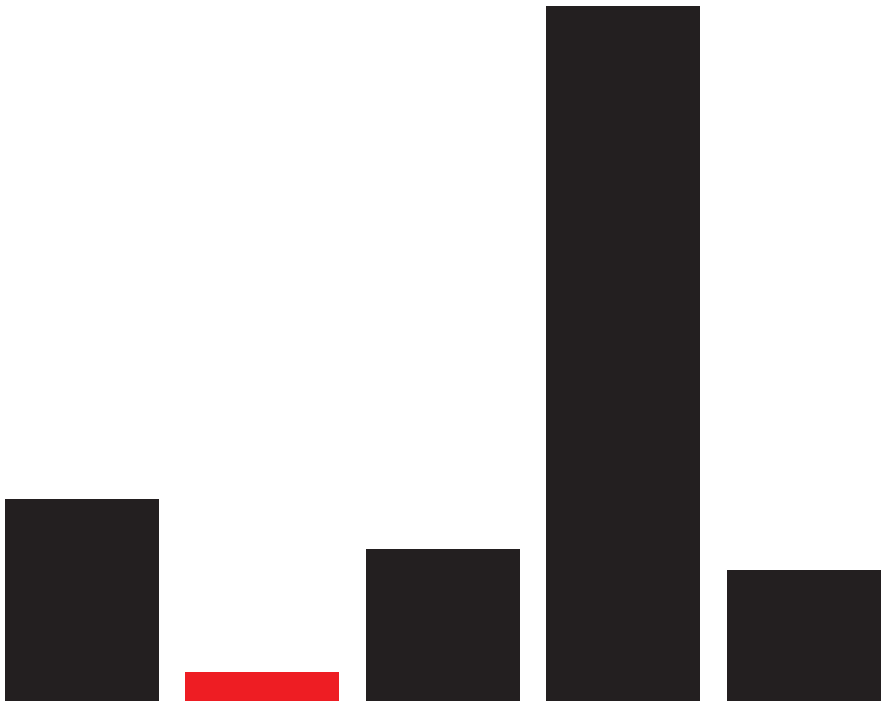


Globalization and Development in

SUB SAHARAN AFRICA



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GLOBALIZATION AND DEVELOPMENT IN SUB-SAHARAN AFRICA

Jomo Kwame Sundaram with Oliver Schwank and Rudiger von Arnim

This book critically reviews the effects of globalization on sub-Saharan Africa (SSA) over the last three decades. The large gains expected from opening up to international economic forces have, to date, been limited, while there have been significant adverse consequences. Foreign direct investment in SSA has been largely confined to resource—especially mineral—extraction, even as continuing capital flight has reduced financial resources available for productive investments. Premature trade liberalization has further undermined prospects for the economic development of SSA as productive capacities in many sectors – including manufacturing and agriculture – are not sufficiently competitive to take advantage of improvements in market access, especially in the face of non-tariff barriers such as subsidized agriculture in the North.

Keywords:

Africa, Agriculture, Aid, Bretton Woods institutions, Development, FDI, Finance, Industry, Structural Adjustment, Trade

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1. INTRODUCTION

CATCHING UP?

Africa's growth performance since gaining independence from colonial rule in the 1960s was disappointing. So used are we to this assessment that we forget that Africa was, at least in the first decade of independence, growing faster than other developing regions in the world. However, events in the late 1970s dramatically set back the continent and led to stagnation and regression through to the 1980s and 1990s. Africa's role in the global economy is largely responsible for this, expressed most visibly in insufficient resource mobilization and capital formation as well as capital flight, and in the continent's lopsided trade relations.

After discussing Sub-Saharan Africa's (SSA) growth performance in more detail in the first chapter, resource mobilization for development is addressed in the second chapter, particularly capital formation and the role of foreign and domestic sources of capital in financing development in Africa. The key challenge that emerges is the need to reverse SSA's exports of capital. Chapter three discusses the role of aid in Africa's growth performance, and recent attempts to improve the quality of aid. In chapter four, the trade and development nexus is analyzed: of central concern is the region's ongoing reliance on primary commodity exports. Locked into extractive resource industries, with few linkages to the rest of the national or regional economy, and facing associated 'Dutch disease' problems, SSA countries have not been able to sufficiently diversify their export base, while the falling terms of trade for generic, low-skill, labour-intensive manufactures with few horizontal linkages to the rest of the economy limit the developmental impact of such industrialization.

Capital and resource flows and mobilization as well as the trade patterns determined by Africa's role in the global economy reveal crucial weaknesses of African economies that undermine their growth prospects: structural dependence on primary product exports, limited export variety and diversification of exports, underinvestment in domestic infrastructure, particularly for both agriculture and manufacturing, and little domestic value addition to extracted resources.

AFRICAN GROWTH IN A CHANGING POLICY ENVIRONMENT

Between 1970 and 2000, real income growth failed to keep pace with population growth in Sub-Saharan Africa (SSA). After posting a modest average annual growth rate in real per capita income of about 0.7 per cent during the 1970s, these rates turned negative during the 1980s and 1990s, to negative 1 and 0.5 per cent respectively. Since 2000, SSA countries have posted improved growth rates, largely thanks to primary commodity-driven recoveries and most seem to have recovered relatively quickly from the global economic crisis. Even so, average real per capita income is still barely higher than in 1970, and SSA fell behind and lost further ground to all other regions on most development indicators (see Table 1). The regional average also conceals vast differences within the continent, where countries affected by violent conflict and political instability were the worst performers, and many resource-rich countries have profited from the commodities boom since 2000 (see Tables A1 and A2 in the appendix). Furthermore, the weak and often erratic growth performances have been accompanied by regressive trends in income distribution in many countries, with a particularly marked drop in the average per capita income of the poorest 20 per cent in SSA¹. Not only is this likely to undermine human resource development and social as well as political cohesion in SSA, it is also likely to restrict future growth prospects.

In historical perspective, this development failure was unexpected, and seems a lot less unavoidable than the longstanding 'Afro-pessimistic' discourse on Africa's economic development would have us believe. In the 1960s, per capita GDP and GDP growth were higher in Africa than in Asia, and expectations then were that African countries would grow faster due to their superior resource endowments (World Bank 2005: 274). Agricultural and primary commodities dominated exports, but many countries also showed strong industrial growth, which was above six percent for more than half the countries for which data were available. Governments invested heavily in infrastructure, often supported by donors, and pursued import substitution industrialization strategies. Growth was fuelled by high investment rates, but not matched by domestic savings, revealing a dependence on foreign capital, aid and investment (Lawrence 2010).

¹ The poorest 20 per cent of the SSA population saw their average incomes decline by an average of two per cent per annum between 1980 and 1995, at twice the rate of decline of the average per capita income (Geda and Shimeles, 2007).

As a result, debt levels increased over time and made the continent vulnerable to macroeconomic shocks. As oil price increases in the 1970s, and then interest rate hikes in the 1980s hit the global economy, Africa found it impossible to adjust to changing economic conditions and went on to experience over two lost decades of development from the late 1970s until the early 2000s.

We will argue that a key explanation for this growth and human development disaster has been the radical change in Africa's development policies from the 1980s. Liberalization and privatization measures aimed at integrating into global markets and attracting private investment have replaced admittedly problematic state interventions and public ownership, notably the support for infant industries, but have increased rather than rectified Africa's vulnerability to global economic shocks. Ironically, while policy debates during the pre-liberalization developmental era seriously considered the interactions between external and internal factors, the subsequent liberalization era has tended to focus almost exclusively on the 'domestic' determinants of economic performance, assuming that external market forces are always benign, with strongly positive influences on economic performance and prospects.²

There is generally little disputing that the developments in the world economy in the mid-to-late 1970s and the early 1980s have had profound impacts on SSA economic prospects. The abandonment of the Bretton Woods system including fixed exchange rates, the two oil shocks of the 1970s, and the interest rate hike of the early 1980s all undermined the profitability of private firms in the real economy, led to a collapse in state revenues and added to the debt that had begun to accumulate from the mid-1970s with the greater availability of cheap credit with the increased recycling of petrodollars following the oil price spikes of 1973-74 and 1978-79. A vicious downward spiral followed in many countries. With little prospect of raising export earnings to maintain import levels, macroeconomic policies were tightened further in line with structural adjustment programmes, typically imposed by the Bretton Woods institutions through compliant national leaders. This policy response further increased constraints on investment, growth and diversification. The debt overhang from the 1970s mushroomed further, and by squeezing investment in critical areas such as transport, health and education, undermined some of the most essential conditions for sustainable growth and poverty reduction.

² More recently, this domestic focus has gone beyond economic policies to include institutions, governance, corruption, rent-seeking elites, ethnic diversity, geography, disease, 'resource wealth', population growth, etc.

The policy shift and the start of the liberalization era is often traced to the influential 1981 World Bank Report *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, referred to as the Berg Report, after its principal author, Professor Elliot Berg, from the University of Michigan's Economics Department. This report recommended adopting a more outward-oriented program of raw materials exports, eliminating subsidies and controls, and letting market forces determine raw materials export prices. In a sense, the Berg Report led to the 'counter-revolution' against development economics (Toye 1987), even before the subsequent shift in World Bank policy prescriptions after the departure of McNamara and Hollis Chenery (Kapur, Lewis, Webb, 1997). The international sovereign debt crises from the early 1980s provided an opportunity for the Bretton Woods institutions (BWIs) to broaden this agenda and impose it on recalcitrant governments through policy conditionalities for providing desperately needed credit.

While the International Monetary Fund (IMF) was initially responsible for short-term, typically anti-inflationary macroeconomic stabilization programs, and the World Bank for more medium-term market-liberalizing structural adjustment programs (SAPs), these converged around what was subsequently dubbed the 'Washington Consensus'. The term, coined by John Williamson in 1989, captured a range of policy prescriptions on which the Washington-based international financial institutions, as well as the US Treasury, broadly agreed: prioritizing fiscal balance, reduction of public expenditure in general and subsidies in particular, liberalization of interest rates and imports, privatization, and economic deregulation (Williamson 1990). That Consensus is generally seen as spearheading the global trend towards greater economic liberalization since the 1980s. While its policy priorities have changed over time (responding, in part, to poorer than expected economic performances in implementing countries), it has remained the 'conventional wisdom' at the core of economic policy making across most of the African continent (see, for example, Stiglitz 1998 and Stein 2008).

TABLE 1.
PER CAPITA GDP IN DEVELOPING COUNTRIES, 1960-2010

Average compound growth rates per decade

	1960-69	1970-79	1980-89	1990-99	2000-10
World	3.4%	2.1%	1.4%	1.2%	1.3%
East Asia & Pacific	1.3%	4.4%	6.1%	7.1%	8.2%
Europe & Central Asia				-2.0%	4.6%
Latin America & Caribbean	2.4%	3.1%	-0.8%	1.5%	2.0%
Middle East & North Africa		2.8%	-0.4%	1.8%	2.6%
South Asia	1.8%	0.3%	3.2%	3.3%	5.5%
Sub-Saharan Africa	2.0%	0.7%	-1.0%	-0.5%	2.1%

GDP per capita in constant 2000 US\$

	1960-69	1970-79	1980-89	1990-99	2000-10
World	2806	3659	4177	4780	5695
East Asia & Pacific	140	210	358	696	1440
Europe & Central Asia			2296	1847	2332
Latin America & Caribbean	2277	3099	3446	3643	4320
Middle East & North Africa	923	1295	1372	1464	1737
South Asia	201	224	274	373	580
Sub-Saharan Africa	475	577	552	504	570

Source: World Bank, *World Development Indicators*, and authors' calculations

Negative average per capita income growth from the late 1970s into the early 21st century suggests that the reforms failed, but there has been little consensus over the reasons why. Nonetheless, the BWIs have generally been quick to claim responsibility for the exceptional economic success stories (see, for example, *Finance & Development*, September 2002), even as they continued to deny the adverse consequences of the policies pursued by SSA governments recommended or imposed upon them. Rather, they insisted that the slow growth was best explained by the reluctance of African policy

makers to undertake needed reforms, e.g. to open up quickly enough, only resulting in partial implementation of adjustment programmes.³

The link between the structural adjustments required by the BWIs and subsequent economic growth is extremely tenuous, however: of the 15 countries identified as core adjusters by the World Bank in 1993, only three were subsequently classified by the IMF as strong economic performers, while few of the original 15 are among the current crop of strong performers. In fact, the recent cases of rapid growth by a few strong performers can be explained by circumstances unrelated to structural adjustment policies. Mkandawire (2005) has argued that IMF-led 'adjustment' in Africa put the continent on a slow growth path, a view broadly supported by econometric studies of the broader impact of such programmes (Barro and Lee, 2002; Vreeland, 2003). He notes that many of the oft-invoked 'determinants' of growth are themselves determined by growth (Macpherson and Goldsmith, 2001), particularly those associated with external economic integration, such as exports. In this respect, the rapid opening up of SSA economies since the mid-1980s at a time of slower global growth was particularly ill-timed (Easterly, 2000).

Recent pre-crisis real GDP growth rates suggest that SSA was beginning to recover after the 'lost' last quarter of the 20th century, thanks largely, but not exclusively, to a strong commodity boom (see Table 1 above). Table A1 in the appendix confirms that the fastest growing countries since 2000 include Angola, Chad and Equatorial Guinea, all major petroleum exporters. Despite this growth upturn, the region remains mired in poverty, faces the most serious infrastructure gaps, and retains a narrow export base, neither of which are conducive to rapid and sustainable development.

³ See Alassane Ouattara (1997) and World Bank (2000). Commenting on the continuing stagnation of African per capita incomes, *The Economist* (2001: 12) argued that "it would be odd to blame globalization for holding Africa back. Africa has been left out of the global economy, partly because its governments used to prefer it that way"

STAGNATION IN AGRICULTURE AND DE-INDUSTRIALIZATION

At a sectoral level, slower growth was most notably reflected by de-industrialization and food agriculture decline. Agricultural performance had been disappointing in Africa in the 1960s and 1970s already. The Berg Report blamed slow growth in the sector on excessive government intervention. Structural Adjustment Programmes subsequently led to the dismantling of marketing boards, reduction in subsidies on inputs and price liberalization (Oya 2010). The reforms, however, did not lead to higher productivity and growth in agriculture. Agricultural output per capita was largely stagnant between 1961 and 2000 and has only increased in recent years. At the same time, import liberalization turned the African continent from a net food exporter into a net food importer, undermining food security.

Structural adjustment and liberalization in Africa have also weakened the manufacturing sector. This is in marked contrast to other regions, East Asia in particular, that have based growth on rapid industrialization and structural transformation. Their exchange rate, trade and other policies have ensured relative prices favourable to export industries (instead of non-tradeables), with preferential interest rates and other financial policies supporting investment and economic restructuring. Sectoral strategies have involved a mix of import substitution and export promotion, and an investment-export nexus, including measures to support public investments, subsidize inputs (from state-owned enterprises and sometimes with preferential credit special exchange rates), direct subsidies (including tax incentives), selective credit allocation and other industrial policy instruments (Akyüz and Gore, 1996).

Yet, when most other developing economies embarked on import substituting industrialization in the 1930s (in Latin America) and the 1950s, Africa remained under colonial rule for much of the period, well into the 1960s. Consequently, the import substitution phase in most of SSA was relatively short, lasting barely a decade in many countries due to the lateness of independence and the early onset of economic slowdown due to the 1970s' oil shocks (Mkandawire, 1988). Import compression following the debt crisis constrained capacity utilization and investment, preventing many countries in SSA from positively adjusting to the changed global environment. In this context, trade liberalization, beginning in the 1980s, prematurely exposed African 'infant' industries to global competition against much more mature industries.

UNIDO notes that African countries had been increasingly gaining comparative advantage in labour-intensive manufacturing before this forced import liberalization. With the Washington Consensus presumption that import substitution must be bad, there was little attempt to consider how such industries might be the bases for new export initiatives. Presuming that African import-substituting industries had been protected for far too long, and would never become viable, let alone internationally competitive despite considerable evidence to the contrary from Northeast Asia, the policy preference was simply to abandon existing industrial capacity, precipitating deindustrialization (UNIDO 1999).

