.5	15.6	15
<i>Gross National Savings (GNS)</i>							
SSA	18.5	11.6	12.4	12.4	12.7	15.3	14.2
SSA excl. SA & N	15.3	9.2	8.6	10.7	11.3	12.7	12.6
<i>Resource Transfers (GDS-GNS) abroad</i>							
SSA	1.5	4.2	3.6	2.1	2.9	3.4	3.2
SSA excl. SA & N	-0.5	4.2	4.0	0.9	2.2	2.8	2.3
<i>Gross Domestic Investment</i>							
SSA	20.5	12.6	16.4	18.6	18.4	17.5	18.4
SSA excl. SA & N	18.3	12.9	17.6	20.1	20.5	18.3	18.3
<i>Resource Balance</i>							
SSA	-1.8	0.4	-0.5	-4.1	-2.8	1.2	-1.3
SSA excl. SA & N	-5.2	-3.1	-5.2	-8.4	-7.0	-2.6	-3.8

light of the history of 'non-graduation' by any African country. Indeed, there is the distinct danger that, since economies under BWIs' intensive care never seem to recover, the IMF presence may merely signal trouble. The BWIs seem to be unaware of the extent to which their comings and goings are a source of uncertainty among businessmen and evidence of a malaise. This said, there is, nevertheless, a trickle of foreign investment into Africa, but this has not been enough to increase Africa's share of global FDI flows (see Table 2). The rise in foreign direct investment in the latter part of the 1990s is cited as evidence that globalisation and SAPs are working (Pigato 2000)<sup>2</sup>. This celebration is premature. There are a number of significant features of the financial flows to Africa that should be cause for concern over their developmental impact and sustainability.

<sup>2</sup> This paper seeks to refute the "old tales" claiming that except for the natural resources sector, African countries fail to attract significant FDI. The author claims that reforming countries do not seem to suffer from the unfavourable image and pessimistic perceptions about the continent. And yet, the paper clearly shows the resource bias of the investments, the preponderance of South Africa and it being privatization driven. Even for South Africa, only 16 per cent of investment was in "green-field" activities. The paper is apparently part of the "awareness initiative" sponsored by the World Bank and the United Nations to "help boost SSA's image as an investment location" (Pigato 2000: 2). This may explain the positive image that is painstakingly extracted from a set of data that points in the opposite direction.

Firstly, there is the high country concentration of investment, with much of the investment going to South Africa. Secondly, there is the sectoral concentration on mining. Little FDI has gone into the manufacturing industry. As for investment in mining, it is not drawn to African countries by macro-economic policy changes, as is often suggested, but by the prospects of better world prices, changes in attitudes towards national ownership and sector specific incentives. Thirdly, there is the problem of the type of investment. The unintended consequence of the policies has been the attraction of the least desirable form of foreign capital. Most of the new investment (a) has taken the form of the highly speculative portfolio investment attracted by “pull factors” that have been of a transitory nature—extremely high real domestic interest rates on treasury bills caused by the need to finance the budget deficit and temporary booms in export prices which attract large export pre-financing loans (Kasekende et al. 1997) or (b) has been driven by acquisitions facilitated by the increased pace of privatisation to buy up existing plants that are being sold, usually under “fire sale” conditions. Such investments now account for approximately 14 per cent of FDI flows into Africa<sup>3</sup>. Little has been driven by plans to set up new productive enterprises. Some of the new investment is for expansion of existing capacities, especially in industries enjoying natural monopolies (e.g. beverages, cement, furniture). Such expansion may have been stimulated by the spurt of growth that caused much euphoria and that is now fading away. It is widely recognised that direct investment is preferable to portfolio investment, and foreign investment in “green field” investments is preferable to acquisitions. The predominance of these types of capital inflows should be cause for concern. However, in their desperate efforts to attract foreign investment, African governments have simply ceased dealing with these risks or suggesting that they may have a preference for one type of foreign investment over all others.

Finally, such investment is likely to taper off within a short span of time, as already seems to the case in a number of African countries. Thus, for Ghana, hailed as a “success story” by the BWIs, FDI, which peaked in the mid-1980s at over 200 million annually, —mainly due to privatisation, was rapidly reversed to produce a negative outflow<sup>4</sup>. It should be noted, in passing, that rates of return of direct investments have generally been much higher in Africa than anywhere in other developing regions (Bhattachrya et al. 1997; UNCTAD 1995). This, however, has not made Africa a favourite among investors, largely because of considerations of the intangible “risk factor” nurtured by the tendency to treat the contingent as homogenous and a large dose of ignorance about individual African countries. There is considerable evidence that shows that Africa is systematically rated as more risky than is warranted by the underlying economic characteristics<sup>5</sup>.

### *Capital Flight*

Not only is Africa still severely rationed in financial markets, but during much of the globalisation, there is evidence that Africa is probably a net exporter of capital. Paul Collier and associates (Collier and Gunning 1997; Collier *et al.* 1999) have suggested that in 1990, 40 per

<sup>3</sup> UNCTAD reports that in 1998 alone, foreign direct investment through privatisation triggered a total of US\$684 million in foreign exchange reserves in sub-Saharan Africa. This is a one-off affair and may explain the jump in FDI in more recent years. Already by 1999, we witness a slowdown in privatisation-related FDI.

<sup>4</sup> The “rise and fall” of Ghana as a pupil of the BWIs is recounted in a number of publications. (See, especially, Aryeetey, et al. 2000; Hutchful 2002)

<sup>5</sup> A study by the World Bank’s International Financial Corporation in which managers were asked questions about specific obstacles to doing business and their interactions with government conclude:

The first striking finding is that ten out of the fifteen questions elicit the same responses in Africa as is the case worldwide, suggesting that the business environment is no different in these respects: respondents see few problems with regulations for starting new business, price controls, labor regulations, safety or environmental regulations and perceive little threat of terrorist acts. They do find financing problematic, think, unsurprisingly, that taxes are high and/or tax regulations cumbersome; they also find that policy instability and general uncertainty about the cost of regulations pose serious problems to doing business. In all these respects, conditions in Africa are about the same as the world average. This is a very encouraging finding”

cent of privately held wealth was invested outside Africa and that in relation to workforce, capital flight from Africa has been much higher than in other developing country groups. In a recent more systematic attempt to measure the extent of capital flight, James Boyce and Léonce Ndikumana show that for the period 1970-96 capital flight from sub-Saharan Africa was US\$193 billion and with imputed interests the amount goes up to US\$285 billion. These figures should be compared to the combined debt of these countries which stood at US\$178 billion in 1996 (See Table 5). Their conclusion is worth citing at length: more that

The evidence presented in this essay leads to a startling conclusion: far from being heavily indebted, many sub-Saharan African countries are net creditors vis-à-vis the rest of the world. This is because their private external assets, as measured by cumulative capital flight, are greater than their public external debts. For the 25-country sample as a whole, external assets exceed external debts by \$14.5 billion to \$106.5 billion, depending on whether we count imputed interest earnings on the asset side Region s assets are 1.1 to 1.6 times the stock of debts. For some individual countries, the results are even more dramatic. Nigeria s external assets are 2.8 times its external debt by the conservative measure, and 4.1 times higher when we include imputed interest earnings on capital flight (Boyce and Ndikumana 2000: 32).

