Africa Development, Vol. XXX, Nos. 1 & 2, 2005, pp. 1–33

(ISSN 0850-3907)

Maladjusted African Economies and Globalisation*

Thandika Mkandawire**

Abstract

The policies of adjustment pursued in the 1980s and 1990s promised African countries not only 'accelerated development' but also a means to end Africa's marginalisation from the process of globalisation by encouraging foreign investment and the expansion and diversification of exports. While for much of the 1980s and early 1990s, the poor performance of African economies was blamed on the failure of African governments to adopt 'the right policies', by the mid-1990s, international financial institutions were saying that the significant adjustments made by African economies had led to economic recovery. However, the performance of African economies with respect to both investment and trade diversification remained poor. Since this could no longer be explained away by saying that African economies had not adjusted, other explanations were needed: these included institutions, geography, culture and ethnic diversity. In this paper I argue that it is the deflationary policies under the structural adjustment policies (SAPs) that have placed African economies on a 'low growth path' which has discouraged investments, trade expansion and diversification, by undermining the investment-growth-trade nexus. Indeed, as a result of this, African economies have been so maladjusted that they responded poorly to a wide range of economic stimuli.

Résumé

Á travers les politiques d'ajustement qui ont été menées dans les années 80 et 90, l'on promettait aux pays africains un «développement accéléré»; mais ces politiques signifiaient également que l'Afrique ne serait plus en marge du processus de mondialisation, grâce au système d'encouragement des investissements étrangers et l'expansion et la diversification des exportations. Au cours des années 80 et au début des années 90, l'on avait expliqué la pauvre performance des économies africaines par l'incapacité des gouvernements africains à adopter de «bonnes politiques», mais, au milieu des années 90, les institutions financières internationales affirmaient que les ajustements significatifs réalisés par les économies africaines

* The author would like to thank Virginia Rodriquez and Nina Torm for research assistance.

**Thandika Mkandawire is Director of the United Nations Research Institute for Social Development (UNRISD).

avaient permis une certaine relance économique. Cependant, la performance des économies africaines concernant les investissements et la diversification commerciale est restée faible. Comme il n'était plus possible d'expliquer cela par le problème d'ajustement économique, il a fallu trouver d'autres explications, parmi lesquelles: les institutions, la géographie, la culture ou encore la diversité ethnique. Je déclare, dans ce document, que ce sont les politiques déflationnistes des politiques d'ajustement structurel (PAS) qui ont dirigé les économies africaines vers un «chemin de lente croissance», décourageant les investissements, l'expansion et la diversification commerciale, en minant le lien investissement-croissance-commerce. De ce fait, les économies africaines ont été si mal ajustées qu'elles n'ont répondu que faiblement à un éventail de stimuli économiques, pourtant assez large.

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 adhesion to a number of conventions such as the World Trade Organisation, 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.

The word that often comes to mind, whenever globalisation and Africa are mentioned together, 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.[1] 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 International Monetary Fund (IMF), and associates put it, 'globalisation is proceeding apace and Sub-Saharan Africa (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 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 percent 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 achievements 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 promise of Structural Adjustment Programmes' (SAP) 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 that 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), 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)

Indicator	1975–84	1985–89	1990–97	1998	1999	2000	2001
Gross Domestic Savings							
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
Gross National Savings							
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
Resource Transfers abroad							
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
Gross Domestic Investment							
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
Resource Balance							
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

Source: World Bank Africa Database 2003
Note: Gross Domestic Savings (GDS); Resource Transfers (GDS-GNS); Gross Domestic Investment (GDI); Gross National Savings (GNS).

Perhaps even more attractive was the promise that financial liberalisation 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 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 business entrepreneurs 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 Foreign Direct Investment flows (FDI) (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).[2] 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.

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 percent of FDI flows into Africa.[3] 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).

Table 2: Foreign Direct Investment inflows 1982–2002 (millions of US $ (rows 1-3) and percentages (rows 5-7))

	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 (SSA)	1,059	2,150	3,964	3,815	7,951	6,046	8,663	5,364	13,295	7,452
3. SSA w/o SA	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
5. Row 2 as a share of row 1	5.4	3.9	3.4	2.5	4.0	3.2	3.8	2.2	6.1	4.6
6. Row 3 as a share of row 1	5.3	3.8	2.3	2.0	2.1	2.9	3.1	1.8	3.0	4.1
7. Row 4 as a share of row 1	3.3	1.8	1.4	0.9	1.3	2.3	2.7	1.4	2.5	3.3

Notes: SA indicates 'South Africa' and SSA indicates ' Sub-Saharan Africa'.
Source: UNCTAD World Investment Report 2003.

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 be 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 US$ 200 million annually – mainly due to privatisation, was rapidly reversed to produce a negative outflow.[4] It should be noted, in passing, that rates of return of direct investments have generally been much higher in Africa than 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.[5]

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 percent 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 193 billion (in US Dollars) 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.

The evidence presented in this essay leads to a startling conclusion: far from being heavily indebted, many 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 or $106.5 billion, depending on whether we count imputed interest earnings on the asset side. The 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, Devajaran et al. (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 pana-