As a result, manufacturing value added (MVA) in Sub-Saharan Africa grew at a disappointing 1.9 per cent annually between 1980 and 1990, and at only 0.1 per cent per annum between 1990 and 1995. SSA's already tiny share of global MVA decreased further from 1.0 per cent in 1980 to 0.8 per cent in 2000 (UNIDO 2004: 184). Overall, de-industrialization in SSA has been severe,⁴ as reflected in Table 2, which reports the GDP composition of SSA economies excluding South Africa, both by expenditure and broad categories of value added. First, 'adjustment' prescribed by the BWIs has insisted on reducing government expenditure, which fell from an already low 16 per cent of GDP in the 1970s to 13 per cent during 2000-2009. Even the initial level was low, compared to the developed world, and such spending cuts have not only affected social spending, but also economic expenditure, e.g. on infrastructure. These declines in public investment went hand in hand with discouraging private manufacturing investment (UNCTAD, 2003). It is thus not surprising that the average share of manufacturing in value added fell to 8 per cent in 2000 to 2009.

In the region's major petroleum exporters, the share of manufacturing in value added fell even more drastically, from 12 per cent in the 1970s to 4 per cent during 2000-2009 (see Table 3). The reduced share of government spending since the turn of the century reflects the commodity boom and related GDP growth for oil exporting countries. These low shares stand in marked contrast to Asian developing economies, where the manufacturing sector is responsible for 27 per cent of total value added during 2000-2009 and are markedly lower than the global average for all developing economies (see Tables A5 and A6 in the appendix).

⁴ See, as well, Jalilian and Weiss (2000) on SSA de-industrialization.

TABLE 2.**GDP COMPONENTS OF SSA EXCLUDING SOUTH AFRICA,
1970-2009****Average percentage shares of GDP**

	1970-79	1980-89	1990-99	2000-09
Consumption	61%	66%	72%	68%
Government expenditure	16%	16%	15%	13%
Investment	24%	19%	17%	17%
Exports	24%	22%	28%	35%
Imports	26%	23%	32%	34%
Agriculture, hunting, forestry, fishing	69%	43%	30%	28%
Industry	15%	25%	29%	34%
Mining, manufacturing, utilities	12%	22%	25%	30%
Manufacturing	7%	12%	11%	8%
Construction	2%	3%	4%	4%
Services	17%	32%	41%	38%
Wholesale, retail trade, restaurants and hotels	6%	12%	15%	14%
Transport, storage and communications	3%	5%	6%	6%
Other Activities	8%	15%	20%	18%

Source: *UNCTAD Handbook of Statistics* (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations.

TABLE 3.**GDP COMPONENTS OF MAJOR PETROLEUM EXPORTERS IN DEVELOPING AFRICA, 1970-2009****Averages of percentage shares in GDP**

	1970-79	1980-89	1990-99	2000-09
Consumption	47%	56%	60%	51%
Government expenditure	16%	17%	18%	13%
Investment	31%	25%	20%	18%
Exports	31%	25%	31%	46%
Imports	26%	22%	28%	27%
Agriculture, hunting, forestry, fishing	21%	18%	17%	18%
Industry	46%	46%	43%	53%
Mining, Manufacturing, Utilities	39%	39%	37%	49%
Manufacturing	12%	13%	8%	4%
Construction	7%	7%	6%	5%
Services	33%	36%	40%	29%
Wholesale, retail trade, restaurants and hotels	12%	12%	13%	11%
Transport, storage and communications	5%	6%	6%	5%
Other Activities	15%	18%	21%	13%

Source: *UNCTAD Handbook of Statistics* (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations. Major petroleum exporters in 'Developing Africa' include: Angola, Congo, Equatorial Guinea, Gabon, Algeria, Libya, Sudan, Nigeria

Deindustrialization not only limits African economies' potential for strong productivity and economic growth, but it also has a more immediate effect on its populations – a lack of formal employment opportunities, particularly for low skilled workers. The manufacturing sector, in particular, employs a resource that poor households have in abundance – labour. While Asian developing countries were able to absorb growing numbers of workers into a booming manufacturing sector, Africa has failed to do so. As a result, unemployment and underemployment are widespread, and low productivity activities in the informal sector are the predominant sources of income for much of the population in many countries. The latter, of course, do not provide a comparable

level of income and economic security, and the lack of formal employment opportunities in the private sector – in combination with the reduction of the public sector work force induced by structural adjustment programmes – contribute to persistently high poverty (Heintz 2010).

SLOW GROWTH, POVERTY AND INEQUALITY

According to recent World Bank estimates⁵, Africa remains the continent most affected by poverty, but also shows a modest decline in absolute poverty in recent years. After two decades of steady increases, the number of people living below the poverty line of \$1.25 per day at 2005 PPP fell for the first time in the period from 2005 to 2008 (see Table 4). The World Bank gives a figure of almost 1.3 billion people living in poverty in 2008 and 386 million people, or almost half of the population, in SSA. This remains the highest percentage in the world for any region.

TABLE 4.
POVERTY, 1981-2008

World Bank estimates for a poverty line of US\$1.25 at 2005 PPP

Sub-Saharan Africa

	1981	1984	1987	1990	1993	1996	1999	2002	2005	2008
% of population	51.5	55.2	54.4	56.5	59.4	58.1	58.0	55.7	52.3	47.5
Millions	204.9	239.1	256.8	289.7	330.0	349.4	376.8	390.4	394.9	386.0

Developing countries

% of population	52.2	47.1	42.3	43.1	40.9	34.8	34.1	30.8	25.1	22.4
Millions	1937.8	1857.7	1768.2	1908.6	1910.3	1704.0	1743.4	1639.3	1389.6	1289.0

Source: Chen and Ravallion 2012

⁵ According to earlier World Bank figures, the number of poor people in the developing world decreased slightly from 1179 million in 1987 to 1120 million in 1998 (Chen and Ravallion 2008: Table 5). Meanwhile, the number of poor in SSA rose from 217 million in 1987 to 291 million in 1998, averaging around 46 per cent of the SSA population over the period (World Bank, 2001b: 17, 23). The proportion of the population with less than US\$1 a day in the least developed African countries was still higher and rising, increasing from an average of 55.8 per cent in 1965-1969 to 64.9 per cent in 1995-1999 (UNCTAD, 2002: Tables 19 & 20).

In addition to consistently high poverty, the period since the early 1980s has also seen rising income inequality, as measured by the Gini index, reversing the trend of previous decades (Nel, 2003; Geda and Shimeles, 2007: 306). Real wages have also fallen for many in the formal economy, including the nascent middle class in SSA, contributing to greater inequality and undermining prospects for stable growth.

Higher growth in the last half-decade is believed to have raised incomes and reduced poverty in some SSA countries. However, growth based on resource extraction has also contributed to rising inequality and has limited employment growth, thereby dampening the impact on poverty reduction. In some cases, the combination of slower growth, rising inequalities and vulnerability to exogenous shocks has contributed to civil conflict, trapping these countries in a vicious spiral of economic decline (Miguel, Satyanath and Sergenti, 2004). In addition, the global economic crisis of 2008 has had a severe impact on Africa. Growth decelerated significantly in 2009, endangering the limited progress made on the MDGs, especially poverty reduction (UNECA-AU 2010).

2. RESOURCE MOBILIZATION FOR DEVELOPMENT

To overcome the development and poverty challenges facing SSA, strong and robust growth is widely recognized as a precondition. Many observers (e.g. Blair Commission Report, 2005) target 6-8 per cent of annual growth. It is very difficult to reduce poverty through redistribution alone when average income levels are low, as is the case in SSA, although growing income inequality certainly has not helped. Further, political stability and development prospects decrease with greater economic insecurity (UN 2008). However, there is little evidence that the policies of the three decades have helped the SSA region mobilize resources to finance such growth, to reduce economic insecurity and to generate investment and structural transformation.

TABLE 5.
RESOURCES FOR FINANCING DEVELOPMENT

	Private	Public
Domestic	Domestic Saving	Taxation, Public Borrowing
External	FDI, Portfolio Investment, Remittances	Foreign Aid, Public Borrowing

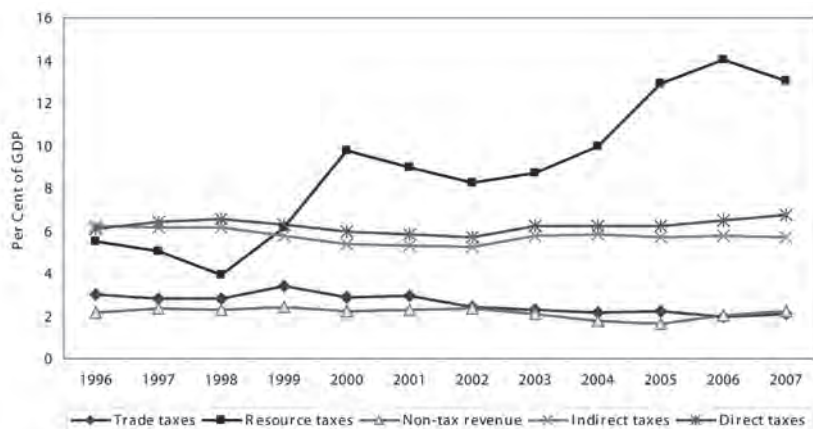
Source: Adapted from OECD-AfDB 2010

There are a variety of sources, both domestic and external, that can provide the finance for growth and development (see Table 5). Successful resource mobilization begins at home of course. However, savings and investment rates are still low in SSA by international standards. At the same time, public resource mobilization is insufficient. One important reason for this lies in the reduction of tariffs and trade liberalization that were part of structural adjustment programmes. Revenues from tariffs are a major part of public revenue in SSA, and many countries failed to recover lost revenue after liberalization from other sources. Research by the IMF shows that low-income countries, many of them African, have managed to recover no more than 30 cents on every dollar lost in tariff revenue due to trade liberalization

(Baunsgaard and Keen 2005). More recently, and due to higher growth since 2000 and improvements in tax collection rates, the overall tax share of GDP in Africa has increased from 16.5 per cent in 1990 to 21.6 per cent in 2007 (OECD-AfDB 2010: 85). However, much of this increase is due to the taxation of resource rents and thus affected by the volatility of this sector (see Figure 1).

The aggregate picture also hides vast differences within Africa. For instance, oil importing countries are much more dependent on external sources of finance, in particular aid, than oil exporting countries (OECD-AfDB 2010: 88f.). Such dependence reflects another problematic consequence of the overall lack of diversification of African economies.

Figure 1. Tax Mix in Africa



Source: OECD-AfDB [2010]

In any case, the Washington international financial institutions' focus was very much on financial market liberalization and the attraction of external finance, not on increasing tax revenues. In fact, the reforms of the 1980s and 1990s undermined states' capacity to mobilize more domestic resources. Leaving markets to mobilize and allocate financial resources and determine interest rates remains part of its policy agenda. The desired impacts of liberalized financial markets were twofold: an increased willingness of households to save and hold financial assets, and an efficient use of scarce resources by

the most productive firms regardless of location. Financial liberalization⁶ promised to minimize, if not eliminate distortions arising from financial sector interventions, but also to ease external payments constraints by channelling global savings to the most profitable investments in the capital-scarce poorer countries of the world. However, later discussion will show that financial liberalization has led to capital flows in the opposite direction – capital has been flowing ‘uphill’ from the ‘capital-poor’ to ‘capital-rich’ economies, and overall, Africa has been a net exporter of capital.

Foreign direct investment is seen as the most important source of capital because it is a more stable and reliable source of financing, and because it potentially provides access to superior technology and management as well as new markets at the same time. The next section discusses the limited contribution of FDI in Africa, which remains small compared to other developing regions, and highly concentrated in extractive industries. Portfolio flows, on the other hand, are in fact negative. Capital owners with access to liquid assets in Africa prefer to transfer them abroad. Unlike other developing regions, net portfolio flows have been consistently negative over longer time periods with Africa consistently exporting capital.

Aid is another potential source of finance, and has not necessarily been as ineffective as many critics have suggested (Minoiu and Reddy, 2007). However, it remains volatile, unpredictable and increasingly fragmented, reflecting donor preferences. Increasingly, aid aims to alleviate the effects of disasters, or to strengthen welfare programs and social services, rather than to promote growth, industrialization or infrastructure development, let alone provide budget support for national priorities. Nonetheless, many countries in the SSA region remain dependent on aid flows, even to finance regular budgetary expenditure.

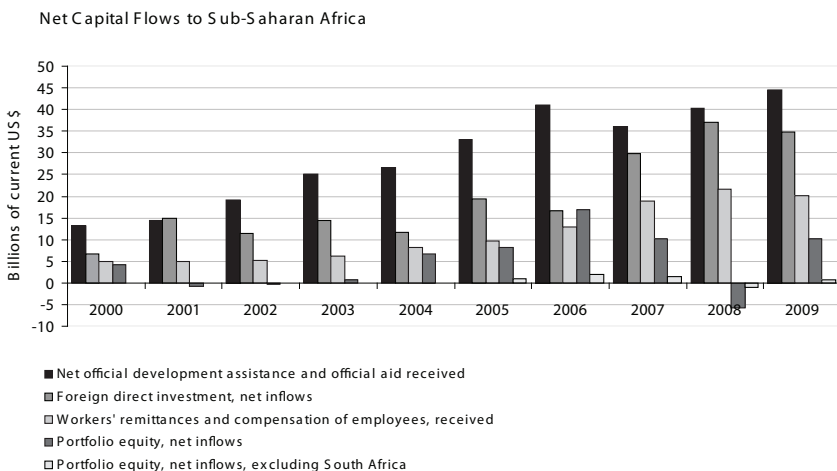
To reach a sustainable high growth path, African countries will need to mobilize more domestic resources, through higher savings and investment rates, but also through more efficient taxation (AfDB-OECD 2010). In the

⁶ As Arestis (2004) notes, the term “financial liberalization” does not have a standard meaning.

He distinguishes between capital account liberalization involving, for example, the removal of regulations on offshore borrowing (by financial institutions and non-financial corporations) and on capital outflows, and the replacement of multiple exchange rates, allowing banks and corporations to borrow abroad and keeping bank reserve requirements to a minimum level; liberalization of the domestic financial system characterized by removing controls on lending and borrowing interest rates, removing credit controls and allowing the holding of foreign currency deposits; and liberalization of the stock market enabling foreign investors to buy, earn income from and sell equities without restriction.

short run, they have to focus their efforts on creating a growth dynamic that reverses capital flight and ensures more and 'developmental' diversified FDI, supported by predictable aid flows.

FIGURE 2.
CAPITAL FLOWS TO SSA



Source: World Bank Global Development Finance Databank

FDI FLOWS: SMALL AND HIGHLY CONCENTRATED

Most African governments accepted the BWIs' policy prescriptions, expecting foreign capital inflows to be catalyzed by their stamp of approval. The actual response of private capital has, in the words of the World Bank, 'been disappointing' (quoted by Mkandawire, 2005: 6). Even though rates of return to FDI have generally been much higher in Africa than in any other region (Bhattacharya, Montiel and Sharma, 1997; UNCTAD, 1995, 2005), it is not more attractive to foreign investors, ostensibly due to ill-specified and often intangible 'risk factors'. Perceived political instability certainly plays a role here, as Africa is systematically rated as more risky than warranted

by economic indicators. A more plausible explanation is underinvestment in domestic infrastructure by African governments, a result of fiscal restraint since the structural adjustment period. Ndikumana and Verick (2008) have shown that domestic investment ‘crowds in’ rather than ‘crowds out’ FDI. Public investment typically improves domestic infrastructure, while domestic private investment signals confidence and high returns. The impact of domestic private investment on FDI is stronger and more robust than the converse, suggesting that sustained dynamic growth is unlikely to be triggered by FDI alone.

Even the recent mineral-led surge in FDI into Africa has had only a marginal impact on Africa’s share of global FDI flows. Indeed, the share of global inward FDI in all African countries is still below its 5 per cent share in the 1970s, even though it has recovered slightly since 2000 to 3.3 per cent (see Table 6).

TABLE 6.
AFRICA’S SHARE OF INWARD FOREIGN DIRECT
INVESTMENT, 1970-2010

Share of world FDI

	1970-79	1980-89	1990-99	2000-10
Developed economies	75%	75%	68%	63%
Developing economies	25%	25%	31%	33%
Developing economies: Africa	5.2%	2.6%	1.9%	3.3%
Developing economies: America	12%	8%	10%	10%
Developing economies: Asia	8%	14%	19%	20%
China alone	n/a	2%	8%	7%
Economies in transition	n/a	0%	1%	4%

Share of developing country FDI

Developing economies: Africa	21%	10%	6%	10%
Developing economies: America	47%	33%	31%	29%
Developing economies: Asia	31%	56%	62%	60%
China alone	n/a	7%	25%	20%

Source: UNCTAD Handbook of Statistics and authors’ calculations.