So far, financial liberalisation has not done much to turn the tide. In a World Bank study on the effects of financial liberalisation in nine African countries, Shantayanan Devajaran, William Easterly and Howard Pack (1999) conclude that the effects of liberalisation on capital flight are “very small”. In response to this failure to reverse capital flight, the World Bank economists now argue that the 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 invested solely at home!” (Devajaran *et al.* 1999: 15-16). The conclusion ignores the obvious fact that the social benefits of citizens investing in their own country may exceed the private benefits accruing to individuals.

All this indicates that financial liberalisation *per se* may not be the panacea for reducing capital flight. Effective policy measures to reduce capital flight in the African context may need much deeper and more fundamental changes in the economic and political systems. One policy implication of both the reluctance of foreign capital to come to Africa and the huge amounts of wealth held outside Africa has been the calls for policies intended not so much to attract foreign capital but Africa’s own private capital. While this is a valid option, the political economy of such attraction and the specific direct policy measures called for are rarely spelled out<sup>6</sup>.

### **The Failed Promise of Growth**

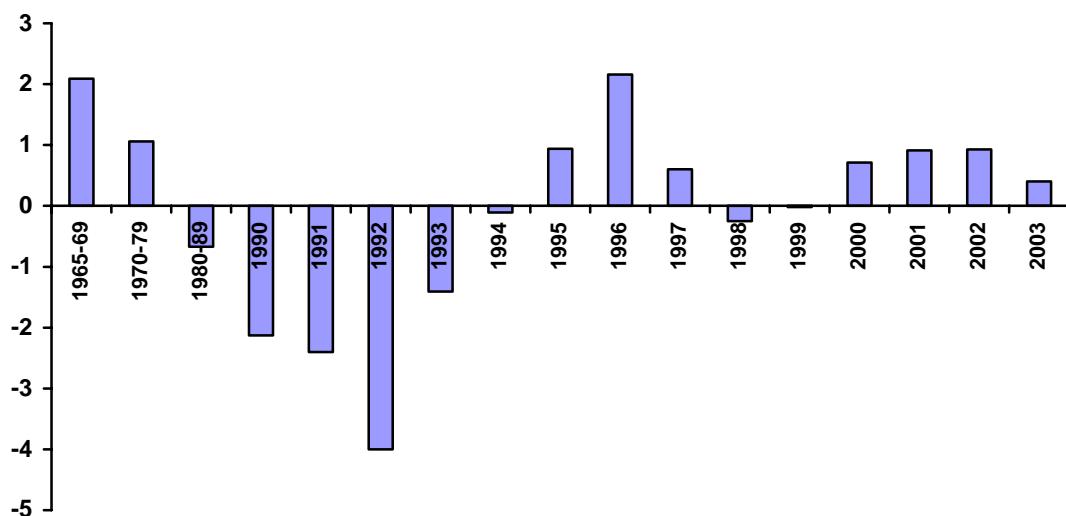
A comparison between Africa’s economic performance during the period over which globalisation is often said to have taken hold – the last two decades of the last century- and earlier periods, shows clearly that, thus far, globalisation has not produced rates of growth higher than those of the 1960s and 1970s (See Figure 1)<sup>7</sup>. Per income growth was negative over the two decades, a serious indictment to those have steered policies over the decades. This slower rate of growth is not peculiar to Africa, as is suggested by some of the “Afro-pessimist” literature. During the period of globalisation, economic growth rates have fallen across the

<sup>6</sup> In most cases, such a reversal of flows may call for “amnesty”, given the illicit nature of the accumulation of much of the expatriated capital. This raises a host of questions including those of the morality of seeming to reward kleptocracy and the credibility of the “amnesty”. The credibility of the amnesty will ultimately depend on the legitimacy of the government pronouncing the amnesty and on the adhesion by the domestic class to what is a clearly national and popular development project. “Amnesty” imposed by outsiders and by officials who belong to the kleptocracy are unlikely to be convincing to either private capital or the general public.

board for all groups of countries. The poorest group went from a per capita GDP growth rate of 1.9 percent annually in 1960-80 to a decline of 0.5 percent per year (1980-2000). For the middle group (which includes mostly poor countries), there was a sharp decline from an annual per capita growth rate of 3.6 percent to less than 1 percent. Over a 20-year period, this represents the difference between doubling income per person, versus increasing it by just 21 percent. The other groups also showed substantial declines in growth rates.” (Weisbrot *et al.* 2000a; 2000b; Weisbrot *et al.* 2001). The global decline in growth is largely due to deflationary bias in orthodox stabilisation programmes imposed by IFIs<sup>8</sup>.

**Figure 1: Annual Growth Rates in GDP Per Capita 1965-2000 (and Sub-Periods)**

**Figure 2: Annual Growth Rates in GDP Per Capita 1965-2002**



Source: World Bank *World Development Indicators 2003*, IMF *World Economic Outlook 2004*

### **Explaining the Poor Performance: Has Africa Adjusted?**

The poor performance of Africa with respect to the channels through which the positive effects of globalisation would be gained – increased access to markets and finance – is now widely accepted. There are, however, disagreements over the cause of the failure. The BWIs have adhered to two explanations. The first one is simply that African countries have rather incomprehensibly persisted with their doomed “dirigiste” ways and refused to swallow the bitter, but necessary pills, of adjustment. Inadequate implementation of reforms and recidivism are some of the most common themes running through the literature on African economic policy. The World Bank’s (1994) view was that adjustment was “incomplete”, not because of any faults in the design of the programmes, but due to poor implementation.