Table 7 shows country FDI shares by volume for the top five (of 47) SSA countries in the 2000s. Except for South Africa, the top five countries – Angola, Nigeria, South Africa, Sudan, and Congo – are highly dependent on petroleum and minerals exports and foreign investment in these sectors. The only exception to such extreme sectoral concentration is South Africa, which appears in the top five mainly due to the size of its economy, relative to other SSA countries.⁷ Since 1990, these five countries have absorbed an average of 68 per cent of all FDI going to all 47 SSA economies.

Increased FDI in SSA since the late 1990s has been cited as evidence that the economic tide is turning in SSA (Pigato, 2000). However, there is little evidence that FDI in Africa is likely to bring sustained, broad-based economic growth, let alone strong employment generation (UNCTAD, 2005).⁸ Much of the FDI has gone to mining, which is hardly influenced by broader macro-economic policy considerations, and does not expand employment, diversify exports or involve meaningful technology transfer. It thus contributes little to broad-based development. And while the manufacturing sector accounted for almost half the number of all greenfield investment projects between 2003 and 2009, FDI remains concentrated in resource extraction in value terms (UNCTAD 2010: 33). An analysis of project-level FDI data for the Southern African region confirms that FDI projects in resource sectors tend to be on a much larger scale than in other sectors (Mhlanga, Blalock, Christy, 2010). Some new investments have gone to expand or improve existing capacities in sectors where monopolistic rents are high, such as beverages, cement and oil, gas and petroleum refining. FDI has also been drawn by the one-time opportunities associated with privatization. For example, FDI to Ghana – hailed by the BWIs as a ‘success story’ – peaked with privatization, followed by subsequent negative outflows. Moreover, much recent FDI has involved acquisitions on heavily discounted ‘fire sale’ terms. Such investments accounted for about a sixth of FDI flows into Africa in the 1990s. In 1998 alone, privatization in SSA attracted US\$694 million in FDI (UNCTAD 2000: 42). Such one-off sales explain the jump in FDI in the 1990s, but by the end of the 1990s, privatization-related FDI had slowed down. The commodities boom in the mid-2000s led to unprecedented levels of FDI flowing into the continent’s extractive industries, but the economic crisis of 2008-2009 and the related commodity price col-

⁷ South Africa does not appear in the top twenty of African countries for FDI-to-GDP ratio (see Table A3 in the Appendix). Angola, Equatorial Guinea and Chad are three of the four highest ranked countries.

⁸ As Mkandawire (2005) observes, this paper seeks to “help boost SSA’s image as an investment location” (Pigato 2000: 2), leading to the positions advocated despite data suggesting otherwise.

lapse brought this to a rapid halt. FDI has since decreased from US\$72 billion in 2008 to US\$59 billion in 2009 (UNCTAD 2010).

In recent years, growing South-South FDI by emerging partners, particu-

TABLE 7.

**SSA ECONOMIES WITH THE HIGHEST SHARES
OF TOTAL FDI, 1970-2010**

	1970-79	1980-89	1990-99	2000-10
Angola	0.3%	10.2%	14.1%	27.6%
Nigeria	33.9%	33.0%	31.2%	15.8%
South Africa	9.8%	1.1%	17.8%	12.7%
Sudan	0.2%	0.5%	1.9%	6.5%
Congo	2.9%	2.1%	2.5%	4.7%
Subtotal	47%	47%	68%	68%
Dem. Rep. of the Congo	6.4%	-0.3%	0.1%	2.8%
Ghana	2.3%	0.7%	2.4%	2.5%
Equatorial Guinea	0%	0.1%	1.9%	2.1%
Zambia	3.2%	3.9%	2.9%	2.1%
Tanzania	0.5%	0.4%	2.5%	1.8%
Uganda	0.1%	0.1%	1.7%	1.7%
Madagascar	0.4%	0.3%	0.4%	1.6%
Namibia	0.0%	0.4%	1.9%	1.6%
Mozambique	0.1%	0.2%	1.9%	1.4%
Botswana	2.7%	4.7%	0.3%	1.4%
Chad	1.3%	0.9%	0.5%	1.2%
Cote d'Ivoire	4.6%	3.7%	4.2%	1.2%
Cameroon	2.1%	7.3%	0.6%	1.1%
Ethiopia	0%	0%	1.8%	1.1%
Niger	1.5%	0.8%	0.2%	0.8%
Total	72.3%	70.1%	90.7%	91.9%

Sources: *UNCTAD Handbook of Statistics*; UNCTAD, World Investment Report, 2009 (Table 7.3 Major FDI indicators) and authors' calculations.

larly India and China, has drawn a lot of attention. Estimates of the extent of Chinese FDI in Africa are conflicting, and the sectoral distribution of these investments is even more difficult to assess (Kaplinsky and Morris 2009). Large-scale investments by Chinese state-owned enterprises are predominantly in resource extraction, but there are also significant investments in services, such as telecommunications, finance and infrastructure, the latter often in return for access to resources. In addition, a growing number of smaller manufacturing and trading firms, particularly in clothing and textiles, have begun production in African countries. They profit from the remaining, albeit eroding, trade preferences enjoyed in US and European markets (Kaplinsky and Morris 2008). Despite uncertainty about its extent, the relevance of Chinese, Indian and other emerging market economies' investments in Africa is undisputed, not only because of the additional resource inflows, but also for the greater policy space for African countries associated with more diversified international trade, investment and aid relations.

PORTFOLIO FLOWS MAINLY SPECULATIVE AND NEGATIVE

Portfolio investment has not been important in Sub-Saharan Africa, except for South Africa, where it is overwhelmingly concentrated (see Figure 2). Its primarily speculative nature renders it unsuitable to finance long-term development.

Taking into consideration debt servicing, many African countries now display net debt outflows, turning on its head the idea of capital inflows financing a big push. Table 8 displays net debt transfers, namely loan disbursements less debt service (principal plus interest payments) from all sources of credit, and confirms the net outflow of resources from Africa. Table A4 in the appendix lists the top net payers and net recipients in Africa by country.

TABLE 8.
NET DEBT TRANSFERS OF SELECTED REGIONS,
ANNUAL AVERAGE, 1990-2009*

Ratio to GDP

	1990-94	1995-99	2000-04	2005-09
Developing economies	-0.04%	-0.14%	-0.99%	0.00%
Developing economies: Africa	-0.53%	-1.35%	-1.08%	-0.40%
Eastern Africa	1.54%	0.23%	1.13%	1.58%
Middle Africa	1.61%	-2.20%	-2.33%	-0.79%
Northern Africa	-1.76%	-2.05%	-1.90%	-1.11%
Southern Africa	0.21%	-0.54%	-0.09%	0.50%
Western Africa	-1.62%	-1.90%	-1.73%	-1.17%
Developing economies: America	-0.43%	0.16%	-1.81%	-0.30%
Developing economies: Asia	0.25%	-0.12%	-0.64%	0.17%
Developing economies: Oceania	-0.91%	-0.91%	-0.72%	-0.12%
LDCs: Africa and Haiti	2.21%	0.86%	1.17%	1.41%
Major petroleum exporters (Africa)	-2.41%	-3.04%	-2.88%	-1.99%
Africa excluding South Africa	-0.79%	-1.62%	-1.39%	-0.69%
Sub-Saharan Africa	0.23%	-0.84%	-0.50%	0.06%
SSA excluding South Africa	0.23%	-1.03%	-0.77%	-0.22%

Source: *UNCTAD Handbook of Statistics* (Table 7.7: External long-term debt of developing economies) and authors' calculations.

* Net transfers are disbursements of loans less debt service (principal plus interest payments) from all sources of credit.

Many of the foreign loans that are the cause of high debt servicing obligations have never financed legitimate investments, but have been diverted to serve illegitimate and private purposes. There is a clear and demonstrable link between Africa's debt and illegitimate outflows of capital. In fact, Africa has suffered from capital flight of enormous proportions, making it a net exporter of capital overall, despite widespread poverty: its private assets held overseas exceed the continent's foreign liabilities. In 1990, 40 per cent of privately held wealth was invested outside Africa (Collier and Gunning, 1997; Collier, Hoefler and Patillo, 1999; quoted by Mkandawire, 2005). In the period 1970-2008,

capital flight from SSA amounted to approximately US\$700 billion. Including imputed interest, the accumulated stock of capital flight reaches about US\$944 billion. Its total external debts, on the other hand, amount to US\$177 billion in the same year, with external assets widely exceeding external liabilities, making Africa a net creditor to the world (Ndikumana and Boyce 2011).

Yet, while Africa's private assets held abroad belong to a small minority, much of its debt is public, in turn constraining public investment and public spending. Ndikumana and Boyce (2011) find that the level of capital flight is very closely tied to external debt. For every one dollar of increase in foreign loans, approximately 60 percent leaves the country in the same year as capital flight. This not only drains a country of urgently needed resources in the present, but also burdens future generations with debt repayments that reduce fiscal space. Such resource outflows are particularly harmful if the debt they service is of an odious nature, i.e. if incurred without popular consent by undemocratic regimes, if the funds were not used for public benefit, and if lenders were aware or could have been aware of these conditions, but decided to extend credit nonetheless.

Table 9 provides estimates of total capital flight for more than 30 sub-Saharan African countries over the period from 1970 to 2008. In most, the stock of capital flight is a multiple of outstanding debt, and its repatriation, even if only partial, could fill much of the financing gap of the continent. The countries with the largest outflows in absolute terms are mostly resource-rich countries. Nigeria and Angola top the list, and four other oil-rich countries are also among the top ten, indicating that a reliance on resource extraction can fuel capital flight.

TABLE 9.
REAL CAPITAL FLIGHT
In constant 2008 US\$

	Total Real Capital Flight	Total Capital Flight Stock with Interest	Ratio of capital flight stock to debt (%)
Angola	71513.0	79962.3	528.5
Botswana	1828.7	-204.5	-46.7
Burkina Faso	1134.0	2872.7	170.9
Burundi	4464.3	5065.2	350.6
Cameroon	24042.1	33256.4	1190.1
Cape Verde	3456.4	4056.2	649.4
Central African Republic	2400.4	3285.8	346.1
Chad	2035.1	3034.8	173.5
Dem. Rep. of the Congo	30725.1	48441.5	397.1
Congo	23899.7	26903.1	490.5
Côte d'Ivoire	45454.3	66247.1	527.4
Ethiopia	20122.7	25953.7	900.5
Gabon	18159.6	21854.1	923.4
Ghana	10608.5	13565.1	272.9
Guinea	917.3	1430.5	46.3
Kenya	7120.8	10990.5	147.7
Lesotho	705.6	1176.9	172.5
Madagascar	9375.1	12154.7	582.8
Malawi	2292.8	3695.7	383.7
Mauritania	3607.4	5399.2	275.5
Mozambique	14520.2	18422.0	537.3
Nigeria	296220.8	376855.2	3358.6
Rwanda	4417.8	7009.4	1031.9
Sao Tome and Principe	1073.1	1428.1	803.2
Seychelles	4104.5	4527.7	300.8
Sierra Leone	6092.1	8725.7	2244.3
South Africa	36160.9	36431.4	86.9

Table 9 continued

	Total Real Capital Flight	Total Capital Flight Stock with Interest	Ratio of capital flight stock to debt (%)
Sudan	18739.3	25699.3	130.9
Swaziland	2088.0	2255.4	622.5
Tanzania	6713.8	11354.4	191.2
Uganda	13886.1	15988.5	807.6
Zambia	24411.9	35051.9	1173.7
Zimbabwe	2623.0	31338.3	602.8

Source: Ndikumana and Boyce 2011

Even World Bank economists concede that the effects of financial liberalization for growth in Africa have been ‘very small’ (Devajaran, Easterly and Pack, 1999). Incredibly, they argue that capital flight may 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, Easterly and Pack, 1999: 15-16) – and conclude that there was ‘over-investment’ in Africa. Devajaran, Easterly and Pack (1999: 23) then conclude that “we should be more careful about calling for an investment boom to resume growth in Africa... [and] about Africa’s low savings rate..., [p]erhaps... due to the fact that the returns to investment were so low. Also, the relatively high levels of capital flight from Africa may have been a rational response to the lack of investment opportunities at home”.

Such claims can be contested on both methodological and econometric grounds. First, in the standard approach to growth empirics, investment should be measured in international prices. However, the study used domestic prices, which generally overestimate investment rates because of the high cost of doing business in Africa. Second, they used cross-sectional regressions that do not account for country-specific effects, which can lead to inconsistent estimates.⁹ But, more importantly, as Mkandawire (2005) notes, the social benefits – to the national economy – of citizens investing in their own country exceed the private benefits accruing to individual investors.

⁹ We owe these observations to Carl Gray and Oumar Diallo, who have also provided other valuable comments and suggestions.

REMITTANCES

Remittance flows have surged in recent years to become an important source of finance for African countries and households (see Table 10). Apart from the impacts on households, the considerable size of such remittance flows entails macroeconomic consequences as well, particularly in those countries where they represent a sizeable share of GDP. In Lesotho, for example, they made up 27 percent of GDP in 2008, and are certain to impact on exchange and interest rates, and on consumption and savings levels. They typically involve stable inflows of finance (remittances are estimated to have dropped only slightly during the 2008-2009 global economic crisis – see Table 9) and might, in fact, be countercyclical, if natural disasters or economic downturns lead migrant workers to send more resources back to their countries of origin. On the other hand, large inflows could lead to real appreciations of the domestic currency, a ‘Dutch disease’ effect. Considering the negative impact of the emigration of skilled workers that precedes such remittance flows, it is perhaps unsurprising that there is no significant link between remittance flows and GDP per capita growth (World Bank 2006: 99).

TABLE 10.
REMITTANCE INFLOWS TO SSA

	2000-04	2005	2006	2007	2008	2009 ^e	2007
	US\$ millions						% of GDP
Sub-Saharan Africa	5,661	9,379	12,629	18,646	21,139	20,525	2.2%
East Asia and Pacific	26,986	50,460	57,598	71,309	86,115	84,785	1.6%
Europe and Central Asia	14,401	30,089	37,341	50,777	57,801	49,279	1.6%
Latin America and Caribbean	30,415	50,122	59,199	63,239	64,717	58,481	1.8%
Middle-East and North Africa	17,231	24,958	26,112	31,364	34,696	32,212	3.8%
South Asia	23,916	33,924	42,523	54,041	73,293	71,955	3.7%

Source: World Bank 2009; *e: projection*

3. AID: UNPREDICTABLE, FRAGMENTED AND WELFARE-ORIENTED

RATIONALE FOR AID

In the absence of stronger private capital flows to Africa, aid can and has contributed to narrowing the external financing gap. It has also successfully done so in other regions, most notably and famously in post-war Europe in the form of the Marshall Plan. Nonetheless, the net, long-term, actual contribution of aid to development has been controversially debated for decades.

After 1945, the impending independence of colonies sparked interest in questions of development to which the nascent discipline of development economics responded. For example, Rosenstein-Rodan (1943, 1944) laid the foundations for the idea of an externally-funded 'big push' and 'large scale planned industrialization' for development of 'backward areas' involving the realization of scale economies. In light of low domestic savings and a shortage of foreign exchange, it was argued that only international investment or lending would raise enough capital to establish industries on sufficient scale in a coordinated manner, to exploit complementarities among different industries. The initial boost would trigger growth in domestic capital formation, incomes and exports, and thus allow closing the foreign exchange and savings gaps in the long run.

This post-war development paradigm was strongly influenced by the success of the Marshall Plan and by reconstruction in Europe. The World Bank (International Bank for Reconstruction and Development) institutionally embodied this link. In his opening remarks at the Bretton Woods conference, Keynes envisaged that 'the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But, as soon as possible, ... there is a second primary duty laid upon it, namely, to develop the resources and productive capacity of the world, with special attention to the less developed countries.' (Kapur, Lewis and Webb 1997: 59). As the Bank expanded its activities in developing countries, financing large-scale infrastructure investments, i.e. providing such a big push, became its main focus.

From the 1970s, and in reaction to the slowdown in growth of the global economy, following the oil shocks and 'stagflation' in Western countries, Keynesian economics, development economics and their policy recommendations were increasingly challenged. In the context of developing countries, this 'counter-revolution' argued that aid crowds out more efficient private investments. The Bretton Woods institutions embraced the new paradigm, which identified state-led development planning, market interventions and the public sector as parts of the problem; instead, they advocated fiscal austerity, market liberalization and privatization. Through stabilization and structural adjustment programmes as well as various policy conditionalities, aid, in the form of grants as well as lending, was leveraged to encourage such policy reforms. In the African context, the aforementioned Berg Report of the World Bank, published in 1981, most clearly signalled this policy change.

At the same time, however, the ideological and policy shifts to market- and private sector-led development undermined the case for development assistance, and the end of the Cold War in the early 1990s greatly reduced the political motivations for securing government loyalties through dispensing official development assistance (ODA). Aid volumes stagnated and declined, not only absolutely, but also relatively, despite a series of United Nations development conferences during the 1990s.

Only in the new millennium did aid flows rise significantly again until the recent levelling off. The UN Millennium Summit in 2000 committed development partners to reducing poverty by achieving the MDGs (UNCTAD 2006). Perhaps, more importantly, the 2002 Monterrey conference on financing for development (FfD), following the 9/11 al-Qaeda terrorist attacks leading to the US-led 'war on terror', reversed donor apathy and revived ODA. While not directly challenging the 'Washington Consensus' and its macroeconomic and trade policies, the MDGs focused much more on poverty reduction and social goals and opened the way to a partial return to aid-supported 'big push' ideas. Parallel to the quantitative scaling up of aid flows, the lack of progress in reducing poverty has also led to questioning the quality of aid. The shortcomings of project-based aid – characterized by high transaction costs and limited effects in a poor policy environment – as well as the realization that conditionalities have often failed to influence recipient behaviour have led to the emergence of a new aid paradigm based on country ownership and donor alignment with country priorities. This new thinking was formalized by the Paris Declaration on Aid Effectiveness (to be discussed in more detail below).

In relation to Africa's current development challenges, the debate on the role of aid in the continent can be illustrated by the conflicting positions of authors such as Jeffrey Sachs (2005) on the one hand and William Easterly (2001; 2007) and Dambisa Moyo (2009) on the other. The former is arguing for a new 'big push', requiring much more plentiful and reliable aid flows, the latter that the private enterprise and investment needed for development has been crowded out by large aid flows to the region. Sachs' argument somewhat mirrors the earlier 'big push' literature. According to him, 'poverty traps' arise due to a combination of minimum investment thresholds needed to successfully engage in modern production, insufficient domestic savings to reach these thresholds, and rapid population growth. In contrast with much of the Washington Consensus literature, he does not attribute Africa's predicament to poor governance, but rather to geographical factors – prohibitively high transport costs, small domestic markets, low agricultural productivity and a high disease burden. They could be overcome by a large and sustained inflow of aid to finance public investments in rural development, health, education and other priority areas spelled out in the Millennium Development Goals.

Easterly, on the other hand, strongly disputes the notion of a poverty trap. He is deeply sceptical of large scale and planned interventions and points to the many development failures and failed initiatives in Africa. And even though he identifies 'bad governance' as the ultimate cause for sustained poverty, he is also very critical of the structural adjustment programmes. Although the SAPs were based on a similar assessment, they represent another attempt to implement wholesale reforms from outside, while ignoring local conditions and institutions. In contrast, successful developers, such as the East Asian tigers, China, Chile, and Botswana in Africa, have only relied on aid to a very limited extent; instead, they have adapted and implemented policies more suited for their context. Moyo (2009), in a related critique, is concerned with the negative impact of large aid flows on internal political processes, as they undermine the accountability of politicians to those they represent, and lead to corruption. Similar arguments are made by aid sceptics from the other end of the spectrum. Tandon (2008) stresses the limited policy space that results from aid conditionalities which constrain implementation of national development strategies, particularly when they deviate from the hegemonic development paradigm. Aid dependence can also potentially undermine governance

as the development of representative political institutions involves revenue bargaining between the state and its citizens¹⁰ (Moore 2008).

To what extent then does Africa depend on aid, and how effective has it been in closing the financing gap and promoting economic growth? After reviewing aid statistics, we will turn to empirical investigations of aid effectiveness and prospects.

AID STATISTICS

Aid statistics are notoriously controversial. As the UNCTAD (2006) report on 'Making the Big Push work' notes, a large percentage of aid – reported by donor countries to the OECD Development Assistance Committee (DAC) – never actually reaches the intended recipients. UNCTAD (2006: 14) quotes the NGO Action Aid, claiming that about 60 per cent per cent of bilateral donor assistance in 2003 "never materializes for poor countries, but is instead diverted for other purposes within the Aid system".

Nonetheless, overall aid to Africa has clearly increased in recent years, and reached a record high in 2009, perhaps testimony to the successful mobilization of the international community to achieve the Millennium Development Goals. The focus on achieving the MDGs has, however, led to a strong focus on social goals, and aid for health and education account for much of the overall increase. Aid for economic sectors and production, on the other hand, has stagnated for a very long time, and has only seen modest increases since 2005 (Figure 3). Figure 3 also illustrates the large impact of debt relief on overall aid levels to Africa. All debt relief is counted as ODA by the OECD Development Assistance Committee (DAC), even though the Monterrey conference asked for aid increases to occur in addition to debt relief.

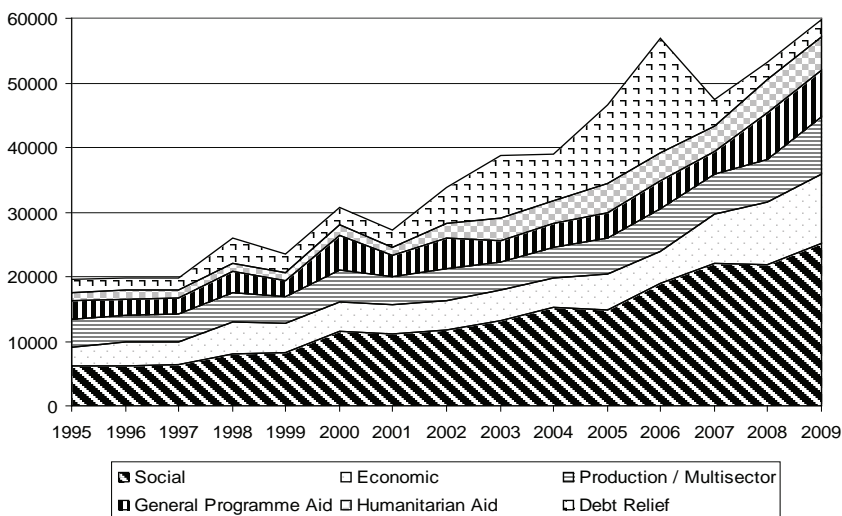
There are indications that non-DAC 'development partners' from other developing countries, which have been playing increasingly important

¹⁰ Eubank (2012) shows how the Somaliland government, which receives no aid at the government level because it is not internationally recognized, was forced to negotiate and bargain with powerful interests in its territory for the right to tax them. As a result, the political institutions that evolved were broadly representative and have allowed for peaceful transitions of power since.

roles, have set different sectoral priorities, and have provided much needed support for economic infrastructure investments in Africa. It is difficult to systematically compare and analyze data because these so-called 'emerging donors', such as China, do not report aid flows. Overall, the UN estimates that in 2008, South-South cooperation amounted to more than \$15 billion, or 9.5 percent of total development cooperation (UN/DESA 2010). Country case studies indicate that these 'emerging donors', and China in particular, are injecting large amounts of development finance into Africa's infrastructure. However, many of the largest and highest profile infrastructure projects of China in Africa, e.g. in the Democratic Republic of the Congo and in Angola, would not qualify as ODA as defined by the OECD, because the loans are not sufficiently concessional (Brautigam 2009).

FIGURE 3.

**AID COMMITMENTS TO AFRICA BY SECTOR, 1995-2009
(US\$ MILLIONS)**



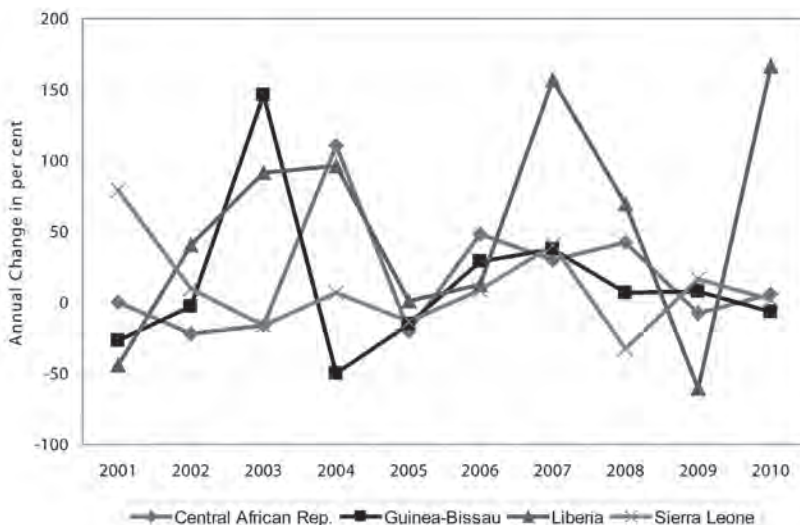
Source: OECD Creditor Reporting System

Official statistics also confirm that aid to Africa is increasingly fragmented and has been highly volatile. As more donors started to provide aid, the number of projects has climbed while their average size has gone down significantly. Globally, the number of aid projects increased approximately four-fold between 1997 and 2007, while their average size fell from \$6 million to \$1.9 million in the same period, raising various monitoring, surveillance and other transactions costs at the country level. Many African countries submit up to 10,000 quarterly donor reports every year, tying up valuable and scarce resources in state bureaucracies (Glennie 2008).

This fragmentation also contributes to very high levels of aid volatility. At the country level, aid is seven times more volatile than GDP, and three and a half times more volatile than exports (Fengler and Kharas 2010). Kharas (2008) estimates the costs of volatility, which can negatively affect growth, both through macroeconomic shocks and budgetary uncertainties, at up to 15 per cent of the total value of aid. Aid volatility is particularly high for fragile states, and thus for countries that most depend on aid flows and can least afford such instability. Two thirds of all so-called aid shocks between 1970 and 2006 (where aid per capita changes by more than 15 percent from one year to the next) have happened in fragile states (OECD 2011). Such dramatic changes in resource inflows – which can increase or fall by 50 per cent or more year on year in some countries [see Figure 4A] – are likely to have strong macroeconomic impacts and make fiscal planning extremely difficult for national authorities.

FIGURE 4A.

ANNUAL PERCENTAGE CHANGE IN ODA PER CAPITA IN SELECTED AFRICAN COUNTRIES



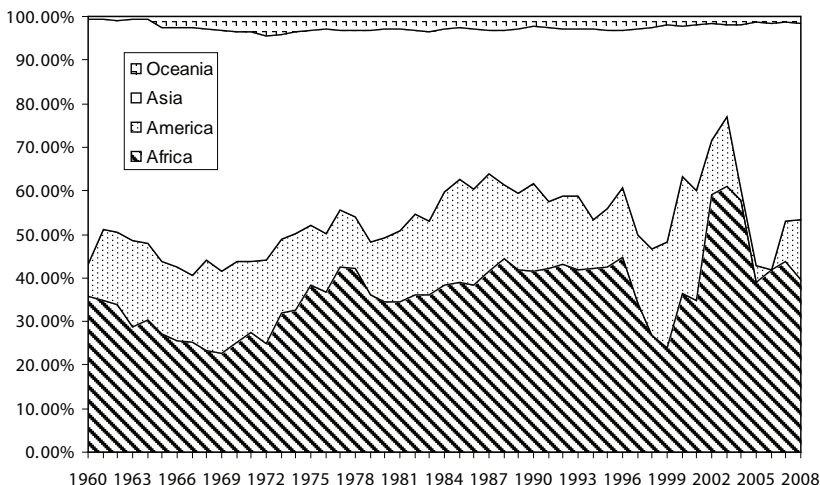
Source: OECD Creditor Reporting System and authors' calculations

High volatility at the recipient level is mirrored by large shifts in aid flows at the regional level. Figure 4B shows the regional shares of total aid flows among the four major developing country regions – Oceania, Asia, America and Africa. Africa's share rose in the 1970s to almost 40 per cent, and remained fairly stable until the mid-1990s, before falling off precipitously to below 25 per cent in 1999; its share then rose again to over 60 per cent in 2003, only to fall back to 39 per cent in 2008.¹¹ Aid flows per person (per annum) to Africa have also been higher than for Asia, Latin America as well as the Caribbean. From a low of US\$17 in 2000 – aid had steadily declined throughout the 1990s – flows increased to US\$45 per person in 2008; part of this volatility has been due to reporting in US dollars and the vicissitudes of the greenback.

¹¹ Note that both Latin American and African developing countries experienced this decline after 2003. The increase in Asia's share of total aid may have been due to large amounts of emergency aid in the wake of severe natural disasters, such as the Indian Ocean tsunami, with its epicentre off northwestern Sumatra, Indonesia.

FIGURE 4B.

AID FLOWS, REGIONAL COMPOSITION, 1960 TO 2008



Source: UNCTAD Handbook of Statistics

Lastly, relative to GDP, Africa receives the largest portion of aid, roughly 3 per cent of GDP in 2008.¹² Despite these increases, ODA continues to fall short of pledges made by the Group of Eight (G8) countries at the 2005 Gleneagles Summit, where the G8 donors committed to increase total ODA to Africa by US\$ 25 billion. Preliminary OECD estimates indicate that Africa received only an additional US\$11 billion in 2010, significantly below the Gleneagles commitments.

Continentially or regionally aggregated data on aid volumes to Africa obscure vast variations in aid flows among countries, and thus of national aid inflows. As noted above, African countries have been able to increase revenue mobilization through taxation in recent years, and annually collected an average of US\$441 per person in 2008 (OECD-AfDB, 2010, p. 81). Aid is thus only about a tenth of collected taxes. Yet, there are twelve countries where aid exceeds tax revenues and another 12 where aid is at least half of tax income. For such countries in particular, aid effectiveness and aid predictability are of crucial importance.

¹² See Figures A1 and A2 in the Appendix.

AID EFFECTIVENESS

The impact of aid flows on overall economic growth in recipient countries has been the subject of numerous empirical studies. A number of much-cited articles find no robust impact of aid on growth, even in countries that are well governed (see, for example, Rajan and Subramanian 2005, Easterly 2007). 'Dutch disease' effects – aid inflows causing an overvalued exchange rate and undermining the competitiveness of the traded goods sectors – are a possible reason for these results. Rajan and Subramanian also cite the reduced need to raise resources domestically, which undermines accountability and has detrimental long-term effects on governance. Short of calling for a reduction of aid flows, they argue for more caution in disbursing large amounts of aid quickly, and for further trade liberalization by both aid recipients and donors to offset the adverse effects on competitiveness.

However, if aid allocated for blatantly geopolitical reasons during the Cold War and since is discounted, Minoiu and Reddy (2006) show that aid has contributed to growth, contradicting aid sceptics at both ends of the political spectrum. Before 1990, up to 70 percent of bilateral aid had been given primarily for such purposes; after such aid is excluded, they find a robust positive effect of aid on growth. This effect is independent of the quality of governance – aid accelerated growth, even in countries with a poor governance record (see Jomo and Chowdhury [eds] 2012).

The precise impact of aid on growth will, of course, depend also on the sectoral distribution of ODA. For many African countries, this impact was weakened because much of the increase in aid seen in recent years was for debt relief and debt repayment, rather than for financing development. The focus of the international community on achieving the Millennium Development Goals by 2015 has also directed much development aid to social safety net, health, education and gender programs (see Figure 3). While the MDGs have been effective in bringing such challenges to the fore, and have led to a significant increase in overall aid, the new focus on social goals has often come at the expense of general budget support and economic objectives such as supporting infrastructure construction, productive capacity enhancement and employment generation, which are more likely and sustainable ways to reduce poverty in the long run compared to palliative approaches.

As noted above, structural adjustment programmes had seriously undermined Africa's productive capacities in the 1980s and 1990s. The MDGs focus

on addressing the social consequences of those lost decades of development, but remain largely silent on macroeconomic and industrial policies that would help create the conditions for sustained economic growth (see, for example, Saith 2006). Not surprisingly, the vast majority of Poverty Reduction Strategy Papers lack an employment strategy altogether. In 2008, half of total ODA to Africa went to social and humanitarian causes, as opposed to only 26 per cent for the economic and productive sectors (OECD 2010).

In conclusion, careful empirical work, by Minoiu and Reddy among others, establish a positive effect of aid on growth, lending credibility to the call for a big push to accelerate growth and development in Africa. At the same time, the quality of aid has to be improved to maximize its impact. Aid volatility, aid fragmentation, the earmarking of aid flows, the low share of direct budget support in overall aid flows and conditionalities-limited policy space all undermine 'national ownership' of aid-supported programmes by African governments. In such circumstances, aid inadvertently undermines the strength of domestic institutions.