The second explanation was that not enough time had elapsed to reap the gains of adjustment and, therefore, of globalisation. Coming from the BWIs, this is a strange position. It was these very institutions which, in dismissing the structuralist argument on the inelasticity of response of developing countries to economic stimuli, claimed that liberalisation would elicit immediate and substantial responses and bring about “accelerated development” (the promise

<sup>8</sup> . In a review of the long inconclusive literature on the IMF Adam Przeworski and James Vreeland (2000) find that IMF programmes lower annual economic growth by 1.5 per cent for each year that a country participates in its programmes.

of the Berg Report —World Bank 1981). Indeed, in the early years, the World Bank was so certain about the response to its policies that it measured economic success by simply looking at the policy stance and assuming that this axiomatically led to growth (Mosley *et al.* 1995). Today, there is recognition that the axiomatic mapping of policies into performance was naïve and misleading. There are admissions, albeit grudging, to having underestimated the external constraints on policy and the vulnerability of African economies to them, to having overestimated the responsiveness of the economies and the private sector, to having wrong sequencing of policies, to having inadvertently eroded state capacities and responsibilities (“policy ownership”), etc. However, it is still insisted that the passage of time will do its job and the posture recommended to African countries has been to sit tight and wait for the outpouring of gains. There is no recognition that the accumulated effects of past policy errors may have made the implementation of “market friendly” policies in their pristine form more difficult.

By the second half of the 1990s, neither of the arguments could be made with a straight face. African countries had made much more far going adjustments than in any other region. Indeed, the BWIs themselves began to proudly point to the success of their programmes, suggesting that enough time had transpired and a large number of African countries had persevered in their adjustment so as to begin to reap the fruits of the adjustment process. IMF officials talked about a “turning point” (Fischer *et al.* 1998) and claimed that the positive per capita growth rates of 1995-97 (4.1 per cent) “reflected better policies in many African countries rather than favourable exogenous developments” (Hernández-Catá 200). According to Stanley Fischer and associates:

Important structural reforms have been implemented in many African economies in this decade: domestic price controls have been abolished or at least liberalised in several countries; some inefficient public monopolies have been dismantled; and a large number of state enterprises have been privatised. In the external sector, nontariff barriers have been eliminated in most SSA countries and import duties have been lowered in some, exchange rates have been freed and unified in most countries (with Nigeria a major exception); and restrictions on payments and transfers for current international transactions have been eliminated in 31 out of 54 of SSA countries. Most countries also have eliminated direct controls on bank credit and have established market-determined interest rates” (Fischer *et al.* 1998)

Meanwhile, the President of the World Bank James Wolfensohn (1977) reported, in his 1997 address to the Board of Governors, that there was progress in Sub-Saharan Africa, “with new leadership and better economic policies” (Wolfensohn 1997). Michel Camdessus, then Managing Director of the International Monetary Fund, 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 two Vice Presidents for Africa at the World Bank, Callisto Madavo and Jean-Louis Sarbib, wrote an article, appropriately titled “Africa on the Move: Attracting Private Capital to a Changing Continent” (Madavo and Sarbib 1997), which gave reasons for this new “cautious optimism”. The then Deputy Managing Director of the International Monetary Fund, Alassane Quattara (1997) would say the following about the good performance: “A key underlying contribution has come from progress made in macroeconomic stabilization and the introduction of sweeping structural reforms”. The major World Bank report on Africa of 2000 stated “many countries have made major gains in macroeconomic stabilisation, particularly since 1994”, and 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.” (World Bank 2000: 21). Even the ECA, a strident critic of SAPs in the past, joined the chorus<sup>9</sup>.

And so by the end of the millennium, African countries had been largely adjusted. There can be no doubt that there has been a sea change in the African policy landscape. Africa is very heavily involved in “globalisation” and is very much part of the global order, and much policy making during the last two decades has been designed to deliberately increase Africa’s participation in the global economy. In any case, more devaluations, lowering of tariffs and privatisation of marketing were imposed in Africa then anywhere else. By the mid-1980s, with the exception of the Franc zone countries, most SSA countries had adopted flexible exchange rates policies and there had been major real exchange rate devaluations. Major reforms in marketing, including the abolition of marketing boards, had been introduced. Arguments that African countries had refused or been slow to adjust or that not enough time had transpired became less credible, especially in light of the celebratory and self-congratulatory remarks by the BWIs themselves.

However, by 1997, the growth rates had begun to falter. By 1999, in its report on global prospects and the developing countries, the World Bank made a downward revision of the 1999 growth rate “despite continued improvements in political and economic fundamentals”. The report blamed the poor performance on terms of trade and the Asian crisis. In a sense, we had been there before. “Success stories” have been told many times before and countries have fretted and strutted on this “success” stage only to be heard of no more. 26 Sub-Saharan countries have been, at one time or other, on the lists compiled by the IFIs (See Table 3). The terms used have include “Strong Adjusters”, “Early Intensive Adjusters”, “Globalisers”, etc. Of the 15 countries listed as “core adjusters” by the World Bank in 1993, only three (Lesotho, Nigeria and Uganda) appear in the list of strong performers in 1998 (UNCTAD 1998). As in the past, the new “success” or “recovery” or “turn around” was of a one-off nature, and attributable to a whole range of things that have little to do with policies -- improvements in terms of trade, new sourcing strategies of mining conglomerates, the end of conflicts and favourable climates.

Rather than abandon the deflationary policies, supporters of adjustment have simply reframed the question to read: “Why is that when the recommended policies are put into place (often under the guidance of – and pressure from – the International Monetary Fund and the World Bank) the hoped for results do not materialise quickly” (Clague 1997: 1). The answer was: lack of “good governance” and of “good institutions”. These assertions conceal a clear loss of certainty and a growing sense of intellectual disarray. This is most apparent in the World Bank study, “Can Africa Claim the 21<sup>st</sup> Century?” (World Bank 2000). Unlike earlier approaches, the report speaks in a much more subdued and less optimistic tone, based more on faith than on analysis. There is an admission, albeit grudging, that policies of the past have not worked. The new agenda is much more eclectic and more a reflection of confusion and loss of faith than the discovery of coherent “comprehensive policy frame work”. The additional set of reforms is nebulous, eclectic and largely of a more political and institutional character – good governance, participation of and consultation with civil society, democracy, etc. Increasingly, the World Bank’s new solutions suggest that there is little to be done by way of reform on the

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<sup>9</sup> According to ECA,

“After two decades of stagnation, from the mid-1990s, African economies started showing evidence of a turnaround. There is now convincing evidence of improved economic performance in a wide range of African countries, with recorded gross domestic product (GDP) growth rates in excess of 6 per cent in several of them. The progress has been largely due to improved policy performance, particularly the adoption of less-distorted macro-economic frameworks, and the improvement in governance in many countries” (UNECA).

economic front. The World Bank's projection of African economic performance in the coming decade is depressing reading:

"Despite the growth slowdown of the late 1990s, recent performance continues to support the view that fundamental structural change and institutions strengthening will have significant impact on sub-Saharan prospects. The forecast is for a halt to the region's lengthy decline and marginalisation and even for moderate reversal: The longer term (2003-2010) outlook is for sustained GDO growth – 3.7 per cent – with per capita income rising 1.3 percent per year. The primary driving force behind the outlook remains better governance and ongoing reforms to the policy environment" (World Bank 2001: 152)

**Table 2. "Good Adjusters" 1981-1998**

<i>Country</i>	<i>No. of Times Listed</i>
Malawi	7
Uganda	5
Kenya	5
Madagascar	4
Ghana	4
Zambia	3
Tanzania	3
Mauritania	3
Mali	3
Cote d'Ivoire	3
Zimbabwe	2
Togo	2
Senegal	2
Nigeria	2
Niger	2
Mozambique	2
Cameroon	2
Burundi	2
Burkina Faso	2
Zaire	1
Namibia	1
Mauritius	1
Lesotho	1
Gambia	1
Chad	1
Benin	1

Sources: Several World Bank reports.

### **Africa Maladjusted: The Low Growth Path**

As we noted earlier, adjustment has not led to the promised "resource mobilisation". The response of the BWIs to the poor performance in resource mobilisation has been ambiguous, to say the least. At times, they have expressed concern (and bewilderment) over the decline of investment, but blamed it on inflation, the low after-tax, risk-adjusted rate of return on capital which, in turn, has been attributed to macroeconomic instability, loss of assets due to poor enforceability of contracts, debt overhang, and physical destruction caused by armed conflicts (Hernández-Catá 200); at other times, this fall in investment has been seen as a temporary phase during which efficient use of existing capacity matters more than accumulation of new

capital. Once the economy is placed on an efficient path, it will begin to accumulate, so the argument goes.

However, a new twist to the argument is that Africa is “over-invested”. The BWIs now reach the conclusion that African economic growth does not respond to investment, and conclude that it may be that there is “over-investment” in Africa. In a World Bank paper entitled “Is investment in Africa Too Low or Too High? Macro and Micro Evidence” Shantayanan Devajaran, William Easterly and Howard Pack argue that they find no evidence that private and public capital are productive investments in Africa, either in cross-country data or in country case studies. They conclude:

“First, we should be more careful about calling for an investment boom to resume growth in Africa. Unless some or all of the underlying factors that made investment unproductive in the past are addressed, the results may be disappointing. We should also be more circumspect about Africa’s low savings rate. Perhaps the low savings rate was 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” (Devajaran, Easterly and Pack 1999: 23).

This patently absurd result comes from the failure to consider the possibility that given the errors of the past and the maladjustment of the African economies, a much larger “Big Push” may be required to get African economies on a path in which economies responds to investment. It also fails to take into account that patterns of investment induced by the SAPs may not be the kinds associated with high economic growth. Although some of the recent literature modifies the “capital fundamentalist” argument on the primacy of investment, it continues to place capital accumulation at the centre of the growth process. In any case, investment, growth and productivity tend to move in tandem. Second, in the pre-adjustment era, investment was associated with relatively high growth and significant total factor productivity gains in a significant number of countries<sup>10</sup>. One would therefore have to explain what it is in the adjustment process that produced what is a patently atypical response to investment.

To understand Africa’s poor performance in terms of the two channels of globalisation – trade and finance – we have to understand the interactions between these and economic growth. The usual procedure is to regress growth on initial conditions, GDP, state variables and policy instruments. In these models, export performance and investment rates would be determinants of growth in a unidirectional way. There is a rich theoretical and empirical literature that points to the potential explanatory power of reverse direction by suggesting a more simultaneous process in which the usual “determinants” of growth are themselves determined by growth.

### *Slow Growth and Resource Mobilisation*

Let us start with investment-savings nexus. The earlier literature by Keynesians, such as Michael Kalecki and Nicholas Kaldor, suggested that the causal chain may be from growth to both investment and savings, and not the other way around. The Kaleckian “flexible accelerator” view— that capital needs are essentially determined by expected output (i.e. investment demand is driven by expected growth),—is a case in point. “Endogenous growth

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<sup>10</sup> Countries such as Cote d’Ivoire, Kenya, Tanzania, and even Zaire experienced higher total factor productivity growth than most East Asian countries. (Rodrik 2001)

theories” have revised interest in this matter by suggesting that some “determinants of growth” may themselves be dependent on growth.

Norman Loayza, Luis Servén and Klaus Schmidt-Hebbel (2000) conclude that private saving rates rise with the level and growth rate of real per capita income. Furthermore, the influence of income is larger in developing than in developed countries where a doubling of income per capita is estimated, other things equal, to raise the long-run private savings rate by some 10 percentage points of disposable income. Likewise, a 1 percentage-point rise in the growth rate raises the private savings rate by a similar amount. In a study of savings transitions, Rodrik (1998) argues that there is strong evidence that “the story emerges is one that emphasises that economic growth tends to have a clear positive effect on the savings rate”. On Africa, ElBedawi and Mwega (2000) and Mlambo and Oshikoya (2001) reach generally similar conclusions, namely that “causality runs from growth to investment and saving”. The important policy conclusion is that policies that spur development are an indirect but effective way to raise private saving rates and the “negative focus on saving performance does not seem a profitable strategy for understanding successful economic performance” (Rodrik 2000b: 505)<sup>11</sup>.

In this neo-Keynesian view, the poor response of private investors — both domestic and foreign — should not have come as a surprise, what with contractions of domestic markets through deflationary policies and increased competition from imported goods, the collapse of public services and infrastructure and the political uncertainty engendered by policies that have undermined the “social pacts” that hitherto provided some modicum of social cohesion. And so, despite the fact that a number of countries have been “adjusted”, new credits were not forthcoming. That was mainly because investors did not have the confidence that the countries’ growth performances would improve and that the potential returns on their investments would fully materialize, because improvements in the trade surplus were primarily caused by demand-repression and deflationary policies. For the BWIs, the major explanation for the poor response of foreign investment is “risk” – not a particularly useful piece of information. But the greatest “risk” for investors is investing their money in economies under the grip of policies that seek to achieve stabilisation by acting in a pro-cyclical manner by lowering savings and investments during recessions (Bird 2001).<sup>12</sup> It is perhaps this sluggish growth that accounts for the fact that the *Institutional Investor* rating for Africa has deteriorated from 31.8 per cent in 1979 to 21.7 in 1995 (the range is 1-100) (Collier and Gunning 1997). It is significant that the two countries that performed well with respect to this index were high growth economies which were not under the grip of the deflationary policies—Botswana and Mauritius. It is on the basis of these theoretical arguments and empirical observations that there have been calls for an “investment-led” adjustment process (Griffin 2001; Mkandawire and Soludo 1999)

### *Trade, Low Growth and Absence of Structural Change*

The slow growth discussed above has also had an impact on the growth of exports and diversification by weakening the investment-export nexus crucial to the process. Here again,

<sup>11</sup> One consequence of the orthodoxy is fixation with austerity not as a programmatic concern over careful use of limited resources, but as an ideologically driven clamp on state driven activities, since in most cases, these measures are often accompanied by removal of constraints on private borrowing, leading to profligacy and reduced private savings<sup>11</sup>. In more concrete terms, this has resulted in strengthening the finance ministry and other “austerity” and debt management institutions at the expense of the “spending” ministries so crucial to a growth focussed process.