In the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action and, more recently, the 2011 Busan Declaration, development partners have agreed to adhere to core principles to ensure that aid is supportive of national development strategies and national capacity building. Donors committed to align their contributions with nationally set priorities. Ownership of development policies by partner countries is a core principle of the aid effectiveness agenda. It implies that they have the policy space to decide on national policies independent of donor preferences, and that they are accountable to their own citizens first and foremost (Whitfield and Fraser 2009).

The aid modality that best embodies these principles is budget support. Yet, in 2008, budget support represented only three percent of gross DAC donor disbursements (UN/DESA 2010). Worryingly, country case studies also indicate that where it happened, the shift to budget support has been used by donors to become more intimately involved in the budgeting process, and thus, in the early phase of priority setting and policy planning, further undermining country ownership (see, for example, Bergamaschi 2009 on Mali, and de Renzo and Hanlon 2009 on Mozambique).

The difficulties of *creating* ownership are mirrored by an overall lack of progress in implementing the aid effectiveness agenda. Of the 13 targets established in Paris to be achieved by 2010, only one was met. Also, recipient countries have been much more successful in implementing the Paris Declaration

than donors (OECD 2011a). This is not entirely surprising. Donors do have their own sets of preferences, based on ideological, commercial and political interests, and most continue to be committed to policies of liberalization and increased openness. Aid agencies exist precisely to mediate between donors and recipients in case these preferences diverge from recipients' preferences (Martens 2008). They claim to use conditionalities to correct 'misalignments' in preferences, most prominently through structural adjustment policy conditionalities. In such cases, ownership of aid projects by recipients will always be limited.

Yet, the aid effectiveness process started in Paris has not significantly reduced conditionalities. Instead, ownership was added to conditionalities, and attempts were made to reconcile the two. Donors pledged that conditions would be drawn from the partner's national development strategy, limited in number and mutually assessed. Of course, this assumes that donors fully endorse such development strategies. Yet, there is no discernible decrease in the overall number of conditions (UN/DESA 2010). The World Bank's Country Policy and Institutional Assessments (CPIA) still determine whether and to what extent countries have access to concessional lending, and its score-card ranks countries according to the 'correctness' of their policies. In a well known case, disagreements between the government of Mozambique and the Washington institutions about tariffs on sugar and cashew nuts caused the country to achieve only an average score on the CPIA (Glennie 2008). The liberalization of the cashew sector that was eventually forced on an extremely reluctant government led to the collapse of the industry. The IMF similarly insists on a core set of macroeconomic policies that is hardly negotiable, with its approval of country policies having particular importance in determining donor approval and support (Whitfield and Fraser 2009).

Recognizing the inherent tension of being aid recipients and demanding more policy space, African institutions themselves are increasingly calling for moving the debate from 'aid effectiveness' to 'development effectiveness', which implies aid practices that promote self-reliance and minimize dependence (AfDB/NEPAD 2010). While remaining a key aspect of development cooperation, aid is only one aspect of an economic nexus involving trade and other financial flows. Not surprisingly then, many African governments are seeking to strengthen national and regional capacities and South-South cooperation, and to better access alternative sources of financing for development including long promised concessional resources to mitigate and adapt to climate

change as well as 'aid for trade', both of which are supposed to be additional, rather than substitutive.

Overall, economic liberalization and the retreat of the state have not led to the promised increases in inflows of capital into Africa. FDI inflows remain relatively low and concentrated in resource extraction and, more recently, in food production for export, while portfolio flows play a negligible role and capital flight is rampant. Aid, despite having a positive impact overall, has not reached levels donors committed to, and continues to limit the policy space of African countries to pursue more developmental and progressive economic policies.

4. TRADE AND DEVELOPMENT

In line with the 1981 Berg Report, much World Bank research has suggested for a long time that Africa would gain most by specializing in agriculture. Removal or reduction of subsidies and protection in the North would give farmers in SSA the opportunity to significantly increase their shares in these markets, and would allow them to benefit from their comparative advantage in agriculture. Yet, the evidence of African agricultural competitiveness remains dubious for most crops. Reliance on trade liberalization and static comparative advantages in agriculture or resource-based industries is also at odds with the development experience of almost all earlier development or rapid growth experiences, which have invariably involved pursuing industrialization and diversification strategies (Chang 2003).

This section reviews the nature of African trade, particularly the potential for agricultural exports, the problems of the terms of trade and 'Dutch disease', and their implications for African development prospects. What and with whom does Africa trade, and how might that help or hinder development? Such features of the region's trade are important for trade policy, industrial policy and development policy more generally.

African countries have experienced volatile and, by and large, unfavourable movements in their terms of trade for much of the twentieth century, including the post-independence period. First, until recently, the prices of primary commodities have declined against those of manufactures, as noted by Hans Singer and Raul Prebisch more than half a century ago (see Ocampo and Parra, 2006). Second, the prices of tropical agricultural products have continued to decrease relative to temperate agricultural goods, as observed by W. A. Lewis (1969) decades ago. Third, recent decades have also seen the decline of the prices of generic manufactures where entry into industries (e.g. most clothing) has not been inhibited – unlike those activities protected by technological barriers, scale economies and strong intellectual property rights. Although Africa has experienced de-industrialization over recent decades, a few countries have developed garments industries which still enjoy trade preferences and may therefore at least survive, despite the erosion of trade preferences with greater trade liberalization.

Table 11 underscores Africa's still declining marginal role in overall world trade. Africa's share of world trade has long been small, but even this has declined in recent decades, with a small, but notable, upsurge in recent years. African exports of manufactures and food have declined during this period, while exports of minerals and other agricultural products have risen, reflecting de-industrialization and more export-oriented agricultural production, but also heavier reliance on resources, especially mineral, particularly petroleum exports.

TABLE 11.
Shares of World Merchandise Exports, 1950-2010

	1950-59	'60-'69	'70-'79	'80-'89	'90-'99	2000-10
Developing economies: Africa	6.5%	5.3%	5.0%	4.1%	2.4%	2.8%
Sub-Saharan Africa	5.0%	4.0%	3.3%	2.6%	1.7%	1.8%
Sub-Saharan Africa excl. South Africa	3.4%	2.6%	2.3%	1.7%	1.1%	1.3%
Developing economies: America	9.8%	6.6%	5.1%	5.2%	4.6%	5.5%
Developing economies: Asia	12.9%	9.9%	13.6%	16.3%	20.2%	27.3%
China	1.6%	1.3%	0.8%	1.3%	2.7%	7.1%

Source: UNCTAD Handbook of Statistics, various years (Table 1.1 Value and Shares of Merchandise Exports and Imports) and authors' calculations

WITH WHOM DOES AFRICA TRADE WHAT?

Africa is less dependent on developed country demand for its exports today than when the debt crisis hit in the early 1980s (Table 12). Asia has emerged as a major trading partner while increased SSA trade integration has reduced the share of exports to the developed world from 74 per cent in the 1970s to 60 per cent in 2000-2009. The SSA export share to East Asia – which includes the ten ASEAN members plus China, Japan and South Korea – more than tripled from 5 to 16 per cent. However, much of this trade expansion is fairly recent. The growth of China's demand for primary commodities since the late 1990s has been the driving force behind this trend.

Notably, intra-SSA exports increased strongly from 5 per cent of total exports in the 1960s to 13 per cent in 2000-2009. Intra-regional trade also has significant development potential, if it relies on and strengthens developmental linkages. The declining importance of rich country markets for African commodity exporters may have reduced the continent's direct vulnerability to the business cycles of the advanced economies, thus enabling it to recover more easily from the 2008-2009 Great Recession.

TABLE 12.

Destinations and sources of SSA trade with selected regions, 1960-2009

	1960-69	1970-79	1980-89	1990-99	2000-09
Export shares, selected regions					
To developed countries	74%	69%	64%	62%	60%
To ASEAN+3*	5%	6%	6%	8%	16%
Intra-SSA	5%	5%	4%	10%	13%
To rest of the world	16%	20%	26%	20%	11%
Import shares, selected regions					
From developed countries	80%	80%	71%	64%	51%
From ASEAN+3*	7%	10%	11%	18%	19%
Intra-SSA	5%	5%	6%	10%	14%
From rest of the world	8%	4%	12%	8%	16%

Source: UNCTAD Handbook of Statistics 2007, UNCTAD Stat Database and authors' calculations.

* ASEAN+3 includes ASEAN members plus China, Japan and South Korea.

Second, sourcing from emerging countries has increased. The lower part of Table 12 shows that the decline in the share of imports from developed countries is even more pronounced than for exports, with its share falling from 80 per cent in the 1970s to 51 per cent in 2000-2009. Similarly, as above, both Asian and intra-regional import sources have become more important, with the former rising from 7 to 19 per cent, and the latter from 5 to 14 per cent.

TABLE 13.
AFRICA'S EXPORT COMPOSITION,
1995-2010

	1995-2000	2001-2010
Share of primary commodity exports in total exports*		
World	21.5%	25.4%
Developing economies: Africa	66.7%	75.1%
Major petroleum exporters: Developing Africa	95.2%	97.3%
Sub-Saharan Africa excluding South Africa	79.4%	85.3%
Share of agricultural exports in total exports**		
World	10.5%	8.6%
Developing economies: Africa	19.5%	11.9%
Major petroleum exporters: Developing Africa	1.6%	0.8%
Sub-Saharan Africa excluding South Africa	29.2%	17.1%

Source: UNCTAD Handbook of Statistics (Table 2.2: Trade structure of country groupings by partner and product group) and authors' calculations.

* Data include SITC 1 through 4 plus 68.

** Data include SITC 0+1+2-27-28+4; food items plus agricultural raw materials.

The diversification of origins of imports and destinations of exports decreases dependence and improves economic integration in some respects, but the greater reliance on mineral exports is worrying. Also, the developmental implications of diversifying primary commodity export markets and import sources, with greater trade through neighbouring transit economies, should not be exaggerated. Reliance of SSA countries on exports of primary commodities, especially minerals, has actually grown. Table 13 shows the share of primary commodity exports in total world exports and for selected African country groups. The global share of commodity exports rose slightly from 1995-2000 to 2000-2010.

Higher prices for a wide range of commodities, especially petroleum-related, have had important consequences. The share of such exports for all develop-

ing countries in Africa increased from 66.7 per cent in 1995-2000 to 75.1 per cent in 2001-2010, and from 95 to 97 per cent for the major petroleum exporters in the region. This aggregation of all primary commodities obscures agricultural exports' declining role, as reflected in the lower part of Table 13. For all developing economies in Africa, the average share of agricultural exports in total exports fell from 19.5 to 11.9 per cent between 1995-2000 and 2000-2010. The falling share of agricultural exports is likely due to a combination of much higher oil and other mineral prices in excess of rising agricultural prices.

TABLE 14.

**AFRICAN SHARES OF WORLD MANUFACTURING EXPORTS*,
1995-2010**

	1995-2000	2001-2010
Developing economies: Africa	0.83%	0.79%
Developing economies: America	3.76%	3.83%
Developing economies: Asia	21.98%	29.70%
Major petroleum exporters: Developing Africa	0.03%	0.04%
Major petroleum exporters: Developing America	0.07%	0.07%
Major petroleum exporters: Developing Asia	0.47%	0.85%
Sub-Saharan Africa	0.56%	0.49%
Sub-Saharan Africa excluding South Africa	0.17%	0.17%
SADC**	0.48%	0.39%

Source: UNCTAD Handbook of Statistics (Table 2.2: Trade structure of country groupings by partner and product group) and authors' calculations.

* Includes SITC 5 through 8 less 68.

** SADC includes 15 SSA nations.

Africa, particularly SSA, did not significantly increase manufactured exports in 2001-2010 compared to 1995-2000 (Table 14). While developing economies in Asia now export 30 per cent of total manufactured exports in the world,

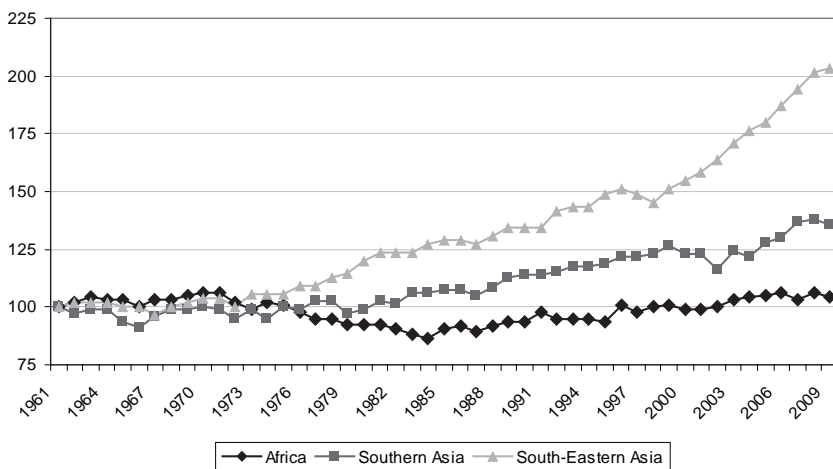
Africa's share of world manufactured exports does not even reach 1 per cent. This is even more pronounced for petroleum exporting countries in Africa – compared to petroleum exporters in other regions of the world – but holds for all of SSA, including South Africa.

TRADE LIBERALIZATION AND THE NEGLECT OF AGRICULTURE

More pronounced trade specialization or dependence is principally due to the earlier economic liberalization pursued under the auspices of the international financial institutions. Despite the importance ostensibly accorded to agriculture for African development in the Berg Report, the period since the 1980s has also seen a general neglect of agriculture and food security. Public spending for infrastructure, agricultural research and development, extension services and agricultural subsidies declined while official support and encouragement was limited to export-oriented agriculture.

According to the international financial institutions, poverty in Africa would be significantly reduced by eliminating market distortions, especially marketing boards and other related parastatals (state owned enterprises) in the rural economy, and promoting export-oriented cash crop agriculture. The agricultural sector had indeed performed relatively poorly in the 1960s and 1970s, and was seen to be in crisis. The Berg Report blamed excessive government interventions for the stagnation, and advocated for the removal of subsidies, price and import liberalization. At the same time, macroeconomic reforms led to a reduction in government spending on agriculture and investments in the rural economy more broadly (Oya 2010). Ironically, donors decreased their spending on agriculture as well, and the share of global development assistance dedicated to African agriculture decreased from five percent in 1980 to one percent in 2004 (de Janvry and Sadoulet 2010). As a result, per capita production in agriculture stagnated (see Figure 5), and Africa became a net food importer.

FIGURE 5.
Net per capita agricultural production (1961: 100)



Source: FAOStat, <http://faostat.fao.org> [20 January 2012]

The withdrawal of the state from agriculture was also based on a misreading of the Green Revolution in Asia. The strong agricultural growth performance in Asia is often attributed to technological advancement and breakthroughs in crop-breeding. However, the introduction of new crop varieties was only one aspect of a state-driven rural development process (Djurfeldt *et al.* 2008). The Green Revolutions in Asia and elsewhere raised food agricultural productivity by providing extensive government support to farmers. In the case of Indonesia, this support included access to heavily subsidized fertilizers, credit provision for the purchase of inputs, rice price stabilization by establishing floor and ceiling prices, and state investments in irrigation systems. These were accompanied by broader investments in rural infrastructure, such as roads and electricity (Henley 2012). Rather than withdrawing from agriculture, the state thus played a crucial role in increasing agricultural productivity. In addition, large food-deficit countries – such as India, South Korea, China, Malaysia, Indonesia and Bangladesh – implemented these policies in a global environment of rising food prices (Ellis, 2010). SSA countries, on the other hand, adopted their agricultural market liberalization reforms subse-

quently in an era of falling global food prices, partly due to heavy subsidies for farmers by rich countries.

Agricultural sector liberalization thus undermined earlier commitments and efforts in the interest of ensuring food security, rural development and even urban-rural redistribution, reducing the viability of small-scale farming, increasing reliance on food imports, and inadvertently creating the conditions for the 2007-2008 food crisis.

Meanwhile, government interventions in agriculture remain ubiquitous in most rich countries, ostensibly to ensure their own food security and support their own farmers (Chang 2009). More recently, some have begun supporting bio-fuels, ostensibly for energy security and climate change mitigation, inadvertently contributing to the food price spikes. Indeed, the possibility of many developing countries gaining from increased agricultural exports has been frustrated by such protection and subsidies in the rich economies. Trade preferences have ensured better market access for former colonies, LDCs, African, Caribbean and Pacific economies. Table 15 summarizes average tariff rates in SSA viz-à-viz the rest of the world. More recently, further erosion of such preferential market access has become a particular concern of African countries in negotiations over further trade liberalization.

Overall, Africa has not benefited from trade liberalization to the extent expected. By the end of the 1990s, it had become clear that the few acknowledged gains from trade for SSA were of a one-off character, often reflecting switches from domestic to foreign markets without much increase in overall output (Helleiner, 2002a, 2002b; Mwega, 2002; Ndulu, Semboja, and Mbelle, 2002). In some cases, manufactured exports increased, even as total manufacturing output contracted. "No major expansion occurred in the diversity of products exported by most of the Sub-Saharan African countries. [...] Indeed, the product composition of some of the African countries' exports may have become more concentrated. Africa's recent trade performance was strongly influenced by exports of traditional products which appear to have experienced remarkably buoyant global demand in the mid-1990s" (Ng and Yeats, 21, quoted by Mkandawire, 2005). Figure 6 confirms this, with the index of export diversification showing that Africa did not broaden its export base during 1995-2010. It lags behind other developing regions and the rest of the world in this regard, and has only marginally increased diversification in the period.

TABLE 15.

AVERAGE APPLIED IMPORT TARIFFS, BY SECTOR AND REGION, 2001 (per cent, ad valorem equivalent)

IMPORTING REGION	EXPORTING REGION	
	World	SSA
Agriculture and food		
High-income countries*	16.0	11.0
Developing countries**	18.0	13.0
South Africa	9.0	2.0
Other Southern Africa***	12.0	11.0
Rest of SSA	21.0	15.0
Textiles and wearing apparel		
High-income countries*	8.0	5.0
Developing countries**	17.0	10.0
South Africa	22.0	9.0
Other Southern Africa***	13.0	6.0
Rest of SSA	26.0	8.0
Other manufactures		
High-income countries*	1.3	0.4
Developing countries**	8.0	7.0
South Africa	5.0	0.2
Other Southern Africa***	8.0	6.0
Rest of SSA	14.0	6.0
All merchandise		
High-income countries*	3.0	3.0
Developing countries**	10.0	8.0
South Africa	7.0	1.0
Other Southern Africa***	9.0	7.0
Rest of SSA	16.0	9.0

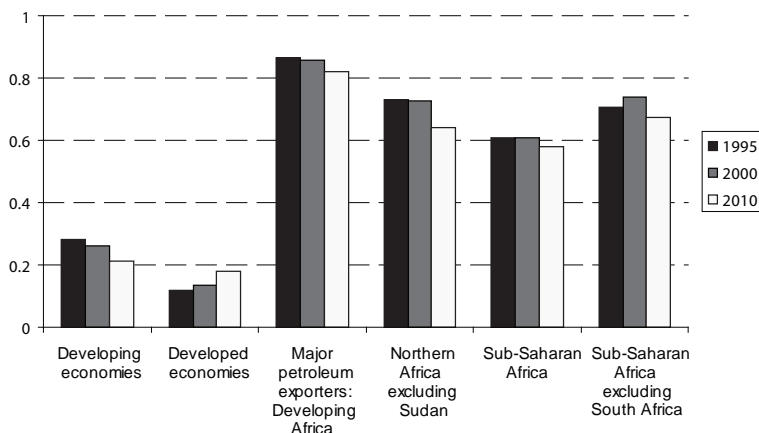
Source: Anderson, Martin and van der Mensbrugghe (2005: 37, Table 1, Table A12.3).

* High-income countries include the newly industrialized East Asian customs territories of Hong Kong S.A.R., Republic of Korea, Singapore and Taiwan Province as well as the European transition economies that joined the EU in April 2004.

** These import-weighted averages incorporate tariff preferences given to developing countries, unlike earlier versions of the GTAP database.

*** Botswana, Madagascar, Malawi, Mozambique, Tanzania, Uganda, Zambia, Zimbabwe. These countries accounted for 14 per cent of SSA GDP in 2001 (while South Africa accounted for 36 per cent and the rest of SSA accounted for 50 per cent).

FIGURE 6.
Index of export diversification, 1995-2010



Notes: The index of export diversification reports the degree of similarity of a country's export composition to world export composition. The closer the index to 1, the less diversified a country's exports.

Source: *UNCTAD Stat online*

TROPICAL FATE AND RESOURCE CURSE

Misguided trade policies and lack of government support for agriculture are aggravated by the deteriorating terms of trade for Sub-Saharan Africa. The World Bank (1993: 77) noted that temperate countries grew, on average, by 1.3 percentage points more than tropical countries during the 1965-1990 period, after controlling for other factors. Africa, of course, has most of its population living in tropical climes. The study explains this significant tropical zone shortfall in terms of the greater prevalence of disease, poor soils, typhoons and other natural calamities in the tropics. Surprisingly, the study seems oblivious of W. A. Lewis' (1969; 1978) pioneering work seeking to explain economic performance in the tropics as a result of falling terms of trade. Lewis (1978) argued that the tropics did not industrialize and grew slower than temperate settlements during the last globalization era from the end of the 19th century, and attributed this to the deteriorating terms of trade for tropical agricultural products.¹³

Although the tropics outside of the New World of the Americas generally had more modest export bases than the temperate zones to begin with, imperial domination ensured that the new tropical colonies of Asia and Africa better responded to export demands compared to the settler colonies¹⁴. Lewis emphasized however that not all tropical countries responded to this increased demand for exports. As the exports in greater demand were largely water-intensive, only those areas with enough water – or minerals – to substantially increase their exports were able to take advantage of the new opportunities. Thus, the more arid tropical areas, mainly in SSA, could not respond to the increased demand for tropical agricultural products. The absence of local supplies of wage labour in 'under-populated (tropical) Africa' must also have constrained the capacity to respond.

Some Southeast Asian newly industrializing countries and some other tropical countries have grown rapidly since the sixties, but most tropical countries

13 However, his data do not confirm his assertion that "the trade of these new [temperate] settlements accelerated at about the same time as tropical trade, but grew much faster than tropical, US or European trade" (Lewis 1978: 194). In fact, the new temperate settlements' and tropical exports grew faster than US or European trade.

14 For the period 1883-1913, for example, French Indochina, Thailand, British Ceylon, West Africa, French West Africa and Madagascar all had average annual export growth rates of five per cent or more, while Brazil had 4.5 per cent. Of the new *temperate* settlements – Canada, Australia, New Zealand, Argentina, Chile, South Africa and Uruguay – only Argentina and South Africa had export growth rates above 5 per cent (see Lewis 1978: 195, Tables 8.1 and 8.2).

have fared badly, especially in the last two decades of the 20th century. It is however not enough to simply attribute the tropical growth shortfall to 'pests, diseases, typhoons and other natural calamities', although such factors may have been important. As mentioned earlier, Lewis observed that the terms of trade for tropical agricultural exports have deteriorated badly against their temperate counterparts. In the half century between 1916 and 1966, for example, the price index for natural rubber fell from 100 to 16. This suggests that productivity gains in the tropics were largely lost to worsening terms of trade, with the situation worse where few productivity gains were made. This downward trend has continued throughout the twentieth century and tropical agricultural prices have fallen steadily and significantly, on average by one percent per year between 1888 and 2002. Cumulatively, tropical agricultural prices fell by two thirds over this period (Erten and Ocampo 2012). The recent commodity price boom has led to rising agricultural prices since 2002, which also benefited tropical products. Their prices increased by 2.5 per cent between 2002 and 2010. But compared to non-tropical agricultural goods and other commodities, tropical goods have fared significantly worse both in the period of prolonged price falls in the twentieth century and during the recent upturn.

Deteriorating terms of trade are exacerbated by inadequate agricultural research and development and infrastructure, crop and agronomic considerations as well as macroeconomic conditions, which all slowed agricultural development (Intal, 1997). Higher agricultural productivity in temperate zones has partly been due to sustained large investments in agricultural R&D, which temperate zone developing countries have been better able to take advantage of. The tropical Green Revolution in rice farming since the sixties mainly benefited irrigated farms in Southeast and South Asia, while the needs of arid zone agriculture in Africa have generally been neglected. The Southeast Asian success with tree crop agriculture may offer some opportunities for equatorial Africa. Significant Southeast Asian investments in tree crop agricultural R&D (e.g. in rubber, oil palm and cocoa) as well as rural infrastructure have made possible productivity gains in tree crop agriculture for SSA as well.

AGRICULTURAL EXPORTS AND FOOD SECURITY

In another variant of the geography-based explanation of Africa's poor growth performance, Sachs and Warner (1995) suggest that natural resource wealth per se is bad for growth. Curiously, they define natural resource abundance in terms of the ratio of net primary product exports to GDP in 1970, without distinguishing extractive non-renewable natural resources (especially minerals) from agricultural products. So-called Dutch Disease mainly involves the former, which tends to be very capital-intensive and only involve a small proportion of the population in extraction of the resource. Consequently, additional income from resource extraction typically accrues to a few, unless 'redistributed' by the state, while appreciation of the country's currency affects the entire population.

Agricultural exports generally involve much more of the population, and increased income usually accrues to all involved, diffusing the adverse consequences of currency appreciation. Most Southeast Asian high performing economies have been major agricultural exporters, offsetting the problems arising from the mineral exports of Malaysia and Indonesia in contrast to, say, Nigeria. Generally, better macroeconomic management – including 'undervalued' exchange rates – has also helped, especially to check the urge to spend on imports or non-tradeables.

Their experience suggests that African economies could well benefit from agricultural exports, but that such efforts should not come at the expense of food security, and are unlikely to be successful without more public support for the agricultural sector. This has been increasingly recognized by African governments. In 2003, members of the African Union committed to allocating ten percent of their national budgets to agriculture development in the Maputo Declaration. Malawi has successfully introduced an extensive subsidy programme for fertilizers – allocating 9 percent of its budget to it – which stimulated both agricultural production and economic growth (Dorward and Chirwa 2011).

The global food crisis of 2008 and 2009, and the renewed spikes in food prices in 2011 have brought a new urgency to debates about food security globally and in Africa. Small and landlocked countries, often poor and net food importers, were strongly affected by food price increases and by

increasing food price volatility. In Africa overall, the number of undernourished increased by 8 percent between 2007 and 2008, while it remained constant in Asia (FAO 2011).

One consequence of the crisis was an acceleration of so-called 'land grabs', long-term leases or sales of African agricultural land to foreign investors. Their rise was greeted with optimism early on, with African countries ostensibly benefiting from the technology transfer, higher yields and higher productivity generally associated with foreign direct investment. Governments that promote such deals also often claim that the land in question is unproductive or idle (Oakland Institute 2010). Recent experiences and research paint a very different picture, however. In practice, these deals have often resulted in dispossession, violence and destruction of livelihoods for the rural poor. In 80 percent of deals surveyed by the World Bank, no investments had yet taken place by 2011, suggesting that many may be speculative in nature (Oxfam 2011).

The Global Commercial Pressures on Land Research Project estimates that 203 million hectares (almost the size of the Democratic Republic of the Congo) of farmland worldwide have been sold or leased since 2001, with the pace of acquisitions accelerating markedly since 2008. Africa is the biggest target for these land deals, accounting for 134 million hectares of reported deals (Anseeuw, *et al.* 2012). The majority of these deals are for non-food export commodities, such as cut flowers or biofuels. Cutting off small holder farmers from access to land has thus contributed to further undermining food security.

With food prices likely to remain high and volatile, there is a consensus emerging that developing countries have to increase their investments in agriculture and pursue food security strategies. This has direct implications for trade and investment policies. Large scale land deals lacking transparency and reducing food production for domestic markets are likely to be at odds with food security. At the same time, excessive reliance on international trade leaves many countries more vulnerable to commodity price shocks. It is therefore important that developing countries are not restricted in their food security strategies by WTO rules. This includes the establishment of food reserves, price stabilization measures such as marketing boards, and strong safeguard mechanisms to manage the volumes of imports (De Schutter 2011).

GAINS FROM TRADE LIBERALIZATION?

As observed earlier, agriculture and agricultural trade present a conundrum for Africa. Africa is at a comparative disadvantage with agricultural exports, relative not only to the developed world with its protected 'green pastures', heavy subsidies and industrial farming, but also with much of Asia and Latin America as well.

A basic presumption of the Berg Report was that Africa's comparative advantage lay in agriculture. If only the state would stop 'squeezing' agriculture through marketing boards and price distortions¹⁵, the supply-side response by agricultural producers would drive export-led growth. Subsequent changes in Africa's exports show no significant increase in activities in which African countries ostensibly had comparative advantage. Indeed, after two decades of reforms, Africa's share of global non-oil exports fell to less than half what it was in the early 1980s (Ng and Yeats, 2000, quoted by Mkandawire, 2005).

Recent high growth in the large Asian economies, especially China, has probably contributed most to the recent increase in primary commodity prices, especially for minerals, inducing strong supply responses from many SSA countries enabled by foreign direct investments from these same big Asian developing countries. However, despite this upsurge, the African share of world exports still remains well below its earlier level. Moreover, the damaging consequences for sustainable development and food security have become apparent, with renewed attention after food prices rose sharply from late 2007, before declining after early 2008.

Much official development rhetoric continues to imply that small farmers in Africa would benefit greatly if agricultural trade were liberalized by a Doha Round trade agreement. However, many food importing African countries may be worse off without subsidized food imports while only a few African economies are in a position to significantly increase their output and exports in the short term. African agricultural production and export capacities have already been undermined by the last three decades of low investment and neglect.

Severe public spending cuts under structural adjustment have caused a significant deterioration of infrastructure (roads, water supply, etc) and undermined the potential supply response (UNECA, 2003)¹⁶. Even World Bank

15 Also see Bates (1981)

16 Numerous studies have confirmed the importance of good infrastructure for production capacity enhancement and trade facilitation (see Badiane and Shively, 1998; Abdulai, 2000)

estimates (Anderson and Martin 2005) of the overall welfare effects from multilateral agricultural trade liberalization do not suggest significant gains for SSA, but acknowledge, on the contrary, the likelihood of losses. Gains from agricultural trade liberalization would largely accrue to existing major agricultural exporters, mainly from the Cairns Group,¹⁷ again of little benefit to most of SSA. Greater trade liberalization in manufactures with a non-agricultural market access (NAMA) agreement would probably also undermine potential African industrialization. African market access to developed country markets has been more significantly secured through preferential market access agreements, rather than through trade liberalization. Further trade liberalization threatens to erode the advantages of preferential market access.

Additionally, trade liberalization results in an immediate loss of tariff revenue, which has been very significant in developing countries, especially the poorest ones, where tariffs have accounted for up to half of total tax revenue. Reducing such revenues severely reduces fiscal capacities, and can severely aggravate sovereign debt problems by requiring more borrowing in financial markets.

Referring to rich countries' claim that developing countries ought to repeal manufacturing tariffs before they can reduce agricultural subsidies, Dani Rodrik has asked "[w]hy they need to be bribed by poor countries to do what is good for them is an enduring mystery"¹⁸. Similarly, one might ask why poor countries should agree to multilateral trade liberalization that they need to be compensated for or induced to incept.

'Aid for Trade' was initially proposed as a means to promote and finance trade facilitation. However, the debate over this proposal has recognized that trade liberalization involves 'winners' and 'losers', even if the overall outcome is welfare-enhancing in a static sense. Several important policy implications follow from this acknowledgement. First, developing countries should be compensated for their loss of productive and export capacities. Less competitive producers, including small farmers facing competition from subsidized farms from OECD and Cairns Group countries, can be expected to go out of business following trade liberalization. In OECD countries, many such losers have been assisted to adjust to varying degrees, e.g. manufacturing workers by welfare, unemployment support, retraining programs and the like. Second,

17 The Cairns Group is a group of 19 agriculture exporting countries, composed of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, and Uruguay.

18 Dani Rodrik, 'Don't cry for Doha'. Daily Star (Egypt), 5 August 2008.

most developing country governments cannot make up for such lost tariff revenues, and hence, need to be compensated by the rich countries. Third, developing countries – especially the least developed countries, African, Caribbean and Pacific small island developing states – need to be compensated for the erosion of existing preferences due to further multilateral trade liberalization. Fourth, and most importantly from a development point of view, there are considerable, but uncertain costs involved in developing new or alternative internationally competitive productive and export capacities and capabilities. Fifth, developing countries have emphasized that ‘aid for trade’ must be truly additional to long promised official development assistance (ODA), which has never been delivered in full four decades after the UN General Assembly resolution of October 1970. Otherwise, ‘aid for trade’ risks becoming a pretext for aid diversion and imposing new conditionalities requiring trade liberalization.