<sup>12</sup> And as McPherson and Rakovski (2001: 11) observe, “Without growth to provide some dynamism, particularly the expectation among investors that growth will continue (and probably accelerate), there has been no incentive for anyone to invest. Thus the slow growth has fed on itself to produce the “tragedy” (p. 11). African regional organizations and research institutions have argued for decades that SAPs were anti-developmental because of their deflationary thrust. The “fundamentals” that SAPs pushed may have been adequate to address stabilization, but they were definitely not the “fundamentals” for development involving growth and structural change (Mkandawire and Soludo 1999).

the orthodox view has been that increased trade or openness measured in various ways is a determinant of growth. Consequently, the major policies with respect to trade have involved trade liberalization and adjustments in exchange rates largely through devaluation.

### *Industrial Stagnation*

Failure on the trade front is linked to the failure in the structural transformation of African economies so that they could produce new sets of commodities in a competitive and flexible way. Globalisation in Africa has been associated with industrial stagnation and even de-industrialization” (Mkandawire 1988; Singh 1987; Stein 1992; Stewart 1994). African economies were the quintessential “late, latecomers” in the process of industrialization. I have argued elsewhere (Mkandawire 1988) that although the writing on African economies is based on the assumption that Africa had pursued import substitution for too long, the phase of import substitution was in fact extremely short – in most countries it was less than a decade<sup>13</sup>. SAPs have called for policies that have prematurely exposed African industries to global competition and thus induced widespread processes of de-industrialization. African economies have somehow been ‘out of sync’ with developments in other parts of the world. When most economies embarked on import substitution industrialization, financed by either borrowing or debt default, much of Africa was under colonial rule, which permitted neither protection of domestic markets nor running deficits. And even later, when much industrialization was financed through Eurodollar loans, Africans were generally reluctant to borrow so that eventually, much of their borrowing in the 1980s was not for industrialization, but to finance balance-of-payments problems. Every case of successful penetration of international markets has been preceded by a phase when import substitution industrialisation was pursued. Such a phase is necessary, not simply for the “infant industry” arguments that have been stated ad infinitum, but also because they provide an institutional capacity for handling entirely new sets of economic activities. The phase is also necessary for sorting out some of the coordination failures that need to be addressed before venturing into global markets. A “revisionist” view argues that (a) substantial growth was achieved during the phase of import substitution industrialisation, (b) even successful “export oriented economies” had to pass through this phase and maintain many features of the IS phase, and (c) important social gains were made.

The phase of import substitution did lead the initial phases of industrialisation. Significantly, UNIDO notes that African countries were increasingly gaining comparative advantage in labour intensive branches, as indicated by revealed comparative advantage (RCA), but then notes:

“It is particularly alarming to note that the rank correlation of industrial branches by productivity growth over 1980-95 and RCA value in 1995 is very low. Productivity has fallen in furniture, leather, footwear, clothing, textiles, and food manufacturing. An export oriented development strategy cannot directly stimulate TFP. Policy must focus on increasing technological progress within the export industries – many of which have seen very rapid progress in the application of the most modern technologies (informatics, biotechnological, etc) to their production and distribution system” (UNIDO: 245).

Given the conviction that import substitution in Africa was bad and had gone on for too long, there was no attempt to see how existing industries could be the basis for new initiatives for export. The policy was simply to discard existing capacity on the wrong assumption that it was the specific microeconomic policies used to encourage the establishment of these industries that accounted for failure at the macro-level. The task should have been to extend

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<sup>13</sup> I have argued this in Mkandawire (1998)

and not reverse such gains by dismantling existing industrial capacity. The rates of growth of MVA (manufacturing value added) have fallen continuously from the levels in the 1970s. UNIDO estimated that MVA in sub-Saharan Africa was actually contracting at an annual average rate of 1.0% during 1990-97. UNIDO shows that for Africa as a whole, in ten industrial branches in 38 countries, labour productivity declined to an index value of 93 in 1995 (1990 = 100). Increases in productivity were registered only in tobacco, beverages and structural clay products. In many cases, an increase in productivity has been due to a fall in employment growth (UNIDO). The decline in total factor productivity of the economy as a whole is due to de-industrialization which it defines as “synonymous with productivity growth deceleration”. Output per head in sub-Saharan manufacturing fell from \$7,924 in 1990 to \$6,762 in 1996. The structural consequence is that the share of manufacturing in GDP has fallen in two thirds of the countries (Figure 4). The number of countries falling below the median has increased from 19 during 1985-90 to 31 during the 1991-98 period. While admitting such poor performance in manufacturing during the era of structural adjustment, supporters of SAPs argue that (a) that such decline in industrialisation is a temporary and welcome process for weeding out inefficient industrialisation (Jalilian and Weiss 2000) and (b) not enough time for adjustment has passed to see the benefits from globalisation through the establishment of new industries. Considering that this argument has been repeatedly deployed since 1985, Africa may have to wait for a long time before the gains from globalisation materialise.

Students of historical structural changes of economies inform us that structural change is both cause and effect of economic growth. As Moshe Syrquin (1994; 1995) observes, a significant share of the measured rate of aggregate total factor productivity is due to resource shifts from sectors with low productivity to sectors with high productivity. We have learnt from the “new trade theories” and studies on technological development how countries run the risk of being “locked” in a permanently slow growth trajectory if they follow the dictates of static comparative advantage. To move away from such a path, governments have introduced policies that generate externalities for a wide range of other industries and thus place the economy on more growth inducing engagement with the rest of the world.