World Bank projections¹⁹ of ostensible gains from complete trade liberalization (Anderson and Martin 2005) have been significantly revised downwards from earlier estimates just a few years before, presumably owing to trade liberalization in the interim. More than 70 per cent of these gains accrue to rich countries, including two-thirds of the global benefits from agricultural trade liberalization, and even more for non-textile manufacturers. More than two-thirds of the static gains to developing countries from agricultural trade liberalization will accrue to Argentina, Brazil and India and to China and Vietnam in the case of textiles and garments.

19 The World Bank has long supported the World Trade Organization (WTO) in promoting trade liberalization, often citing projections made using a computable general equilibrium (CGE), the so-called LINKAGE model. A CGE model is essentially a system of equations, describing the ‘behaviour’ of firms, households, governments and so on. LINKAGE happens to be a particularly large CGE model with more than 40,000 equations. As in any economic model (or system of equations), the number of equations is matched by the number of variables. The data requirements for parameters and base year variables are tremendous, and trade elasticities, in particular, are often mere “guesstimates” albeit with crucial implications. The effects of trade liberalization then are estimated by removing tariffs and subsidies, which enter the price equations affecting demand decisions. Additional real income – from increased exports – is presumed to outweigh the impact of increased taxes on developing country households.

The LINKAGE model presumes that governments do not, cannot or wish not to increase either borrowing or expenditure, for the public deficit in the model remains constant. In order to achieve this, the government has to raise taxes. Thus, crucial features of many developing economies – thin tax bases and large informal sectors – are assumed away, by presuming that taxes can be easily raised. Obviously, if household consumption taxes are raised, actual private consumption decreases, while consumption increases because import prices fall following tariff removal.

As full trade liberalization is not under negotiation in the Doha Round, Anderson and Martin (2005) considered several possible Doha Round scenarios of trade liberalization. Their most realistic scenario projects welfare gains by 2015 of \$96 billion, a third of the estimated gains from full trade liberalization, most of which – some \$80 billion – or 83 per cent, flows to rich countries. A positive estimate of overall gains from trade liberalization relies crucially on a large positive export supply response – which is a heroic assumption when internationally competitive productive and export capacities do not already exist, as in most developing countries, especially the poorest ones.

Most African governments cannot fully substitute lost tariff revenues with new and higher taxes. The main concessions African developing countries are expected to get from a Doha deal are reduced agricultural subsidies and tariffs in OECD countries, but the neglect of both infrastructure and agricultural development over two decades of BWI structural adjustment programmes has left these countries with little capacity to respond to such export opportunities. What, then, can most of Africa really gain from a Doha deal? How likely are African countries to realize even the paltry \$16 billion projected by this model for developing countries? Developing economies' aggregate nominal GDP, according to the *UNCTAD Handbook of Statistics 2008*, was just above \$14 trillion in 2007 – making \$16 billion, or one tenth of one per cent, look fairly negligible rather than the big boost to development the Doha Round is touted to be.

Another World Bank study analyzed the effects on SSA countries of 'complete' trade liberalization under a Doha agreement. Its estimates suggest that SSA could gain substantially because "farm employment, the real value of agricultural output and exports, the real returns to farm land and unskilled labour, and real net farm incomes would all rise substantially in capital scarce SSA countries with a move to free merchandise trade" (Anderson, Martin and van der Mensbrugghe, 2005: 26). According to the simulation results (Anderson, Martin and van der Mensbrugghe, 2005: 38, Table 2), SSA excluding South Africa would gain \$3.5 billion. SSA GDP in 2007, excluding South Africa, was roughly \$550 billion (*UNCTAD Handbook of Statistics 2008*), implying total welfare gains of a little more than half of one per cent of 2007 GDP. This is much more than the tenth of one per cent in expected gains for all developing countries mentioned above, but is still not a lot. Some of the poorest and least developed countries in SSA are also expected to be net losers under 'realistic' Doha scenarios (Anderson, Martin and van der Mensbrugghe, 2005: 48, Table 12).

To be sure, such trade liberalization gains are one-time increases from static comparative advantage. Such calculations ignore the realities behind the decline of African food agriculture in recent decades, for example. As discussed earlier, World Bank structural adjustment programmes inadvertently helped undermine the meagre competitiveness of African smallholder agriculture. A comprehensive Doha agreement that lowers agricultural subsidies in the North would raise many imported food prices for developing countries, at least in the short to medium term, reducing many 'long term' welfare improvements these models predict. In India and many other developing countries with food price controls and subsidies, the predicted welfare gains would take the form of lower food prices for consumers, partly at the expense of food producing farmers. Hence, it is important to consider the full implications of reduced tariffs and subsidies for food-importing countries as well as for all kinds of farmers besides consumers.

A more recent 'large-scale' investigation, based on the MIRAGE model (Bouet 2008), produced similar results: rich countries will capture 74 per cent of total gains, while middle income countries and LDCs will get 24 per cent and 2 per cent respectively. These welfare gains represent increases – in real income by 2015 relative to the base year level – of three-tenths, two-fifths and four-fifths of one per cent respectively. SSA, excluding Zambia, South Africa and members of the Southern African Customs Union, should experience an increase in welfare of three-fifths of one per cent by 2015 relative to initial GDP. It is not surprising that these numbers are so close to those produced by LINKAGE, as the MIRAGE model is structurally similar and utilizes the same data set.

Bouet (2008) also summarized estimates for full trade liberalization from a variety of other CGE models. First, all the research reviewed by him expects trade liberalization to increase world GDP. Bouet (2008: 56) cautions, however, that "[t]his conclusion does not mean that all countries or all economic agents are better off. Liberalizing trade creates a 'larger cake', but some can get smaller pieces than others." Several studies reviewed by Bouet (2008: Table 4.2) suggest that the losers in terms of welfare will mostly be in the developing world, including many SSA countries. Bouet and Debucquet (2010: 12) corroborated these findings. Their estimates predict significant welfare gains after full trade liberalization for high-income and middle-income countries, with real income rising by 0.49 per cent and 0.51 per cent respectively by 2025, while developing countries' real incomes decline by 0.67 per cent.

The likely contribution of such different scenarios for poverty reduction varies greatly, and is further limited by the declining contribution of economic growth to poverty reduction due to rising inequality. In view of the historically critical role of trade policy reforms favouring growth and employment for economic development – as opposed to trade liberalization – the consequences of trade liberalization for sustainable development are dubious (Chang 2007; Reinert 2007).

Other estimates – not discussed by Bouet (2008) – suggest even more modest gains, with their impacts on poverty and inequality very sensitive to assumptions, definitions and data quality (e.g. Ackerman, 2005). Using a simplified, but structurally similar model, Taylor and von Arnim (2006) show how heavily trade liberalization simulation results depend on assumptions. Allowing a bit more realism – unemployment, for example – makes clear that Africa will *not* gain, on balance, from trade liberalization. Their exercise suggests that SSA is likely to experience welfare losses, even assuming the absence of macroeconomic shocks. The region is likely to experience worsening trade balances and increased debt problems, while any short term gains in income and employment could evaporate quickly under pressure from such strained balances.

Even though his model's details differ, Kraev's (2005) 'alternative' analysis of the effects of trade liberalization on GDP has a methodology and aims compatible with those of Taylor and von Arnim. By endogenizing output, employment and the current account in a CGE framework, he estimates future risks and past losses due to trade liberalization. With the current account and employment endogenized, trade liberalization is found to induce macroeconomic volatility – with mostly negative effects for developing countries. Kraev considers two different scenarios. The first assumes that the trade balance remains unchanged, but the level of demand is variable (implying the possibility of underemployment of resources). With trade liberalization, imports increase, and domestic demand decreases to satisfy the external balance constraint, resulting in losses in the order of 10 per cent of GDP (Kraev 2005: 14, Table 3) for SSA. The second scenario holds GDP constant, but allows the trade balance to vary. As the level of demand remains unchanged, the trade balance worsens considerably, resulting in growing external deficits (Kraev 2005: 15-16, Tables 4 and 5).

Polaski (2006) introduces unemployment and separates agricultural labour markets from urban unskilled labour markets in an otherwise 'standard' CGE

model. She concludes that: (1) global gains from further trade liberalization will be very modest; (2) in sharp contrast to the World Bank's full employment models, developing countries' gains come overwhelmingly from market access for manufactured exports; and (3) the largest gains will accrue to countries such as China, while the poorest countries (mainly in SSA) will be net losers. Thus, global gains from any realistic negotiated agreement are close to negligible. "Full liberalization" would bring growth of about half a per cent. A "central Doha scenario" could be expected to increase base year global GDP by 0.19 per cent²⁰, and a "central Doha scenario with 'Special Products' for Developing Countries" by 0.18 per cent (Polaski 2006: 22, Table 3.1). In contrast to the studies discussed earlier, she found that developing countries' aggregate GDP would decrease by \$6.3 billion, while developed countries' GDP would increase by \$5.5 billion with an agreement dominated by agriculture. On the other hand, developing countries' GDP would *increase* by \$23 billion, while developed countries would increase by \$30.2 billion with an agreement focusing on manufactures.

However, these gross developing country aggregates obscure the likely impact of trade liberalization on Africa. SSA excluding South Africa would lose \$122 billion with an agreement focusing on manufacturing trade liberalization, despite the gains for developing countries as a whole (Polaski 2006: 26, Figure 3.4). SSA excluding South Africa would lose \$106 billion with an agreement focusing on agricultural trade liberalization (Polaski 2006: 28, Figure 3.8). Polaski's model better reflects the widespread problems of lack of infrastructure, export capacities, and diminished competitiveness in both industry and agriculture in SSA.

Recent advances in international trade theory do not support the case for trade liberalization in SSA either (see Bernard, et al. 2007). 'New trade theories' and evolutionary studies of technological development suggest that countries risk being 'locked' into permanently slow growth by simply accepting static comparative advantage. It is now generally acknowledged that economic growth and structural transformation – particularly the accumulation or development of new capacities and capabilities – is necessary for export growth. In that sense, while trade can foster a virtuous circle, it cannot trigger it. Meanwhile, UNCTAD has long emphasized the importance of growth

20 The "central Doha scenario" assumes that developed and developing countries lower tariffs on agricultural (manufactured) products by 36 per cent (50 per cent) and 24 per cent (33 per cent) respectively. Export subsidies are eliminated completely, and domestic support is reduced by a third in all regions.

for trade expansion, and, more specifically, to the weakness of the investment-export nexus, that accounts for the failure of many countries to expand and diversify their exports. Also, rapid resource reallocation is not generally feasible without high rates of growth and investment.

Africa's export collapse in the 1980s and 1990s involved "a staggering annual income loss of US\$68 billion – or 21 per cent of regional GDP" (World Bank, 2000, quoted by Mkandawire, 2005). However, "Africa's failures have been developmental, not export failure per se" (Helleiner, 2002a: 4). Rodrik (1997) has also argued that Africa's 'marginalization' is not due to trade performance per se, although it is undoubtedly low by international standards. An alternative view suggests that Africa trades as much as is to be expected, given its geography and per capita income level. Indeed, "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).

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

Hence, in summary, there is considerable controversy concerning the specifications, assumptions and results from the models used. Overall, though, there is broad agreement that the gains for SSA countries from any realistically achievable Doha agreement are, almost certainly, negligibly small, if not negative. Besides, neither computable general equilibrium (CGE) models nor theoretical debates about (static) comparative advantage or trade liberalization offer much insight to understanding likely outcomes of the WTO negotiations.

5. CONCLUSIONS

Developments since the 1980s have fundamentally changed the environment and conditions for developmental states attempting to pursue selective industrial or investment and technology policy. Most importantly, economic liberalization – at both national and international levels – has seriously constrained the scope for government policy interventions, especially selective industrial promotion efforts. This is especially apparent in international economic relations, but is also true of domestic or national policy environments, where World Bank and IMF policy conditionalities as well as WTO and other obligations have radically transformed the scope for national economic development policy initiatives.

However, it is also important to recognize the remaining policy space which exists (Amsden 1999) and the development potential it offers, before it also disappears with further changes in the international economic context. The rapid growth in SSA during the half-decade before the 2008-09 Great Recession, and its recovery since, point to some of the remaining potential that exists. It remains to be seen whether the crisis and other developments, e.g. SSA's poor progress on the MDGs, may become the catalyst for reshaping the global economic context.

The last three decades saw widespread and rapid opening up of trade, investment, finance and other flows. Very often, such liberalization has been externally imposed by the Bretton Woods institutions as conditions to secure access to emergency credit during current account, debt, currency or other financial crises. This has been especially true of much of Latin America and Africa, which has experienced a 'lost quarter century' of economic growth from the late 1970s. The 1990s were only slightly better than the 1980s – also known as the 'lost decade' for Latin America. While the Washington Consensus has been challenged, if not discredited in academic and even policy circles, revised versions have continued to be the conventional wisdom for economic analysis and policy-making in developing countries, especially in Africa, where the influence of donors is especially strong.

Invariably, the circumstances of such policy changes as well as the policy constraints on the governments concerned have meant little preparation in terms of a pro-active strategy or transitional policies to anticipate and cope with trade and financial liberalization. Fewer of the investment or technology

policy instruments of the past are viable or feasible, let alone desirable today, including many used successfully in post-Second World War Northeast Asia. Many industrial policy tools were used by the advanced industrial economies, including those that now deny such selective industrial promotion to others, during their developmental or 'catching up' phases, if not since. Indeed, most advanced economies still have a plethora of policies and institutions involved in research and development (R&D), skills training, investment promotion and infrastructure provision, e.g. for the new information and communication technologies (ICT), biotechnology, nanotechnology etc., and for export promotion.

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

The preceding discussion strongly suggests that much of the conventional wisdom regarding how best to address African development and poverty is not only misguided, but often harmful. International financial liberalization has not improved growth, but has instead exacerbated volatility, while net capital outflows, facilitated by such liberalization, have exceeded ODA inflows. Worse still, there is strong evidence that some economic policy advice given to and policy conditionalities imposed on SSA governments have reflected vested interests and prejudices abroad. In recent years, much emphasis has been given to prioritizing FDI promotion, even though experiences elsewhere show that FDI generally tends to follow, rather than lead domestic investments. Not surprisingly, there continues to be limited FDI, mainly confined to minerals and other natural resource exploitation, with limited employment and other benefits. Nonetheless, such policy reforms have enhanced the profitability and protection of FDI without necessarily enhancing the trickle-down benefits to national economies of such enclave investments.

More credible simulation exercises based on available evidence suggest that trade liberalization gains will be modest for the world economy, and even more so for developing countries, while net gains for Africa are far from assured. There is considerable evidence that the main beneficiaries of agricultural trade liberalization will be the existing major agricultural exporters from North America, Australasia, Southeast Asia and the southern cone of

Latin America. Nonetheless, many well-meaning advocates have joined in the chorus calling for agricultural trade liberalization as if it will boost development prospects in Africa in the near term.

In view of the pervasive influence of such erroneous, if not harmful policy advice and conditionalities, it is crucial to increase 'policy space' for governments to be able to pursue more effective policies for development. Countries need to be able to choose or design their own development strategies as well as elaborate and implement more appropriate development policies. Besides enhancing policy space, it is also necessary to increase financial resources for development. The removal of the huge debt overhangs of the poorest countries through debt relief has been an important step in this direction. Massive and sustained increases in ODA are also needed to kick-start investments and growth and, in the longer term, to reduce the continent's resource gap and aid dependence (UNCTAD 2006). After two decades of economic stagnation, contraction and deindustrialization, agrarian problems, corruption, desertification, climate change, disease, conflict and other scourges have also taken a huge toll on the continent's economic, social and political fabric. Hence, pro-active efforts are urgently required to build new capacities and capabilities for development.

As economic growth and development do not necessarily reduce poverty and inequalities, special efforts are needed to ensure inclusive and egalitarian outcomes. The United Nations' Millennium Development Goals (MDGs) focussed attention on some specific human welfare targets and indicators. Enhanced social provisioning should be universal as far as possible to ensure broad public support and, thus, the political sustainability of such programmes. Although often expensive and likely to leave out many of the deserving, some targeting – including affirmative action measures – may be needed to overcome long-term discrimination, marginalization and neglect. After all, economic progress generally or even social progress towards achieving the MDG indicators may still bypass many of the poor as even the rising tide from economic growth does not raise all boats, especially in the face of persisting, if not worsening inequalities and exclusion.