For years, UNCTAD economists have pointed to the importance of growth for trade expansion. They have argued that it is the absence of growth, or more specifically an investment-export nexus that accounts for the failure of many countries to expand and diversify their export base. Rapid resource reallocation may not be feasible without high rates of growth and investment<sup>14</sup>. The principal means for effecting export diversification is investment. Many empirical tests of “causation” have been conducted, suggesting that there are good theoretical and empirical grounds for taking this reverse causation seriously as the dynamics of high growth lead to even greater human and physical investment and greater knowledge formation, which, by Verdoon’s Law, leads to more productivity and therefore greater competitiveness. Studies of successful export drives clearly show a strong relationship between rates of structural change and rates of growth in value added in manufacturing and rates of growth of exports.

Lessons from countries which have embraced trade liberalization and achieved some degree of success suggest clearly that such liberalisation should be in conjunction with policies that ensure that relative prices will be favourable to export industries (and not just to nontradables) and that interest rates will support investment and economic restructuring. Successful export promotion strategies have required deliberate design of an investment-export

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<sup>14</sup> One reason why the contribution of investment to growth in Africa is underestimated may be precisely because its contribution to increasing the flexibility of the economy is ignored.

nexus. Diversification of exports that is developmental needs to go beyond the multiplication of primary commodities and to include industrial products. This requires not merely the redirection of existing industrial output to the external, but also the expansion of such output and investment in new activities.

There is a need to design a system of incentives that favours investments that open up new possibilities or introduce new technologies to the country. In this respect, infrastructure and human resource development are important preconditions for the success of pro-export policies. The instruments used to promote investment have included not only public investment, but also provision of subsidised inputs by public enterprises, direct subsidies through tax incentives including exemptions from duties, and industrial policy which, in turn, has meant selective allocation of credit and encouragement of investment by cheapening imported investment goods (often by manipulation of exchange rates in favour of the import of plant and equipment and export sector) (Akyüz 1996; Bradford Jr. 1990). While "diversification" has always featured in virtually all adjustment programmes, there has been no clear spelling out of how this was to be achieved. In most cases, the need for diversification was overshadowed by short-term pressures to exploit static "revealed" comparative advantage and reduce public spending. The failure to stimulate new economic activities (especially industry) has meant not only sluggish growth in exports but also failure to diversify.

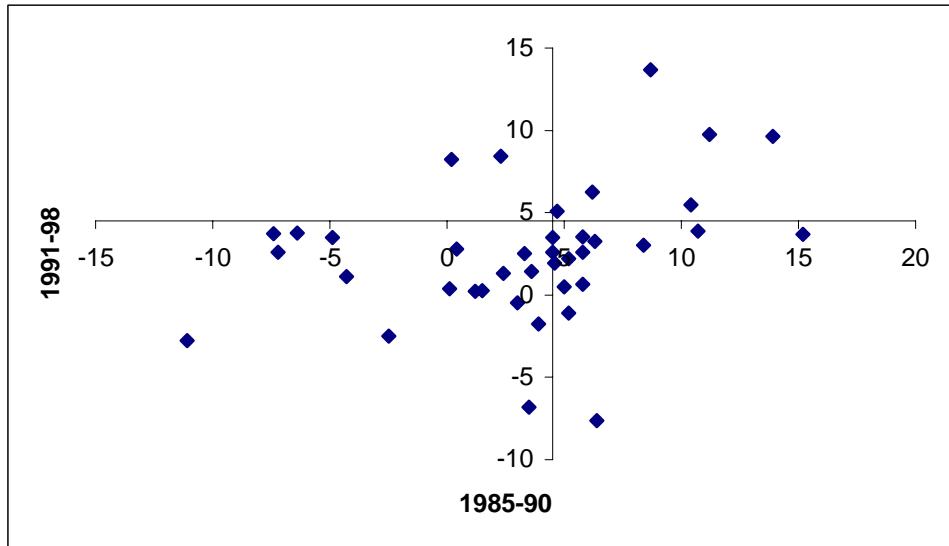
Under SAPs, all these instruments have been off limits. Evidence that more successful cases have had some kind of "industrial policy" has been dismissed on the grounds that African countries have neither the type of government nor the political acumen to prevent "capture" of these policies by rent seekers and patron-client networks. Governments have been left with no instruments for stimulating investment and industrial development directly or for creating an environment for robust demand and profitability in which investment could thrive with complementary public inputs such as infrastructure, R and D, education, and training. It is this passivity that has led to the failure of structural transformation and the establishment of an investment-export nexus that would have led to the increase and diversification of exports.

Thus, the name given to the policy packages of the BWIs notwithstanding, the "structural adjustment process has not led to structural changes in Africa." At first glance, one can see signs of structural change, especially in the decreased shares of industrial and agricultural sectors in overall GDP and the significant increase in services. Such change would seem to be following the norms established by Simon Kuznets and other observers of structural change in the process of economic development. However, in the case of Africa, such an interpretation is misleading because the transformation taking place is perverse, reflecting, as it does, stagnation of the economy, de-industrialisation and poor agriculture performance, rather than structural change induced by differential productivity gains and changing demand structures induced by increasing incomes (by way of Engel's Law). The expansion of the service sector is evidence of growing informalisation, pauperisation of the middle classes and "compradorisation" of African economies. Structural adjustment in Africa has thus far meant reversing some of the structural changes that African governments sought to induce as countries are driven back to the production patterns of the colonial era through "back to the future" adjustment of African economies and "de-industrialization" (Mkandawire 1988; Singh 1987; Stein 1992). Ghana is back as the "Gold Coast", Zambia is desperately trying to cling to its copper belt, etc.

One should add here that the negative effects of this deflationary process also work through the trade mechanism. For African economies, terms of trade have enormous effects on the performance of economies, a fact that the World Bank now increasingly recognizes as unfavourable trade conditions scuttle its programmes. World Bank economist, William Easterly (2000), in an article tellingly entitled "The Lost Decades: Developing Countries Stagnation in

"Spite of Policy Reform, 1980-1998" reaches conclusions that would warm the heart of any member of the "Dependence School". He considers the following factors as possible explanations of the poor performance of developing countries: "(1) good policies that did not achieve desired results, (2) bad economic policies, or (3) some third factor like shocks?" Based on his evidence – cross-country regressions and comparison of turning points that relate events in the rich countries to those in the developing countries— his conclusion is that the most likely explanation was point (3) i.e. 'some third factor like shocks'. The principal shock he finds is the "growth slowdown in the industrial world".

**Figure 3. Comparative rates of Growth of Manufactured Value Added**



Source: World Bank CD-Rom

Note: The axes are drawn to pass through the median of the 1985-90 period.

In conclusion, in a situation of generalised low growth rates, Africa is unlikely to experience much diversification. General policies such as "marked liberalisation" or exchange rate devaluations, while perhaps supportive of diversification, are unlikely to induce the shifts in resources essential to tangible diversification<sup>15</sup>. This is because there are structural factors that attenuate responsiveness to new opportunities. The decline of Africa's share in world trade is thus closely related to low levels of growth which in turn is related to de-industrialisation. Or as Gerald Helleiner (2002a: 4) succinctly states, "Africa's failures have been developmental, not *export* failure per se". Hence, failure in trade cannot be explained by simply looking at trade policies. One has to look at the overall growth of the economies and the ensuing structural change. As Dani Rodrik (1997) notes, Africa's "marginalisation" is not due to trade ratios (relative to GDP) that are low by cross-national standards: Africa trades as much as is to be expected given its geography and its level of per-capita income. Indeed, there is evidence that suggests that "Africa overtrades 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)<sup>16</sup>. The marginalisation of Africa in world

<sup>15</sup> This is recurring message in the collection of papers edited by Helleiner (2002, especially Mwega 2002; Ndulu et al. 2002)

<sup>16</sup> For a contrary view, see the IMF paper by Subramanian and Tamarisa (2001). There is an intriguing suggestion in the paper that, at least among Anglophone countries, intra-African trade has been much more dynamic than trade with the rest of the world. Subramanian suggests that this is no good for Africa as it means weakening the links with the technologically more dynamic North. He provides no evidence that Africa's import of plant and equipment from the North, the goods most important for technological acquisition, has suffered as the result of increased intra-Africa trade.

trade is the consequence of two factors: first, Africa's GDP per-capita has grown slower than other regions; and second, the output elasticity of trade exceeds unity, so that as other countries have grown, their trade volumes have expanded more than proportionately. The dismissal of deliberate, strategic industrial and trade policies to shape Africa's position in the global trading system has left Africa on the low-productivity, low-growth path. The policy implications of this perspective are to stimulate growth, as well as invest in infrastructure and human capital.

#### *WTO Context*

Africa is the only continent for which it was explicitly predicted that the advent of the WTO trade regime would entail losses. Most of these losses related to trade issues – most specifically the loss of preferential treatment from its erstwhile colonial masters and the European Union under the Lome Convention. There is one feature of globalisation that Africa's industrialisation aspirations will have to confront – the restrictive policy context of the global financial and trade regimes. Much of the industrialisation that has taken place elsewhere has been supported by explicit or implicit industrial policy. Both the import substitution and export promotion of the post-World War II period have been products of industrial policy.

New trade arrangements, of which the WTO is emblematic, have changed the environment for industrial policy. There is considerable debate as to what globalisation entails in terms of individual states' capacity to pursue their own development strategies. From one end, it is argued that during much of the post World War II era, the global order allowed states considerable room for manoeuvre to pursue such national goals as full employment or growth and development, the current wave of globalisation has significantly reduced the leverage of governments over the economy.

The institutional arrangement said to signal this changed environment for industrial policy is the WTO. This argues that WTO has changed the environment for development and restricted policy options in promoting industry and trade in a manner comparable to pulling up the ladder. A whole range of policies that have been central to virtually every strategy of industrialisation is now off-limits (Adelman and Yeldan 2000; Panchamukhi 1996; Rodrik 2000a). In other words, while the new world order clearly demands highly intensive involvement by the state in industrialisation, the regulatory regimes deny the state the means for such intervention. For the "late, late industrialisers" such as African countries, it is clear that the international trade regime to which they are now tethered makes it extremely difficult for these economies to capture the potential gains from global markets.

This view has been challenged by some authors who argue that the WTO regime still leaves room for catching up and that developing countries can still embark on deliberate industrialisation by exploiting some of the special provisions reserved for them in the WTO arrangements. Alice Amsden (1999), who has written extensively on the role of industrial policy in the East Asian context, argues that the WTO regime still leaves room for industrial policy initiatives. For Peter Evans, the WTO is something still in the making and there is, therefore, the possibility that it can be shaped to serve the interests of developing countries. Irma Adelman and Erinc Yeldan (2000), who list the major constraints imposed by the WTO on development policy, argue that, paradoxically, the new regime allow direct government investment in new activities, and non-market pressures on individual private firms to develop new types of comparative advantage. This may lead to greater intervention and more targeted discretionary activities by governments wishing to develop their economies (Adelman and Yeldan 2000).

This debate may ultimately be a fruitless one, given the multiplicity of fora in which "negotiations" on global issues takes place. Often, concessions made in one forum are often eroded or nullified by the conditionalities imposed in another forum. Thus, even the

interventionist measures which Adelman points to as policy options not disallowed by the WTO, may simply be off limits under IMF and World Bank adjustment programmes and conditionalities. A country cannot refuse to open all its markets, as demanded by the BWIs, by appealing to WTO exemptions. Pressures for trade liberalisation and the anti-industrial stance of the BWIs have whittled away the positive effects of the provisions that would allow the poor countries to protect their infant industries. This has been particularly so for Sub-Saharan Africa, which was undoubtedly been subjected to more conditionalities per capita than any other region<sup>17</sup> and where structural adjustment has tended to make it impossible to exploit the special concessions made to African countries in international agreements such as the WTO or Lome Conventions.

## Concluding Remarks

The African policy landscape has changed radically during the last two decades. Liberalisation of trade, privatisation as well as reliance on markets have replaced the widespread state controls associated with import substitution. One would expect to see some signs of the “accelerated development” promised by the Berg report in 1981 by now. That adjustment has failed as a prerequisite for development, let alone as a “strategy for accelerated development”, is now widely accepted<sup>18</sup>. These failures can, in turn, be traced to the displacement of developmental strategic thinking by “an obsession” with stabilization – a point underscored by low levels of investment and institutional sclerosis. The key “fundamentals” that policy has sought to establish relate to these financial concerns, rather than to development. The singular concentration on “opening” up the economy has undermined post-independence efforts to create, albeit lamely, internally coherent and articulated economies and an industrial structure that would be the basis for eventual diversification of Africa’s export base. The excessive emphasis on servicing the external sector has diverted scarce resources and political capacities away from managing the more fundamental basis for economic development. Even the issue of “poverty” has received little attention except perhaps when it has seemed politically expedient to be seen to be doing something to mitigate the negative effects of adjustment. SAP, due to its deflationary bias, has placed African economies on such a low growth trajectory, which has then conditioned the levels and types of Africa’s participation in the global economy.