The MDGs are important for and mutually reinforce the broader UN Development Agenda of the internationally agreed development goals derived from the UN's global summits and conferences since the 1990s, such as the Earth Summit in Rio de Janeiro in 1992, the Population and Development Conference in Cairo in 1994, the Beijing conference on women in 1995, the 1995

Copenhagen Summit, the Monterrey Conference on Financing for Development and the Johannesburg conference on Sustainable Development of 2002, among others. This agenda has been reiterated and given greater coherence by the Millennium Declaration of 2000 and the Outcome Document of the World Summit in September 2005. African governments need to be able to follow through with meaningful reforms to ensure inclusive, sustainable development processes. Donors, the Bretton Woods institutions and other members of the international community must provide the financial means, other resources and policy space for them to do so by meeting the various commitments made over the decades.

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APPENDIX

TABLE A1.
GDP PER CAPITA IN CONSTANT 2000 US\$

Average Annual Compound Growth Rates of GDP per capita
(in constant 2000 US\$)

	1960-69	1970-79	1980-89	1990-99	2000-10
Angola				-2.4%	7.5%
Benin	1.1%	-0.3%	-0.4%	1.3%	0.9%
Botswana	4.8%	11.4%	7.8%	3.4%	2.7%
Burkina Faso	1.5%	1.3%	1.3%	2.7%	2.7%
Burundi	0.8%	1.0%	1.2%	-3.3%	0.4%
Cameroon	-0.4%	4.5%	1.4%	-1.5%	1.0%
Cape Verde				3.4%	4.6%
Central African Republic	-0.1%	-0.2%	-1.2%	-1.0%	-0.8%
Chad	-1.2%	-3.9%	3.4%	-0.6%	5.1%
Comoros				-1.0%	-0.6%
Congo, Dem. Rep.	0.5%	-2.8%	-1.2%	-8.2%	1.8%
Congo, Rep.	1.1%	2.0%	2.1%	-1.4%	2.0%
Cote d'Ivoire	4.1%	2.3%	-3.1%	-0.3%	-0.6%
Equatorial Guinea				16.4%	13.6%
Eritrea					-2.7%
Ethiopia				-0.7%	5.9%
Gabon	5.8%	5.5%	-1.6%	-0.9%	0.2%
Gambia, The		1.0%	-0.2%	-0.8%	0.9%
Ghana	-0.3%	-2.0%	-1.1%	1.6%	3.2%
Guinea			0.2%	1.0%	1.0%
Guinea-Bissau		-0.3%	2.8%	-1.6%	-0.7%
Kenya	2.2%	4.4%	0.3%	-0.9%	1.4%
Lesotho	3.4%	6.2%	1.1%	2.0%	2.4%
Liberia	1.6%	-0.4%	-6.4%	-1.9%	-2.4%
Madagascar	0.2%	-1.7%	-2.4%	-1.6%	-0.4%
Malawi	2.6%	3.5%	-2.4%	1.6%	1.7%
Mali		2.7%	-1.4%	1.4%	2.3%

	1960-69	1970-79	1980-89	1990-99	2000-10
Mauritania		-1.2%	-0.6%	0.2%	1.2%
Mauritius			4.9%	4.2%	3.0%
Mozambique			-1.0%	2.8%	5.3%
Namibia			-2.4%	1.3%	2.6%
Niger	-0.5%	-1.5%	-2.9%	-1.4%	0.9%
Nigeria		1.9%	-2.5%	-0.3%	3.8%
Rwanda	-0.4%	1.7%	-1.1%	-0.9%	4.7%
Senegal	-1.8%	-0.8%	0.0%	0.3%	1.3%
Seychelles	0.5%	6.8%	1.8%	3.0%	1.3%
Sierra Leone	2.0%	0.0%	-1.7%	-5.6%	5.7%
South Africa	3.5%	0.8%	-0.8%	-0.6%	2.2%
Sudan	-1.3%	0.6%	0.5%	2.8%	3.8%
Swaziland		2.4%	4.2%	0.7%	1.1%
Tanzania				-0.3%	4.0%
Togo	5.8%	0.5%	-2.3%	-0.4%	0.3%
Uganda				3.5%	4.0%
Zambia	0.5%	-2.1%	-1.9%	-2.4%	3.1%
Zimbabwe	1.2%	-1.4%	0.3%	0.1%	-4.7%

Source: *World Bank World Development Indicators 2011*, and authors' calculations

TABLE A2.
GDP PER CAPITA IN CONSTANT 2000 US\$
Average per Decade

	1960-69	1970-79	1980-89	1990-99	2000-10
Angola			803	623	983
Benin	286	294	314	308	362
Botswana	295	792	1685	2768	3815
Burkina Faso	140	152	174	192	244
Burundi	98	130	145	132	112
Cameroon	504	574	854	617	686
Cape Verde			761	962	1505
Central African Republic	337	348	298	245	239
Chad	237	202	170	177	250
Comoros			425	389	353
Congo, Dem. Rep.	321	307	239	130	92

Table A2 continued

	1960-69	1970-79	1980-89	1990-99	2000-10
Congo, Rep.	643	806	1219	1068	1106
Cote d'Ivoire	699	979	782	622	589
Equatorial Guinea			578	927	6323
Eritrea				187	157
Ethiopia			135	118	160
Gabon	2496	5346	4923	4606	4067
Gambia, The	294	321	342	322	331
Ghana	276	268	208	234	301
Guinea		333	326	345	402
Guinea-Bissau		168	162	183	159
Kenya	272	382	426	422	431
Lesotho	165	233	294	382	426
Liberia	701	799	588	122	160
Madagascar	402	389	302	254	246
Malawi	110	147	146	141	158
Mali	207	232	221	220	249
Mauritania	454	477	439	419	439
Mauritius			1907	3055	4407
Mozambique			170	197	311
Namibia			2080	1963	2377
Niger	357	270	221	175	171
Nigeria	301	427	349	368	443
Rwanda	196	215	256	222	274
Senegal	580	519	479	450	530
Seychelles	2440	3506	4435	6388	7628
Sierra Leone	236	278	273	200	228
South Africa	2593	3244	3324	2993	3407
Sudan	269	274	268	298	439
Swaziland		695	918	1222	1498
Tanzania			257	256	378
Togo	248	307	291	253	277
Uganda			175	210	312
Zambia	561	547	429	338	364
Zimbabwe	478	629	613	636	389

Source: World Bank World Development Indicators 2011, and author's calculations

TABLE A3.
SSA ECONOMIES WITH THE HIGHEST RATIO OF FDI
TO GDP, 1970-2009

	1970-79	1980-89	1990-99	2000-09
Angola	0.07%	2.02%	8.39%	33.39%
Liberia	15.99%	18.22%	12.43%	23.50%
Congo	6.35%	1.36%	4.88%	16.03%
Equatorial Guinea	-0.05%	1.75%	29.33%	15.35%
Seychelles	7.50%	5.73%	4.81%	13.47%
Sao Tome and Principe		0.12%	1.62%	12.42%
Chad	1.51%	1.22%	1.48%	12.09%
Mauritania	-0.73%	1.01%	0.45%	11.57%
Djibouti	0.26%	0.07%	0.48%	9.58%
Cape Verde		0.49%	2.75%	7.92%
Gambia	0.73%	0.24%	2.32%	6.88%
Dem. Rep. of the Congo	1.41%	-0.21%	0.05%	6.83%
Zambia	1.20%	1.69%	4.06%	6.46%
Namibia		0.33%	2.49%	5.86%
Mozambique	0.03%	0.07%	2.53%	5.32%
Sudan	0.04%	0.07%	0.84%	5.00%
Madagascar	0.38%	0.16%	0.55%	4.61%
Lesotho	0.10%	1.66%	2.98%	4.25%
Ghana	0.97%	0.23%	1.72%	3.96%

Source: UNCTAD *World Investment Report 2011*, and authors' calculations

TABLE A4.
NET DEBT TRANSFERS AS GDP SHARES OF SELECTED AFRICAN COUNTRIES, 1990-2008*

Ratio to GDP

	1990-94	1995-99	2000-04	2005-08
“Top Ten” net payer:				
Gabon	-1.0%	-5.3%	-5.5%	-4.7%
Nigeria	-5.3%	-4.1%	-3.1%	-3.0%
Central African Republic	4.3%	0.4%	-0.3%	-2.2%
Dem. Rep. of the Congo	1.0%	0.0%	0.4%	-2.0%
Lesotho	5.8%	2.9%	-2.2%	-2.0%
Sao Tome and Principe	16.0%	8.9%	6.0%	-1.8%
Côte d'Ivoire	-0.1%	-5.8%	-4.0%	-1.8%
Comoros	2.4%	1.9%	1.9%	-1.8%
Guinea	3.5%	0.7%	-1.4%	-1.6%
Cameroon	1.6%	-2.5%	-1.8%	-1.4%
“Top Ten” net recipients:				
Seychelles	0.9%	0.6%	2.0%	3.5%
Burkina Faso	2.9%	1.9%	3.0%	3.7%
Ghana	3.5%	3.8%	2.1%	3.8%
Ethiopia	2.6%	0.6%	3.7%	3.8%
Eritrea	1.6%	5.5%	8.9%	3.9%
Gambia	0.8%	1.1%	3.5%	4.1%
United Republic of Tanzania	2.1%	0.5%	1.6%	4.2%
Mozambique	4.5%	3.9%	3.2%	4.5%
Madagascar	1.9%	1.3%	3.6%	4.9%
Mauritania	2.9%	-0.6%	4.7%	5.5%

Sources: UNCTAD Handbook of Statistics 2009 and authors' calculations (Table 7.7 External long-term debt of developing economies)

*Note: Net transfers are disbursements of loans less debt service (principal plus interest payments) from all sources of creditors.

TABLE A5.
ALL DEVELOPING ECONOMIES:
AVERAGE SHARES OF GDP, 1970-2009

Average GDP shares

	1970 -1979	1980 -1989	1990 -1999	2000 -2009
Agriculture, hunting, forestry, fishing	29%	18%	12%	10%
Industry	34%	38%	35%	38%
Mining, Manufacturing, Utilities	29%	32%	29%	32%
Manufacturing	19%	21%	22%	23%
Construction	5%	6%	6%	6%
Services	37%	44%	52%	52%
Wholesale, retail trade, restaurants and hotels	12%	13%	14%	14%
Transport, storage and communications	5%	6%	7%	8%
Other Activities	20%	25%	31%	30%

Source: UNCTAD Handbook of Statistics (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations.

TABLE A6.
ASIAN DEVELOPING ECONOMIES: AVERAGE SHARES OF GDP,
1970-2009

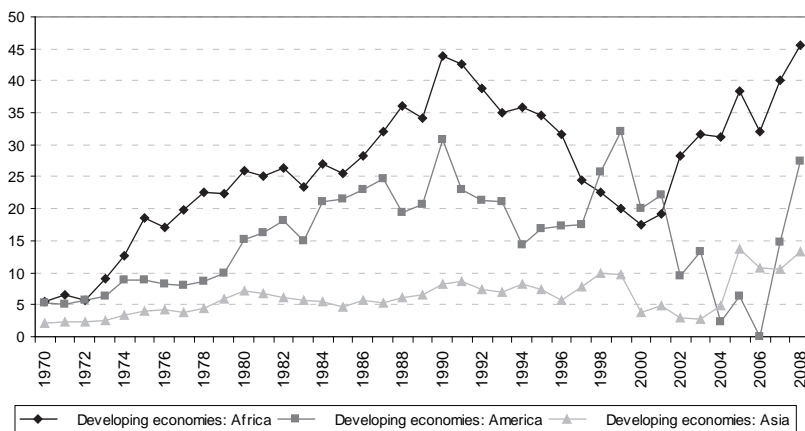
Average GDP shares

	1970 -1979	1980 -1989	1990 -1999	2000 -2009
Agriculture, hunting, forestry, fishing	26%	19%	14%	11%
Industry	39%	39%	38%	40%
Mining, Manufacturing, Utilities	34%	33%	31%	35%
Manufacturing	22%	22%	25%	27%
Construction	5%	6%	6%	6%
Services	35%	42%	48%	49%
Wholesale, retail trade, restaurants and hotels	11%	13%	14%	13%
Transport, storage and communications	5%	6%	7%	7%
Other Activities	19%	23%	27%	29%

Source: UNCTAD Handbook of Statistics (Table 8.3: Gross domestic product by type of expenditure and by kind of economic activity) and authors' calculations.

FIGURE A1.

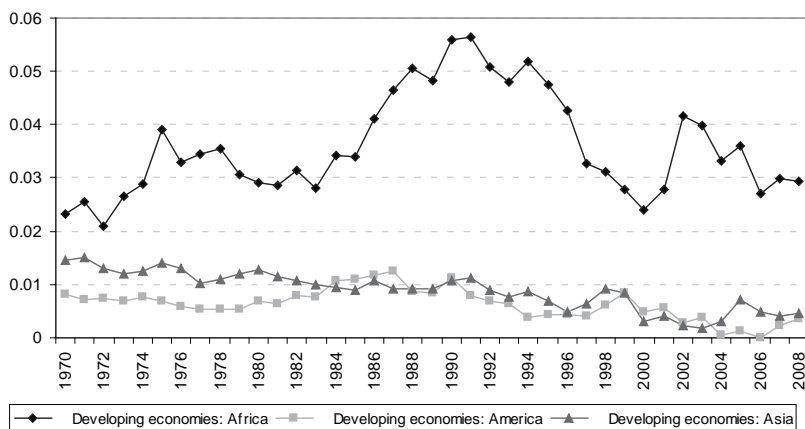
Total Official Aid Flows: Current US\$ per capita, 1970-2008



Sources: *UNCTAD Handbook of Statistics* and authors' calculations

FIGURE A2.

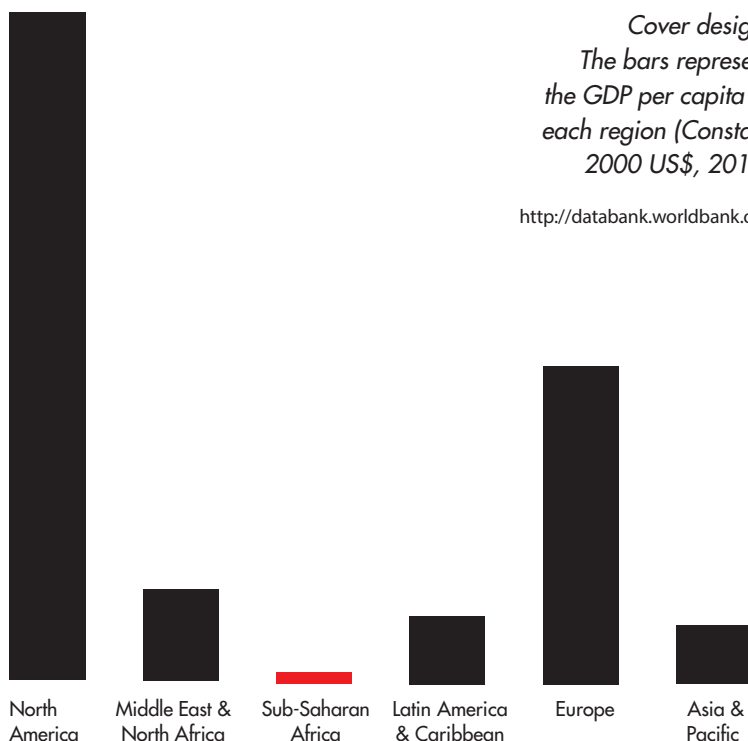
Total Official Aid Flows relative to (recipient region's) GDP, 1970-2008



Sources: *UNCTAD Handbook of Statistics* and authors' calculations

*Cover design:
The bars represent
the GDP per capita of
each region (Constant
2000 US\$, 2010)*

<http://databank.worldbank.org>



GDP PER CAPITA (CONSTANT 2000 US\$)

2010

World	6006
North America	36167
Europe	17333
Latin America & Caribbean (all income levels)	5002
Middle East & North Africa (all income levels)	3731
Asia & Pacific	3207
Sub-Saharan Africa (all income levels)	645

Globalization and Development in Sub-Saharan Africa

This book critically reviews the effects of globalization on sub-Saharan Africa over the last three decades. The large gains expected from opening up to international economic forces have, to date, been limited, while there have been significant adverse consequences. Foreign direct investment in Sub-Saharan Africa has been largely confined to resource—especially mineral—extraction, even as continuing capital flight has reduced financial resources available for productive investments. Premature trade liberalization has further undermined prospects for the economic development of Sub-Saharan Africa as productive capacities in many sectors – including manufacturing and agriculture – are not sufficiently competitive to take advantage of improvements in market access, especially in the face of non-tariff barriers such as subsidized agriculture in the North.

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