Over the last two decades, Africans have been faced not merely by a set of pragmatic measures made on programmatic grounds but by a full-blown ideological position about the role of the state, nationalism and equity, against which many neo-liberals, including Elliot Berg, had ranted for years<sup>19</sup>. It is this ideological character of the proposals that has made them impervious to empirical evidence including that generated by the World Bank itself, and it is that which has made policy dialogue virtually impossible. The “true believers” insistence on the basic and commonsensical message they carry has made dialogue impossible. The assumption that those on the other side are merely driven by self-interest and ignorance that might be remediable by “capacity building” has merely complicated matters further. Things have not

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<sup>17</sup> As Tony Killick noted, the spread of SAPs has “given the BWIs an historically unprecedented leverage over the economic policies of sovereign developing country governments, to an extent that would be unimaginable among OECD states” (Killick 1996: 221).

<sup>18</sup> None less than the Chief Economist of the World Bank, Joseph Stiglitz (1998), has called for the transcendence of the Washington Consensus in order to place development back on to the agenda. The World Bank has proposed that each country prepare a “comprehensive development framework” which considers “structural, social and human aspects” of development (Wolfensohn 1999).

<sup>19</sup> On the state see, Bauer 1981; 1984). 34. On nationalism see Johnson (1967). Green characterizes Elliot Berg’s thinking aeconomic world view as “of a more robust and free competitive market-oriented, comparative advantage-led, neoliberal political economic world that that portrayed in the AD”. (Green and Allison 1986: 63)

been made easier by the supplicant position of African governments and their obvious failures to manage their national affairs well. These policies were presented as finite processes which would permit countries to restore growth. With this time perspective in mind, countries were persuaded to put aside long-term strategic considerations while they sorted out some short-term problems. The finite process has lasted two decades.

There are obvious gains from participation in increased exchange with the rest of the world. The bone of contention is: what specific measures should individual countries adopt in order to reap the benefits of increased exchange with other nations. With perhaps a few cases, developing countries have always sought to gain from international trade. Attempts to diversify the export base have been a key aspect of policy since independence. Import substitution was not a strategy for autarky, as is often alleged, but a phase in eventual export diversification. However, for years, the integration of developing countries into a highly unequal economic order was considered problematic, characterised, as it is, by unfavourable secular terms of trade for primary commodities, control of major markets by gigantic conglomerates, protectionism in the markets of developed countries together with “dumping” of highly subsidised agricultural products, volatile commodity and financial markets, asymmetries in access to technology, etc. From this perspective, gains from trade could only be captured by strategising and dynamizing a country’s linking up with the rest of the world.

It is ironic that while analysis in the “pre-globalisation” period took the impact of external factors on economic growth seriously, the era of globalisation has tended to concentrate almost exclusively on internal determinants of economic performance. Today, Africa’s dependence on external factors and interference in the internal affairs of African countries by external actors are most transparent and humiliating, and yet such, dependence remains untheorised. Theories that sought to relate Africa’s economies to external factors have been discredited, abandoned or, at best, placed on the defensive. The focus now is almost entirely on internal determinants of economic performance – economic policies, governance, rent-seeking, ethnic diversity, etc. While the attention on internal affairs may have served as a useful corrective to excessive focus on the external, on its own, it also provides a partial view of African economies and can be partly blamed for the pursuit of policies that were blind to Africa’s extreme dependence and vulnerability to external conjuncture – a fact that the BWIs have learnt as the exogenous factor that scuttled their adjustment programmes. Indeed, unwilling to discard its essentially deflationary policies, and faced with poor performance among many countries which have been “strong adjusters”, the World Bank’s explanations have become increasingly more structural-deterministic and eclectic. Even the IMF’s World Economic Outlook explains Africa’s poor performance in surprisingly structuralist language. As it notes, the “resilience” of growth in recent years “partly reflected more favourable developments in nonfuel commodity prices, which did not contract as much as in earlier global slowdowns, as well as debt relief under the HIPC initiative”. The IMF also notes that despite “the trend toward improved macroeconomic policies in many African countries”, “external current account deficits in many countries in sub-Saharan Africa remain relatively high, reflecting in part continued high debt levels but also low savings rates related to low per capita incomes and structural impediments to economic diversification.”

It is now admitted that many mistakes have been made during the past two decades. When errors are admitted, the consequences of such errors are never spelled out. Economists increasingly use the concept of *hysteresis*, a phenomenon observed in some physical systems, by which changes in a property lag behind changes in an agent on which it depends, so that the value of the former, at any moment, depends on the nature of the previous variation the latter. They use the concept to account for any “path dependence” of the state of economic variables on the past history of the economic system or policies. In explaining the failure of

their policies, the BWIs argue that past (before-adjustment) policy errors have a lasting effect through hysteresis. Strangely, no such hysteresis is entertained for policies pursued by the BWIs in the recent past. Policy failures, especially those as comprehensive as those of SAPs can continue to have effects on the performance of the economy long after policy failures are abandoned. It may well be that the accretions of errors that are often perfunctorily admitted have created *maladjusted* economies not capable of gaining much from globalisation. Both the measures of “success” used for African economies and the projections for the future suggest that, essentially, the BWIs have put Africa’s development on hold. This clearly suggests the extreme urgency for Africans themselves to assume the task of “bringing development back in” in their respective countries and collectively. To benefit from interacting with the rest of the world, African policy-makers will have to recognise the enormous task of correcting the maladjustment of their economies. They will have to introduce more explicit, more subtle and more daring policies to stimulate growth, trade and export diversification than hitherto.

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**Table 3. Foreign Direct Investment inflows by host region and economy 1982-97**  
 (Millions of dollars-except rows 5-7 which are in percentages)

Source: UNCTAD World Investment Report 2003

	1982-87	1988-94	1995	1996	1997	1998	1999	2000	2001	2002
1. Developing Countries & SA	19,694	54,540	116,132	150,577	197,041	191,845	230,798	246,944	216,220	162,899
2. Sub Saharan Africa	1,059	2,150	3,964	3,815	7,951	6,046	8,663	5,364	13,295	7,452
3. SSA w/o South Africa	1,034	2,075	2,723	2,997	4,134	5,485	7,161	4,476	6,506	6,698
4. SSA w/o SA & Nigeria	655	966	1,644	1,403	2,594	4,433	6,156	3,546	5,402	5,416
2/1	5.4	3.9	3.4	2.5	4.0	3.2	3.8	2.2	6.1	4.6
3/1	5.3	3.8	2.3	2.0	2.1	2.9	3.1	1.8	3.0	4.1
4/1	3.3	1.8	1.4	0.9	1.3	2.3	2.7	1.4	2.5	3.3